

RADVISION LTD  
Form 20-F  
March 25, 2009

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**SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

**FORM 20-F**

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2008**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report .....

**Commission file number 0-29871**

**RADVISION LTD.**

(ExactName of Registrant as specified in its charter  
and translation of Registrant's name into English)

**Israel**

(Jurisdiction of incorporation or organization)

**24 Raoul Wallenberg Street, Tel Aviv 69719, Israel**

(Address of principal executive offices)

**Rael Kolevsohn, +972-3-7679394 (phone), +972-3-7679382 (fax)**

**24 Raoul Wallenberg Street, Tel Aviv 69719, Israel**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Ordinary Shares, NIS 0.1 Par Value	NASDAQ Global Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares, par value NIS 0.1 per share	19,632,713
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(as of December 31, 2008)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

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If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If  Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Ordinary Shares, par value NIS 0.1 per share	19,632,713
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This report on Form 20-F is being incorporated by reference into our Registration Statements on Form S-8 File Nos. 333-127013, 333-141654, 333-155442 and 333-155444.

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## INTRODUCTION

RADVISION Ltd., incorporated under the laws of the State of Israel, is a designer, developer and provider of products and technology that enable real-time voice, video and data communication over packet and mobile 3G (Third Generation) networks, including the Internet and other Internet Protocol, or IP, networks. We were incorporated in January 1992, commenced operations in October 1992 and commenced sales of our products in the fourth quarter of 1994. Since our initial public offering on March 14, 2000, our ordinary shares have been listed on the NASDAQ Global Market (symbol: RVSN) and our ordinary shares have also traded on the Tel Aviv Stock Exchange since October 20, 2002. We have nine wholly-owned subsidiaries: RADVISION Inc. and its wholly-owned subsidiary RADVISION Government Services, Inc. in the United States, RADVISION (HK) Ltd. in Hong Kong, RADVISION (UK) Ltd. in the United Kingdom, RADVISION FRANCE S.A.R.L. in France, RADVISION Japan KK in Japan, RADVISION B.V. in the Netherlands and RADVISION GmbH in Germany, all of which are primarily engaged in the sale and marketing of our products and technology, and RADVISION Communication Development (Beijing) Co. Ltd. in China, which is primarily engaged in research and development and the sale and marketing of our products and technology. As used in this annual report, the terms we, us, our, and RADVISION mean RADVISION Ltd. and its subsidiaries, unless otherwise indicated.

We have obtained U.S. trademark registrations for RADVISION, V2Oip, CU-SeeMe, SCOPIA, DELIVERING THE VISUAL EXPERIENCE and ProLab. We have pending U.S. trademark applications for IMS EXPRESS and MEETING MACHINE. We also claim common-law trademark rights in the following marks: Beyond the Standard, Click to Meet, iContact, IMfirst, IMS Developer Suite, Intelligent Linking, Interactive Video Platform, INVISION, iView, PC-2-Mobile, QualiVision, Video Mojo, Video Ringback Clip and Virtual MCU. All other trademarks and trade names appearing in this annual report are owned by their respective holders.

Our consolidated financial statements appearing in this annual report are prepared in U.S. dollars and in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, and audited in accordance with the standards of the Public Company Accounting Oversight Board (United States) generally accepted in the United States. All references in this annual report to dollars or \$ are to U.S. dollars.

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and all references in this annual report to NIS are to New Israeli Shekels.

Statements made in this annual report concerning the contents of any contract, agreement or other document are summaries of such contracts, agreements or documents and are not complete descriptions of all of their terms. If we filed any of these documents as an exhibit to this annual report or to any registration statement or annual report that we previously filed, you may read the document itself for a complete description of its terms.

This Annual Report on Form 20-F contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and within the Private Securities Litigation Reform Act of 1995, as amended. Such forward-looking statements reflect our current view with respect to future events and financial results. Forward-looking statements usually include the verbs, anticipates, believes, estimates, expects, intends, plans, projects, understands verbs suggesting uncertainty. We remind readers that forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors and involve known and unknown risks that could cause the actual results, performance, levels of activity, or our achievements, or industry results, to be materially different from any future results, performance, levels of activity, or our achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. We have attempted to identify additional significant uncertainties and other factors affecting forward-looking statements in the Risk Factors section which appears in Item 3.D Key Information -Risk Factors.

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### PART I

#### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

#### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

#### ITEM 3. KEY INFORMATION

##### A. SELECTED FINANCIAL DATA

The following selected consolidated financial data for and as of the five years ended December 31, 2008, are derived from our audited consolidated financial statements which have been prepared in accordance with U.S. GAAP. The selected consolidated financial data as of December 31, 2007 and 2008 and for the years ended December 31, 2006, 2007 and 2008 have been derived from our audited consolidated financial statements and notes thereto included elsewhere in this annual report. The selected consolidated financial data as of December 31, 2004, 2005 and 2006 and for the years ended December 31, 2004 and 2005 have been derived from audited consolidated financial statements not included in this annual report. The selected consolidated financial data set forth below should be read in conjunction with and are qualified by reference to Item 5 Operating and Financial Review and Prospects and our audited consolidated financial statements and notes thereto included elsewhere in this annual report.

##### **Consolidated Statement of Operations Data:**

Year Ended December 31,				
2004	2005	2006	2007	2008

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Year Ended December 31,

	(in thousands, except per share data)				
Revenues	\$ 64,236	\$ 74,012	\$ 91,023	\$ 91,583	\$ 84,747
Cost of revenues	13,880	13,110	18,165	18,294	18,779
Gross profit	50,356	60,902	72,858	73,289	65,968
Operating expenses:					
Research and development	17,484	20,110	25,331	30,329	36,883
Marketing and selling	23,848	24,588	30,648	32,627	35,330
General and administrative	4,900	4,677	6,492	8,633	8,954
Patent settlement reserve	-	-	1,900	-	-
Total operating expenses	46,232	49,375	64,371	71,589	81,167
Operating income (loss)	4,124	11,527	8,487	1,700	(15,199)
Financial income, net	1,860	3,051	5,825	6,095	2,539
Income (loss) before taxes on income	5,984	14,578	14,312	7,795	(12,660)
Tax benefit (expense), net	-	112	936	1,790	(280)
Net income (loss)	\$ 5,984	\$ 14,690	\$ 15,248	\$ 9,585	\$ (12,940)
Basic net earnings (loss) per Ordinary share	\$ 0.30	\$ 0.70	\$ 0.69	\$ 0.44	\$ (0.63)
Weighted average number of Ordinary shares used to compute basic net earnings (loss) per share	19,822	21,122	22,077	21,951	20,472
Diluted net earnings (loss) per Ordinary share	\$ 0.28	\$ 0.66	\$ 0.67	\$ 0.43	\$ (0.63)
Weighted average number of Ordinary shares used to compute diluted net earnings (loss) per share	21,399	22,215	22,747	22,482	20,472

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**Consolidated Balance Sheet Data:**

	As at December 31,				
	2004	2005	2006	2007	2008
Cash and cash equivalents	\$ 20,206	\$ 32,927	\$ 23,110	\$ 45,370	\$ 37,872
Working capital	65,395	93,175	103,661	118,990	98,903
Total assets	131,882	156,748	182,559	175,040	162,188
Shareholders' equity	106,776	130,667	152,605	147,559	129,583
Capital stock	107,463	116,664	127,172	135,561	141,341

**B. CAPITALIZATION AND INDEBTEDNESS**

Not applicable.

**C. REASONS FOR THE OFFER AND USE OF PROCEEDS**

Not applicable.

**D. RISK FACTORS**

*Investing in our ordinary shares involves a high degree of risk and uncertainty. You should carefully consider the risks and uncertainties described below before investing in our ordinary shares. If any of the following risks actually occurs, our business, prospects, financial condition and results of operations could be harmed. In that case, the value of our ordinary shares could decline, and you could lose all or part of your investment.*

**Risks Relating to Our Business**

**Our quarterly financial performance is likely to vary significantly in the future. Our revenues and operating results in any quarter may not be indicative of our future performance and it may be difficult for investors to evaluate our prospects.**

Our quarterly revenues and operating results have varied significantly in the past and are likely to continue to vary significantly in the future. Fluctuations in our quarterly financial performance may result from the fact that we may receive a small number of relatively large orders in any given quarter. Because these orders generate disproportionately large revenues, our revenues and the rate of growth of our revenues for that quarter may reach levels that may not be sustained in subsequent quarters. In addition, some of our products have lengthy sales cycles. For example, it typically takes from three to 12 months after we first begin discussions with a prospective customer before we receive an order from that customer. We also have a limited order backlog, which makes revenues in any quarter substantially dependent upon orders we deliver in that quarter. Because of these factors, our revenues and operating results in any quarter may not meet market expectations or be indicative of future performance and it may be difficult for investors to evaluate our prospects.

**Continuing unfavorable national and global economic conditions could have a material adverse effect on our business, operating results and financial condition.**

The recent crisis in the financial and credit markets in the United States, Europe and Asia has led to a global economic slowdown, with the economies of the United States and Europe showing significant signs of weakness. If the economies in any part of the world continue to be weak or weaken further, the demand for our products and technology may decrease as a result of continued constraints on IT-related capital spending by our customers. In addition, this could result in longer sales cycles, slower adoption of new technologies and increased price competition for our products. Any of these events would likely harm our business, operating results and financial condition. If global economic and market conditions, or economic conditions in the United States, Europe or Asia or other key markets, remain uncertain, persist, or deteriorate further, our business, operating results and financial condition may be materially adversely affected.

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**We rely on a small number of marketing partners who distribute our products either under our name or as private label products for a significant portion of our business.**

We rely in great measure on original equipment manufacturers, or OEMs, systems integrators and value added resellers, or VARs, to sell our products. Our OEM customers typically may purchase our products to integrate with products that they developed in-house to build complete IP communication solutions. Our systems integrator customers either purchase our full suite of products or integrate our individual products with those of other manufacturers in order to build complete IP communication solutions. Our VAR customers purchase our products to resell to end-users as separate units, or as part of a family of related product offerings, either under our RADVISION label or under their private label. If we are unable to maintain these marketing partners or obtain new marketing partners, our future revenues and profitability will be affected and we may lose market share.

Cisco accounted for approximately 35%, 34% and 39% of our sales in 2006, 2007 and 2008, respectively. Our agreement with Cisco continues on a year to year basis and either party may terminate the relationship no later than 90 days prior to the expiration of the then current term. If Cisco were to curtail or terminate its relationship with us, our sales would be materially adversely impacted and our revenues would decline.

**If the use of packet-based networks as a medium for real-time voice, video and data communication does not continue to grow, the demand for our products and technology will slow and our revenues will decline.**

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Our future success depends on the growth in the use of packet-based networks, including the Internet and other IP networks, as a medium for real-time voice, video and data communication. If the use of packet-based networks does not expand, the demand for our products and technology will slow and our revenues will decline. Market acceptance of packet-based networks as a viable alternative to circuit-switched networks for the transmission of real-time voice and video communication is not proven and may be inhibited by concerns about quality of service and potentially inadequate development of the necessary infrastructure.

**We must develop new products and technology and enhancements to existing products and technology to remain competitive. If we fail to do so, we may lose market share to our competitors and our revenues may decline.**

The market for our products and technology is characterized by rapid technological change, new and improved product introductions, changes in customer requirements and evolving industry standards. Our research and development team may not be as large as those of our competitors, which may result in longer lead times to develop and implement new technologies and may limit our ability to compete effectively with them and may result in our losing market share. Our future success will depend to a substantial extent on our ability to:

timely identify new market trends; and

develop, introduce and support new and enhanced products and technology on a successful and timely basis.

We may not be successful in developing new products and technology and enhancements to our existing products and technology. If we fail to develop and deploy new products and technology or product and technology enhancements on a successful and timely basis, we may lose market share to our competitors and our revenues may decline.

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**We have invested, and will continue to invest, in products and technology that comply with those industry standards that we believe have been, or will be, broadly adopted. If one or more alternative standards were to gain greater acceptance than the standards that we believe have or will be broadly adopted, sales of our products and technology would suffer.**

Our current suite of IP communication protocol toolkits includes H.323, SIP (session initiation protocol), and SIP IMS (session initiation protocol IP multimedia subsystem), NAT (network address translation) Traversal, Diameter, MGCP (media gateway control protocol) and MEGACO (media gateway control protocol for large-scale IP-centric communication networks). We also support the 3G-324M protocol for real time multimedia services over 3G (Third Generation) networks. We also offer client and server software frameworks and complementary testing suite for H.323, Sip, SIP IMS, and 3G-324M. If future IP networks are not designed with components built around these protocols, or if one or more alternative protocols were to gain greater acceptance than these protocols, our investments may be of little or no value and sales of our products and technology would suffer.

**Competition in the markets for our products and technology is intense. We may not be able to compete effectively in these markets and we may lose market share to our competitors. Some of our competitors have greater resources than we do, which may limit our ability to compete effectively and discourage customers from purchasing our products and technology.**

The markets for our products and technology are highly competitive and we expect competition to intensify in the future. The principal competitors in the market for our network infrastructure unit products currently include Polycom Inc. and TANDBERG. The principal competitors in the market for our toolkit business unit products currently include Aricent, Data Connection Limited, Open Source and in-house developers employed by manufacturers of telecommunication equipment and systems. Additional competitors may enter each of our markets at any time. Moreover, our customers may seek to develop internally the products that we currently sell to them and compete with us. We may not be able to compete effectively in these markets, and we may lose market share to our competitors.

Some of our competitors have greater financial, personnel and other resources than we do, which may limit our ability to compete effectively with them. These competitors may be able to respond more quickly to new or emerging technologies or changes in customer requirements. These competitors may also benefit from greater economies of scale, offer more aggressive pricing or devote greater resources to the promotion of their products. Any of these advantages may discourage customers from purchasing our products and technology. If we are unable to compete successfully against our existing or potential competitors, our revenues and margins will decline.

**Major solutions providers who currently work with us might compete with us in the future.**



We currently offer our technology either directly to or in association with major solutions providers, such as Aethra, Cisco, IBM, LifeSize, Siemens, Telstra and others. Some of these companies also purchase technology from our competitors. If these providers choose to develop their own technologies, acquire technologies from our competitors, or acquire such competitors, our financial condition and operating results could be adversely impacted, and we may face increased levels of competition from these major companies.

**Our software development kit revenues will decrease if our customers choose to use open source software that is available for free.**

Both Vovida Networks, Inc., a subsidiary of Cisco Systems Inc., and Open H.323 offer H.323 source code for free. In addition, Vovida Networks, Inc. offers MGCP and SIP source code for free and HP offers its SIP testing tool (SIPp) for free. Other companies, including Microsoft and Nokia, may offer similar development kits as part of their product offerings. There are other open source toolkits for SIP (SIP foundry) and Diameter (OpenDiameter). If our customers choose to use the free source code offered by any of these organizations instead of purchasing our technology, our revenues from the sale of our software development kits will decline.

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**Our agreements with our customers generally do not have minimum purchase requirements. If our customers decrease or cease purchasing our products and technology, our revenues will decline.**

Our agreements with our customers generally do not have minimum purchase requirements nor do they require our customers to purchase any products from us. If any or all of our customers cease to purchase or reduce their purchases of our products and technology at any time, our revenues will decline. Our customers may choose to independently develop for themselves, or purchase from others, products and technology similar to our products and technology. Moreover, if our customers do not successfully market and sell the systems and products into which they incorporate our products and technology, the demand of these customers for our products and technology will decline. Our customers' sales of systems and products containing our products and technology may be adversely affected by circumstances over which we have no control and over which our customers may have little, if any, control.

**Undetected errors may increase our costs and impair the market acceptance of our products and technology.**

Our products and technology have occasionally contained, and may in the future contain, undetected errors when first introduced or when new versions are released. Our customers integrate our products and technology into systems and products that they develop themselves or acquire from other vendors. As a result, when problems occur in equipment or a system into which our products or technology have been incorporated, it may be difficult to identify the cause of the problem. Regardless of the source of these errors (whether the source is our products or technology or the products of another vendor), we must divert the attention of our engineering personnel from our research and development efforts to address the errors. We may incur warranty or repair costs, be subject to liability claims for damages related to product errors or experience delays as a result of these errors in the future. Any insurance policies that we may have, may not provide sufficient protection or coverage should a claim be asserted. Moreover, the occurrence of errors, whether caused by our products or technology or the products of another vendor, may result in significant customer relations problems and injury to our reputation and may impair the market acceptance of our products and technology.

**Our products may infringe on the intellectual property rights of others, which could increase our costs and negatively affect our profitability.**

Third parties have asserted in the past and may assert in the future against us infringement claims or claims that we have infringed a patent, copyright, trademark or other proprietary right belonging to them. Some of these third parties have offered to license their intellectual property to our company. See Item. 8A. Financial Information Consolidated Statements and Other Financial Information Legal Proceedings. Any infringement claim, even if not meritorious, could result in the expenditure of significant financial and managerial resources and could negatively affect our profitability. If there is a successful claim of product infringement against us and we are not able to license the infringed or similar technology, our business, operating results and financial condition would be materially and adversely affected.

**We are dependent upon a limited number of suppliers of key components. If these suppliers delay or discontinue manufacture of these components, we may experience delays in shipments, increased costs and cancellation of orders for our products.**

We currently obtain key components used in the manufacture of our products from a sole supplier or from a limited number of suppliers. We do not have long-term supply contracts with our suppliers. Any delays in delivery of or shortages in these components could interrupt and delay manufacturing of our products and result in the cancellation of orders for our products. In addition, these suppliers could discontinue the manufacture or supply of these components at any time. We may not be able to identify and integrate alternative sources of supply in a timely fashion or at all. Any transition to alternate suppliers may result in delays in shipment and increased expenses and may limit our ability to deliver products to our customers. Furthermore, if we are unable to identify an alternative source of supply, we would have to modify our

products to use a substitute component, which may cause delays in shipments, increased design and manufacturing costs and increased prices for our products.

From time to time we issue irrevocable purchase orders to our suppliers. If market demand for our products declines, we may be required to recognize a provision for expected loss which may have a negative impact on our financial results.

**We rely on third party technology and licenses. If we are unable to continue to license or purchase this technology on reasonable terms, we may face delays in releases of our products and may be required to reduce the functionality of our products derived from this technology.**

We rely on technology that we license or procure from third parties, including software that is integrated with internally developed software and used in our products to perform key functions. If we are unable to continue to license any of this software on commercially reasonable terms or otherwise obtain the technology, we will face delays in releases of our products or will be required to reduce the functionality of our products until equivalent technology can be identified, licensed or developed, and integrated into our current products.

**Third parties may infringe upon or misappropriate our intellectual property, which could impair our ability to compete effectively and negatively affect our profitability.**

Our success depends upon the protection of our technology, trade secrets and trademarks. Our profitability could suffer if third parties infringe upon our intellectual property rights or misappropriate our technology and other assets or the intellectual property rights licensed from third parties. To protect our rights to our intellectual property, we rely on a combination of trade secret protection, trademark law, confidentiality agreements and other contractual arrangements. We rely on third parties to protect their intellectual property which is licensed to us, but we do not generally investigate to what extent such intellectual property is protected. The protective steps we have taken may be inadequate to deter infringement or misappropriation. We may be unable to detect the unauthorized use of our intellectual property or take appropriate steps to enforce our intellectual property rights. Policing unauthorized use of our products and technology is difficult. In addition, the laws of some foreign countries in which we currently sell or may in the future sell our products do not protect our proprietary rights to as great an extent as do the laws of the United States. Failure to adequately protect or to promptly detect unauthorized use of our intellectual property could devalue our proprietary content and impair our ability to compete effectively. Further, defending our intellectual property rights could result in the expenditure of significant financial and managerial resources, whether or not the defense is successful.

**We are dependent on our senior management. Any loss of the services of our senior management could negatively affect our business.**

Our future success depends to a large extent on the continued services of our senior management and key personnel. We do not carry key-man life insurance for any of our senior management. Any loss of the services of members of our senior management or other key personnel could negatively affect our business.

**Capital market fluctuations may decrease the value of our assets and may cause us to incur impairment charges relating to our investment portfolio.**

As of December 31, 2008, we had \$31.4 million in short and long-term marketable securities. The performance of the capital markets affects the values of funds that are held in marketable securities. These assets are subject to market fluctuations and will yield uncertain returns, which may fall below our projected return rates. Due to recent market developments, including a series of rating agency downgrades, the fair value of these investments may decline. During 2008, we recorded an other-than-temporary impairment of marketable securities in the amount of \$1.8 million and recorded a loss from sale of held-to-maturity securities in a loss position in the amount of \$73,000. We expect that market conditions will continue to fluctuate and that the fair value of our investments may be impacted accordingly.

One of our primary market risk exposures is to changes in interest rates as a result of our investment in marketable securities. A decline in market interest rates could have an adverse effect on our investment income. In a declining interest rate environment, borrowers may seek to refinance their borrowings at lower rates and, accordingly, prepay or redeem securities we hold more quickly than we initially expected. This action may cause us to reinvest the redeemed proceeds in lower yielding investments. An increase in market interest rates could also have an adverse effect on the value of our investment portfolio, for example, by decreasing the fair value of the fixed income securities that comprise a substantial majority of our investment portfolio.

In addition, as of December 31, 2008, we had \$3.5 million of principal invested in auction rate securities, or ARS. The estimated market value of our ARS holdings at December 31, 2008 was \$1.7 million, which reflects a \$1.8 million adjustment to the principal value of \$3.5 million. Although the ARS continue to pay interest according to their stated terms, based on external valuation analysis using the discounted cash flow model and an analysis of other-than-temporary impairment factors, we recorded an impairment charge of \$1.8 million in 2008, reflecting the portion of ARS holdings that we have concluded have an other-than-temporary decline in value. If uncertainties in the credit and capital markets continue or these markets deteriorate further, or if we experience any additional ratings downgrades on any investments in our portfolio (including on ARS), we may incur additional impairments to our investment portfolio, which could negatively affect our financial condition, cash flow and reported earnings.

**Our failure to retain and attract personnel could harm our business, operations and product development efforts.**

Our products require sophisticated research and development, marketing and sales, and technical customer support. Our success depends on our ability to attract, train and retain qualified research and development, marketing and sales and technical customer support personnel. Competition for personnel in all of these areas is intense and we may not be able to hire sufficient personnel to achieve our goals or support the anticipated growth in our business. The market for the highly-trained personnel we require is very competitive, due to the limited number of people available with the necessary technical skills and understanding of our products and technology. If we fail to attract and retain qualified personnel, our business, operations and product development efforts would suffer.

**Our non-competition agreements with our employees may not be enforceable. If any of these employees leaves us and joins a competitor, our competitor could benefit from the expertise our former employee gained while working for us.**

We currently have non-competition agreements with our key employees in Israel. These agreements prohibit those employees, if they cease to work for us, from directly competing with us or working for our competitors. Under current U.S. and Israeli law, we may not be able to enforce these non-competition agreements. If we are unable to enforce any of these agreements, our competitors that employ our former employees could benefit from the expertise our former employees gained while working for us. In addition, we have non-competition agreements with only a limited number of employees outside of Israel, and we can not guarantee that such agreements are enforceable under applicable law.

**Government regulation could delay or prevent product offerings, resulting in decreased revenues.**

Our products are designed to operate with local telephone systems throughout the world and therefore must comply with the regulations of the Federal Communication Commission and other regulations affecting the transmission of voice, video and data over telecommunication and other media. Each time we introduce a new product, we are required to obtain regulatory approval in the countries in which it is offered. In certain cases, we rely on our resellers or other partners to obtain the appropriate regulatory approvals. In addition, we must periodically obtain renewals of the regulatory approvals for the use of our products in countries where we have already obtained approval. We cannot assure you that regulatory approval for our current products will be renewed or that regulatory approval for future products will be obtained. If we do not obtain the necessary approvals and renewals, we may be required to delay the sales of our products in those countries until approval for use is granted or renewed. This could result in decreased revenues.

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We are also subject to laws relating to the use and disposal of hazardous materials in electrical and electronic equipment. For example, in January 2005, the European Parliament and the Council of the European Union adopted The Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Regulations 2005, which restrict the use of certain hazardous substances in electrical and electronic equipment effective as of July 1, 2006. If we are unable to maintain compliance with those regulations, we may be denied the ability to sell our products in the European Union. This could result in decreased revenues, inventory write-offs and write-down provisions.

**We manufacture and maintain an inventory of customized products for some customers who will have no obligation to purchase these products. If these customers fail to purchase these products, our financial results may be harmed.**

To satisfy the timing requirements of some of our larger customers, we manufacture and maintain an inventory of certain of our products that we will customize to the specifications of these customers. The size of this inventory will be based upon the purchasing history and forecasts of these customers, which we currently estimate to be approximately two months of sales to these customers. These customers will have no obligation to purchase the inventoried products at any time. If the customers for whom the inventoried products are manufactured do not purchase them, we may be required to modify the products for sale to others and we may be unable to find other purchasers. In either case, the value of the products may be materially diminished which may have a negative impact on our financial results.

**We depend on a limited number of manufacturing subcontractors with limited manufacturing capacity, and are exposed to the risk that these manufacturers may be unable to fulfill our orders on a timely basis and at the quality specifications that we require. As a result, we may not meet our customers' demands, which could harm our business and results of operations.**

We currently depend on a limited number of contract manufacturers with limited manufacturing capacity to manufacture our products. The assembly of certain of our finished products, the manufacture of custom printed circuit boards utilized in electronic subassemblies and related services are also performed by these independent subcontractors. Reliance on third party manufacturers exposes us to significant risks, including risks resulting from:

- potential lack of manufacturing capacity;
- limited control over delivery schedules;
- quality assurance and control;
- manufacturing yields and production costs;
- voluntary or involuntary termination of their relationship with us;
- difficulty in, and timeliness of, substituting any of our contract manufacturers, which could take as long as six months or more;
- the economic and political conditions in their environment; and
- their financial strength.

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If the operations of our contract manufacturers are halted, even temporarily, or if they are unable to operate at full capacity for an extended period of time, we may experience business interruption, increased costs, loss of goodwill and loss of customers.

In addition, because we outsource the manufacture of several of our products, we are required to place manufacturing orders well in advance of the time when we expect to sell these products. In the event that we order the manufacture of a greater or lesser amount of these products than we will ultimately require, we are generally obligated to purchase the surplus products or to forego or delay the sale or delivery of the products that we did not order in advance. In either case, our business and results of operations may be adversely affected. Any of these risks could result in manufacturing delays or increases in manufacturing costs and expenses. There may be an adverse affect on our profitability and consequently on our results of operations, if we incur increased costs.

**We may fail to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, which could have an adverse effect on our financial results and the market price of our ordinary shares.**

The Sarbanes-Oxley Act of 2002 imposes certain duties on us and our executives and directors. Our efforts to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 governing internal control and procedures for financial reporting, which started in connection with our 2006 Annual Report on Form 20-F, have resulted in increased general and administrative expense and a diversion of management time and attention, and we expect these efforts to require the continued commitment of significant resources. We may identify material weaknesses or significant deficiencies in our assessments of our internal control over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigation or sanctions by regulatory authorities and could have a material adverse effect on our operating results, investor confidence in our reported financial information and the market price of our ordinary shares.

#### **Risks Relating to Our Ordinary Shares**

**Our share price has been volatile in the past and may decline in the future.**

Our ordinary shares have experienced significant market price and volume fluctuations in the past and may experience significant market price and volume fluctuations in the future in response to factors such as the following, some of which are beyond our control:

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quarterly variations in our operating results;

operating results that vary from the expectations of securities analysts and investors;

changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;

announcements of technological innovations or new products by us or our competitors;

announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;

changes in the status of our intellectual property rights;

announcements by third parties of significant claims or proceedings against us;

additions or departures of key personnel;

future sales of our ordinary shares; and

stock market price, competitor's performances and volume fluctuations.

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Domestic and international stock markets often experience extreme price and volume fluctuations. Market fluctuations, as well as general political and economic conditions, such as a recession or interest rate or currency rate fluctuations or political events or hostilities in or surrounding Israel, could adversely affect the market price of our ordinary shares.

In the past, securities class action litigation has been brought against a company following periods of volatility in the market price of its securities. We could potentially in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management's attention and resources.

### **There is a substantial risk that we are a passive foreign investment company, or PFIC, which will subject our U.S. investors to adverse tax rules.**

Holders of our ordinary shares who are U.S. residents face income tax risks. There is a substantial risk that we are a passive foreign investment company, commonly referred to as PFIC. Our treatment as a PFIC could result in a reduction in the after-tax return to the holders of our ordinary shares and would likely cause a reduction in the value of such ordinary shares. For U.S. federal income tax purposes, we will be classified as a PFIC for any taxable year in which either (i) 75% or more of our gross income is passive income, or (ii) at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, cash is considered to be an asset, which produces passive income. As a result of our substantial cash position and the decline in the value of our stock, we believe that there is a substantial risk that we became a PFIC during the taxable year ended December 31, 2008, under a literal application of the asset test described above, which looks solely to the market value. If we are classified as a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. holders owning ordinary shares. Accordingly, you are urged to consult your tax advisors regarding the application of such rules. United States residents should carefully read Item 10E. Additional Information Taxation, United States Federal Income Tax Consequences for a more complete discussion of the U.S. federal income tax risks related to owning and disposing of our ordinary shares.

### **Our ordinary shares are traded on more than one market and this may result in price variations.**

Our ordinary shares are traded on the NASDAQ Global Market and on the Tel Aviv Stock Exchange. Trading in our ordinary shares on these markets is made in different currencies (dollars on the NASDAQ Global Market and NIS on the Tel Aviv Stock Exchange), and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). Consequently, the trading prices of our ordinary shares on these two markets often differ. Any decrease in the trading price of our ordinary shares on one of these markets could cause a decrease in the trading price of our ordinary shares on the other market.

**Risks Relating to Our Location in Israel**

**Political, economic and military instability in Israel may disrupt our operations and negatively affect our business condition, harm our results of operations and adversely affect our share price.**

We are incorporated under the laws of, and our principal executive offices and manufacturing and research and development facilities are located in, the State of Israel. As a result, political, economic and military conditions affecting Israel directly influence us. Any major hostilities involving Israel, a full or partial mobilization of the reserve forces of the Israeli army, the interruption or curtailment of trade between Israel and its present trading partners, or a significant downturn in the economic or financial condition of Israel could have a material adverse effect on our business, financial condition and results of operations.

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Since the establishment of the State of Israel in 1948, Israel and its Arab neighbors have engaged in a number of armed conflicts. A state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. Major hostilities between Israel and its neighbors may hinder Israel's international trade and lead to economic downturn. This, in turn, could have a material adverse effect on our operations and business. There has been an increase in unrest and terrorist activity in Israel, which began in September 2000 and which has continued with varying levels of severity through 2008. The future effect of this deterioration and violence on the Israeli economy and our operations is unclear. Since January 2006, there has been an escalation in violence between Israel, the Palestinian Authority and other groups, as well as extensive hostilities along Israel's northern border with Lebanon in the summer of 2006. Since June 2007, when Hamas effectively took control of the Gaza Strip, there have been extensive hostilities along Israel's border with the Gaza Strip, which have intensified since February 2008. Ongoing violence between Israel and the Palestinians as well as tension between Israel and the neighboring Syria and Lebanon may have a material adverse effect on our business, financial conditions and results of operations.

Furthermore, there are a number of countries, primarily in the Middle East, as well as Malaysia and Indonesia, that restrict business with Israel or Israeli companies, and we are precluded from marketing our products to these countries. Restrictive laws or policies directed towards Israel or Israeli businesses may have an adverse impact on our operations, our financial results or the expansion of our business.

**Our results of operations may be negatively affected by the obligation of our personnel to perform military service.**

Many of our officers and employees in Israel are obligated to perform annual reserve duty in the Israeli Defense Forces and may be called for active duty under emergency circumstances at any time. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods of time. Our operations could be disrupted by the absence for a significant period of one or more of our executive officers or key employees or a significant number of other employees due to military service. Any disruption in our operations could adversely affect our business.

**Because most of our revenues are generated in dollars or are linked to the dollar while a portion of our expenses are incurred in NIS, our results of operations would be adversely affected by fluctuations in the exchange rate between the U.S. dollar and the NIS or if inflation in Israel is not offset on a timely basis by a devaluation of the NIS against the dollar.**

Most of our revenues are in dollars or are linked to the dollar, while a portion of our expenses, principally salaries and related personnel expenses, are in NIS. Therefore, our NIS related costs, as expressed in U.S. dollars, are influenced by the exchange rate between the U.S. dollar and the NIS. During 2007 and 2008, the NIS appreciated against the U.S. dollar, which resulted in a significant increase in the U.S. dollar cost of our NIS expenses in such periods. We are also exposed to the risk that the rate of inflation in Israel will exceed the rate of devaluation of the NIS in relation to the dollar or that the timing of this devaluation lags behind inflation in Israel. This would have the effect of increasing the dollar cost of our operations. In the past, the NIS has devalued against foreign currencies, generally reflecting inflation rate differentials. We cannot predict any future trends in the rate of inflation in Israel or the rate of devaluation or appreciation of the NIS against the dollar. If the dollar cost of our operations in Israel increases, our dollar-measured results of operations will be adversely affected.

**The tax benefits from our approved enterprise and beneficiary enterprise programs require us to satisfy specified conditions. If we fail to satisfy these conditions, we may be required to pay additional taxes and would likely be denied these benefits in the future.**

The Investment Center of the Ministry of Industry, Trade and Labor of the State of Israel has granted approved enterprise status to two investment programs at our manufacturing facility and two programs qualify as beneficiary enterprises. The portion of our income derived from any of our approved enterprise programs and beneficiary enterprise programs, commencing when we begin to generate net income from these programs, is exempt from tax for a period of two years and will be subject to a reduced tax rate for an additional five to eight years, depending on the percentage of our share capital held by non-Israelis. The benefits available to an approved enterprise program and a beneficiary enterprise program are dependent upon the fulfillment of conditions stipulated in applicable law and, for an approved enterprise, the conditions contained

in the certificate of approval from the Investment Center, and for our beneficiary enterprises, a pre-ruling that we received from the Israeli Tax Authority in October 2007. If we fail to comply with one or more of these conditions, we may be required to pay additional taxes during the period in which we would have benefited from the tax exemption or reduced tax rates and would likely be denied these benefits in the future.

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**Service and enforcement of legal process on us and our directors and officers may be difficult to obtain.**

Service of process upon our directors and officers and the Israeli experts named in this annual report, most of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, since substantially most our assets, our directors and officers and the Israeli experts named in this annual report are located outside the United States, any judgment obtained in the United States against us or these individuals or entities may not be collectible within the United States.

There is doubt as to the enforceability of civil liabilities under the Securities Act and the Securities Exchange Act in original actions instituted in Israel. However, subject to certain time limitations and other conditions, Israeli courts may enforce final judgments of United States courts for liquidated amounts in civil matters, including judgments based upon the civil liability provisions of those Acts.

**The rights and responsibilities of our shareholders are governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under U.S. law.**

We are incorporated under Israeli law. The rights and responsibilities of holders of our ordinary shares are governed by our memorandum of association, articles of association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith in exercising his or her rights and fulfilling his or her obligations toward the company and other shareholders and to refrain from abusing his power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters. Israeli law provides that these duties are applicable in shareholder votes at the general meeting with respect to, among other things, amendments to a company's articles of association, increases in a company's authorized share capital, mergers and actions and transactions involving interests of officers, directors or other interested parties which require the shareholders' general meeting's approval. In addition, a controlling shareholder of an Israeli company or a shareholder who knows that he or she possesses the power to determine the outcome of a vote at a meeting of our shareholders, or who has, by virtue of the company's articles of association, the power to appoint or prevent the appointment of an office holder in the company, or any other power with respect to the company, has a duty of fairness toward the company. However, Israeli law does not define the substance of this duty of fairness. There is little case law available to assist in understanding the implications of these provisions that govern shareholder behavior.

**As a foreign private issuer whose shares are listed on the NASDAQ Global Market, we may follow certain home country corporate governance practices instead of certain NASDAQ requirements. We follow Israeli law and practice instead of NASDAQ rules regarding the requirement to obtain shareholder approval for certain dilutive events.**

As a foreign private issuer whose shares are listed on the NASDAQ Global Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of The NASDAQ Marketplace Rules. We follow Israeli law and practice instead of The NASDAQ Marketplace Rules regarding the requirement to obtain shareholder approval for certain dilutive events (such as for the establishment or amendment of certain equity based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company). As a foreign private issuer listed on the NASDAQ Global Market, we may also follow home country practice with regard to, among other things, the composition of the board of directors, director nomination process, compensation of officers and quorum at shareholders' meetings. A foreign private issuer that elects to follow a home country practice instead of NASDAQ requirements must submit to NASDAQ in advance a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws. In addition, a foreign private issuer must disclose in its annual reports filed with the Securities and Exchange Commission each such requirement that it does not follow and describe the home country practice followed by the issuer instead of any such requirement. Accordingly, our shareholders may not be afforded the same protection as provided under NASDAQ's corporate governance rules.

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**Provisions of Israeli law may delay, prevent or make difficult our acquisition by a third-party, which could prevent a change of control and therefore depress the price of our shares.**

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Provisions of Israeli corporate and tax law may have the effect of delaying, preventing or making more difficult a merger with, or other acquisition of, us. This could cause our ordinary shares to trade at prices below the price for which third parties might be willing to pay to gain control of us. Third parties who are otherwise willing to pay a premium over prevailing market prices to gain control of us may be unable or unwilling to do so because of these provisions of Israeli law.

### ITEM 4. INFORMATION ON THE COMPANY

#### A. HISTORY AND DEVELOPMENT OF THE COMPANY

We were incorporated under the laws of the State of Israel in January 1992, commenced operations in October 1992 and commenced sales of our products in the fourth quarter of 1994. We are a public limited liability company under the Israeli Companies Law, 5759-1999 and operate under that law and associated legislation. Our registered offices and principal place of business are located at 24 Raoul Wallenberg Street, Tel Aviv 69719, Israel, and our telephone number is +972-3-767-9300. Our address on the Internet is [www.radvision.com](http://www.radvision.com). The information on our website is not incorporated by reference into this annual report.

We are a leading provider of high quality, scalable and easy-to-use products and technologies for unified visual communication, videoconferencing, video telephony, and the development of converged voice, video and data over IP and 3G (Third Generation) networks. Hundreds of thousands of end-users around the world today communicate over a wide variety of networks using products and solutions based on or built around our multimedia communication platforms and software development solutions.

We have over 600 customers worldwide using our Technology Business Unit products, including Aethra, Alcatel, Broadreach, Cisco, Comverse, Huawei, LG Electronics, LifeSize, Microsoft, Nortel, NTT/DoCoMo, Orange Telecom, Philips, Samsung, Siemens, Sony and Telecom Italia. Thousands of enterprises around the world and dozens of telecommunications operators are using our products, videoconferencing systems and solutions.

Since 2001, we have conducted our business through two separate business units, corresponding to our two product lines, to enable our product development and product marketing teams to respond quickly to evolving market needs with new product introductions.

Our Networking Business Unit, or NBU, offers one of the broadest and most complete set of multimedia communication and videoconferencing network solutions for IP, ISDN (integrated services digital network), SIP, H.323 and 3G-based networks, supporting most end points in the industry today. These products are sold to the enterprise market, U.S. federal government and service provider market.

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In the enterprise market we sell to resellers, OEMs, and system integrators who use our infrastructure products to develop and install advanced IP and ISDN-based visual communication systems for use in the company meeting room and on employee's desktop computers. We sell our products and platforms to major vendors, such as Alcatel-Lucent and Cisco, which then integrate our solutions into their communications platforms and architectures. These integrated solutions enable the delivery of real-time interactive IP and 3G-based video telephony services over both broadband connections (such as cable and DSL) and 3G mobile networks. In addition, since 2006, we offer a complete video conferencing solution comprised of our network infrastructure products and software endpoints (SCOPIA Desktop) based on the technology that we acquired in connection with the our acquisition of First Virtual Communications, Inc., or FVC, and its wholly-owned subsidiary, CUseeMe Networks, Inc., in March 2005.

Our Technology Business Unit, or TBU, is a one-stop-shop for developer platforms that equipment vendors use to build multimedia (voice, video, presence and messaging) services over IP and 3G and IP multimedia subsystem, or IMS, products and solutions. The TBU provides protocol toolkits, server software platforms and client frameworks, as well as testing tools that enable equipment vendors to develop and deploy new rich-multimedia products over IP and 3G-based converged networks, services, and technologies.

Our TBU solutions include software enabling technology for developers, including toolkits for SIP, Diameter, NAT Traversal, MEGACO/H.248, A/S-RTP, MGCP, H.323, RTSP (real time streaming protocol) and 3G-324M, as well as our ProLab® Test Management Suite, eVident testing tool and our Multimedia Terminal Framework. TBU also offers an IMS development suite, which extends our existing toolkits to IMS for mobile, fixed and cable implementations.

Our toolkits have been used by developers in a wide range of environments from chipsets to simple user devices like IP, video terminals and IADs (integrated access devices), and from integrated video systems through carrier class network devices like gateways, switches, soft



switches and 3G multimedia gateways.

Both business units also assist customers to integrate our technology into their products and to customize our products to their specific needs.

Our capital expenditures for the years ended December 31, 2006, 2007 and 2008 were approximately \$2.3 million, \$4.2 million and \$3.0 million, respectively. These expenditures were principally for research and development equipment, office furniture and equipment, leasehold improvements and implementation of an enterprise resource planning (ERP) system.

## B. BUSINESS OVERVIEW

### Overview and Strategy

We are a leading provider of high quality, scalable and easy-to-use products and technologies for videoconferencing, video telephony, and the development of converged voice, video and data over IP and 3G networks. Hundreds of thousands of end-users around the world today communicate over a wide variety of networks using products and solutions based on or built around our multimedia communication platforms and software development solutions.

We have over 600 customers worldwide using our TBU products including, Aethra, Alcatel, Broadreach, Cisco, Comverse, Huawei, LG Electronics, LifeSize, Microsoft, NTT/DoCoMo, Orange Telecom, Philips, Samsung, Siemens, Sony and Telecom Italia. Thousands of enterprises around the world and dozens of telecommunications operators are using our NBU videoconferencing products, systems and solutions.

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Our goal is to develop and deliver market-leading technologies and products that drive widespread adoption and deployment of interactive unified visual communications over packet and next-generation networks. We provide solutions at every level – protocol developer toolkits, professional services, hardware-based network infrastructure, software-based desktop solutions, as well as fully integrated solutions that complement the unified communication solutions of other vendors such as those from Aethra, Alcatel-Lucent, Cisco, Huawei, IBM, LifeSize, Microsoft and Sony. We believe that our offering combinations of IP-centric networking products with integrated desktop conferencing along with software toolkits, positions us as a key enabling vendor in the evolution of V<sup>2</sup>IP communications (Video and Voice over IP). Key elements of our business strategy include the following:

*Maintain and extend our technology leadership.* We believe that we have established ourselves as a technology leader in providing core-enabling technologies for a broad range of IP and 3G communication products and services. In this regard, in 2008 we announced additional support for high definition video conferencing including enabling IBM's Lotus Sametime, Microsoft's OCS Communicator and Alcatel-Lucent's OmniTouch with high definition video and connectivity to high definition video room conferencing systems. We continue to support Cisco's Unified Communications architecture with our SCOPIA suite of products, including adding a video solution for Cisco Contact Center. During 2008, we announced the support for bi-directional high definition capabilities on our SCOPIA Desktop software client. We have accumulated extensive knowledge and expertise as designers and developers of commercial products and technologies for real-time packet-based communication. We continue to place considerable emphasis on research and development to expand the capabilities of our existing products, to develop new products and to improve our existing technology and capabilities. We believe that our future success will depend upon our ability to maintain our technological leadership; bring value to the communications solutions of our partners – such as Aethra, Alcatel-Lucent, Cisco, Comverse, LifeSize, Microsoft, Samsung, Sony and others; enhance our existing products; and introduce on a timely basis new commercially viable products addressing the needs of our customers. We intend to continue to allocate significant resources to research and development to maintain our market leadership.

*Enable the extension of visual communications from the traditional conference room (videoconferencing) application to the desktop, the home, and onto the road over IP and wireless.* We have been working with leading unified communications technology vendors such as Cisco and IBM, as well as developing partnerships with leading video conferencing manufacturers such as Aethra, LifeSize and Sony, to extend video communication from a meeting room application to a new mode of communication that supports video connectivity and interoperability for all modes of video communication, including telepresence systems, conference room systems, desktop and mobile devices. The announcement in 2008 of the integration of our video conferencing solution into Cisco's Telepresence solution to provide interoperability to traditional video conferencing systems was a continuation of our approach in this direction. In 2008, Cisco announced and began deploying desktop video solutions based on our SCOPIA Desktop technology. Our platforms are key technologies in all of these solutions and we will

continue to work to expand the use of video for communication throughout the entire enterprise from the conference room, to the desktop and to remote workers over broadband and mobile networks.

*Strengthen and expand our relationships with our OEM customers.* We have established and continue to maintain collaborative working relationships with many companies in the IP communication market, including Aethra, Cisco and Lifesize as OEMs and Alcatel-Lucent, Avistar, Huawei, IBM, Nokia, Samsung, Siemens and Sony as partners. We work closely with our OEM customers to integrate our products and core technology into their solutions. Our core technology and our system design expertise enable us to assist these customers in the development of complete solutions that contain enhanced features and functionality compared to competitive alternatives. We strive to establish long-term relationships with our OEM customers by starting with a few products and subsequently expanding these relationships by increasing the number and range of products sold to these customers. We intend to expand the depth and breadth of our existing OEM relationships, while initiating similar new relationships with other leading OEMs focused on the IP communication market.

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*Continue to offer new and enhanced products and features.* We believe that we have consistently been either first, or among the first, to market products that support real-time voice, video and data communication over packet networks. We were the first-to-market with IP MCUs and gateways that provide combined voice, video and data functionality, the first-to-market with software development kits for the development of H.323-compliant IP communication products and applications, and the first to announce support for SIP (Session Initiation Protocol) in our infrastructure platform. We were also the first to offer a 3G toolkit and 3G to IP (H.323 and SIP) bridging. We were the first to offer an IMS-SIP protocol stack. We continue to be an industry standardization leader through active participation and chairing of industry standards groups, leading to contributions to important video technologies such as Firewall/NAT (network address translation) traversal standardization (H.460.18/19), H.248 video enhancements and emerging IMS specifications. We intend to utilize our technological expertise as a basis for market leadership by striving to be the first-to-market with new and enhanced products and features that address the increasingly sophisticated needs of our customers and the evolving markets they serve. In addition, we believe that our participation in the drafting of industry standards gives us the ability to quickly identify emerging trends enabling us to develop new products and technologies that are at the forefront of technological evolution in the IP communication industry.

*Enable desktop conferencing and communication through strategic partners.* We intend to continue our efforts to maintain our position as a key enabling solution provider for major vendors activities to drive visual communication beyond the meeting room and onto the desktop. We intend to leverage our close relationship with telepresence and room video conferencing vendors such as Aethra, Cisco, LifeSize, Sony and others to extend their solutions to the desktop through our SCOPIA Desktop technology. We will also continue to work closely with our unified communications partners such as Alcatel-Lucent, Cisco, IBM, Microsoft and others to integrate our desktop video technology into their unified communications offerings such as MyTeamwork, MeetingPlace and Sametime.

## **Our Business**

Our business is separated into two units: our videoconferencing Networking Business Unit, or NBU, and our software developer toolkit business unit known as the Technology Business Unit, or TBU. The discussion below of our business is separated by unit. In each section we provide an overview of our products, our competitive advantage, and industry trends that are beneficial to each unit and our business.

### **NETWORKING BUSINESS UNIT**

Our NBU provides powerful unified visual communications solutions, including meeting room and desktop videoconferencing and video telephony infrastructure and middleware solutions, as well as video solutions, for 3G networks. All references in this annual report to systems and solutions refer to our videoconferencing products sold through our NBU.

#### ***NBU Products***

Our award-winning videoconferencing and video services network infrastructure products provide both the platform and applications to enable advanced video-based conferencing and collaboration functionality between any video-enabled device, such as a meeting room or a desktop videoconferencing end point, with other telephony and videoconferencing systems. Additionally, our portfolio of interactive video platform solutions enables the development and delivery of real-time video services (both streaming and communications) to wireless, wireline and broadband mobile users. Our solutions are used by institutions, enterprises, and application service providers to create high quality,

easy-to-use voice, video, and data communication, collaboration, and entertainment environments, regardless of the communication network IP, SIP, 3G, H.323, ISDN or next generation IMS (IP multimedia subsystem).

Our core infrastructure solution for the enterprise is the SCOPIA line of infrastructure. These are a family of customizable, scalable array of ports, management solutions and custom functionality with which system integrators can design and quickly deploy a highly configurable and scalable visual communication network tailored for each client's individual needs. With the SCOPIA product line, the customer can choose the best port configuration, management solution and additional applications, with the entire solution delivered in an integrated chassis. The SCOPIA family of products is a plug-and-play line of videoconferencing network appliances targeted at the enterprise and service provider market.

The high scale SCOPIA platform is currently available in two configurations: the SCOPIA 400 (formerly viaIP), a 4-slot, 2U chassis configuration; and the SCOPIA 1000, a larger 21-slot, 12U chassis, which serves new emerging application service provider network architectures and higher density needs in large-scale deployments. The blades used in the SCOPIA 400 and SCOPIA 1000 are interchangeable, thereby providing an easy upgrade path from lower capacity deployments using the SCOPIA 400 to higher capacity deployments using the SCOPIA 1000.

Within the SCOPIA product family, we also offer the SCOPIA 12/24 bundle, which is an off-the-shelf, pre-configured solution designed for smaller enterprises.

To complement the SCOPIA line, we offer the iVIEW Suite, a family of management applications to meet such videoconferencing needs such as robust network management and easy-to-use conference scheduling. iVIEW has been extended to address the desktop conferencing market which requires a scalable, robust software-based architecture to enable the delivery of video services to the employees' video phones and personal computers, or PCs, through integration with third party systems and as a standalone system.

In addition, the SCOPIA 3G Video Gateway bridges the gap between mobile networks and wire-line networks (IP/ISDN, or IP/Integrated Services Digital Network) and supports real-time bi-directional video telephony and streaming sessions between 3G-324M-based mobile handsets or devices and IP or ISDN-based video terminals, RTSP(real time streaming protocol) streaming servers, network cameras and messaging systems.

Our complete solution is customizable to layer video, voice, and data collaboration onto a customer's network. Key components of our solution include:

Gateways provide videoconferencing interoperability between IP, circuit-switched ISDN and 3G end points and networks.

Gatekeepers control, manage, and monitor real-time voice, video and data traffic over the visual communication networks.

Conferencing bridges (or multipoint conferencing units, or MCUs) enable voice or multimedia conferencing over packet and ISDN networks among three or more participants.

PathFinder a firewall/NAT (network address translation) traversal solution to enable endpoints in different enterprises to communicate with each other across their firewall and NAT devices.

In March 2005, we acquired FVC and its Click to Meet, or CTM, product family, which was added to our NBU portfolio. The CTM solution is designed to address the desktop collaboration market and provides a highly scalable and cost effective solution to PC based video conferencing. The CTM solution provides for scalability to thousands of endpoints within an organization and connectivity to include legacy room systems and hardware endpoint devices into a CTM conference. The CTM solution consists of the following components:

Conference server a software based MCU (multipoint conferencing unit) that is highly scalable.

Conference client a web-based client that provides the video-collaboration environment on the PC.

SCOPIA Desktop was developed as an evolution of the CTM technology. It was designed as a desktop collaboration tool that extends the reach of room videoconferencing systems to make video networks accessible to any member of the organization. Using SCOPIA network infrastructure, team members can collaborate in a multiparty conference regardless of the device: a high end room conferencing system, a laptop from a branch or a teleworker's personal computer. Customers and partners can also be included by simply sending a web link. SCOPIA Desktop's built-in firewall traversal ensures call connectivity regardless of the partner's firewall configuration. By utilizing our audio and video hardware processing, each participant is assured a high quality, low bitrate audio visual experience. SCOPIA Desktop uses a freely distributable, highly advanced web client. There are no client software fees, complex installations, license provisioning or software upgrades.

#### ***NBU Product Benefits***

While our products fully support ISDN, we believe that the principal competitive advantage of our family of solutions, for both our enterprise and service provider offerings, is our IP expertise. We believe that our products are among the leading visual communication infrastructure solutions in the industry today by virtue of our technological innovation in five key areas:

*Connectivity.* We believe that our network elements will allow connectivity between any networks – circuit switch, packet IP or 3G based.

*Simplicity.* We deliver easy to use and easy to operate videoconferencing systems that will connect to any standard video endpoint.

*Distributed architecture.* We believe that no competing product can match the capacity of our SCOPIA platform. Because of its IP architecture, the entire infrastructure does not need to be mounted in a single integrated rack, but can be distributed throughout a network. By distributing intelligence throughout the network, the enterprise benefits from increased redundancy, network traffic optimization, resource management and high scalability. These benefits of huge scalability and distributed architecture are also found in the CTM product portfolio, which is designed to support mass deployments in large enterprises.

*Extensive protocol support.* In addition to supporting both ISDN and H.323, our solution also supports SIP and 3G-324M for desktop and mobile communications protocols.

*IP protocol expertise.* We are a leader in developing and delivering advanced voice and video protocols over IP networks, primarily H.323 and SIP. As a result, our solutions support the most recent versions of each of the signaling protocols with the associated features they enable. In addition, our solutions are interoperable with standards-based end point on the market today.

#### ***Visual Communication Market Trends Which May Benefit our Company***

*Unified communications in the workplace and at home.* With the need for greater efficiency and the importance of accurate communication, companies are turning to new ways of communicating to enable remote parties to interact as if they were in the same room. Conference calls and e-mail usage have increased dramatically and Instant Messaging (IM) is being adopted increasingly in the enterprise. We believe that this trend of accessing all forms of communication from familiar applications is driving the unified communications experience and is making enterprises explore multimedia applications that provide advanced voice, video and data experiences to maximize information flow, whether in a group meeting or person to person.

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*IP leads the way.* Traditional (legacy) videoconferencing systems were ISDN (integrated services digital network)-based, however IP-based videoconferencing is the new standard for today's video telephony and videoconferencing solutions. We are the pioneers of videoconferencing over IP. Our technology is sited in the core of the IP network, enabling network managers to leverage their installed high speed data networks, merge video with voice and data applications (running over the same IP connection) and centrally manage a host of video end points, from meeting room to desktop to PC based systems, and to the wireless and 3G mobile arena. Under our agreement with Cisco, we may in the future supply, at Cisco's request and discretion, the Cisco TelePresence technology, which was introduced to the market in 2006, through the SCOPIA MCU for multi-site connectivity to traditional VC environments. Cisco's TelePresence solution is IP based, enabling us to leverage our pioneering position in the video communications over IP arena by enabling distributed architecture, smart bandwidth management and high quality video and voice.

**TECHNOLOGY BUSINESS UNIT**

Our TBU has pioneered the introduction of Voice and Video over IP, or V2oIP, telecom developer solutions, combining its expertise in signaling and multimedia. We were first to market with V2oIP developer solutions such as protocol stacks and server platforms. Since our inception, we have played a leading role in the industry as a member of standardization boards and interoperability committees. Our solutions are used by hundreds of customers worldwide and power major parts of today's IP telecom deployments.

***TBU Products***

Our telecom developer solutions provide customers with solutions and frameworks at various levels of integration, from protocol stack software development kits to comprehensive and flexible server and client solutions over packet and 3G networks supporting IMS (IP Multimedia Subsystem) and pre-IMS architectures. Our telecom developer solutions assist application developers to focus on developing their applications and devices while reducing the overall development and testing effort required, as these solutions offer a comprehensive standard implementation and feature set. Our developer solutions are constantly tested for interoperability reducing this effort required by the application developer to a minimum. As a result, our customers benefit from a reduced time-to-revenue as they can release products to the market with less development and testing efforts. Complementing these offerings, our testing and analysis tools (ProLab Testing Suite and eVident) enable developers, testing laboratories, system integrators and IT managers to validate and test products, as well as measure multimedia quality on the network.

Our global services group, comprised of V2oIP experts in both signaling and media, provides professional services to assist customers, from quick start, on-site development assistance to complex turnkey solutions.

Developers can use our toolkits to reduce the high costs of in-house continuous investments in order to stay up to date with the rapidly changing and evolving standards and to maintain complete interoperability with different equipment, vendors and service providers. We believe that our toolkits enable customers to focus on their core competencies and reduce the time to market and risk involved with industry standard compliant IP and 3G communication products, systems and applications.

*RADVISION SIP Developer Suite.* Session initiation protocol, commonly referred to as SIP, is a popular signaling protocol for initiating, managing and terminating voice and video sessions across packet networks. SIP was designed for building high performance user agents. The RADVISION SIP Developer Suite enables the development of products that require full user/agent functionality. Our SIP Suite is designed to provide high scalability and extensibility for both small and large-scale projects. It enables the implementation of feature-rich SIP entities such as application servers, softswitches, IP-PBXs, gateways and conferencing bridges. Our SIP is a key milestone for implementing the upcoming IMS network and components. The SIP protocol was also adopted by the 3GPP (3rd Generation Partnership Project), PacketCable 2.0 (Cable market) and TISPAN (Telco networks) as a mandatory part of the IMS architecture for next generation mobile and fixed networks. Our SIP Developer Suite supports the needed extensions to cope with the 3GPP requirements in order to provide a solution for IMS applications, services and core-network IMS equipment vendors. The SIP Suite was enhanced with new add-ons and toolkits like XDM, ICE Toolkit and STUN Toolkit to provide our customers with one stop shop value proposition.

*RADVISION IMS Express<sup>SM</sup>.* IMS (IP multimedia subsystem) is a next generation network architecture that serves fixed-line, cable and cellular networks. For service providers, application service providers, or ASPs, content providers and carriers, IMS enables converged service offerings and has been adopted by the world's largest carriers. IMS is the cornerstone of converged telecommunications and offers unique opportunities for the development of next-generation devices and equipment and converged mobile communications. RADVISION IMS Express provides customers with a complete IMS developer suite. The suite covers the full range of IMS-ready tools IMS signaling protocols (such as IMS SIP, Diameter and IMS Megaco), complementary engines and packages for IMS services development (such as XDM, MSRP and SIMPLE), IMS server framework, IMS client framework for terminal development and IMS testing tool.

*RADVISION IMS DIAMETER Toolkit.* The IMS DIAMETER Toolkit is a powerful software tool designed for the development of IMS (IP multimedia subsystem) Diameter-compliant network elements. It includes all required development components, including a set of quick start sample applications that demonstrate efficient API (application programming interface) usage, a graphical user interface, or GUI, test application and detailed documentation. Implementing all major IMS interfaces and assuring IETF RFC 3588-compliance, the IMS DIAMETER Toolkit allows seamless integration with IMS based IP networks (3GPP and TISPAN). Our IMS DIAMETER Toolkit is standards-based (IETF, TISPAN and 3GPP), and offers highly reliable performance.

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*RADVISION NAT Traversal Toolkit.* We offer a complete network address translation, or NAT, traversal solution for developers. The RADVISION NAT Traversal Toolkit is an Internet Engineering Task Force standards-based Simple Traversal Underneath NAT, or STUN, solution which is comprised of the latest NAT-related solutions available for SIP, RTSP, MEGACO/H.248, Diameter and others. We recently launched the ICE Toolkit, which is comprised of the latest technology for NAT Traversal, and in 2009 we expect to release a TURN Toolkit that will complement the NAT Traversal Toolkit.

*RADVISION SIP Server Platform.* The SIP Server Platform provides a complete framework for developing all types of SIP Server applications including Proxies, Redirect Servers, Registrars, Presence Servers, IMS Application Servers and different types of B2BUAs. The SIP Server Platform radically simplifies and accelerates development by providing a standards-compliant, robust and high performance implementation of standard SIP server functionality controlled through a multi-level, user friendly API.

*RADVISION H.323 Development Toolkit.* H.323 is currently the most widely deployed standard for real-time IP communication. All components of an H.323-compliant network, including terminals, gateways, gatekeepers and conferencing bridges, use the H.323 protocol to communicate. The RADVISION H.323 software development kits provide developers with the core software building blocks needed to develop H.323-compliant products, systems and applications. The RADVISION H.323 software development kit is an integrated set of software programs that execute the H.323 protocol and perform the functions necessary to establish and maintain real-time voice, video and data communication over packet-based networks. The RADVISION H.323 software development kits can be used to develop a broad spectrum of products, including gateways, gatekeepers, conferencing bridges, IP telephones and other H.323-compliant products.

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*RADVISION MGCP Development Toolkit.* Media gateway control protocol, commonly referred to as MGCP, provides functions that complement H.323 and has been developed for large packet networks operated by telecommunication carriers and service providers that require gateways that can support a high number of calls. MGCP is the protocol by which a centralized gateway controller communicates with and controls the numerous gateways throughout a packet network and manages the network traffic through those gateways. MGCP has been adopted by large telecommunication companies and Internet service providers as well as by cable television companies building IP communication solutions over their networks. The RADVISION MGCP software development kit is used to build MGCP compliant media gateways controllers and media gateways.

*RADVISION MEGACO Development Toolkit.* MEGACO/H.248 is the official industry standard media gateway control protocol for large-scale IP-centric communication networks. Like MGCP, it is an internal protocol used between intelligent centralized gateway controllers and numerous dumb media gateways that handle voice and video media streams. The standard is the result of a unique collaborative effort between the Internet Engineering Task Force, or IETF, and International Telecommunication Union, or ITU, standards organizations. Derived from MGCP, MEGACO/H.248 offers several key enhancements including support for multimedia and conferencing calls, improved handling of protocol messages and a formal process for creating extensions to support advanced functionality. The RADVISION MEGACO/H.248 Development Toolkit includes a unique Media Device Manager to greatly simplify application development and reduce development time by eliminating the need for developers to write code for interpreting MEGACO/H.248 messages.

*3G-324M Developer Toolkit.* The IP network has not evolved sufficiently to support high-quality real-time video and voice services over 3G networks. As a result, the 3G standards body, 3GPP, specified that the 3G-324M protocol would be used as the signaling and transport mechanism for real-time media over 3G (such as video streaming and video chat). 3G-324M routes traffic over the circuit switched network rather than the IP network, enabling the delivery of higher quality services. Because it is circuit-switched based, the standard is well suited for streaming real-time multimedia. 3G-324M enables the immediate development, deployment and support of a wide variety of delay-sensitive applications. These include multimedia conferencing with other 3G mobile end points and wire lined H.323 or SIP terminals, video streaming, cell phone TV, video-on-demand (such as news and sports), multimedia and multi-participant gaming. We were one of the first companies to introduce a toolkit for the development of 3G-324M-based products in early 2003 and we continue to develop improved versions of this solution. We are active in the ITU (International Telecommunication Union) and 3GPP, which are the 3G-324M standardization organizations, and we chair the 3G-324M Activity Group within the IMTC (International Multimedia Telecommunications Consortium).

*RADVISION Multimedia Terminal Framework.* In mid-2003, we first introduced a product for the manufacture of IP phones. In mid 2005, we introduced the Video Phone function, designated for videophone and residential gateway developers and manufacturers. The framework bundles TBU toolkits along with call control and endpoint management software to provide an IP phone and video phone application for any IP protocol (such as SIP). It is now used for the development of a wide variety of applications and devices, from video phones and IP phones to next generation SIP and IMS-based handheld devices with applications such as video share, video telephony, VoIP and others, SoHo PBX systems and IP voice gateways. The advanced functionality and broad flexibility, together with

multi-protocol support and advanced features, makes this toolkit central for the development of IP communications solutions. Since the second half of 2008, we have been developing an advanced technology on top of the Multimedia Terminal Framework, which adds media (i.e. codecs and media processing algorithms) and an upper layer application that manages and synchronizes the entire behavior of the client, all in high definition quality, as a result of which the customer may focus solely on the graphical user interface. This will provide our TBU customers with a one stop shop solution for advanced multimedia client and terminals development.

*RADVISION Testing Suite.* The ProLab Testing Suite is comprised of powerful testing tools that comply with the most recent industry standards and are suitable for use in various stages of the product development cycle, quality assurance and pre-deployment. The products perform essential automated tests for IMS, SIP, 3G-324M and H.323 networks and devices, including performance, load, stress, interoperability, media and protocol compliance. Testing is script-driven, which allows for maximum flexibility and customization, and enables the tests to be re-used. The testing suite contains hundreds of pre-written scripts, canned messages and media files to allow for turnkey test setup.

These highly scalable and feature-rich testing and validation products emulate a wide range of real-world network conditions to test devices and components in rich media collaborative networks. The ProLab suite allows vendors and service providers to perform the rigorous testing and validation needed to ensure high quality, dependability and product deployment. The ProLab suite simulates different network topologies and is specifically designed to perform advanced signaling and media tests. A highly sophisticated scheduling system enables comprehensive automated test procedures during testing cycles. The client/server application is capable of managing single or multiple test agents, such as IMS, SIP, H.323 or 3G-324M

At the core of the ProLab suite is the ProLab Test Manager. It comes bundled with a variety of components and specific testing products for either single or multi-protocol testing.

In 2008, we introduced a new testing tool for the enterprise market, called eVident. eVident provides enterprise IT and video-conferencing managers with a ready to use and simple tool to validate the network readiness for video conferencing and measure user experience. eVident provides a ready-made testing tool for pre and post-deployment scenarios and serves enterprise IT departments, video conferencing service integrators and service providers. eVident enables a real-time quality of experience measurement that allows network administrators to fine-tune network configuration and topology to properly handle interactive video services.

*Advanced RTP/RTCP Toolkit.* The Advanced RTP/RTCP (Real-Time Transport Protocol/Real-Time Transport Control Protocol) Toolkit is designed to address the requirements of mature, production IP telephony applications. The Toolkit provides enhanced media transport functionality, including support for Security and IPv6 and NAT/Firewall traversal. The Advanced RTP/RTCP Toolkit seamlessly scales from small embedded platforms up to densely populated parallel processing environments.

*RADVISION RTSP Toolkit.* The RADVISION RTSP (Real Time Streaming Protocol) Toolkit includes a set of intuitive application program interfaces, or APIs, for developing multimedia streaming applications for mobile devices such as personal digital assistants (PDAs) and mobile phones as well as broadband IP-based solutions such as IP TV. Our RTSP Toolkit facilitates faster time-to-market by allowing developers to focus on implementing value-added features instead of the intricacies of the underlying protocols. Our RTSP Toolkit is IETF RFC 2326 compliant.

### **TBU Product Benefits**

*Market leading technology for standard-based real-time IP communication.* We were one of the original five members of the International Telecommunication Union-Telecommunication committee responsible for defining the H.323 standard, which has been adopted worldwide for real-time packet-based communication. We believe our technology is recognized as the market-leading implementation of the H.323 industry standard for real-time voice, video and data communication over packet networks. We also believe that our technology is recognized as one of the market-leading implementations of the SIP, IMS and 3G-324M

We have been actively involved in the development of protocols for real-time communication since the inception of the industry in 1994 and believe that we were the first-to-market with enabling products and technology for voice, video and data communication over IP networks.

We believe that our technology has become the technology of choice among developers of standards-compliant IP communication systems. We believe our customers benefit from our ability to develop and provide them market-tested, proven products and technology. Using our products and technology, our customers can develop unique capabilities with increased functionality that will differentiate their IP communication solutions in the market. Our products are designed to enable our customers to perform a simple integration using flexible and multi-level APIs. We believe that the accumulated knowledge that we have gained participating in the development of industry standards provides us with a competitive advantage, and positions us to be among the first to market new products and technology based on the latest technological advances.

*Interoperability.* We chair the leading interoperability industry organizations – the International Multimedia Teleconferencing Consortium and the IMS Forum. In addition, we participate in all the major interoperability testing events to assure complete interoperability of our products. We provide our customers with products and technology that are interoperable across a broad range of IP communication systems. Our products and technology have been integrated into a variety of systems developed by hundreds of communication equipment providers. This field-proven technology together with our on-going participation in the entire industry’s interoperability events leads us to believe that our products and technology are interoperable with all major equipment vendors and products. We believe that our long-standing involvement in the definition of standards and accumulated experience with product development across our broad customer base provides us with a competitive advantage in addressing interoperability needs.

*Multi-domain, real-time voice, video and data communication functionality.* We are one of the few companies that offer IP communication products that support combined voice, video and data communication over IP and 3G networks. We believe that this functionality is attractive to enterprises and service providers that seek a flexible IP communication solution, which can provide enhanced multimedia functionality in fixed line and mobile environments.

*One stop shop.* Our solutions include a variety of technology components needed to build an end product. This includes a combination of signaling, media and application that provides our customer with a complete solution that speeds up its time to market.

*Video expertise.* TBU has gained extensive expertise with video, such as video analysis and metrics incorporated into ProLab and eVident, video algorithms and codecs embedded in the client suite. With the increased penetration of video-related products into the market and the complex perception that developers have of video, our TBU video technology offers a clear value-added benefit to customers over competing solutions, most of which are still either voice-centric or enable only basic video.

*Improved time to market.* Our customers rely on our accumulated expertise with communication standards and core technology to significantly reduce their development cycle and improve time to market. Communication equipment providers seeking to market standards compliant systems for real-time voice and video communication over packet and 3G networks require standards-compliant building blocks to develop their products. Implementing standards as deployable products and technology is a complex task that requires significant technical knowledge and expertise as well as substantial investments of time and resources. Our products and technology enable our customers to shorten their own development time by integrating our proven enabling products and technology into their solutions. Rather than dedicate in-house resources to implementing industry standards, these developers can use our products and technology and focus their core competencies on building enhanced systems, products and applications.

*Broad range of product environments.* Our products and technology provide our customers with flexibility to design individual products and applications or complete systems. Our customers can build a complete network solution for real-time IP communication using our full suite of products or integrate our products with their own products or other vendor products into their real-time IP communication solution. Similarly, our technology has been designed to enable the development of a broad range of products and applications, from those that can service single users, including hand held devices and residential IP phones, to multi-user products, like highly complex, powerful carrier class gateways. Taken together, we believe our products and technology provide all of the key network components necessary to build real-time IP communication solutions.

#### ***Industry Trends That May Benefit Our Developer Toolkits***

*Economic climate.* The recent global financial crisis has resulted in major cutbacks within engineering development centers. We believe that this in turn may increase the necessity to outsource development and focus on the core competence and differentiators, which would benefit our TBU business.

*Growth in IP communications.* In the 1990’s, IP communication experienced dramatic growth in traffic. Even during the downturn of 2000 and 2001, IP communications continue to grow. We believe that this trend will continue in the future due to:



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a rapid growth in the adoption of IMS (IP multimedia subsystem architecture) for mobile (3GPP), fixed (TISPAN) and cable (PacketCable) networks;

an increasing need for enterprises to expand their networks to enable them to send, access and receive information quickly, economically and globally;

an increasing use of the Internet and other packet networks for communicating and engaging in commercial transactions;

an increase in available bandwidth at declining prices;

the introduction of new voice, video and data communication services and applications;

the dramatic growth of wireless and broadband mobile networks and the interest by consumers to use WiFi and 3G-based devices and networks for new multimedia services such as video streaming and video telephony;

the increasing focus by both major vendors, such as Cisco and Microsoft, and IT managers to deploy IP-based multimedia communications to employee desktops;

the emergence of low cost, high quality IP communications devices that enable people, both in business and in every day life, to communicate more effectively and access real-time video over broadband mobile or residential IP or 3G connections; and

the growth in complexity of the SIP standard, which is making in-house SIP development by potential customers a more difficult task.

*Limitations of traditional networks.* Traditionally, circuit-switched networks have been the principal medium for the transmission of communication. Circuit-switched technology dedicates a circuit with a fixed amount of bandwidth for the duration of the connection, regardless of a user's actual bandwidth usage. The growth in data communication traffic, particularly the growth in the number of Internet users, has placed significant strains on the capacity of traditional circuit-switched networks. Circuit-switched networks were initially deployed to handle only voice communication and are not well suited for the types of converged multimedia services now seen over IP networks. These networks were not designed to handle data and broadband applications such as video efficiently and cannot scale cost-effectively to accommodate the growth in data traffic.

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*Advantages of packet-based networks.* While circuit-switched networks were principally designed to handle analog voice traffic, packet-based networks were principally designed for transmitting digital information. Packet-based networks, including IP networks, transmit voice, video and data information in the form of small digital packages called packets. Voice, video and data packets are sent over a single network simultaneously and reassembled at the destination. Packet switching enables more efficient utilization of available network bandwidth than circuit-switching, allowing more calls to travel through a packet network at the same time. In addition, packet networks are built using open standards, like IP, which promote competition by allowing different vendors to build products and applications that can interoperate with one another. By using packet technologies based on industry standards, new services can be deployed rapidly and economically.

*The need for products that deliver industry standards for real-time IP communications.* Originally, enterprises and communication service providers deployed packet networks primarily for handling data traffic and not for real-time IP communications. Technical barriers initially hampered the use of packet networks for real-time communication. For example, packet networks were not designed to guarantee the sequential delivery of packets and packets could be lost. In addition, the time of delivery of packets was dependent upon the amount of packet traffic being transmitted over the network. For real-time communication, it is critical that the packets associated with a specific voice or video communication be transmitted in the correct sequence and in a timely manner. Early attempts at real-time IP communication solved these technical problems by using proprietary solutions developed by individual vendors. However, proprietary solutions from different vendors meant that different vendor products could not interoperate with one another.

Our leadership position stems from the pioneering work we began in 1993. We were the first to develop and demonstrate commercially viable technology for establishing real-time voice, video, and data on IP networks. Since our inception, we have been helping to develop the industry standards that are driving the emergence and growth of the use of packet networks for real-time communication. Our company was an original member of the ITU (International Telecommunication Union) team that defined the H.323 standard, and we continue to work closely with the ITU, the IETF (Internet Engineering Task Force), IMTC (International Multimedia Telecommunications Consortium), and other

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industry consortia to define a broad spectrum of IP telephony protocols for voice and video communication, including SIP, MGCP, MEGACO/H.248, 3G-324M, ARTP, SRTP and Diameter.

Our protocol toolkits provide the underpinning technology required for the rapid development of next generation products and applications for real-time multimedia communication. Industry giants and emerging technology companies use our family of IP communication protocol toolkits to reduce their time to market for developing interoperable, standards-compliant products, applications and services. Today, our protocols are implemented in a wide range of environments from chipsets to simple user devices like IP phones, video phones, mobile terminals, SIP servers, application servers and video systems through carrier class network devices like gateways, switches and softswitches.

*Growth in real-time voice and video IP communication.* Due to the inherent benefits of packet networks and the advent of new technologies and standards that have enabled real-time communication over these networks, the use of packet networks for real-time voice, video and data communication is expected to grow dramatically. This anticipated growth in real-time IP communication is expected to be driven primarily by enterprises and communication service providers migrating to packet networks. As enterprises move from centralized organizations to distributed networks of employees, customers, suppliers and business partners, they require more effective communication capabilities to support their operations and remain competitive in a global and rapidly changing market. Packet networks are well suited for enterprises because they provide enterprises with the following advantages:

cost-effective increases in capacity to meet increasing communication traffic demands;

support for new communication applications, such as video conferencing and data collaboration, for improved workforce productivity;

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interoperability with different network configurations of their customers, suppliers and partners; and

cost savings associated with simplified network management resulting from creating a single network that handles all communication, rather than having to maintain separate telephone and computer networks.

Communication service providers have also begun to deploy packet networks in an effort to compete more effectively in a deregulated market. Global deregulation and rapid technological advances have resulted in the emergence of many new communication service providers, increased competition among traditional telecommunication carriers, lower prices, innovative new product and service offerings and accelerated customer turnover. To remain competitive, communication service providers must be able to develop and introduce new services to differentiate themselves in the market and attract and maintain customers. Packet networks are well suited to accomplish these objectives because they enable the rapid deployment of new and differentiated solutions. In addition, packet-based technology allows new competitors to enter the market quickly without substantial investment in infrastructure.

*Broadband mobile.* The roll out of 3G (Third Generation) broadband mobile services is moving rapidly in a number of key world markets. While these efforts are proceeding more cautiously in North America, a number of 3G networks in Asia and Europe are already in operation and serving millions of customers.

Both 3G standards bodies, 3GPP and 3GPP2, as well as other standardization organizations envision 3G as running entirely over an IP-based communication network (the Internet). Our products are a key element in implementing this network.

The main problem is that today's IP network (the Internet) is not sufficiently robust for delay sensitive applications and, in fact, will not be so until service providers move to IPv6 and SIP-based IP communication. IP, with its variant transmission delays (many hops routing and congestion effects) and packet overheads, is ill equipped at this time to provide high quality, real time multimedia delivery over 3G (WCDMA and CDMA2000) networks.

While the vision of a true IP-based 3G network has been delayed, the promise of a feature-rich, multimedia wireless experience has not. This is due to the emergence of a standard, called 3G-324M, which addresses and supports the real-time streaming of multimedia broadband wireless communication by routing traffic over the circuit switched network.

3G-324M, based on ITU H.324M and specified in detail by 3GPP (3GPP TS 26.112 and 3GPP TS 26.111 Working Groups), enables the development, deployment and support of a wide variety of delay-sensitive applications immediately. Enabled applications include multimedia

conferencing with other 3G mobile end points, and wire lined H.323 or SIP terminals, video streaming, cell phone TV, video-on-demand (such as news and sports) and multimedia, multi-participant gaming.

We have taken a pioneering role in providing 3G-324 developer toolkits (as well as 3G-324M-based infrastructure in our NBU) that enable equipment developers to develop products, ranging from 3G handsets to gateways and media servers that will deliver real time multimedia services over 3G. The ITU officially adopted our fast call set-up time amendments to the protocol (MONA), and we were granted a U.S. patent for 3G-324M fast call set-up.

*Professional Services.* In 2003, we launched our Professional Services Division, which assists our customers in developing specialized telecommunications products based on our developer toolkit and reference design solution. This division offers a full range of consulting, engineering and software development services to support our customers in bringing innovative voice and video products to the market on time using our suite of developer toolkits and protocol and development expertise. Our Professional Services Division handles the complete project life-cycle from design, throughout the product development, until on-site deployment.

## Products and Technology under Development

We intend to capitalize upon our technological leadership in real-time IP communication and visual communication network appliance and functionality to develop new products and technology that meet the evolving needs of the IP, 3G and emerging IMS markets, as well as platforms and tools to create new IP-centric enhanced services. Our major investments today are in both the client and server markets. For the client market, we are in the process of developing a comprehensive solution for terminal developers that will offer a state of the art engine to enable cost effective deployment of video telephony. For the server market, we are developing a services layer on top of the SIP server product. We believe that this will increase our customer value proposition, increase our competitiveness, reduce the customer's time to market and allow the customer to focus on the business and economic benefits rather than invest time and energy in dealing with the lower layers of a product.

## Customers

We generally sell our NBU enterprise products to OEMs, systems integrators and VARs. Our OEM customers purchase our products to integrate with their own products or products of other third parties to build complete IP communication solutions. Our systems integrator customers either purchase our full suite of products or integrate our individual products with products of other third parties to build complete IP communication solutions. Our VAR customers purchase our products to resell to end-users as separate units, or as part of a family of related product offerings, either under our RADVISION label or under private labels.

We sell our service provider products to major telecommunications equipment vendors (who may use our solution as part of a larger service portfolio), telecommunications operators and application service providers, or ASPs.

We generally sell our TBU products in the form of software development kits directly to developers of IP communication products, systems and applications for developing their own IP communication solutions based on our core enabling technology.

For the years ended December 31, 2007 and 2008, Cisco accounted for approximately 34% and 39%, respectively, of our sales.

The following is a representative list of our major customers in 2008:

Aethra Ltd	Innovation Insigma	Seal
Alcatel-Lucent Ltd	LM Technical Services	Shenzen Huawei
Broadreach	Logica CMG	Communication Technologies Co Ltd.
Busch International Ltd.	Motorola	Shenzen Division Video
Cisco	NETCONN Solution Corp	Telecommunication EGT
Computer Science Corporation	Northrop Grumman	Siemens
Converse	NortelLife size	Solincom Inc.
Digital China Technology	NTT	Sony
E-Soft	NTT BizLink	Target
France Telecom	Research In Motion Limited	Takeview
Glovicom	Samsung	Zhejiang University
Hands on Video Relay Service, Inc	Science Applications International Corporation	

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**Sales and Marketing**

*Sales organization.* We market and sell our products through multiple channels in North and South America, Europe, the Middle East and the Asia-Pacific region. Our networking products are sold to end-users principally through indirect channels by OEMs, system integrators and VARs. We market and sell our technology products, primarily in the form of software development kits, directly to developers of IP and 3G communication products and applications. We sell to service providers through major telecommunications equipment vendors. In several countries in the Asia-Pacific region we sell our software development kits indirectly through local sales representatives.

We currently have sales offices in the United States in New Jersey, California and New Hampshire. We also have a sales office in Israel and marketing or representative/liaison offices in Hong Kong, China, Korea, Japan, Singapore, the United Kingdom, France, Germany, Italy, Spain and Brazil. The geographic breakdown of our total sales for the year ended December 31, 2008 was 61% in the Americas, 20% in Europe, Middle East and Africa and 19% in the Asia-Pacific region.

We have dedicated sales teams to support our large strategic partners as well as to identify potential strategic customers who would deploy our products on large scales and generate significant revenues for us.

RADVISION won several prestigious awards for our 2008 solution offerings. For the second consecutive year, VC Insight, a global video conferencing research firm, selected RADVISION as the Best Unified Communications Company of the Year. In addition, we were also awarded VC Insight's Editor's Choice Awards for our SCOPIA Desktop version 5.7 and our SCOPIA Conferencing Platform. Technology Marketing Corporation's (TM<sup>®</sup>) *INTERNET TELEPHONY* magazine ([www.itmag.com](http://www.itmag.com)) named RADVISION's Multimedia Terminal Framework product family as a recipient of its 2008 IPTV Excellence Award and also named the SCOPIA video communications platform as one of the two best video conferencing products of 2007.

*Marketing organization.* Our marketing organization develops strategies and implements programs to support the sale of our products and technology and to sustain and enhance our market position as an industry leader. Our current marketing efforts include various sales and channel support programs designed to drive sales and marketing communication programs designed to increase industry visibility, including press/analyst tours, trade shows and events, speaking engagements and ongoing interaction with analysts and the media as well as targeted marketing programs. Additional programs include technical seminars where customers and other industry participants are educated in real-time IP communication technology and the benefits of our products and technology. We also view our website as an important marketing tool for lead generation, customer relations and to support our market position as video communication experts through quality content, including providing information related to issues relevant to the communication industry, as well as important product and market trends.

To reinforce and further strengthen our market position as a technology leader in the field of real-time IP, 3G and visual communication, we actively participate in key industry consortia and standards bodies. We are also active in defining and reviewing evolving IP communication standards that are being developed by international standards bodies including:

ITU-T (International Telecommunication Union - Telecommunication), which has published the H.323 and MEGACO standards;

IETF (Internet Engineering Task Force), which has published the SIP and MEGACO standards;

IMTC (International Multimedia Telecommunications Consortium), a global organization to promote interoperable multimedia communication solutions based on international standards. We regularly participate in IMTC-sponsored InterOP (Interoperability) events, a vendor-neutral forum where IMTC members test the interoperability of their products; and

3GPP (3rd Generation Partnership Project), which develops the IMS standards.

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**Customer Care and Support Services**

Our ability to provide our customers with responsive and qualified customer care and support services globally is essential to attract and retain customers, build brand loyalty and maintain our leadership position in the market. We believe our customer care and support organizational structure enables us to provide superior technical support and customer service on a cost- and time-efficient basis.

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We provide global customer care and support services for our products and technology. Our customer care and technical support teams are located in Israel, New Jersey, New Hampshire, California, London, Japan, Korea, India, Spain, France, Germany, Hong Kong and China. We offer a 24 hour, seven day a week, 365 days a year service program in certain of our offices to better serve our networking customers who desire the expanded service. We also offer various other services, such as assisting our networking customers with the initial installation, set-up, expedite hardware replacement and training. In addition, our technical support team trains and certifies our networking customers to provide local support in each of the geographical areas in which our products are sold.

In addition, customers who purchase our TBU software development kits generally request that we provide them with ongoing engineering and technical support services to integrate our technology into their products, although these services are not essential for the use of our software development kits. Our standard software development kit contract provides for one year of support services, renewable annually at the customer's option. Customers who have contracted for support services receive all relevant software updates as well as access to our customer care and technical support teams.

We also offer professional services, including consulting, development, customization and system integration expertise to our customers, in order to work hand-in-hand throughout the development process. Our professional services are offered both for TBU and NBU customers.

### Intellectual Property

We rely on copyright, trademark and trade secret laws, confidentiality agreements and other contractual arrangements with our customers, third-party distributors, suppliers, employees and others to protect our intellectual property.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products and technology or obtain and use information that we regard as proprietary. Policing unauthorized use of our products and technology is difficult. In addition, the laws of some foreign countries in which we currently or may in the future sell products do not protect our proprietary rights to as great an extent as do the laws of the United States. Our means of protecting our proprietary rights may not be adequate and our competitors may independently develop similar technology, duplicate our products or design around our intellectual property.

We rely on certain technology that we license from third parties, including software that is integrated with internally developed software and used in our products to perform key functions. If we are unable to continue to license any of this software on commercially reasonable terms, we will face delays in releases of our products or will be required to reduce the functionality of our products until equivalent technology can be identified, licensed or developed, and integrated into our current products.

### Competition

We compete in a new, rapidly evolving and highly competitive and fragmented market. We expect competition to intensify in the future. We believe that the main competitive factors in our market are time to market, product quality, features, cost, technological performance, scalability, compliance with industry standards and customer relationships.

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The principal competitors in the market for our products currently include:

Networking Products	Software Development Kits
Ericsson Polycom Inc. TANDBERG	Aricent Data Connection Limited Dilithium Networks MST Netbrics
In the 3G market: Dilithium Networks NMS Communications	Trillium Digital Systems, acquired by Continuous Computing. Open source developers and in-house developers employed by manufacturers of telecommunication equipment and systems

Additional competitors may enter any of our markets at any time.

## Manufacturing

Our manufacturing operations consist of materials planning, procurement, out-sourcing of sub-assembled kits, final assembly, testing, quality control, packaging and shipping. We generally assemble, test and integrate our products in a subcontractor's facilities in Israel. We test our products both during and after the assembly process using internally developed quality assurance testing procedures. We use an enterprise resource planning, Oracle ERP, system. We believe that the efficiency of our assembly process to date is largely due to our product architecture and our design for manufacturability. We manufacture our software development kits on CD-ROMs and package and ship them accompanied by relevant documentation.

As part of our commitment to quality, we have been certified as an ISO 9001:2000 and ISO 14001 supplier. The ISO 9001:2000 and ISO 14001 standards define the procedures required for research and development, customer support and manufacture of products with predictable and stable performance and quality. We are continuously improving our quality based on the quality standards and indicators measured by the ISO 9001:2000 and ISO 14001 processes.

We currently obtain key components used in the manufacture of certain of our products from a single supplier or from a limited number of suppliers. Any delays in delivery or shortages in these components could interrupt and delay manufacturing of our products and result in the cancellation of orders for our products. In addition, these suppliers could discontinue the manufacture or supply of these components at any time. We may not be able to identify and integrate alternative sources of supply in a timely fashion or at all. Any transition to alternate suppliers may result in delays in shipment and increased expenses and may limit our ability to deliver products to our customers. Furthermore, if we are unable to identify an alternative source of supply, we would have to modify our products to use a substitute component, which may cause delays in shipments, increased design and manufacturing costs and increased prices for our products. To date, we have not encountered any material interruptions in supply.

## C. ORGANIZATIONAL STRUCTURE

We have nine wholly-owned subsidiaries: RADVISION Inc. and its wholly-owned subsidiary RADVISION Government Services, Inc. in the United States, RADVISION (HK) Ltd. in Hong Kong, RADVISION (UK) Ltd. in the United Kingdom, RADVISION FRANCE S.A.R.L. in France, RADVISION Japan KK in Japan, RADVISION B.V. in the Netherlands and RADVISION GmbH in Germany, all of which are primarily engaged in the sale and marketing of our products and technology, and RADVISION Communication Development (Beijing) Co. Ltd. in China., which is primarily engaged in research and development and the sale and marketing of our products and technology.

Zohar Zisapel, the Chairman of our Board of Directors and a principal shareholder of our company, and Yehuda Zisapel, a principal shareholder of our company, who formerly was a director and the Chairman of our Board of Directors, are brothers. Individually or together they are directors and principal shareholders of several other companies which, together with us and the other subsidiaries and affiliates, are known as the RAD-BYNET group (although this is not a legal entity). In addition to engaging in other businesses, members of the RAD-BYNET group are actively engaged in designing, manufacturing, marketing and supporting data communication products, none of which currently compete with our products. Some of the products of members of the RAD-BYNET group are complementary to, and may be used in connection with, our products.

## D. PROPERTY, PLANTS AND EQUIPMENT

Our headquarters and principal administrative, finance, sales and marketing and promotion operations are located in approximately 118,000 square feet of leased office space in Tel Aviv, Israel at an aggregate rental cost of approximately \$1.9 million in 2008. The lease for our principal offices expires in June 2010. In the United States, we lease approximately 12,600 square feet of office space in Fair Lawn, New Jersey under a lease expiring in September 2012, approximately 3,156 square feet in Sunnyvale, California under a lease expiring in April 2010 and approximately 12,000 square feet in Bedford, New Hampshire under a lease expiring in February 2011. We also lease approximately 2,600 square feet in Hong Kong under a lease expiring in May 2009, approximately 97 square feet in Singapore under a lease expiring in July 2009, approximately 2,200 square feet in Uxbridge, Middlesex under a lease that we recently executed that expires in July 2011, approximately 2,133 square feet in China under a lease expiring in December 2010, approximately 900 square feet in Japan under a lease expiring in February 2010, approximately 1,200 square feet in France under a lease expiring in February 2015 and approximately 650 square feet in Korea under a lease expiring in December 2009. The aggregate annual rent for our sales and service offices in the United States, Hong Kong, China, Japan, Singapore, the United Kingdom, Korea and France was approximately \$1.6 million in 2008.

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

**A. OPERATING RESULTS**

*The following discussion of our results of operations should be read together with our consolidated financial statements and the related notes, which appear elsewhere in this annual report. The following discussion contains forward-looking statements that reflect our current plans, estimates and beliefs and involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this annual report.*

**Background**

We are a leading provider of solutions that enable real-time multimedia (voice, video and data) collaboration and communication over packet and 3G networks. We were incorporated in January 1992, commenced operations in October 1992 and commenced sales of our products in the fourth quarter of 1994. Since our initial public offering on March 14, 2000, our ordinary shares have been listed on the NASDAQ Global Market (symbol: RVSN) and our ordinary shares have also traded on the Tel Aviv Stock Exchange since October 20, 2002.

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Our consolidated financial statements appearing in this annual report are prepared in U.S. dollars and in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, and audited in accordance with the standards of the Public Company Accounting Oversight Board (United States).

Our revenues are generated mainly in U.S. dollars or are linked to the dollar and a majority of our expenses is incurred in U.S. dollars. Consequently, we use the dollar as our functional currency. Transactions and balances in other currencies are re-measured into dollars according to the principles in Financial Accounting Standards Board, or FASB, Statement of Financial Accounting Standards, or SFAS, No. 52. Gains and losses arising from re-measurement are reflected in the statements of operations as financial income or expenses as appropriate.

**Overview**

We are one of the industry's leading provider of high quality, scalable and easy-to-use products and technologies for videoconferencing, video telephony, and the development of converged voice, video and data over IP and 3G networks. Hundreds of thousands of end-users around the world today communicate over a wide variety of networks using products and solutions based on or built around our multimedia communication platforms and software development solutions. We have over 600 customers worldwide, including Aethra, Alcatel-Lucent, Broadreach, Cisco, Comverse, Huawei, LG Electronics, LifeSize, Microsoft, NTT/DoCoMo, Orange Telecom, Philips, Samsung, Siemens, Sony, Telecom Italia.

We have two separate business units, corresponding to our two product lines, to enable our product development and product marketing teams to respond quickly to evolving market needs with new product introductions.

Our Networking Business Unit, or NBU, offers one of the broadest and most complete set of multimedia communication and videoconferencing network solutions for IP, ISDN, H.323, SIP and 3G-based networks, supporting most end points in the industry today. These products are sold primarily to resellers and OEMs who use this infrastructure to develop and install advanced IP and ISDN-based communication systems for enterprise customers. The NBU's Scopia Desktop product line provides a unique highly scalable solution for desktop video collaboration and is sold as a standalone application as well as an integrated product with common desktop applications. The NBU also provides service providers, both 3G wireless and wireline, with integrated solutions that enable the delivery of converged IP-based multimedia streaming and video telephony applications to corporate customers as a managed service, residential broadband customers and 3G subscribers worldwide.

Our Technology Business Unit, or TBU, is a one-stop shop of voice and video over IP and 3G Development toolkits. The TBU provides protocol development tools and platforms as well as associated solutions, such as testing platforms and IP phone toolkits, that enable equipment vendors and service providers to develop and deploy new IP and 3G-based converged networks, services, and technologies. TBU solutions include developer toolkits and suites for SIP, MEGACO/H.248, MGCP, H.323, and 3G-324M. Our TBU solutions also include our ProLab® Test Management Suite and IP phone toolkit. Our toolkits have been implemented in a wide range of environments from chipsets to simple user devices like IP phones, and from integrated video systems through carrier class network devices like gateways, switches, soft switches and 3G multimedia gateways.

Both business units also assist customers to integrate our technology into their products and to customize our products to their specific needs.

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Our goal is to be the leading provider of solutions that enable real-time multimedia (voice, video and data) collaboration and communication over packet and 3G networks. We provide solutions at every level – protocol developer toolkits, professional services, network infrastructure, as well as integrated solutions that complement the communication solutions of other vendors. We believe that the combination of offering IP-centric networking products, along with software toolkits, positions us as a key enabling vendor in the evolution of next-generation communications. Both of our product lines are essential for building networks that support real time voice and video communication with full interoperability with legacy ISDN/PSTN networks and technologies. We also believe that the opportunities for mass deployment in desktop collaboration and 3G are promising growth levers for our company, complementing our traditional sources of revenues from our TBU and NBU businesses.

#### **Critical Accounting Policies and Estimations**

We have identified the following policies as critical to the understanding of our financial statements. The preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting periods. Areas where significant judgments are made include, but are not limited to, revenue recognition, allowance for doubtful accounts, investment valuation, inventory valuation, goodwill and intangible assets, warranty, income tax valuation allowance, tax contingencies and uncertainties. Actual results could differ materially from these estimates.

*Revenue Recognition.* We account for our revenue in accordance with the provisions of SOP 97-2, Software Revenue Recognition, issued by the American Institute of Certified Public Accountants and as amended by SOP 98-9 and related interpretations. When an arrangement does not require significant production, modification or customization of software or does not contain services considered to be essential to the functionality of the software, revenue is recognized when the following four criteria are met:

Persuasive evidence of an arrangement exists. We require evidence of an agreement with a customer specifying the terms and conditions of the products or services to be delivered typically in the form of a signed contract, statement of work or purchase order.

Delivery has occurred. For software licenses, delivery takes place when the customer is given access to the software programs via access to a website or shipped medium. For sales of videoconferencing systems that are delivered physically, delivery takes place upon transfer of the videoconferencing system to the customer's possession. For services, delivery takes place as the services are provided.

The fee is fixed or determinable. Fees are fixed or determinable if they are not subject to a refund or cancellation and do not have payment terms that exceed our standard payment terms. Typical payment terms are between net 30 days to net 90 days.

Collection is probable. We perform a credit review of all customers with significant transactions to determine whether a customer is credit worthy and collection is probable.

In general, revenues are recognized as follows: (i) revenues from license fees and sales of products are recognized when persuasive evidence of an arrangement exists, delivery has occurred, no significant obligations with regard to implementation remain, the fee is fixed or determinable and collectability is probable; (ii) maintenance and technical support is deferred and recognized on a straight-line basis over the term of the maintenance and support agreement; (iii) other services are recognized as the services are performed; (iv) revenues from royalties are recognized at the time of shipment by customers, as they are reported to us by those customers, and when collectability is probable; and (v) non-refundable payments on account of future royalties where no future obligation exists with regard to these royalties are recognized upon the



signing of such arrangement and if collectability is probable.

We exercise judgment and use estimates in connection with the determination of the amount of product software license and services revenues to be recognized in each accounting period. If collection is not considered probable, revenue is recognized when the fee is collected. We record provisions against revenue for estimated sales returns and allowances on product and service-related sales in the same period as the related revenue is recorded. These estimates are based on historical sales returns and analyses of credit memo data, and other known factors. If the historical data we use to calculate these estimates do not accurately reflect future returns, adjustments to these reserves may be required that would increase or decrease revenue or net income.

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Many of our arrangements include multiple elements. Such elements typically include any or all of the following: products or software licenses, software maintenance and technical support and in some cases customization and development of software services. For multiple-element arrangements that do not involve significant modification or customization of the software and do not involve services that are considered essential to the functionality of the software, revenues are allocated to the different elements in the arrangement under the residual method since vendor-specific objective evidence, or VSOE, of fair value exists for all undelivered elements and no VSOE exists for the delivered elements. Under the residual method, at the outset of the arrangement with the customer, we defer revenue for the fair value of our undelivered elements (maintenance and support) and recognize revenue for the remainder of the arrangement fee attributable to the elements initially delivered in the arrangement when all other criteria in SOP 97-2 have been met. Any discount in the arrangement is allocated to the delivered element. If sufficient specific objective evidence does not exist for all undelivered elements, revenue is deferred for the entire arrangement until all revenue recognition criteria are met for such undelivered elements. The VSOE of fair value of the maintenance and support services included in multiple element arrangements is determined based on the price charged when sold separately (i.e. when renewed).

In the case of multiple-element arrangements that involve significant modification or customization of the software or involve services that are considered essential to the functionality of the software, contract accounting is applied according to the provisions of Statement of Position, or SOP, 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, in accordance with which revenues are recognized on the percentage of completion basis, when collectability is probable. Percentage of completion is determined based on the output method, meaning upon completion of milestones. However, in cases where uncertainty exists subsequent to the completion of the milestone with regard to customer acceptance, revenue is not recognized until actual customer acceptance. The recognition of losses on contracts is reflected in the period in which the likelihood of losses is identified.

*Share-based payments.* On January 1, 2006, we adopted FASB SFAS No. 123 (revised 2004), *Share-Based Payment*, or SFAS No. 123(R), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors to be based on estimated fair values. SFAS No. 123(R) supersedes our previous accounting under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, or APB 25, for periods beginning January 1, 2006, under which compensation expense was measured based on the intrinsic value method. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107, or SAB 107, relating to SFAS No. 123(R). We have applied the provisions of SAB 107 in our adoption of SFAS No. 123(R).

SFAS No. 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our consolidated statements of operations.

We adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard starting from January 1, 2006, the first day of our 2006 fiscal year. Under that transition method, compensation cost recognized during 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). Results for prior periods have not been restated. We selected the Black-Scholes model, which is the most common model in use in evaluating stock options. This model evaluates the options as if there is a single exercise point, and thus considers and expected option life (expected term). The input factored in this model is constant for the entire expected life of the option.

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We recognize compensation expenses for the value of awards which have graded vesting based on the straight line method over the requisite service period of each of the awards, net of estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term forfeitures is distinct from cancellations or expirations and represents only the unvested portion of the surrendered option.

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Expected volatility was calculated based upon actual historical stock price movements over a period equal to the expected term of the options. Estimated forfeitures are based on actual historical pre-vesting forfeitures. The expected term of options granted before December 31, 2007 was calculated using the simplified method (expected term = (vesting term + original contractual term) / 2). The expected term of options granted after December 31, 2007 was calculated using historical exercise data for share option grants, except for options which were re-priced, for which the expected term of the options before the re-pricing was calculated using the binomial method. The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term. We have not historically paid dividends and have no foreseeable plans to pay dividends, therefore estimated dividend yield is 0%. For more information on the assumptions used for the calculation of the expense refer to Note 2q of our consolidated financial statements.

The total compensation cost related to options granted to employees under our share-based compensation plan recognized for the years ended December 31 2006, 2007 and 2008 amounted to \$4.8 million, \$5.5 million and \$5.4 million, respectively.

*Allowances for Doubtful Accounts.* We perform ongoing credit evaluations of our customers' financial condition, and we require collateral as deemed necessary. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make payments. In judging the adequacy of the allowance for doubtful accounts, we consider multiple factors including the aging of our receivables, historical bad debt experience and the general economic environment. Management applies considerable judgment in assessing the realization of receivables, including assessing the probability of collection and the current credit worthiness of each customer. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

*Valuation of Investments.* Fair value of marketable securities is estimated using quoted market prices where available. For securities not actively traded, fair value is estimated using values obtained from our cash asset managers or an independent valuation firm. To estimate the value of these investments, the cash asset managers or independent valuation firm employ various models that take into consideration such factors, among others, as the credit rating of the issuer, effective maturity of the security, yields on comparably rated publicly traded securities, availability of insurance and risk-free yield curves. The actual value at which such securities could actually be sold or settled with a willing buyer or seller may differ from such estimated fair value depending on a number of factors, including, but not limited to, current and future economic conditions, the quantity sold or settled, the presence of an active market and the availability of a willing buyer or seller.

Based on our intent with respect to a particular investment at the time of investment, we are generally required to classify our investments into one of two investment categories under GAAP: held to maturity or available for sale. The classification of the investment may affect our reported results. For investments classified as held to maturity, we are required to carry the investment at amortized cost, with only the amortization occurring during the period recognized into income. The other than temporary impairment of available-for-sale securities totaled \$0, \$379,000 and \$1.8 million for the years ended December 31, 2006, 2007 and 2008, respectively, and such losses were recorded in financial income, net. The adjustment to unrealized holding losses on available-for-sale marketable securities was included as a separate component of shareholders' equity, Accumulated other comprehensive income, which amounted to \$0 and \$182,000 for the years ended December 31, 2006 and 2007, respectively, and as a reclassification to statement of operations of operations of other-than-temporary impairment from available-for-sale marketable securities, net of \$182,000 for the year ended December 31, 2008.

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We regularly review our investments for factors that may indicate that a decline in the fair value of an investment below its cost or amortized cost is other than temporary. Some factors considered in evaluating whether or not a decline in fair value is other than temporary include: (i) our ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value; (ii) the duration and extent to which the fair value has been less than cost; and (iii) the financial condition and prospects of the issuer. Such reviews are inherently uncertain in that the value of the investment may not fully recover or may decline further in future periods resulting in realized losses.

We adopted FASB SFAS 157, *Fair Value Measurements*, or SFAS No. 157, as of the beginning of fiscal year 2008. In February 2008, FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157, which provides a one year deferral of the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, we have only adopted the provisions of SFAS 157 with respect to our financial assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS No. 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS No. 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The adoption of this statement did not have a material impact on our consolidated results of operations and financial condition. See Note 4, *Fair Value Measurements*, to our consolidated financial statements.

*Inventories.* Inventories are stated at the lower of cost or market. Cost is determined by the average cost method. We write down obsolete or slow moving inventory in an amount equal to the difference between the cost of inventory and the estimated market value based upon

assumptions about future demand, market conditions and sale forecasts. If actual market conditions are less favorable than we anticipate, additional inventory write-downs may be required.

*Warranty Reserves.* Upon shipment of products to our customers, we provide for the estimated cost to repair or replace products that may be returned under warranty. Our warranty period is typically 12 months from the date of shipment although this may vary depending on the demands of the customer. For existing products, the reserve is estimated based on actual historical experience. Factors that may impact our warranty costs in the future include our reliance on our contract manufacturer to provide quality products and the fact that our products are complex and may contain undetected defects, errors or failures in either the hardware or the software.

*Goodwill and Intangible Assets.* Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. The goodwill on our balance sheet is a result of our acquisitions of the assets of FVC in March 2005 and VisionNex Technologies, Inc., or VisionNex, in September 2004. The identifiable intangible assets, other than goodwill, included in our balance sheet are technology and distribution networks acquired from FVC and VisionNex. We review goodwill for potential impairment at least annually and other intangible assets when events or changes in circumstances indicate the carrying value of the other intangible assets may be impaired, in which case we may obtain an appraisal from an independent valuation firm to determine the amount of impairment, if any. In addition to the possible use of an independent valuation firm, we perform internal valuation analyses. Goodwill and intangible assets that resulted from the acquisitions of FVC and VisionNex are allocated to the NBU segment and the goodwill impairment testing is performed at the reporting unit level. We determine fair value using widely accepted valuation techniques, including discounted cash flow analysis. This type of analysis requires us to make assumptions and estimates regarding industry economic factors and the profitability of future business strategies. It is our policy to conduct impairment testing based on our current business strategy in light of present industry and economic conditions, as well as future expectations. As of December 31, 2008, we determined there was no impairment of the VisionNex and FVC goodwill. If actual results are not consistent with our assumptions and estimates, we may be exposed to a goodwill impairment charge. In addition, we have compared our market capitalization based upon our closing share price as reported by NASDAQ, including an estimated control premium that an investor would be willing to pay for a controlling interest in us, to the fair value of our company based on the third party valuation study. The determination of a control premium requires the use of judgment and is based primarily on comparable industry and deal-size transactions, related synergies and other benefits.

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In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we perform tests for impairment of long-lived assets whenever events or circumstances suggest that other long-lived assets may not be recoverable. This analysis differs from our goodwill analysis in that an impairment is only deemed to have occurred if the sum of the forecasted undiscounted future cash flows related to the assets are less than the carrying value of the asset we are testing for impairment. If the forecasted cash flows are less than the carrying value, then we are required to write down the carrying value to its estimated fair value based primarily upon forecasted discounted cash flows. Based on the impairment test performed as of December 31, 2008, no impairment was identified.

These forecasted undiscounted cash flows include estimates and assumptions related to revenue growth rates and operating margins, future economic and market conditions and determination of appropriate market comparables. Our estimates of market segment growth and our market segment share and costs are based on historical data, various internal estimates and certain external sources, and are based on assumptions that are consistent with the plans and estimates we are using to manage the underlying business. Our business consists of both established and emerging technologies, and our forecasts for emerging technologies are based upon internal estimates and external sources rather than historical information. If future forecasts are revised, they may indicate or require future impairment charges. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

*Deferred Taxes and Uncertain Tax Positions.* We utilize the liability method of accounting for income taxes. We record a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. In assessing the need for a valuation allowance, we consider all positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. Forming a conclusion that a valuation allowance is not required is difficult when there is negative evidence such as cumulative losses in recent years. As a result of our cumulative losses in the United States and the full utilization of our loss carryforward opportunities, we have recorded valuation allowances to reduce our net deferred tax assets to the amount we believe is more likely than not to be realized. During 2008, part of this valuation allowance was reduced against income tax expense. In the future, if we realize a deferred tax asset that currently carries a valuation allowance, we may record additional reduction to income tax expense in the period of such realization.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109*, or FIN 48, which requires income tax positions to meet a more-likely-than-not recognition threshold to be recognized in the financial statements. FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109, *Accounting for Income Taxes*. The first step is to evaluate the tax position for recognition by determining if the weight of available

evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. As a multinational corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. If we ultimately determine that the payment of these liabilities will be unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine the liability no longer applies. Conversely, we record additional tax charges in a period in which we determine that a recorded tax liability is less than we expect the ultimate assessment to be. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from our estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities.

*Contingencies.* We are involved in legal proceedings and other claims from time to time. We are required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for any contingencies are made after careful analysis of each individual claim. The required reserves may change due to future developments in each matter or changes in approach, such as a change in the settlement strategy in dealing with any contingencies, which may result in higher net loss. If actual results are not consistent with our assumptions and judgments, we may be exposed to gains or losses that could be material. See Item 8A. Financial Information Consolidated Statements and Other Financial Information Legal Proceedings.

## Revenues

We generate revenues from sales of our networking products and our technology products as well as related maintenance, support services and professional services. We price our networking products on a per unit basis. We price our software development kits on the basis of a fixed-fee plus royalties from products developed using the software development kits. We sell our products and technology through direct sales and various indirect distribution channels in the Americas, Europe, the Middle East and the Asia-Pacific region.

## Significant Expenses

*Cost of Revenues.* Our cost of revenues consists of component and material costs, direct labor costs, subcontractor fees, related overhead and depreciation and amortization. Our gross margin is affected by the selling prices for our products as well as the proportion of our revenues generated from the sale of our technology products as compared to our networking products. Our revenues from the sale of our technology products have higher gross margins than our revenues from the sale of our networking products and we offer greater discounts to our high volume OEM customers. As the relative proportion of our revenues from our networking products increases as a percentage of our total revenues and we generate a higher percentage of our revenues from sales to our high volume OEM customers, our gross margins will decline.

*Research and development expenses.* Our research and development expenses consist primarily of compensation and related costs for research and development personnel, subcontractors, expenses for testing facilities and depreciation of equipment.

Research and development costs are charged to operations as incurred. Software development costs are considered for capitalization when technological feasibility is established according to SFAS, No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*. Costs incurred after achievement of technological feasibility in the process of software production have not been material. Therefore, we have not capitalized any of our research and development expenses.

*Marketing and selling expenses.* Our marketing and selling expenses consist primarily of compensation and related costs for sales personnel, marketing personnel, sales commissions, marketing programs, public relations, promotional materials, travel expenses and trade show exhibit expenses.

*General and administrative expenses.* Our general and administrative expenses consist primarily of salaries and related expenses for executive, accounting and human resources personnel, professional fees, provisions for doubtful accounts and other general corporate expenses.

*Financial income, net.* Our financial income, net consists primarily of interest earned on bank deposits and other liquid investments, gains and losses from the re-measurement of monetary balance sheet items denominated in non-dollar currencies into dollars, other than temporary impairment of auction rate securities, amortization of marketable securities premium net of accretion of discounts and realized gain or loss from

redemption of marketable securities.

## Results of Operations

The following discussion of our results of operations for the years ended December 31, 2006, 2007 and 2008, including the percentage data in the following table, is based upon our statements of income contained in our financial statements for those periods and the related notes, included in this annual report:

	December 31,		
	2006	2007	2008
Revenues	100.0%	100.0%	100.0%
Cost of revenues	20.0	20.0	22.2
Gross profit	80.0	80.0	77.8
Operating expenses:			
Research and development	27.8	33.1	43.5
Marketing and selling	33.7	35.6	41.7
General and administrative	7.1	9.4	10.6
Patent settlement reserve	2.1	-	-
Total operating expenses	70.7	78.1	95.8
Operating income (loss)	9.3	1.9	(18)
Financial income, net	6.4	6.7	3.0
Tax benefit (expense), net	1.0	1.9	(0.3)
Net income (loss)	16.7%	10.5%	(15.3)%

### Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

*Revenues.* Revenues decreased by 7.5% from \$91.6 million for the year ended December 31, 2007 to \$84.7 million for the year ended December 31, 2008. This decrease in revenues was primarily attributable to lower sales of solutions for 3G-based networks, Click to Meet products and TBU sales in 2008 compared to 2007. In 2008, we decided to reduce our investment in the 3G mobile market, which resulted in lower sales of 3G solutions compared to 2007. In addition, our revenues from Click to Meet as a standalone product decreased compared to 2007 due to lower demand.

Revenues from networking products decreased by 5.7% from \$68.3 million for the year ended December 31, 2007 to \$64.4 million for the year ended December 31, 2008. The decrease in revenues from networking products was primarily attributable to a decrease in sales of solutions for 3G-based networks and our Click to Meet solution, which decrease was offset in part by an increase in sales to Cisco channels.

Revenues from technology products decreased by 12.4% from \$23.3 million for the year ended December 31, 2007 to \$20.4 million for the year ended December 31, 2008. The decrease in revenues from technology products was attributable to a \$1.2 million decrease in software license fees, a \$0.8 million decrease in revenues from maintenance and a \$1.0 million decrease in revenues from professional services.

Revenue from sales to customers in the Americas decreased from \$54.9 million, or 59.9% of revenue, for the year ended December 31, 2007 to \$52 million, or 61.4% of revenue, for the year ended December 31, 2008, a decrease of \$2.9 million, or 5.3%. The decrease in sales to customers in the Americas was primarily attributable to decreased sales to our non-Cisco channels, which decrease was offset in part by an increase in sales to Cisco.

Revenue from sales to customers in Europe, the Middle East and Africa, or EMEA, decreased from \$19.9 million, or 21.7% of revenue, for the year ended December 31, 2007 to \$17.0 million, or 20.1% of revenue, for the year ended December 31, 2008, a decrease of \$2.9 million, or 14.6%. The decrease in sales to customers in EMEA was primarily attributable to a decrease in sales of our networking products to the 3G

market.

Revenue from sales to customers in the Asia-Pacific region decreased from \$16.7 million, or 18.2% of revenue, for the year ended December 31, 2007 to \$15.7 million, or 18.6% of revenue, for the year ended December 31, 2008, a decrease of \$1.0 million, or 6.0%. The decrease in sales to customers in the Asia-Pacific region is primarily attributable to a decrease in sales of our networking products.

*Cost of Revenues.* Cost of revenues increased from \$18.3 million for the year ended December 31, 2007 to \$18.8 million for the year ended December 31, 2008, an increase of \$0.5 million, or 2.7%. Gross profit as a percentage of revenues was 80.0% for the year ended December 31, 2007 as compared to 77.8% for the year ended December 31, 2008. Cost of revenues for the years ended December 31, 2007 and 2008 includes \$411,000 and \$384,000, respectively, of stock-based compensation recorded under SFAS No. 123(R).

*Research and Development Expenses.* Research and development expenses increased from \$30.3 million for the year ended December 31, 2007 to \$36.9 million for the year ended December 31, 2008, an increase of \$6.6 million, or 21.8%. The increase in research and development expenses was primarily attributable to an increase in the research and development personnel engaged in the execution of the strategic plan that we announced at the beginning of 2008 to reassert our technology leadership with a focus on the enterprise market. The dollar cost of our Israeli personnel expenses also increased in 2008 as a result of the appreciation of the NIS against the U.S. dollar in such period. Research and development expenses as a percentage of revenues increased from 33.1% for the year ended December 31, 2007 to 43.5% for the year ended December 31, 2008. Research and development expenses for the years ended December 31, 2007 and 2008 include \$1.7 million and \$1.5 million, respectively, of stock-based compensation recorded under SFAS No. 123(R). We anticipate that research and development expenses will decrease in 2009 as a result of a decrease in research and development personnel as a part of our cost-cutting measures.

*Marketing and Selling Expenses.* Marketing and selling expenses increased from \$32.6 million for the year ended December 31, 2007 to \$35.3 million for the year ended December 31, 2008, an increase of \$2.7 million, or 8.3%. The increase in marketing and selling expenses was primarily attributable to the increased dollar cost of our Israeli personnel expenses as a result of the appreciation of the NIS against the U.S. dollar in such period. Marketing and selling expenses as a percentage of revenues increased from 35.6% for the year ended December 31, 2007 to 41.7% for the year ended December 31, 2008. Marketing and selling expenses for the years ended December 31, 2007 and 2008 include \$2.0 million and \$1.8 million, respectively, of stock-based compensation recorded under SFAS No. 123(R). We anticipate that marketing and selling expenses will decrease in 2009 as a result of a decrease in marketing and selling personnel as part of our cost-cutting measures.

*General and Administrative Expenses.* General and administrative expenses increased from \$8.6 million for the year ended December 31, 2007 to \$9.0 million for the year ended December 31, 2008, an increase of \$0.4 million, or 4.7%. The increase in general and administrative expenses was primarily attributable to increased labor expenses mainly due to increased expenses related to the dollar cost of our Israeli personnel expenses as a result of the appreciation of the NIS against the U.S. dollar. General and administrative expenses as a percentage of revenues increased from 9.4% for the year ended December 31, 2007 to 10.6% for the year ended December 31, 2008. General and administrative expenses for the years ended December 31, 2007 and 2008 include \$1.3 million and \$1.7 million, respectively, of stock-based compensation recorded under SFAS No. 123(R).

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*Financial Income, Net.* Financial income, net decreased from \$6.1 million for the year ended December 31, 2007 to \$2.5 million for the year ended December 31, 2008. The decrease was primarily attributable to a decrease in the interest rates on securities, bonds and bank deposits. Financial income, net includes \$379,000 and \$1.8 million other than temporary impairment of available for sale securities in 2007 and 2008, respectively. In addition, in 2008 auction rate securities classified as available for sale were redeemed at par value in the amount of \$600,000, as a result of which net income in the amount of \$376,000 was recorded as financial income, net. Financial income in 2007 and 2008 was primarily derived from the investment of the proceeds of our March 2000 initial public offering, cash generated from operating activities and exercise of options by employees, which was offset in part by the use of cash to repurchase our ordinary shares.

*Tax Benefit (Expense), Net.* For the year ended December 31, 2007, we recorded an income tax benefit of approximately \$1.8 million. The benefit was primarily derived from an increase in deferred income taxes assets of approximately \$2.4 million, reversing prior years' tax benefit of approximately \$250,000, offset in part by \$800,000 of current taxes. For the year ended December 31, 2008, we recorded an income tax expense of approximately \$280,000. The expense was primarily derived from current tax expenses of approximately \$690,000 and prior years' tax expenses of approximately \$357,000, offset by a \$767,000 benefit resulting from an increase in deferred income tax assets.

#### **Year Ended December 31, 2007 Compared with Year Ended December 31, 2006**

*Revenues.* Revenues increased by 0.7% from \$91.0 million for the year ended December 31, 2006 to \$91.6 million for the year ended December 31, 2007. The increase in revenues was attributable to a \$1.5 million increase in sales of our networking products, which was offset by a decrease of \$0.9 million in sales of our technology products. The results primarily reflect increased sales in the Americas and Asia-Pacific

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regions, offset by a decrease in sales in Europe and the Middle East regions.

Revenues from networking products increased by 2.2% from \$66.8 million for the year ended December 31, 2006 to \$68.3 million for the year ended December 31, 2007. The increase in revenues from networking products was primarily attributable to increased sales to non- Cisco channels in the Americas.

Revenues from technology products decreased by 3.7% from \$24.2 million for the year ended December 31, 2006 to \$23.3 million for the year ended December 31, 2007. The decrease in revenues from technology products was attributable to a \$1.2 million decrease in software license fees from approximately \$8.5 million in 2006 to approximately \$7.3 million in 2007.

Revenue from sales to customers in the Americas increased from \$52.5 million, or 57.7% of revenue, for the year ended December 31, 2006 to \$54.9 million, or 59.7% of revenue, for the year ended December 31, 2007, an increase of \$2.4 million, or 4.6%. The increase in sales to customers in the Americas was primarily attributable to increased sales to the federal market and non- Cisco channels.

Revenue from sales to customers in Europe and the Middle East decreased from \$23.1 million, or 25.4% of revenue, for the year ended December 31, 2006 to \$19.9 million, or 21.7% of revenue, for the year ended December 31, 2007, a decrease of \$3.2 million, or 13.9%. The decrease in sales to customers in Europe and the Middle East was primarily attributable to decreased sales of our networking products to the third generation market.

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Revenue from sales to customers in the Asia-Pacific region increased from \$15.4 million, or 17.0% of revenue, for the year ended December 31, 2006 to \$16.7 million, or 18.2% of revenue, for the year ended December 31, 2007, an increase of \$1.3 million, or 8.4%. The increase in sales to customers in the Asia Pacific region is primarily attributable to increased sales of our networking products.

*Cost of Revenues.* Cost of revenues increased from \$18.2 million for the year ended December 31, 2006 to \$18.3 million for the year ended December 31, 2007, an increase of \$0.1 million, or 0.5%. Gross profit as a percentage of revenues remained constant at 80.0% for the years ended December 31, 2006 and 2007. Cost of revenues for the years ended December 31, 2006 and 2007 includes \$373,000 and \$411,000, respectively, of stock-based compensation recorded under SFAS No. 123(R).

*Research and Development Expenses.* Research and development expenses increased from \$25.3 million for the year ended December 31, 2006 to \$30.3 million for the year ended December 31, 2007, an increase of \$5.0 million, or 19.8%. The increase was primarily attributable to increased expenses related to the dollar cost of our Israeli personnel expenses as a result of the appreciation of the NIS against the U.S. dollar in 2007 and an increase in contractors' expenses. Research and development expenses as a percentage of revenues increased from 27.8% for the year ended December 31, 2006 to 33.1% for the year ended December 31, 2007. Research and development expenses for the years ended December 31, 2006 and 2007 include \$1.5 million and \$1.7 million, respectively, of stock-based compensation recorded under SFAS No. 123(R).

*Marketing and Selling Expenses.* Marketing and selling expenses increased from \$30.6 million for the year ended December 31, 2006 to \$32.6 million for the year ended December 31, 2007, an increase of \$2.0 million, or 6.5%. The increase was primarily attributable to an increase in the number of sales and marketing personnel. Marketing and selling expenses as a percentage of revenues increased from 33.7% for the year ended December 31, 2006 to 35.6% for the year ended December 31, 2007. Marketing and selling expenses for the years ended December 31, 2006 and 2007 include \$1.9 million and \$2.0 million, respectively, of stock-based compensation recorded under SFAS No. 123(R).

*General and Administrative Expenses.* General and administrative expenses increased from \$6.5 million for the year ended December 31, 2006 to \$8.6 million for the year ended December 31, 2007, an increase of \$2.1 million, or 32.3%. The increase was primarily attributable to an increase in legal expenses, the number of general and administrative personnel and the dollar cost of our Israeli personnel expenses as a result of the appreciation of the NIS against the U.S. dollar in 2007. General and administrative expenses as a percentage of revenues increased from 7.1% for the year ended December 31, 2006 to 9.4% for the year ended December 31, 2007. General and administrative expenses for the years ended December 31, 2006 and 2007 include \$1.0 million and \$1.3 million, respectively, of stock-based compensation recorded under SFAS No. 123(R).

*Patent settlement reserve.* For the year ended December 31, 2006, we recorded a \$1.9 million patent settlement reserve relating to a claim we received in 2005 from Avistar Communications Corporation, a U.S. developer of video technologies, alleging that we infringed on ten of their patents. We did not record a patent settlement reserve in 2007.

*Financial Income, Net.* Financial income, net increased from \$5.8 million for the year ended December 31, 2006 to \$6.1 million for the year ended December 31, 2007. The increase was primarily a result of higher prevailing interest rates, which was offset by a one-time impairment of

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auction rate securities in the amount of approximately \$380,000. Financial income in 2006 and 2007 was primarily derived from the investment of the proceeds of our March 2000 initial public offering, cash generated from operating activities and exercise of options by employees, which was offset in part by the use of cash to repurchase our ordinary shares.

*Tax Benefit (Expense), Net.* For the year ended December 31, 2006, we recorded an income tax benefit of approximately \$900,000. The benefit was primarily derived from an increase in deferred income taxes assets of approximately \$900,000, reversing valuation allowances on deferred income tax assets of approximately \$600,000 and reversing prior years' taxes of approximately \$700,000, offset in part by \$1.3 million of current taxes. For the year ended December 31, 2007, we recorded an income tax benefit of approximately \$1.8 million. The benefit was primarily derived from an increase in deferred income taxes assets of approximately \$2.4 million, reversing prior years' tax benefit of approximately \$250,000, offset in part by \$800,000 of current taxes.

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### Consolidated Balance Sheet Data

*Trade Receivables.* Trade receivables decreased from \$15.0 million at December 31, 2007 to \$14.1 million at December 31, 2008, a decrease of \$0.9 million, or 6%. This decrease was primarily attributable to the decrease in revenues.

*Allowance for Doubtful Accounts.* Allowance for doubtful accounts increased from \$0.8 million at December 31, 2007 to \$0.9 million at December 31, 2008, an increase of \$0.1 million, or 12.5%. Allowance for doubtful accounts as a percentage of trade receivables increased from 5.1% as of December 31, 2007 to 6.2% as of December 31, 2008.

*Other Receivables and Prepaid Expenses.* Other receivables and prepaid expenses decreased from \$8.5 million at December 31, 2007 to \$6.1 million at December 31, 2008, a decrease of \$2.4 million, or 28.2%. This decrease was primarily attributable to a decrease in prepaid rent expenses, receivables from governmental authorities and deferred tax asset.

*Inventories.* Inventories decreased from \$1.7 million at December 31, 2007 to \$1.2 million at December 31, 2008, a decrease of \$0.5 million, or 29.4%. The number of inventory days outstanding decreased from approximately 35 days at December 31, 2007 to approximately 21 at December 31, 2008.

*Trade Payables.* Trade payables decreased from \$2.4 million at December 31, 2007 to \$2.1 million at December 31, 2008, a decrease of \$0.3 million, or 12.5%.

*Other Payables, Accrued Expenses and Deferred Revenues.* Other payables, accrued expenses and deferred revenues increased from \$19.4 million at December 31, 2007 to \$24.7 million at December 31, 2008, an increase of \$5.3 million, or 27.3%. This increase was primarily attributable to an increase in payments to employees and related accruals, as well as an increase in deferred revenues and accrued expenses for subcontractors and other vendors.

### Conditions in Israel

We are incorporated under the laws of, and our principal executive offices and manufacturing and research and development facilities are located in, the State of Israel. See Item 3.D. **Key Information Risk Factors Risks Relating to Our Location in Israel** for a description of governmental, economic, fiscal, monetary or political policies or factors that have materially affected or could materially affect our operations.

### Trade Relations

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation. Israel is a member of the World Trade Organization and is a signatory to the General Agreement on Tariffs and Trade. In addition, Israel has been granted preferences under the Generalized System of Preferences from the United States, Australia, Canada and Japan. These preferences allow Israel to export the products covered by such programs either duty-free or at reduced tariffs.

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Israel and the European Union Community, known as the European Union, concluded a Free Trade Agreement in July 1975 that confers some advantages with respect to Israeli exports to most European countries and obligates Israel to lower its tariffs with respect to imports from



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these countries over a number of years. In 1985, Israel and the United States entered into an agreement to establish a Free Trade Area. The Free Trade Area has eliminated all tariff and some non-tariff barriers on most trade between the two countries. On January 1, 1993, an agreement between Israel and the European Free Trade Association, known as the EFTA, established a free-trade zone between Israel and the EFTA nations. In November 1995, Israel entered into a new agreement with the European Union, which includes a redefinition of rules of origin and other improvements, such as allowing Israel to become a member of the Research and Technology programs of the European Union. In recent years, Israel has established commercial and trade relations with a number of other nations, including Russia, China, India, Turkey and other nations in Eastern Europe and the Asia-Pacific region.

### Impact of Currency Fluctuation and of Inflation

Most of our revenues are in dollars or are linked to the dollar, while a portion of our expenses, principally salaries and related personnel expenses, are in NIS. Therefore, the dollar cost of our operations is influenced by the extent to which any inflation in Israel is offset on a lagging basis, or is not offset by the devaluation of the NIS in relation to the dollar. When the rate of inflation in Israel exceeds the rate of devaluation of the NIS against the dollar, the dollar cost of our operations in Israel increase. If the dollar cost of our operations in Israel increases, our dollar-measured results of operations will be adversely affected.

The following table presents information about the rate of inflation in Israel, the rate of devaluation or appreciation of the NIS against the U.S. dollar, and the rate of inflation of Israel adjusted for the devaluation:

Year ended December 31,	Israeli inflation rate %	NIS devaluation (appreciation) rate %	Israeli inflation adjusted for devaluation (appreciation) %
2004	1.2	(1.6)	2.8
2005	2.4	6.8	(4.3)
2006	(0.1)	(8.2)	8.1
2007	3.4	(9.0)	12.4
2008	3.8	(1.1)	4.9

We cannot assure you that we will not be materially and adversely affected in the future if inflation in Israel exceeds the devaluation of the NIS against the dollar or if the timing of the devaluation lags behind inflation in Israel.

A devaluation of the NIS in relation to the dollar has the effect of reducing the dollar amount of any of our expenses or liabilities which are payable in NIS, unless these expenses or payables are linked to the dollar. This devaluation also has the effect of decreasing the dollar value of any asset which consists of NIS or receivables payable in NIS, unless the receivables are linked to the dollar. Conversely, any increase in the value of the NIS in relation to the dollar has the effect of increasing the dollar value of any unlinked NIS assets and the dollar amounts of any unlinked NIS liabilities and expenses. During 2007 and 2008, the NIS appreciated against the U.S. dollar, which resulted in a significant increase in the U.S. dollar cost of our NIS expenses.

Because exchange rates between the NIS and the dollar fluctuate continuously exchange rate fluctuations and especially larger periodic devaluations will have an impact on our profitability and period-to-period comparisons of our results. The effects of foreign currency re-measurements are reported in our consolidated financial statements in current operations.

To manage this risk, from time to time, we have entered into forward exchange contracts to hedge some of our foreign currency exposure. As of December 31, 2008, we had outstanding forward exchange contracts for the acquisition of NIS 89 million in consideration for \$23 million maturing in a period of up to one year from that date. As of December 31, 2008, the changes in fair value of these contracts are \$348,000.

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### Recently Issued Accounting Standards

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements*, or SFAS 160. SFAS 160 amends ARB 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 also changes the way the consolidated

income statement is presented by requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated and requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent owners and the interests of the noncontrolling owners of a subsidiary. SFAS 160 is effective for fiscal periods, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of SFAS 160 is not expected to have a material effect on our consolidated financial statements.

In December 2007, the FASB issued SFAS 141(revised), *Business Combinations*, or SFAS 141(R). SFAS 141(R) replaces SFAS No. 141, *Business Combinations*, and requires an acquirer to recognize the assets acquired, the liabilities assumed, including those arising from contractual contingencies, any contingent consideration, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. SFAS 141(R) also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with SFAS 141(R)). In addition, SFAS 141(R)'s requirement to measure the noncontrolling interest in the acquiree at fair value will result in recognizing the goodwill attributable to the noncontrolling interest in addition to that attributable to the acquirer. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of SFAS 141(R) is not expected to have a material effect on our consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position, or FSP, No. FAS 157-2, *Effective Date of FASB Statement No. 157*, or FSP No. FAS 157-2. The Staff Position defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities except for items that are recognized or disclosed at fair value on a recurring basis at least annually, and amends the scope of SFAS 157. We adopted SFAS 157 and the related FASB staff positions except for those items specifically deferred under FSP No. FAS 157-2. We are currently evaluating the potential impact, if any, of the adoption of FSP No. FAS 157-2 on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133*, or SFAS 161. SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. SFAS 161 requires entities to provide enhanced disclosures about how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations; and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the impact, if any, that SFAS 161 may have on our financial condition and results of operations. Our adoption of SFAS 161 will change our disclosures for derivative instruments and hedging activities beginning in 2009.

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In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*, or FSP FAS 142-3. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB SFAS No. 142, *Goodwill and Other Intangible Assets*. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008 and early adoption is prohibited. We are currently evaluating the potential impact, if any, of the adoption of FAS 142-3 on our consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, or SFAS No. 162. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. SFAS No. 162 will be effective from November 13, 2008. We do not expect the adoption of SFAS No. 162 to have a material impact on our consolidated financial statements.

## **B. LIQUIDITY AND CAPITAL RESOURCES**

From our inception until our initial public offering in March 2000, we financed our operations through cash generated by operations and a combination of private placements of our share capital and borrowings under lines of credit. Since our initial public offering in March 2000, we have satisfied our financial requirements primarily through cash generated by operations and funds generated by our initial public offering (approximately \$78.5 million net proceeds).

As of December 31, 2008, we had approximately \$37.9 million in cash and cash equivalents, \$66.4 million in short term investments, and our working capital was approximately \$99 million. Taking into account long-term investments, we had approximately \$121.3 million in cash

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and investments as of December 31, 2008. We believe that our working capital is sufficient for our present requirements. In addition, we believe that we can meet our day to day operating expenses and material commitments for the next 12 months.

Our management believes that another financial measure that is important in assessing our company's financial condition is day's sales outstanding, or DSOs. Our DSOs were 62 days at December 31, 2007 compared to 61 days at December 31, 2008.

Capital expenditures for the years ended December 31, 2006, 2007 and 2008 were approximately \$2.3 million, \$4.2 million and \$3.0 million, respectively. These expenditures were principally for research and development equipment, office furniture and equipment and implementation of an enterprise resource planning (ERP) system in 2007. We currently do not have significant capital spending or purchase commitments, but we expect to continue to engage in capital spending consistent with anticipated growth in our operations, infrastructure and personnel.

### Cash Flows

The following table summarizes our cash flows for the periods presented:

	Year ended December 31,	
	2007	2008
	(\$ in thousands)	
Net cash provided by operating activities	9,895	5,864
Net cash provided by (used in) investing activities	32,351	(2,617)
Net cash used in financing activities	(19,986)	(10,745)
Net increase (decrease) in cash and cash equivalents	22,260	(7,498)
Cash and cash equivalents at beginning of period	23,110	45,370
Cash and cash equivalents at end of period	45,370	37,872

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Net cash provided by operating activities was approximately \$5.9 million for the year ended December 31, 2008. This amount was primarily attributable to net loss of \$12.9 million adjusted for depreciation and amortization expenses of \$3.9 million, stock-based compensation of \$5.4 million recorded under SFAS No. 123(R), a decrease of \$0.5 million in inventory, a \$1.5 million increase of deferred revenues, a \$0.9 million decrease in trade receivables, a \$2.0 million decrease in other receivables and prepaid expenses and a \$1.8 million decrease in accrued interest. These adjustments to net income were offset in part by an increase of \$0.8 million in deferred tax assets. Net cash provided by operating activities was approximately \$9.9 million for the year ended December 31, 2007. This amount was primarily attributable to net income of \$9.6 million adjusted for depreciation and amortization expenses of \$3.6 million, stock-based compensation of \$5.4 million recorded under SFAS No. 123(R) and a decrease of \$1.3 million in inventory. These adjustments to net income were offset in part by an increase of \$2.4 million in deferred tax assets, a \$1.9 million decrease of deferred revenues and \$2.1 million increase in trade receivables.

Net cash used in investing activities was approximately \$2.6 million for the year ended December 31, 2008. Of the cash used in investing activities in the year ended December 31, 2008, approximately \$3.0 million was used for purchases of property and equipment, offset by approximately \$0.4 million provided by proceeds from investments in bank deposits and marketable securities. Net cash provided by investing activities was approximately \$32.4 million for the year ended December 31, 2007. Of the cash provided by investing activities in the year ended December 31, 2007, approximately \$36.5 million, net was provided by proceeds from investments in bank deposits and marketable securities, offset by approximately \$4.2 million that was used for purchases of property and equipment.

Net cash used in financing activities was approximately \$10.7 million for the year ended December 31, 2008. Of the cash used in financing activities, \$11.1 million was used for the repurchase of our company's shares, offset by a \$0.4 million tax benefit arising from the exercise of non-qualified employee options. Net cash used in financing activities was approximately \$20.0 million for the year ended December 31, 2007. Of the cash used in financing activities, \$27.0 million was used for the repurchase of our company's shares, offset by \$6.9 million of proceeds received from the exercise of employee options.

During the second quarter of 2006, we announced that our Board of Directors had authorized the repurchase of up to \$30 million or two million of our ordinary shares in the open market from time to time at prevailing market prices. The repurchase program received the approval of the District Court in Tel Aviv-Jaffa in August 2006 in accordance with the requirements of the Israeli Companies Law. As of December 31,

2007, we had repurchased 1,631,724 ordinary shares under the program at a total purchase price of approximately \$30 million, or an average price of \$18.37 per share and we completed this program.

During the third quarter of 2007, we announced that our Board of Directors had authorized the repurchase of up to an additional \$30 million of our ordinary shares in the open market from time to time at prevailing market prices. The repurchase program received the approval of the District Court in Tel Aviv-Jaffa in November 2007 in accordance with the requirements of the Israeli Companies Law. As of December 31, 2008, we had repurchased 1,978,483 ordinary shares under the program at a total purchase price of approximately \$15.0 million, or an average price of \$7.67 per share.

As of December 31, 2008, we had reissued 726,697 of the repurchased ordinary shares in connection with the exercise of employee stock options.

As of December 31, 2008, our principal commitments consisted of obligations outstanding under operating leases. Our capital requirements are dependent on many factors, including market acceptance of our products and the allocation of resources to our research and development efforts, as well as our marketing and sales activities. In the last three years, we have experienced substantial increases in our expenditures as a result of the growth in our operations and personnel. We intend to increase our expenditures in the future consistent with our anticipated growth. We anticipate that our cash resources will be used primarily to fund our operating activities, as well as for capital expenditures.

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## C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

We place considerable emphasis on research and development to expand the capabilities of our existing products and technology, to develop new products and to improve our existing technologies and capabilities. We believe that our future success will depend upon our ability to maintain our technological leadership, to enhance our existing products and technology and to introduce on a timely basis new commercially viable products and technology addressing the needs of our customers. Our gross investment in research and development for the years ended December 31, 2006, 2007 and 2008 was \$25.3 million, \$30.3 million and \$36.7 million, respectively. We intend to continue to devote a significant portion of our personnel and financial resources to research and development. As part of our product development process, we seek to maintain close relationships with our customers to identify market needs and to define appropriate product specifications.

As of December 31, 2008, our research and development staff consisted of approximately 230 employees compared to 217 as of December 31, 2007. We reduced the number of our research and development employees during the latter part of 2008 and early 2009 as part of our cost-cutting initiatives. Our research and development activities are conducted mainly at our facilities in Tel Aviv, Israel and in part in Beijing, China and New Hampshire, the United States. To introduce new, high quality products, we deploy procedures for the design, development and quality assurance of our new product developments. Our team is divided according to our existing product lines. Each product line team is headed by a team leader and includes software or hardware engineers and quality control technicians.

We own five registered U.S. patents relating to various aspects of interactive multimedia communications. During 2008, we were awarded four new U.S. patents and filed two new patent applications with the U.S. Patent and Trademark Office covering protocols and techniques to improve multi-media communications. We also filed four patent applications for some of such patents in other countries' patent offices.

## D. TREND INFORMATION

Revenues increased from \$91.0 million for the year ended December 31, 2006 to \$91.6 million for the year ended December 31, 2007, an increase of 0.7%. This increase was primarily due to increased sales of our networking products. Revenues decreased to \$84.7 million for the year ended December 31, 2008, a decrease of 7.5%, as a result decreased sales in all regions, primarily due to lower sales of solutions for 3G-based networks and Click to Meet product sales in 2008. In 2008, we decided to reduce our investment in the 3G mobile market, which resulted in lower sales of 3G solutions compared to 2007. In addition, our revenues from Click to Meet as a standalone product decreased compared to 2007 due to lower demand. If global economic and market conditions, or economic conditions in the United States or other key markets, remain uncertain, persist, or deteriorate further, the demand for our products and technology may decrease in 2009.

Research and development expenses increased from \$25.3 million for the year ended December 31, 2006 to \$30.3 million for the year ended December 31, 2007, an increase of \$5 million or 19.8%, to \$36.9 million for the year ended December 31, 2008, an increase of \$6.6 million, or 21.8%. The increase in research and development expenses in 2007 was primarily attributable to increased expenses related to the dollar cost of our Israeli personnel expenses as a result of the appreciation of the NIS against the U.S. dollar in 2007 and an increase in contractors' expenses. The increase in research and development expenses in 2008 was primarily attributable to an increase in the research and

development personnel engaged in the execution of the strategic plan that we announced at the beginning of 2008 to reassert our technology leadership with a focus on the enterprise market. The dollar cost of our Israeli personnel expenses also increased in 2008 as a result of the appreciation of the NIS against the U.S. dollar in such period. We anticipate that research and development expenses will decrease in 2009 as a result of a decrease in research and development personnel as a part of our cost-cutting measures.

General and administrative expenses increased from \$6.5 million for the year ended December 31, 2006 to \$8.6 million for the year ended December 31, 2007, an increase of \$2.1 million, or 32.3%, to \$9.0 million for the year ended December 31, 2008, an increase of \$0.4 million, or 4.7%. The increase in general and administrative expenses in 2007 was primarily attributable to an increase in legal expenses, the number of general and administrative personnel and the dollar cost of our Israeli personnel expenses as a result of the appreciation of the NIS against the U.S. dollar in 2007. The increase in general and administrative expenses in 2008 was primarily attributable to the increased dollar cost of our Israeli personnel expenses as a result of the appreciation of the NIS against the U.S. dollar in such period. We anticipate that general and administrative expenses will decrease in 2009 as a result of a decrease in general and administrative personnel as part of our cost-cutting measures.

#### E. OFF-BALANCE SHEET ARRANGEMENTS

We are not a party to any material off-balance sheet arrangements. In addition, we have no unconsolidated special purpose financing or partnership entities that are likely to create material contingent obligations.

#### F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table summarizes our minimum contractual obligations and commercial commitments, as of December 31, 2008 and the effect we expect them to have on our liquidity and cash flow in future periods.

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations	\$ 7,441,000	\$ 3,908,000	\$ 3,384,000	\$ 149,000	-
Uncertain income tax position (*)	\$ 1,079,000	-	-	-	-
Accrued severance pay (**)	\$ 6,410,000	\$ 555,000	-	-	-
Total	\$ 14,930,000	\$ 4,463,000	\$ 3,384,000	\$ 149,000	-

(\*) Under FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, or FIN 48, uncertain income tax position is due upon settlement and we are unable to reasonably estimate the ultimate amount or timing of settlement. See Note 15 to the consolidated financial statements for further information regarding our potential liability under FIN 48.

(\*\*) Severance pay relates to accrued severance obligations to our Israeli employees as required under Israeli labor law. We are legally required to pay severance upon certain circumstances, primarily termination of employment by our company and retirement or death of the respective employee and other than in certain circumstances, there is no obligation to pay severance if the employee voluntarily resigns. Of this amount, \$1.3 million is unfunded.

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****A. DIRECTORS AND SENIOR MANAGEMENT**

Set forth below are the name, age, principal position and a biographical description of each of our directors and executive officers:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Zohar Zisapel (1)	60	Chairman of the Board of Directors
Boaz Raviv	49	Chief Executive Officer
Adi Sfadia	39	Chief Financial Officer
Joseph Atsmon (1) (2)	60	Director
Liora Lev (2)	56	Director
Yoseph Linde (2)	62	Director
Efraim Wachtel	64	Director

(1) Member of our Option Committee and Compensation Committee.

(2) Member of our Audit Committee

Messrs. Zohar Zisapel and Efraim Wachtel, Class C directors, will serve as directors until our 2010 annual general meeting of shareholders. Our Class A and Class B director categories are currently vacant. Mr. Joseph Atsmon will serve as an outside director pursuant to the Israeli Companies Law for a second three-year term until our 2009 annual general meeting of shareholders, Ms. Liora Lev will serve as an outside director pursuant to the Israeli Companies Law for an initial three-year term until our 2009 annual general meeting of shareholders, and Dr. Yoseph Linde will serve as an outside director pursuant to the Israeli Companies Law for an initial three-year term, until our 2011 annual general meeting of shareholders (see Item 6C. Directors, Senior Management and Employees Board Practices Outside Directors ).

**Zohar Zisapel** has served as a director since November 1992. Mr. Zisapel served as the Chairman of our Board of Directors from November 1992 until August 1999 and again assumed the position of Chairman of our Board of Directors in April 2001. During the last several years, Mr. Zisapel has been engaged primarily in the management of high technology companies. Mr. Zisapel is a founder and chairman of the board of directors of RAD Data Communication Ltd. and he serves as a director of other public companies, including RADCOM Ltd. and Ceragon Networks Ltd. Mr. Zisapel holds a B.Sc. degree from the Technion Israel Institute of Technology and an M.Sc. degree from Tel Aviv University.

**Boaz Raviv** has served as our chief executive officer since January 2006. Prior to assuming that position and from December, 2000, he served as general manager of our Technology Business Unit (TBU) and he assumed additional responsibility for our Networking Business Unit (NBU) in late 2004. From December 1999 to December 2000, Mr. Raviv served as vice president, business development and marketing of Elron TeleSoft Ltd. and from January 1996 to November 1999, Mr. Raviv served as telecom division manager at Elron Software Ltd.. From July 1989 until December 1995, Mr. Raviv served in various positions at CAP GEMINI, France, among such positions in the development of its data communications network. Mr. Raviv served his apprenticeship at Robotic in CEMAGREF, the French National Center of Mechanical Engineering. Mr. Raviv holds a B.Sc. degree from the Technion Israel Institute of Technology.

**Adi Sfadia** has served as our chief financial officer since July 30, 2008. Mr. Sfadia served as our Vice President of Finance from mid-2007 until January 2008, when he joined Alvarion Ltd., a WiMAX and wireless broadband solutions provider. Mr. Sfadia joined us in 2004 as corporate controller. Prior thereto, Mr. Sfadia served in several senior financial positions in Israeli companies, where he gained wide financial and managerial experience. Mr. Sfadia served five years in a public accounting position with Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global. Mr. Sfadia holds a B.A. degree in Business Administration and an M.B.A. degree (magna cum laude) from The College of Management in Tel Aviv and Rishon Lezion, and he is a Certified Public Accountant in Israel.

**Joseph Atsmon** has served as an outside director (within the meaning of the Israeli Companies Law) since June 2003 and is the Chairman of our audit committee. Mr. Atsmon has served as a director of Nice Ltd. since July 2001 and Ceragon Networks Ltd. since July 2001. From 1995 until 2000, Mr. Atsmon served as chief executive officer of Teledata Communication Ltd., a public company acquired by ADC Telecommunication Inc. in 1998. From 1986 until 1995, Mr. Atsmon served in various positions at Tadiran Ltd., among them a division president and corporate vice president for Business Development. Mr. Atsmon holds a B.Sc. degree in Electrical Engineering (summa cum laude) from the Technion Israel Institute of Technology.

**Liora Lev** has served as an outside director (within the meaning of the Israeli Companies Law) since December 2006 and is a member of our audit committee. Ms. Lev is the founder and has served as general partner of Ascend Technology Ventures since 1999. Of the portfolio companies of Ascend Technology Ventures, Ms. Lev currently serves as a member of the board of directors of Columbus Application Provider and as a member of the board of directors of SintecMedia Ltd., Intellinx Ltd. and Can-Fite BioPharma Ltd. (publicly traded on the Tel Aviv Stock Exchange). In addition, Ms. Lev serves as the chief executive officer and as a director of Advanced Technology Acquisition Corporation (publicly traded on the American Stock Exchange, symbol: AXC), positions she has held since August, 2006. From 1994 until 2000, Ms. Lev served as Commissioner of the Israel Securities Authority and as a member of the Israeli Accounting Standards Board. From 1992 until 1998, Ms. Lev served as chief financial officer and was in charge of the chief information officer of Ashtrom Group. Ms. Lev is a certified public accountant in Israel, with over 20 years of experience in business management, information systems management and finance of public and private companies. Ms. Lev holds a B.A. in Accounting and Economics and an M.Sc. degree in Management Science, specializing in information systems, both from Tel Aviv University. Ms. Lev is also a graduate of the Advanced Management Program, Harvard Business School.

**Dr. Yoseph Linde** has served as an outside director (within the meaning of the Israeli Companies Law) since August 2008 and is a member of our audit committee. Dr. Linde currently serves as general partner of Jerusalem Global Ventures, or JGV, a venture capital fund specializing in early investments in start-up companies providing products for Internet infrastructure, a position that he has held since 1999. Dr. Linde also serves as a director of LocationNet Ltd. and Lumus Ltd., portfolio companies of JGV. JGV manages three parallel funds (Israel and Cayman). Dr. Linde is a general partner and director of two of the funds (CommLaunch Holdings and NetLaunch Holdings) and is also a director of the management company (JGV). From 1993 until 1999, Dr. Linde was the founder and chairman of LANart Corporation, a company acquired by Communications Systems Inc. in 1999. From 1983 until 1993, Dr. Linde was the founder and chairman of Chipcom Corporation, a public company acquired by 3Com in 1995. From 1982 until 1983, Dr. Linde held the position of Professor at the School of Engineering of Boston University. Dr. Linde holds a B.Sc. degree in electrical engineering from the Technion - Israel Institute of Technology, a M.Sc. degree in electrical engineering from Tel-Aviv University, and a Ph.D in electrical engineering from Stanford University.

**Efraim Wachtel** has served as a director since March 1998. Mr. Wachtel has served as president and chief executive officer of RAD Data Communication Ltd., or RAD Data, since November 1997. From October 1985 to November 1997, Mr. Wachtel served as vice president of sales and marketing of RAD Data. Prior to joining RAD Data, Mr. Wachtel held various research and development positions in several companies in Israel and the United States. Mr. Wachtel holds a B.Sc. degree in electrical engineering from the Technion -Israel Institute of Technology.

Set forth below are the name, age, principal position and a biographical description of each of our other senior officers:

Name	Age	Position
Rael Kolevsohn	39	Vice President and General Counsel
Zeev Bikowsky	52	General Manager, Networking Business Unit
Avishai Sharlin	42	General Manager, Technology Business Unit
Ilan Givon	50	Vice President Operations
Roberto Giamagli	44	General Manager, Europe, Middle East and Africa
Eitan Livne	46	General Manager, Asia-Pacific
David Ruby	54	General Manager, the Americas

**Rael Kolevsohn** has served as our Vice President and General Counsel since August, 2007. Prior to joining our company and from 1998 to 2007, Mr. Kolevsohn served as Vice President and General Counsel of Gilat Satellite Networks Ltd., a leading global provider of products and services for satellite based communications networks. From 1994 to 1998, Mr. Kolevsohn completed his legal internship and worked as an associate at the Tel Aviv law firm of Yosiffof, Amir, Cohen & Co. Mr. Kolevsohn holds an LLB, with honors, from the Hebrew University of Jerusalem and is a member of the Israel Bar Association.

**Zeev Bikowsky** has served as our General Manager, Networking Business Unit since November, 2007. Between March 2006 and November 2007, Mr. Bikowsky served as our General Manager, Technology Business Unit. Prior to joining our company and from 1998, Mr. Bikowsky was the chief executive officer of Seagull Semiconductors, which was acquired by Cisco Systems in 2000. After the acquisition, he

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served as a group manager in Cisco's Israeli development center. Prior thereto and from 1996, Mr. Bikowsky was a vice president at DSP Group, where he managed their core technology licensing business unit. Mr. Bikowsky holds a B.Sc. degree from the Ben Gurion University of the Negev and an MBA degree from Boston University.

**Avishai Sharlin** has served as our General Manager, Technology Business Unit since November 2007. Prior to joining our company and from 1996, Mr. Avishai was founder and chief executive officer of Xor Technologies. Prior thereto and from 1994, Mr. Sharlin served as the head of the networking and telecommunications business in Open Solution Center at IBM Israel. Mr. Sharlin holds a B.Sc. in Mathematics, Computer Science, Sociology and anthropology from Bar-Ilan University.

**Ilan Givon** has served as our Vice President Operations since March 2006. Prior to joining our company and from 2003, Mr. Givon served as the Corporate Vice President for strategic accounts with M-Systems (subsequently merged into Sandisk), a leading manufacturer of personal data storage solutions. Prior thereto and from 1998, Mr. Givon served for ten years at Intel Corporation, both in Israel and the United States in several key positions related to operations, materials management and logistics. Mr. Givon holds a B.A. degree in Economics and Political Science from Tel Aviv University and did advanced studies in Executive Business Management at the Hebrew University of Jerusalem Business School and in Purchasing and Materials Supply Management at the Technion-Israel Institute of Technology.

**Roberto Giamagli** has served as General Manager for our Europe, Middle East and Africa operations since January 2008. Mr. Giamagli has over 18 years of international sales and management experience in the voice, video and data communications industry. Prior to joining our company and from 1989, Mr. Giamagli served as a vice president, sales and vice president, marketing at Aethra spa, where he established and expanded a direct and indirect sales team. Mr. Giamagli holds a B.Sc. degree in Computer Science from Pisa University, Italy.

**Eitan Livne** has served as General Manager for our Asia-Pacific operations since April 2004. In such position, Mr. Livne manages all sales, field marketing, customer support, human resources, and accounting for this region. Mr. Livne has a wealth of experience in high technology sales throughout Asia. Prior to joining our company and from 2002, Mr. Livne served as the president of TGM International, a specialized multinational firm focusing on providing sales support in Asia to global high technology companies. Prior thereto and from 1994, Mr. Livne served in various positions at ECI Telecom, an Israeli based provider of SDH (Synchronous Digital Hierarchy) Optical networking equipment, during which time he managed the company's operations in Asia and served as its president for the Asia-Pacific region. Mr. Livne holds a B.Sc. degree in Exact Sciences from Tel Aviv University, Israel.

**David Ruby** has served as General Manager for our operations in the Americas since May 2008. Mr. Ruby is a highly experienced executive, whose 30 year career spans the high technology industry through numerous entrepreneurial activities, in which he has held positions in the Americas, Europe and Australia. In 2007, Mr. Ruby served as General Manager and Chief Customer Officer of Codian, Ltd, including six months aiding in the transition to TANDBERG following its acquisition by TANDBERG. Prior to that, Mr. Ruby has held a number of other senior executive positions, including chief executive officer of Tennyson Networks, VP of Worldwide Sales of Madge Networks, Director Worldwide Product Sales of Western Digital and Regional Manager of Storage Technology Corporation.

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## B. COMPENSATION

The following table sets forth information concerning the total compensation paid with respect to all of our directors and our executive officers as a group during the year ended December 31, 2008.

Name and Principal Position	Salaries, fees, commissions and bonuses	Pension, retirement and other similar benefits
All officers and directors as a group (11 persons)	\$ 738,297	\$ 131,341

We provide automobiles or automobile expense reimbursement to our executive officers at our expense.

As of December 31, 2008, our directors and executive officers as a group, consisting of seven persons, held options to purchase an aggregate of 744,687 ordinary shares, having exercise prices ranging from \$4.7 to \$20.17. Generally, the options vest over a four-year period. The options will expire between October 1, 2010 and January 3, 2016 (which is six to ten years from the date of grant of the respective options) or earlier upon termination of employment as an executive officer or with respect to a director, within 12 months after termination or resignation from such office. All of such options were granted under our 2000 Stock Option Plan. See this Item 6E. Directors, Senior Management and



Employees Share Ownership Stock Option Plan.

At our 2008 annual general meeting, our shareholders resolved to pay to each of our outside directors compensation in the form of the minimum annual fee and per meeting attendance fee applicable to our company set forth from time to time in the Israeli Companies Regulations (Rules Regarding Compensation and Expenses to Outside Directors), 2000, as amended (currently, NIS 45,000 (\$11,836) per year and NIS 1,590 (\$418) per meeting attended). In addition, the shareholders approved the grant to each of our outside directors of options to purchase 30,000 ordinary shares, exercisable at \$6.78 per share (the closing price of our ordinary shares on the NASDAQ Global Market on the last trading date prior to the date of the meeting). The options will vest quarterly over three years, commencing in the case of Ms. Lev and Ms. Atsmon on May 14, 2006 (the date of the appointment of Ms. Lev for an initial three year term as outside director and the appointment of Mr. Atsmon for a second three year term as outside director), and in the case of Mr. Linde, from the date of our 2008 shareholders meeting. In addition, the shareholders resolved to modify the terms of options granted to directors such that the exercise period of such options (including previously granted options) be extended from thirty days to 12 months after the termination of their service or their resignation from office as a director.

According to regulations adopted under the Israeli Companies Law, the terms of compensation of an outside director (within the meaning of Israeli law) must be set and agreed to prior to the commencement of each three-year term of service of an outside director and may not be modified during the three year term other than to conform to the terms of a newly appointed outside director. Furthermore, all of the outside directors must receive the same remuneration. At a meeting of our shareholders held on June 8, 2003, at which Mr. Atsmon was elected to serve as our outside director for an initial three year term, our shareholders also approved the payment to Mr. Atsmon of a service fee equal to the highest applicable annual remuneration and per meeting attendance fee as provided by Israeli law from time to time. Mr. Atsmon was never paid his remuneration in accordance with such resolution and the following year, our shareholders approved the grant to Mr. Atsmon of options to purchase 50,000 of our ordinary shares. In 2006, at the meeting approving his election as an outside director for a second three-year term, our shareholders approved the grant to Mr. Atsmon of options to purchase an additional 37,500 of our ordinary shares. At the same meeting in 2006, our shareholders approved the appointment of Ms. Lev as our second outside director for an initial term of three years and resolved to grant her options to purchase 30,000 of our ordinary shares.

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Since the grants of options to Mr. Atsmon and Ms. Lev described in the preceding paragraph did not comply with the Israeli regulations relating to outside director compensation, upon their consent, the previous grants were cancelled and they each agreed to waive any rights that they may have had pursuant to such grants. Upon the appointment of Mr. Linde, all of our outside directors were granted the options as described above for their services as outside directors. In addition, we paid Mr. Atsmon the remuneration that our shareholders resolved to pay him at the shareholders meeting in 2003 for his first three year term of service as an outside director (between the years 2003 and 2006), in the aggregate amount of NIS 155,985 (\$45,747) (constituting approximately NIS 42,245 per year (\$12,390) and NIS 1,625 per meeting attended (\$477)). (For further information, see Note 11(d), Shareholders Equity, to our consolidated financial statements)

Pursuant to NASDAQ Marketplace Rules, compensation of our chief executive officer and other executive officers (within the meaning of such rules) is recommended to our board of directors for determination by a majority of our independent directors, subject to any further approvals required under the Israeli Companies Law. See Item 6C. Directors, Senior Management and Employees Board Practices Approval of Related Party Transactions Under Israeli Law.

## C. BOARD PRACTICES

### Election of Directors

Our Articles of Association provide for a board of directors consisting of no less than five and no more than nine members or such other number as may be determined from time to time at a general meeting of shareholders. Our board of directors is currently composed of five directors.

In accordance with our articles of association, our board of directors is divided into three classes (other than outside directors), each consisting of a number of directors equal as nearly as practicable to one-third of the total number of non-external directors. Generally, at each annual meeting of shareholders one class of directors is elected for a term of three years by a vote of the holders of a majority of the voting power represented and voting at such meeting. At our 2008 annual general meeting, our shareholders approved an amendment to our articles of association under which we are permitted to create a vacancy in one of the three director classes at any given time. Our Class A and Class B director categories are currently vacant.

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All the members of our board of directors, except the outside directors (as detailed below) may be reelected upon completion of their term of office. In the intervals between annual general meetings of the company, our Board of Directors may elect new directors, whether to fill vacancies or in addition to those of their body, provided that the total number of directors will not at any time exceed any maximum number, if any, fixed by or in accordance with our articles of association.

Our directors are nominated by a majority of our independent directors, as such term is defined under NASDAQ Marketplace Rules.

### Outside and Independent Directors

*Outside Directors.* The Israeli Companies Law requires Israeli companies with shares that have been offered to the public in or outside of Israel to appoint at least two outside directors. No person may be appointed as an outside director if the person or the person's relative, partner, employer or any entity under the person's control, has or had, on or within the two years preceding the date of the person's appointment to serve as outside director, any affiliation with the company or any entity controlling, controlled by or under common control with the company. The term "affiliation" includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; and
- service as an office holder.

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In addition, no person may serve as an outside director if the person's position or other activities create, or may create a conflict of interest with the person's responsibilities as an outside director or may otherwise interfere with the person's ability to serve as an outside director. If, at the time an outside director is to be appointed, all current members of the board of directors are of the same gender, then at least one outside director must be of the other gender.

A person is qualified to serve as an outside director only if he or she has accounting and financial expertise or professional qualifications, as such terms are defined under regulations promulgated under the Israeli Companies Law. At least one outside director must have accounting and financial expertise. However, Israeli companies listed on certain stock exchanges outside Israel, including The NASDAQ Global Market, such as the Company, are not required to appoint an outside director with accounting and financial expertise if a director with accounting and financial expertise who qualifies as an independent director for purposes of audit committee membership under the laws of the foreign country in which the stock exchange is located serves on its board of directors. All of the outside directors of such a company must have professional qualifications.

Any committee of the board of directors that is authorized to exercise powers vested in the board of directors must include at least one outside director and the audit committee must include all of the outside directors. An outside director is entitled to compensation as provided in regulations adopted under the Israeli Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with such service.

Outside directors are elected by a majority vote at a shareholders' meeting, provided that either:

- the majority of shares voted at the meeting in favor of their election include at least one-third of the shares held by non-controlling shareholders that voted at the meeting (not including abstentions); or
- the total number of shares held by non-controlling shareholders voted against the election of the outside director does not exceed one percent of the aggregate voting rights in the company.

The initial term of an outside director is three years and may be extended for an additional three years. However, Israeli companies listed on certain stock exchanges outside Israel, including the NASDAQ Global Market, such as our company, may appoint an outside director for additional terms of not more than three years subject to certain conditions. Such conditions include the determination by the audit committee and board of directors, that in view of the director's professional expertise and special contribution to the company's board of directors and its

committees, the appointment of the outside director for an additional term is in the best interest of the company. Outside directors may be removed from office only by the same percentage of shareholders as is required for their election, or by a court, and then only if the outside directors cease to meet the statutory qualifications for their appointment or if they violate their duty of loyalty to the company. Each committee of a company's board of directors must include at least one outside director and the audit committee must include all the outside directors.

Our Board of Directors has three outside directors under Israeli law. Mr. Joseph Atsmon and Ms. Liora Lev, both of whom have accounting and financial expertise, and Dr. Yoseph Linde, who has professional expertise, as such terms are defined under the Israeli Companies Law. Mr. Atsmon was elected to serve as an outside director for an initial three year term in 2003 and was elected to serve as an outside director for an additional three-year term at our 2006 annual general meeting of shareholders. Ms. Lev was elected to serve as an outside director for an initial three year term at our 2006 annual general meeting of shareholders. Dr. Yoseph Linde was elected to serve as an outside director for an initial three year term at our 2008 annual general meeting of shareholders.

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*Independent Directors.* In general, NASDAQ Marketplace Rules require that the board of directors of a NASDAQ-listed company have a majority of independent directors and its audit committee must have at least three members and be comprised only of independent directors, each of whom satisfies the respective independence requirements of NASDAQ and the Securities and Exchange Commission.

Pursuant to a recent amendment to the Israeli Companies Law, an Israeli company whose shares are publicly traded, may elect to adopt a provision in its articles of association pursuant to which a majority of its board of directors will constitute individuals complying with certain independence criteria prescribed by the Israeli Companies Law. We have not included such a provision in our articles of association since our board of directors complies with the independent director requirements of the NASDAQ Marketplace Rules described above.

Independent directors of our company meet at least twice a year in an executive session. Among other things, at such sessions the independent directors recommend the compensation of all our senior officers and nominate directors to be elected by our shareholders at our annual general meeting. Our executive officers do not participate in any discussions or decisions that involve any aspect of their compensation.

Our Board of Directors has determined that each of Ms. Lev and Messrs. Atsmon and Linde qualifies as an independent director under the requirements of the Securities and Exchange Commission and NASDAQ. Ms. Lev and Messrs. Atsmon and Linde are also our outside directors within the meaning of the Israeli Companies Law.

#### **Committees of the Board of Directors**

*Audit Committee.* Our audit committee, established in accordance with Section 114 of the Israeli Companies Law and Section 3(a)(58)(A) of the Securities Exchange Act of 1934, assists our board of directors in overseeing the accounting and financial reporting processes of our company and audits of our financial statements, including the integrity of our financial statements, compliance with legal and regulatory requirements, our independent public accountants' qualifications and independence, the performance of our internal audit function and independent public accountants, finding any defects in the business management of our company for which purpose the audit committee may consult with our independent auditors and internal auditor, proposing to the board of directors ways to correct such defects, and such other duties as may be directed by our board of directors.

The responsibilities of the audit committee also include approving related-party transactions as required by Israeli law. Under Israeli law, an audit committee may not approve an action or a transaction with a controlling shareholder, or with an office holder, unless at the time of approval two outside directors are serving as members of the audit committee and at least one of the outside directors was present at the meeting in which an approval was granted.

Our Audit Committee is authorized generally to investigate any matter within the scope of its responsibilities and has the power to obtain from the internal auditing unit, our independent auditors or any other officer or employee any information that is relevant to such investigations. Our Audit Committee also has the right to hire independent counsel and accountants to assist it in any investigation that it may instigate.

Our audit committee consists of three members of our Board of Directors who satisfy the respective independence requirements of the Securities and Exchange Commission, NASDAQ and Israeli law for audit committee members. Our audit committee is currently composed of Joseph Atsmon, Liora Lev and Yoseph Linde. Joseph Atsmon has been elected as the Chairperson of the Audit Committee. The audit committee meets at least once each quarter. Our Audit Committee charter is available on our website at [www.radvision.com](http://www.radvision.com).

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*Option Committee.* Our board of directors has established an option committee, which administers our option plans (see Item 6E. Directors, Senior Management and Employees Share Ownership Stock Option Plan ). The Option Committee is responsible for approving all option grants other than grants to our directors, chief executive officer and all other officers that report to the chief executive officer. Messrs. Zohar Zisapel and Joseph Atsmon are the current members of our option committee.

*Compensation Committee.* Our board of directors has established a compensation committee, which is responsible for the hiring and compensation of all employees that report to the chief executive officer of our company, subject to any other approvals that may be required under applicable law. Messrs. Zohar Zisapel and Joseph Atsmon are the current members of our compensation committee.

#### **Internal Audit**

The Israeli Companies Law requires the board of directors of a public company to appoint an internal auditor nominated by the audit committee. The role of the internal auditor is to examine, among other things, the compliance of the company's conduct with applicable law and orderly business practice. A person who does not satisfy the Israeli Companies Law's independence requirements may not be appointed as an internal auditor. Our internal auditor is currently Mr. Ilan Chaikin, Certified Public Accountant, at Chaikin, Cohen, Rubin and Duvshani.

#### **Directors Service Contracts**

We do not have any service contracts with our directors. There are no arrangements or understandings between us and any of our subsidiaries, on the one hand, and any of our directors, on the other hand, providing for benefits upon termination of their employment or service as directors of our company or any of our subsidiaries.

#### **Approval of Related Party Transactions Under Israeli Law**

##### *Fiduciary Duties of Office Holders*

The Israeli Companies Law codifies the fiduciary duties that office holders, including directors and executive officers, owe to a company. An office holder is defined in the Israeli Companies Law as a director, general manager, chief business manager, deputy general manager, vice general manager, other manager directly subordinate to the general manager or any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title. An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of care requires an office holder to act at a level of care that a reasonable office holder in the same position would employ under the same circumstances. This includes the duty to utilize reasonable means to obtain (i) information regarding the appropriateness of a given action brought for his approval or performed by him by virtue of his position and (ii) all other information of importance pertaining to the foregoing actions. The duty of loyalty includes (i) avoiding any conflict of interest between the office holder's position in the company and any other position he holds or his personal affairs, (ii) avoiding any competition with the company's business, (iii) avoiding exploiting any business opportunity of the company in order to receive personal gain for the office holder or others, and (iv) disclosing to the company any information or documents relating to the company's affairs that the office holder has received due to his position as an office holder. Each person identified as a director or executive officer in the first table under Item 6.A. Directors, Senior Management and Employees Directors and Senior Management above is an office holder.

##### *Disclosure of Personal Interests of an Office Holder*

The Israeli Companies Law requires that an office holder promptly, and no later than the first board meeting at which such transaction is considered, disclose any personal interest that he or she may have and all related material information known to him or her and any documents in their possession, in connection with any existing or proposed transaction by us. In addition, if the transaction is an extraordinary transaction, that is, a transaction other than in the ordinary course of business, other than on market terms, or likely to have a material impact on the company's profitability, assets or liabilities, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing, or by any corporation in which the office holder or a relative is a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager.

##### *Approval of Transactions with Office Holders*

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Under the Israeli Companies Law and our articles of association, all arrangements as to compensation of office holders who are not directors require approval of our Audit Committee and Board of Directors if the transaction is an extraordinary transaction or relates to exculpation, insurance or indemnification of an office holder, and if such transaction is not an extraordinary transaction, the approval of our General Manager according to guidelines of the Board of Directors. The compensation of office holders who are directors must be approved by our audit committee, board of directors and shareholders.

Some transactions, actions and arrangements involving an office holder (or a third party in which an office holder has an interest) must be approved by the board of directors or as otherwise provided for in a company's articles of association, however, a transaction that is adverse to the company's interest may not be approved. In some cases, such a transaction must be approved by the audit committee and by the board of directors itself, and under certain circumstances shareholder approval may be required. A director who has a personal interest in a transaction that is considered at a meeting of the board of directors or the audit committee may not be present during the board of directors or audit committee discussions and may not vote on the transaction, unless the transaction is not an extraordinary transaction or the majority of the members of the board or the audit committee have a personal interest, as the case may be. In the event the majority of the members of the board of directors or the audit committee have a personal interest, then the approval of the general meeting of shareholders is also required.

### *Disclosure of Personal Interests of a Controlling Shareholder; Approval of Transactions with Controlling Shareholders*

The disclosure requirements which apply to an office holder also apply to such transaction with respect to his or her personal interest in the transaction. The Israeli Companies Law provides that an extraordinary transaction with a controlling shareholder or an extraordinary transaction with another person in whom the controlling shareholder has a personal interest or a transaction with a controlling shareholder or his relative regarding terms of service and employment, must be approved by the audit committee, the board of directors and shareholders. The shareholder approval for such a transaction must include at least one-third of the shareholders who have no personal interest in the transaction who voted on the matter (not including abstentions). The transaction can be approved by shareholders without this one-third approval if the total holdings of those shareholders who have no personal interest and voted against the transaction do not represent more than one percent of the voting rights in the company.

Under the Companies Regulations (Relief from Related Party Transactions), 5760-2000, promulgated under the Israeli Companies Law, as amended, certain extraordinary transactions between a public company and its controlling shareholder(s) do not require shareholder approval. Such extraordinary transactions must be approved by both the audit committee and board of directors. In addition, under such regulations, directors' compensation and employment arrangements in a public company do not require the approval of the shareholders if both the audit committee and the board of directors agree that such arrangements are solely for the benefit of the company. Also, employment and compensation arrangements for an office holder that is a controlling shareholder of a public company do not require shareholder approval if certain criteria are met. The foregoing exemptions from shareholder approval will not apply if one or more shareholders holding at least 1% of the issued and outstanding share capital of the company or of the company's voting rights, objects to the use of these exemptions provided that such objection is submitted to the company in writing not later than fourteen days from the date of the filing of a report regarding the adoption of such resolution by the company pursuant to the requirements of the Israeli Securities Law. If such objection is duly and timely submitted, then the transaction or compensation arrangement of the directors will require shareholders' approval as detailed above.

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In addition, a private placement of securities that will (i) cause a person to become a controlling shareholder or (ii) increase the relative holdings of a shareholder that holds 5% or more of the company's outstanding share capital, or (iii) will cause any person to become, as a result of the issuance, a holder of more than 5% of the company's outstanding share capital in a private placement in which 20% or more of the company's outstanding share capital prior to the placement are offered, the payment for which (in whole or in part) is not in cash nor under market terms, requires approval by the board of directors and the shareholders of the company. Other than as described, under Israeli law private placements require the approval of the board of directors.

The Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% or greater shareholder of the company. This rule does not apply if there is already another 25% or greater shareholder of the company. Similarly, the Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would hold greater than a 45% interest in the company, unless there is another shareholder holding more than a 45% interest in the company. These requirements do not apply if, in general, the acquisition was made in a private placement that received shareholder approval, (i) was from a 25% or greater shareholder of the company which resulted in the acquirer becoming a 25% or greater shareholder of the company, if there is not already a 25% or greater shareholder of the company, or (ii) was from a shareholder holding a 45% interest in the company which resulted in the acquirer becoming a holder of a 45% interest in the company if there is not already a 45% or greater shareholder of the company.

If, as a result of an acquisition of shares, the acquirer will hold more than 90% of a public company's outstanding shares or a class of shares, the acquisition must be made by means of a tender offer for all of the outstanding shares or a class of shares. If less than 5% of the outstanding

shares are not tendered in the tender offer, all the shares that the acquirer offered to purchase will be transferred to the acquirer. The Israeli Companies Law provides for appraisal rights if any shareholder files a request with the court within three months following the consummation of a full tender offer. If more than 5% of the outstanding shares are not tendered in the tender offer, then the acquirer may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares.

## **Exculpation, Indemnification and Insurance of Directors and Officers**

### *Exculpation of Office Holders*

The Israeli Companies Law provides that an Israeli company cannot exculpate an office holder from liability with respect to a breach of his or her duty of loyalty. If permitted by its articles of association, a company may exculpate in advance an office holder from his or her liability to the company, in whole or in part, with respect to a breach of his or her duty of care. However, a company may not exculpate in advance a director from his or her liability to the company with respect to a breach of his duty of care concerning a distribution, a such term is defined under the Israeli Companies Law.

### *Insurance of Office Holders*

The Israeli Companies Law provides that a company may, if permitted by its articles of association, enter into a contract to insure office holders in respect of liabilities incurred by the office holder with a respect to an act or omission performed in his or her capacity as an office holder, as a result of:

a breach of the office holder's duty of care to the company or to another person;

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a breach of the office holder's duty of loyalty to the company, provided that the office holder acted in good faith and had reasonable cause to assume that his or her act would not prejudice the company's interests; or

a financial liability imposed upon the office holder in favor of another person.

### *Indemnification of Office Holders*

The Israeli Companies Law provides that a company may, if permitted by its articles of association, indemnify an office holder for acts or omissions performed by the office holder in such capacity for:

a monetary liability imposed on the office holder in favor of another person by any judgment, including a settlement or an arbitrator's award approved by a court;

reasonable legal expenses, including attorney's fees, actually incurred by the office holder as a result of an investigation or proceeding instituted against him or her by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against the office holder or the imposition of any monetary liability in lieu of criminal proceedings, or concluded without the filing of an indictment against the office holder and a monetary liability was imposed on the officer holder in lieu of criminal proceedings with respect to a criminal offense that does not require proof of criminal intent; and

reasonable legal expenses, including attorneys' fees, incurred by the office holder or which were imposed on him or her by a court, in an action instituted by the company or on the company's behalf or by another person, against the office holder, or in a criminal charge from which he was acquitted, or in a criminal proceeding in which the office holder was convicted of a criminal offense which does not require proof of criminal intent.

In accordance with the Israeli Companies Law, a company's articles of association may permit the company to:

prospectively undertake to indemnify an office holder, except that with respect to a monetary liability imposed on the office holder by any judgment, settlement or court-approved arbitration award, the undertaking must be limited to types of events which the company's board of directors deems foreseeable considering the company's actual operations at the time of the undertaking, and to an amount or standard that the board of directors has determined as reasonable under the circumstances.

retroactively indemnify an office holder of the company.

*Limitations on Exculpation, Insurance and Indemnification*

The Israeli Companies Law provides that neither a provision of the articles of association permitting the company to enter into a contract to insure the liability of an office holder, nor a provision in the articles of association or a resolution of the board of directors permitting the indemnification of an office holder, nor a provision in the articles of association exculpating an office holder from duty to the company shall be valid, where such insurance, indemnification or exculpation relates to any of the following:

a breach by the office holder of his duty of loyalty unless, with respect to insurance coverage or indemnification, the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;

a breach by the office holder of his duty of care if such breach was committed intentionally or recklessly, unless the breach was committed only negligently.

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any act or omission done with the intent to unlawfully yield a personal gain; or

any fine or forfeiture imposed on the office holder.

Pursuant to the Israeli Companies Law, exculpation of, procurement of insurance coverage for, and an undertaking to indemnify or indemnification of, our office holders must be approved by our audit committee and our board of directors and, if the office holder is a director, also by our shareholders.

Our Articles of Association allow us to insure, indemnify and exempt our office holders to the fullest extent permitted by law, subject to the provisions of the Israeli Companies Law. On January 18, 2000, our shareholders agreed to indemnify our office holders to the fullest extent permitted under the Israeli Companies Law. At our 2007 annual general meeting of shareholders, our shareholders approved a new form of indemnification agreement, which indemnifies the office holders to the fullest extent permitted under the Israeli Companies Law as currently in effect. We have obtained directors and officers liability insurance for the benefit of our office holders.

**D. EMPLOYEES**

As of December 31, 2008, we had 442 employees worldwide, of whom 230 were employed in research and development, 133 in sales and marketing, 31 in management and administration and 48 in operations. Of such employees, 248 were based in Israel, 95 in the Americas, 81 in the Asia-Pacific region and 18 in Europe. We reduced the number of our employees during the latter part of 2008 and early 2009 as part of our cost-cutting initiatives.

As of December 31, 2007, we had 437 employees worldwide, of whom 217 were employed in research and development, 140 in sales and marketing, 35 in management and administration and 45 in operations. Of such employees, 242 were based in Israel, 93 in the Americas, 81 in the Asia-Pacific region and 21 in Europe.

As of December 31, 2006, we had 427 employees worldwide, of whom 221 were employed in research and development, 135 in sales and marketing, 31 in management and administration and 40 in operations. Of such employees, 228 were based in Israel, 99 in the Americas, 79 in the Asia-Pacific region and 21 in Europe.

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Our relationships with our employees in Israel are governed by Israeli labor legislation and regulations, extension orders of the Israeli Ministry of Labor and personal employment agreements. Israeli labor laws and regulations are applicable to all of our employees in Israel. The laws concern various matters, including severance pay rights at termination, notice period for termination, retirement or death, length of workday and workweek, minimum wage, overtime payments and insurance for work-related accidents. We currently fund our ongoing legal severance pay obligations by paying monthly premiums for our employees' insurance policies and/or pension funds.

In addition, Israeli law requires Israeli employees and employers to pay specified sums to the National Insurance Institute, which is similar to the United States Social Security Administration. Since January 1, 1995, such amounts also include payments for national health insurance. The payments to the National Insurance Institute that include health insurance fees are approximately 17.43% of wages, of which the employee contributes approximately 69.0% and the employer contributes approximately 31.0%. The majority of our permanent employees are covered by life and pension insurance policies providing customary benefits to employees, including retirement and severance benefits. We contribute 13.3% to 15.8%, depending on the employee, of base wages to such plans and the employee contributes about 5.0%. We and our employees are not parties to any collective bargaining agreements. However, certain provisions of the collective bargaining agreements between the Histadrut, the General Federation of Labor in Israel, and the Coordination Bureau of Economic Organizations, including the Manufacturers' Association of Israel, are applicable to our employees by extension orders of the Israeli Ministry of Labor. These provisions principally concern periodic cost of living adjustments, procedures for dismissing employees, travel allowances, recuperation pay and other conditions of employment.

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At the start of their employment, our employees in Israel generally sign written employment agreements that include confidentiality and non-compete provisions. At the start of their employment, our employees in North America generally sign offer letters specifying basic terms and conditions of employment as well as non-disclosure agreements.

### E. SHARE OWNERSHIP

#### Beneficial Ownership of Executive Officers and Directors

The following table and the footnotes thereto contain information as of March 25, 2009 regarding the beneficial ownership of our ordinary shares by each of our directors and executive officers.

Name	Number of ordinary shares (1)	Percentage of outstanding ordinary shares (2)
Zohar Zisapel	4,868,651(3)	24.93%
Boaz Raviv	283,807(4)	1.44%
Adi Sfadia	*	*
Joseph Atsmon	*	*
Liora Lev	*	*
Yoseph Linde	*	*
Efraim Wachtel	*	*

\* Less than 1%

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Ordinary shares relating to options currently exercisable or exercisable within 60 days of the date of this annual report are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.

(2) The percentages shown are based on 19,427,880 ordinary shares issued and outstanding (which excludes 3,088,343 ordinary shares held as treasury stock) as of March 25, 2009.



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- (3) Includes (i) 3,148,235 ordinary shares owned of record by Mr. Zohar Zisapel; (ii) 101,250 ordinary shares issuable upon the exercise of currently exercisable options granted to Mr. Zohar Zisapel, of which options to purchase 30,000 ordinary shares have an exercise price of \$6.1563 per share and expire in June 2011, options to purchase 45,000 ordinary shares have an exercise price of \$5.085 per share and expire in June 2012, options to purchase 26,250 ordinary shares have an exercise price of \$19.59 per share and expire in July 2013 ; (iii) 1,121,097 ordinary shares owned of record by Lomsha Ltd., an Israeli company controlled by Mr. Zohar Zisapel; (iv) 310,856 ordinary shares owned of record by Michael and Klil Holdings (93) Ltd., an Israeli company controlled by Mr. Zohar Zisapel; and (v) 187,213 ordinary shares owned of record by RAD Data Communications Ltd., an Israeli company. Mr. Zohar Zisapel is a principal shareholder and Chairman of the Board of Directors of RAD Data Communications Ltd. Mr. Zohar Zisapel and his brother, Mr. Yehuda Zisapel, have shared voting and dispositive power with respect to the shares held by RAD Data Communications Ltd.
- (4) Subject to currently exercisable options, with exercise prices ranging between \$4.7 and \$20.17, and expiration dates ranging between October 1, 2010 and January 3, 2016.

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### Stock Option Plan

In 2000, we adopted our 2000 Employee Stock Option Plan, or the 2000 Plan, which authorizes the grant of options to employees and consultants of our company and its subsidiaries. The 2000 Plan initially authorized the issuance thereunder of up to 636,477 ordinary shares and, in addition, subject to sufficient authorized share capital, provides for the reservation of up to 4% of our share capital, on a fully diluted basis, in each subsequent year following the year 2000. We are currently authorized to issue up to 7,530,233 ordinary shares under the 2000 Plan.

*Type of Options.* Awards under the 2000 Plan may be granted pursuant to Section 102 of the Israeli Income Tax Ordinance [New Version], 1961, or the Israeli Tax Ordinance, Section 3.(9) of the Israeli Tax Ordinance, and may also be granted in the form of incentive stock options, as provided in Section 422 of the U.S. Internal Revenue Code of 1986, as amended, and non-qualified stock options.

*Plan Administration.* The option committee appointed by the Board of Directors administers the 2000 Plan, subject to the ratification of the Board of Directors. Subject to the provisions of the 2000 Plan and applicable law, the option committee has the authority to recommend to the Board of Directors:

the persons to whom awards are granted;

the form, terms and conditions of the written stock option agreement evidencing the option, including the type of option and the number of shares to which it pertains, the exercise price, option term, vesting schedule and exercisability of the option in special cases (such as death, retirement, disability and change of control); and

the form and provisions of the notice of exercise and payment upon exercise of the option.

Subject to the provisions of the 2000 Plan and law, the Board of Directors has the authority to:

nominate a trustee for options issued under Section 102 of the Israeli Tax Ordinance;

adjust any or all of the number and type of shares that thereafter may be made the subject of options, the number and type of shares subject to outstanding options, and the grant or exercise price with respect to any option, or, if deemed appropriate, make provision for a cash payment to the holder of any outstanding option in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the 2000 Plan in the event of any dividend or other distribution, recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of shares or other securities;

interpret the provisions of the 2000 Plan; and

prescribe, amend, and rescind rules and regulations relating to the 2000 Plan or any award there under as it may deem necessary or advisable.

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*Option Price.* The option price per share may not be less than 100% of the fair market value (as such term is defined in the 2000 Plan) of such share on the date of the award; provided, however, that in the case of an award of an incentive stock option made to a 10% owner (as such term is defined in the 2000 Plan), the option price per share may not be less than 110% of the fair market value of such share on the date of the award.

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*Option Period.* An option may not be exercisable after the expiration of ten years from the date of its award, and in the case of an award of incentive stock options made to a 10% owner, such options may not be exercisable after the expiration of five years from its date of award. No option may be exercised after the expiration of its term. In 2006, the Board of Directors resolved to reduce the option period of future grants to employees to six years.

*Non-Transferability of Options.* Options granted under the 2000 Plan are not assignable or transferable by the optionee, other than by will or the laws of descent and distribution, and may be exercised during the lifetime of the optionee only by the optionee or his or her guardian or legal representative. However, during the optionee's lifetime, the optionee may, with the consent of the option committee, transfer without consideration all or any portion of his options to members of the optionee's immediate family (as defined in the 2000 Plan), a trust established for the exclusive benefit of members of the optionee's immediate family, or a limited liability company in which all members are members of the optionee's immediate family.

*Amendment and Termination.* Except as set forth in the 2000 Plan, neither the Board of Directors nor the option committee may, without the consent of the optionee, alter or in any way impair the rights of such optionee under any award previously granted. Neither the termination of the 2000 Plan nor the change of control of our company, except to the extent provided in the 2000 Plan, will affect any option previously granted.

On November 25, 2008, we commenced a tender offer to eligible employees (other than our directors, chief executive officer, chief financial officer, president and senior officers who report to the chief executive officer) to exchange outstanding options to purchase ordinary shares issued under our 2000 Plan having an exercise price of \$7.50 or more per share, for replacement options issued under our 2000 Plan that entitle the holder to purchase the same number of our ordinary shares at an exercise price equal to the greater of (i) \$7.50 per share and (ii) the per share closing price of our ordinary shares on the NASDAQ Global Market on the date the replacements options are granted. Pursuant to the exchange offer that expired on December 24, 2008, we accepted for exchange eligible options to purchase an aggregate of 1,276,950 ordinary shares that had been granted under the 2000 Plan and granted new options to purchase an aggregate of 1,276,950 ordinary shares, under the 2000 Plan. The new options have an exercise price equal to \$7.5 and have a vesting schedule as described in the tender offer documents.

A summary of the status of the 2000 Plan as of December 31, 2006, 2007 and 2008, and changes during the years ended on those dates, is presented below:

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### Year ended December 31,

	2006		2007		2008	
	Amount	Weighted average exercise price	Amount	Weighted average exercise price	Amount	Weighted average exercise price
Options outstanding at the beginning of the year	3,522,823 <sup>(1)</sup>	\$ 10.91	3,449,430 <sup>(2)</sup>	\$ 13.20	3,588,953 <sup>(3)</sup>	\$ 12.00 <sup>(5)</sup>
Granted	1,043,000	\$ 17.26	1,118,000	\$ 16.88	551,000	\$ 6.35
Exercised	(794,643)	\$ 8.68	(639,280)	\$ 10.61	(5,000)	\$ 5.91
Cancelled	-	\$ -	-	\$ -	(117,500)	\$ 16.56
Forfeited	(321,750)	\$ 12.47	(339,197)	\$ 15.34	(722,768)	\$ 15.27

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Year ended December 31,

	2009		2008		2007	
Options outstanding at the end of the year	3,449,430 <sup>(2)</sup>	\$ 13.20	3,588,953 <sup>(3)</sup>	\$ 14.60	3,294,685 <sup>(4)</sup>	\$ 10.18
Options exercisable at the end of the year	1,086,662	\$ 10.83	1,332,278	\$ 12.65	1,081,648	\$ 10.83
Options that may be granted as of the end of the year	267,831		145,548		821,882	

- (1) Including options to purchase 261,875 ordinary shares granted to directors of our company and our former chief executive office outside of the 2000 Plan, pursuant to the approval of our shareholders.
- (2) Including options to purchase 241,250 ordinary shares granted to directors of our company outside of the 2000 Plan, pursuant to the approval of our shareholders.
- (3) Including options to purchase 377,500 ordinary shares granted to directors of our company outside of the 2000 Plan, pursuant to the approval of our shareholders.
- (4) Including options to purchase 340,625 ordinary shares granted to directors of our company outside of the 2000 Plan, pursuant to the approval of our shareholders.
- (5) The weighted average exercise price of the options outstanding at the beginning of year was adjusted as a result of the option exchange offering.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

**A. MAJOR SHAREHOLDERS**

The following table sets forth certain information, as of the date of March 25, 2009, regarding the beneficial ownership by all shareholders known to us to own beneficially more than 5% of our ordinary shares.

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Name	Number of ordinary shares beneficially owned (1)	Percentage of outstanding ordinary shares (2)
Zohar Zisapel	4,868,651(3)	24.93%
Yehuda Zisapel	1,341,950(4)	6.91%
Royce & Associates, LLC	1,741,600(5)	8.96%
Renaissance Technologies LLC	1,513,023(6)	7.79%
Clough Capital Partners L.P.	1,232,973(7)	6.35%
TimesSquare Capital Management, LLC	1,184,900(8)	6.10%
Systematic Financial Management, L.P	1,124,890(9)	5.79%

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Ordinary shares relating to options currently exercisable or exercisable within 60 days of the date of this annual report are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.
- (2) The percentages shown are based on 19,427,880 ordinary shares issued and outstanding (which excludes 3,088,343 ordinary shares held as treasury stock) as of March 25, 2009.
- (3) Includes (i) 3,148,235 ordinary shares owned of record by Mr. Zohar Zisapel; (ii) 101,250 ordinary shares issuable upon the exercise of currently exercisable options granted to Mr. Zohar Zisapel, of which options to purchase 30,000 ordinary shares have an exercise price of \$6.1563 per share and expire in June 2011, options to purchase 45,000 ordinary shares have an exercise price of \$5.085 per share and expire in June 2012, options to purchase 26,250 ordinary shares have an exercise price of \$19.59 per share and expire in July 2013; (iii) 1,121,097 ordinary shares owned of record by Lomsha Ltd., an Israeli company controlled by Mr. Zohar Zisapel; (iv) 310,856 ordinary shares owned of record by Michael and Klil Holdings (93) Ltd., an Israeli company controlled by Mr. Zohar Zisapel; and (v) 187,213 ordinary shares owned of record by RAD Data Communications Ltd., an Israeli company. Mr. Zohar Zisapel is a principal shareholder and Chairman of the Board of Directors of RAD Data Communications Ltd. Mr. Zohar Zisapel and his brother, Mr. Yehuda Zisapel, have shared voting and dispositive power with respect to the shares held by RAD Data Communications Ltd.
- (4) Based upon a Schedule 13G/A filed with the Securities and Exchange Commission on January 21, 2009. Includes: (i) 751,901 ordinary shares owned of record by Mr. Yehuda Zisapel; (ii) 402,836 ordinary shares owned of record by RADbit Inc., an Israeli company wholly-owned by Mr. Yehuda Zisapel; and (iii) 187,213 ordinary shares owned of record by RAD Data Communications Ltd., an Israeli company. Mr. Yehuda Zisapel is a principal shareholder and a director of RAD Data Communications Ltd. Mr. Yehuda Zisapel and his brother, Mr. Zohar Zisapel, have shared voting and dispositive power with respect to the shares held by RAD Data Communications Ltd.
- (5) Based solely upon, and qualified in its entirety with reference to, a Schedule 13G/A filed with the Securities and Exchange Commission on January 30, 2009.
- (6) Based solely upon, and qualified in its entirety with reference to, a Schedule 13G filed with the Securities and Exchange Commission on February 12, 2009. The Schedule 13G reflects that the shares are deemed beneficially owned by James H. Simons due to his controlling interest in Renaissance Technologies LLC.
- (7) Based solely upon, and qualified in its entirety with reference to, a Schedule 13G/A filed with the Securities and Exchange Commission on February 10, 2009. The Schedule 13G/A reflects that the shares include shares beneficially owned by investment companies, pooled investment vehicles and other accounts for which Clough Capital Partners L.P. serves as investment adviser. Such shares may be deemed beneficially owner by (a) Clough Capital Partners L.P., (b) Clough Capital Partners LLC, the general partner of Clough Capital Partners L.P., and (c) Messrs. Clough, Canty and Brock, the managing members of Clough Capital Partners LLC. Each such entity and person disclaims beneficial ownership of such shares except to the extent of its respective pecuniary interest therein.

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- (8) Based solely upon, and qualified in its entirety with reference to, a Schedule 13G/A filed with the Securities and Exchange Commission on January 31, 2008.
  - (9) Based solely upon, and qualified in its entirety with reference to, a Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2009.

#### Significant Changes in the Ownership of Major Shareholders

As of December 31, 2005, Mr. Zohar Zisapel, the Chairman of our Board of Directors, beneficially owned 2,295,487, or 10.3%, of our ordinary shares, in accordance with a Schedule 13G/A filed with the SEC on February 14, 2006. As of December 31, 2006, Mr. Zohar Zisapel beneficially owned 2,590,050, or 11.7%, of our ordinary shares, in accordance with a Schedule 13G/A filed with the SEC on February 14, 2007. On August 26, 2008, Mr. Zohar Zisapel filed a Schedule 13D with the SEC reflecting beneficial ownership of 3,229,332, or 15.93% of our

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ordinary shares. On September 9, 2008, Mr. Zohar Zisapel filed a Schedule 13D/A with the SEC reflecting beneficial ownership of 3,530,518, or 17.54 % of our ordinary shares. On November 18, 2008, Mr. Zohar Zisapel filed a Schedule 13D/A with the SEC reflecting beneficial ownership of 4,164,501, or 20.94% of our ordinary shares. On November 24, 2008, Mr. Zohar Zisapel filed a Schedule 13D/A with the SEC reflecting beneficial ownership of 4,375,127, or 22.08% of our ordinary shares. On December 17, 2008, Mr. Zohar Zisapel filed a Schedule 13D/A with the SEC reflecting beneficial ownership of 4,544,901, or 23.15% of our ordinary shares. On February 24, 2009, Mr. Zohar Zisapel filed a Schedule 13D/A with the SEC reflecting beneficial ownership of 4,844,079, or 24.77%, of our ordinary shares.

As of December 31, 2004, The Baupost Group L.L.C, or Baupost, held 3,555,875, or 17.78%, of our ordinary share, in accordance with a Schedule 13G/A that it filed with the SEC on February 11, 2005. The Schedule 13G/A reflects that Baupost is a registered investment adviser, that SAK Corporation is the Manager of Baupost, and that Seth A. Klarman, as the sole director of SAK Corporation and a controlling person of Baupost, may be deemed to have beneficial ownership of the securities beneficially owned by Baupost. The Schedule 13G/A further reflects that securities reported as being beneficially owned by Baupost include securities purchased on behalf of various investment limited partnerships. On December 9, 2005, Baupost filed a Schedule 13G/A with the SEC reflecting ownership of 1,580,000, or 7.30%, of our ordinary shares. In a final amendment to the Schedule 13G filed with the SEC on February 9, 2006, Baupost reported that it no longer held an ownership interest in our company.

On February 14, 2005, Saranac Capital Management LP, or Saranac LP, filed a Schedule 13G with the SEC reflecting ownership of 3,214,000, or 16.07%, of our ordinary shares. On November 10, 2005, Saranac LP filed with the SEC an amendment to the Schedule 13G, on Schedule 13G/A, reflecting ownership of 2,324,100, or 11.0%, of our ordinary shares. On February 14, 2006, Saranac LP filed with the SEC Amendment No. 2 to the Schedule 13G, on Schedule 13G/A, reflecting ownership of 1,444,299, or 6.83%, of our ordinary shares. The Schedule 13G and amendments thereto reflect that Saranac Capital Management GP LLC is the general partner of Saranac LP and, in such capacity, may be deemed to have investment discretion over and be the beneficial owner of securities held for the account of Saranac LP. In his capacity as the managing member of Saranac Capital Management GP LLC, Mr. Ross Margolies may be deemed to have investment discretion over, and may be deemed to be the beneficial owner of, securities held for the account of Saranac LP, in addition to 20,012 ordinary shares held for the benefit of members of his immediate family. In a final amendment to the Schedule 13G filed with the SEC on June 30, 2006, Saranac LP reported that it no longer held an ownership interest in our company.

On February 6, 2007, Clough Capital Partners L.P., or Clough Capital, filed a Schedule 13G with the SEC reflecting ownership of 1,146,473, or 5.15%, of our ordinary shares. On February 11, 2008, Clough Capital filed with the SEC an amendment to the Schedule 13G, on Schedule 13G/A, reflecting ownership of 1,255,373, or 5.52%, of our ordinary shares. On February 10, 2009, Clough Capital filed with the SEC Amendment No. 2 to the Schedule 13G, on Schedule 13G/A, reflecting ownership of 1,232,973, or 6.09%, of our ordinary shares. The Schedule 13G/A reflects that the shares include shares beneficially owned by investment companies, pooled investment vehicles and other accounts for which Clough Capital serves as investment adviser. Such shares may be deemed beneficially owner by (a) Clough Capital Partners L.P., (b) Clough Capital Partners LLC, the general partner of Clough Capital Partners L.P., and (c) Messrs. Clough, Canty and Brock, the managing members of Clough Capital Partners LLC. Each such entity and person disclaims beneficial ownership of such shares except to the extent of its respective pecuniary interest therein.

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On February 15, 2008, Systematic Financial Management, L.P., or Systematic, filed a Schedule 13G with the SEC reflecting ownership of 1,172,358, or 5.39%, of our ordinary shares. In an amendment to the Schedule 13G filed with the SEC on February 13, 2009, Systematic reported ownership of 1,124,890 of our ordinary shares and that it had therefore ceased to be the beneficial owner of more than 5% of our outstanding shares. However, based on the number of our outstanding shares as of March 25, 2009, Systematic is the beneficial owner of 5.79% of our ordinary shares.

On February 13, 2009, Renaissance Technologies LLC, or Renaissance, filed a Schedule 13G with the SEC reflecting ownership of 1,513,023, or 7.7%, of our ordinary shares. The Schedule 13G reflects that the shares are deemed beneficially owned by James H. Simons due to his controlling interest in Renaissance Technologies LLC.

### Major Shareholders Voting Rights

The voting rights of our major shareholders do not differ from the voting rights of other holders of our ordinary shares.

### Record Holders

Based on a review of the information provided to us by our transfer agent, as of March 23, 2009, there were 32 holders of record of our ordinary shares, of which 20 record holders holding approximately 93.7% of our ordinary shares had registered addresses in the United States, including banks, brokers and nominees. These numbers are not representative of the number of beneficial holders of our shares nor are they

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representative of where such beneficial holders reside, since many of these ordinary shares were held of record by banks, brokers or other nominees.

### B. RELATED PARTY TRANSACTIONS

#### *The RAD-BYNET Group*

Zohar Zisapel, the Chairman of our Board of Directors and a principal shareholder of our company, and Yehuda Zisapel, a principal shareholder of our company, who formerly was a director and the Chairman of our Board of Directors, are brothers. Individually or together they are directors and principal shareholders of several other companies, which, together with us and the other subsidiaries and affiliates, are known as the RAD-BYNET group (although this is not a legal entity). These corporations include, but are not limited to:

AB-NET Ltd.	Commex Technologies Ltd.	RADLIVE Ltd
BYNET Data Communication Ltd.	Internet Binat Ltd.	RADWIN Ltd.
BYNET Electronics Ltd.	Packetlight Networks Ltd.	Sanrad Inc.
BYNET SEMECH Outsourcing Ltd.	RAD-BYNET Properties and	SILICOM Ltd.
BYNET Systems Applications Ltd.	Services (1981) Ltd.	WISAIR Inc.
BYNET Software Systems Ltd.	RAD Data Communication Ltd.	
Ceragon Networks Ltd.	RADWARE Ltd.	
Channelot Ltd.	RADCOM Ltd.	

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Yehuda and Zohar Zisapel (together or separately) also hold shares in other real estate, holdings, biotechnology and pharmaceutical private companies. The above list does not constitute a complete list of the investments of Messrs. Yehuda and Zohar Zisapel.

In addition to engaging in other businesses, members of the RAD-BYNET group are actively engaged in designing, manufacturing, marketing and supporting data communication products, none of which currently compete with our products. Some of the products of members of the RAD-BYNET group are complementary to, and may be used in connection with, our products.

Efraim Wachtel, a director of our company, serves as the president and chief executive officer of RAD Data Communication Ltd.

We generally ascertain the market prices for goods and services that can be obtained at arms length from unaffiliated third parties before entering into any transaction with a member of the RAD-BYNET group for those goods and services. In addition, all of our transactions to date with members of the RAD-BYNET group were approved by our Audit Committee and Board of Directors. As a result, we believe that the terms of the transactions in which we have engaged and are currently engaged with other members of the RAD-BYNET group are beneficial to us and no less favorable to us than terms which might be available to us from unaffiliated third parties. Any future transactions and arrangements with entities, including other members of the RAD-BYNET group, in which our office holders have a personal interest will require approval by our audit committee, our board of directors and, if applicable, our shareholders.

Transactions with related parties:

	Year ended December 31,		
	2006	2007	2008
	(\$ in thousands)		
Revenues (1)	\$ 257	\$ 303	\$ 208
Cost of revenues (2)	\$ 16	\$ 23	\$ 14
Research and development expenses (3)	\$ 83	\$ 118	\$ 84
Marketing, selling, general and administrative expenses (3)	\$ 360	\$ 525	\$ 459
Purchase of property and equipment (4)	\$ 582	\$ 644	\$ 344

(1) Reflects revenues from our products and maintenance sold to affiliated companies.

- (2) Reflects the reimbursement of costs to affiliated companies that such affiliated companies incurred in connection with administrative services that they have provided to our company.
- (3) Reflects the purchase of components from affiliated companies.
- (4) Reflects the cost of property and equipment that we purchased from affiliated companies.

**C. INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.

**ITEM 8. FINANCIAL INFORMATION**

**A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

**Legal Proceedings**

In 1998, a third party holder of certain patents sent correspondence to a related party alleging that some products manufactured by the related party infringe upon patents held by the third party and offered to license us these patents. In subsequent correspondence, the related party requested that the third party specifically substantiate each allegation of infringement before the related party would be prepared to enter into any licensing arrangements. The related party has received further correspondence from the third party, in which the third party has, among other things, reiterated its claims. The related party does not believe the third party has substantiated its claims and has communicated this belief to the third party. The related party has advised us that the alleged infringement claims are unresolved.

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In 2003, another corporation sent us correspondence alleging that some of our products infringe upon patents held by that corporation and offered to license these patents to us. Subsequent correspondence was exchanged during 2004, in which additional requests were made by the claimant. As of December 31, 2008, we have recorded a provision of approximately \$2.2 million, which we believe covers the probable loss from such allegations.

In 2005, we received a claim from Avistar Communications Corporation, or Avistar, a U.S. developer of video technologies, alleging that we infringed on ten of their patents. In June 2007, the parties executed a patent license agreement to, among others, settle and conclude the dispute. In partial consideration of the licenses, releases and other rights granted to us under the patent license agreement, we agreed to pay to Avistar \$4.0 million and Avistar agreed to grant to us a non-exclusive worldwide patent license to use all of Avistar's patents for the field of videoconferencing according to Avistar's standard terms and conditions. We, in turn, have, among other things, granted to Avistar a license to use all of our patents in the same field. Part of the payment was recorded by us as a patent settlement reserve in 2006. The remainder is presented as long-term and short-term prepaid expenses in the amount of \$1.3 million and \$336,000, respectively, as of December 31, 2008 and will be gradually recognized over the estimated term of our use of the Avistar technology.

In addition, during 2006, we received a notification from TANDBERG, which was sued by Avistar for infringement of certain of Avistar patents (some of the same patents Avistar claimed that we infringed). TANDBERG sought indemnification from us against the Avistar claim. In September 2006, we sent a letter to TANDBERG setting forth our positions and refuting the allegations made by TANDBERG. Since such time, we have not received a response from TANDBERG. In March 2007, TANDBERG and Avistar settled their dispute, the details of which settlement were not publicly disclosed. Due to the fact that we concluded a patent license agreement with Avistar, as described above, we believe that the probability of the TANDBERG indemnification claim against us being sustained is remote and that a material loss is not probable, therefore we have not recorded any related provision in the financial statements.

In October 2007, we received a letter from one of our resellers in China claiming that our Chinese representative office was obligated to perform certain undertakings for the benefit of the reseller and that the representative office had not met these obligations. The reseller has not made any monetary claim as to its demands or expectations. Due to the preliminary stage of the claim, we and our legal advisors cannot currently assess the outcome or possible adverse effect on our financial position or results of operations, however, we believe we have substantial legal claims to oppose these allegations. For the years ended December 31, 2007 and 2008, we did not recognize any revenue related

to the reseller.

We are periodically a party to routine litigation incidental to our business. We do not believe that we are a party to any pending legal proceeding that is likely to have a material adverse effect on our business, financial condition or results of operations.

### Dividend Distributions Policy

We have never declared or paid any cash dividends to our shareholders. We currently intend to retain future earnings for use in our business and do not anticipate paying cash dividends on our ordinary shares in the foreseeable future. Any future dividend policy will be determined by our Board of Directors and will be based upon conditions then existing, including our results of operations, financial condition, current and anticipated cash needs, contractual restrictions and other conditions. In addition, our articles of association provide that the declaration of a dividend requires approval by an ordinary resolution of our shareholders, which may decrease but not increase the amount proposed by the Board of Directors.

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According to the Israeli Companies Law, a company may distribute dividends out of its profits provided that there is no reasonable concern that such dividend distribution will prevent the company from paying all its current and foreseeable obligations, as they become due. Notwithstanding the foregoing, dividends may be paid with the approval of a court, provided that there is no reasonable concern that such dividend distribution will prevent the company from satisfying its current and foreseeable obligations, as they become due. Profits, for purposes of the Israeli Companies Law, means the greater of retained earnings or earnings accumulated during the preceding two years, after deducting previous distributions that were not deducted from the surpluses. In the event cash dividends are declared, such dividends will be paid in NIS.

### B. SIGNIFICANT CHANGES

Since the date of the annual consolidated financial statements included in this annual report, no significant changes have occurred.

## ITEM 9. THE OFFER AND LISTING

### A. OFFER AND LISTING DETAILS

#### Annual Stock Information

The following table sets forth, for each of the years indicated, the high and low market prices of our ordinary shares on the NASDAQ Global Market and the Tel Aviv Stock Exchange:

Year	NASDAQ Global Market		Tel Aviv Stock Exchange	
	High	Low	High	Low
2004	\$ 16.00	\$ 9.05	\$ 15.72	\$ 9.17
2005	\$ 18.05	\$ 9.96	\$ 18.40	\$ 10.01
2006	\$ 21.74	\$ 13.86	\$ 21.64	\$ 14.17
2007	\$ 24.97	\$ 10.39	\$ 25.13	\$ 10.57
2008	\$ 11.84	\$ 4.08	\$ 11.29	\$ 4.22

#### Quarterly Stock Information

The following table sets forth, for each of the full financial quarters in the years indicated, the high and low market prices of our ordinary shares on the NASDAQ Global Market and the Tel Aviv Stock Exchange:



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	NASDAQ Global Market		Tel Aviv Stock Exchange	
	High	Low	High	Low
<b>2007</b>				
First Quarter	\$ 24.97	\$ 18.80	\$ 25.13	\$ 18.64
Second Quarter	\$ 23.97	\$ 19.09	\$ 24.32	\$ 19.50
Third Quarter	\$ 21.50	\$ 15.70	\$ 24.42	\$ 15.59
Fourth Quarter	\$ 15.25	\$ 10.39	\$ 17.94	\$ 10.57
<b>2008</b>				
First Quarter	\$ 11.84	\$ 6.15	\$ 11.29	\$ 6.13
Second Quarter	\$ 7.50	\$ 5.96	\$ 7.67	\$ 5.70
Third Quarter	\$ 7.78	\$ 5.35	\$ 7.88	\$ 4.95
Fourth Quarter	\$ 6.99	\$ 4.08	\$ 7.34	\$ 4.22

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**Monthly Stock Information**

The following table sets forth, for the most recent six months, the high and low market prices of our ordinary shares on the NASDAQ Global Market and the Tel Aviv Stock Exchange:

	NASDAQ Global Market		Tel Aviv Stock Exchange	
	High	Low	High	Low
October 2008	\$ 6.19	\$ 4.08	\$ 5.77	\$ 4.42
November 2008	\$ 6.99	\$ 5.42	\$ 7.21	\$ 5.03
December 2008	\$ 6.83	\$ 5.12	\$ 7.20	\$ 4.92
January 2009	\$ 5.88	\$ 4.31	\$ 6.25	\$ 4.58
February 2009	\$ 6.23	\$ 4.49	\$ 6.40	\$ 4.44
March 2009 (until March 25)	\$ 5.75	\$ 5.09	\$ 5.88	\$ 5.14

**B. PLAN OF DISTRIBUTION**

Not applicable.

**C. MARKETS**

Our ordinary shares have been listed on the NASDAQ Global Market since our initial public offering on March 14, 2000 (symbol: RVSN). Since October 20, 2002, our ordinary shares have also traded on the Tel Aviv Stock Exchange.

**D. SELLING SHAREHOLDERS**

Not applicable.

**E. DILUTION**

Not applicable.

**F. EXPENSE OF THE ISSUE**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. SHARE CAPITAL**

Not applicable.

**B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

**Purposes and Objects of the Company**

We are a public company registered under the Israel Companies Law as RADVISION Ltd., registration number 51-165181-2. Pursuant to our memorandum of association, we were formed for the purpose of developing, manufacturing and supplying products in the electronics field in general, and specifically, in the field of data communication.

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**The Powers of the Directors**

Under the provisions of the Israel Companies Law and our articles of association, a director cannot participate in a meeting nor vote on a proposal, arrangement or contract in which he or she is materially interested. In addition, our directors cannot vote compensation to themselves or any members of their body without the approval of our audit committee and our shareholders at a general meeting. See Item 6B. Directors, Senior Management and Employees Compensation.

Directors may not enter into borrowing arrangements on our behalf except in the manner approved by the Company. The Board of Directors have approved a resolution regarding signing authority to ensure the proper oversight and regulation of officers and directors acting on our behalf.

**Rights Attached to Shares**

Our authorized share capital consists of 45,000,000 ordinary shares of a nominal value of NIS 0.1 each. All outstanding ordinary shares are validly issued, fully paid and non-assessable.

The rights attached to the ordinary shares are as follows:

*Dividend rights.* Holders of our ordinary shares are entitled to the full amount of any cash or share dividend subsequently declared. The board of directors may declare interim dividends and propose the final dividend with respect to any fiscal year only out of the retained earnings, in accordance with the provisions of the Israeli Companies Law. Our articles of association provide that the declaration of a dividend requires approval by an ordinary resolution of the shareholders, which may decrease but not increase the amount proposed by the board of directors. See Item 8A. Financial Information Consolidated Statements and Other Financial Information Dividend Distributions Policy. If after one year a dividend has been declared and it is still unclaimed, the board of directors is entitled to invest or utilize the unclaimed amount of dividend in any manner to our benefit until it is claimed. We are not obligated to pay interest or linkage differentials on an unclaimed dividend. Also see Item 10E. Additional Information Taxation.

*Voting rights.* Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. Such voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future.

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The quorum required for an ordinary meeting of shareholders consists of at least two shareholders present in person or by proxy who hold or represent, in the aggregate, at least one third of the voting rights of the issued share capital. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place or any time and place as the directors designate in a notice to the shareholders. At the reconvened meeting, the required quorum consists of any two members present in person or by proxy.

An ordinary resolution, such as a resolution for the declaration of dividends, requires approval by the holders of a majority of the voting rights represented at the meeting, in person, by proxy or by written ballot and voting thereon. Under our articles of association, a special resolution, such as amending our memorandum of association or articles of association, approving any change in capitalization, winding-up, authorization of a class of shares with special rights, or other changes as specified in our articles of association, requires approval of a special majority, representing the holders of no less than 65% of the voting rights represented at the meeting in person, by proxy or by written ballot, and voting thereon.

Pursuant to our articles of association, our directors (except the outside directors) are elected at our annual general meeting of shareholders by a vote of the holders of a majority of the voting power represented and voting at such meeting and hold office until the next annual general meeting of shareholders and until their successors have been elected. All the members of our board of directors (except the outside directors) may be reelected upon completion of their term of office. For information regarding the election of outside directors, see Item 6C. Directors, Senior Management and Employees Directors and Senior Management Board Practices Election of Directors.

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*Rights to share in our company's profits.* Our shareholders have the right to share in our profits distributed as a dividend and any other permitted distribution. See this Item 10B. Additional Information Memorandum and Articles of Association Rights Attached to Shares Dividend Rights.

*Rights in the event of liquidation.* In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares in proportion to the nominal value of their holdings. This right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

### **Changing Rights Attached to Shares**

According to our articles of association, in order to change the rights attached to any class of shares, unless otherwise provided by the terms of the class, such change must be adopted by a general meeting of the shareholders and by a separate general meeting of the holders of the affected class with a majority of 65% of the voting power participating in such meeting.

### **Annual and Extraordinary Meetings**

Under the Israeli Companies Law, a company must convene an annual meeting of shareholders at least once every calendar year and within fifteen months of the last annual meeting. Depending on the matter to be voted upon, notice of at least 21 days or 35 days prior to the date of the meeting is required. Our board of directors may, in its discretion, convene additional meetings as special general meetings. In addition, the board must convene a special general meeting upon the demand of two of the directors, 25% of the nominated directors, one or more shareholders having at least 5% of the outstanding share capital and at least 1% of the voting power in the company, or one or more shareholders having at least 5% of the voting power in the company. See this Item 10B. Additional Information Memorandum and Articles of Association- Rights Attached to Shares-Voting Rights.

### **Limitations on the Rights to Own Securities in Our Company**

Neither our memorandum of association or our articles of association nor the laws of the State of Israel restrict in any way the ownership or voting of shares by non-residents, except with respect to subjects of countries which are in a state of war with Israel.

### **Changes in Our Capital**

Changes in our capital are subject to the approval of the shareholders at a general meeting by a special majority of 65% of the votes of shareholders participating and voting in the general meeting.

**Provisions Restricting Change in Control of Our Company**

**Tender Offer.** A person wishing to acquire shares, or any class of shares, of a publicly traded Israeli company and who would as a result hold over 90% of the company's issued and outstanding share capital, or a class of shares, is required by the Israeli Companies Law to make a tender offer to all of the company's shareholders for the purchase of all of the remaining issued and outstanding shares of the company, or the class of shares, as the case may be. If the shareholders who do not respond to the offer hold less than 5% of the issued share capital of the company, or of the relevant class of shares, all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. However, the shareholders may petition the court to determine that the consideration for the acquired shares is less than the shares' fair value and that the acquiring party should pay the shares' fair value. If the dissenting shareholders hold more than 5% of the issued and outstanding share capital of the company, or of the relevant class of shares, as the case may be, the acquirer may not acquire additional shares of the company from shareholders who accepted the tender offer if following such acquisition the acquirer would own over 90% of the company's issued and outstanding share capital, or of the relevant class of shares.

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The Israeli Companies Law provides that an acquisition of shares of a public company be made by means of a tender offer if as a result of the acquisition the purchaser would become the holder of a control block. Under the Israeli Companies Law, shares conferring 25% or more of the voting rights in the company constitute a control block. The requirement for a tender offer does not apply if there is already another holder of a control block. Similarly, the Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the acquirer would hold more than 45% of the voting rights in the company, unless there is another person holding more than 45% of the voting rights in the company. These requirements do not apply if:

the acquisition was made in a private placement the object of which was to confer to the acquiring party a control block where there is no holder of a control block, or to confer to the acquiring party 45% of the voting rights in the company where there is no holder of 45% of the voting rights in the company, and the private placement received the general meeting's approval; or

the acquisition was from the holder of a "control block" and resulted in a person becoming the holder of a "control block;" or

the acquisition was from a shareholder holding more than 45% of the voting rights in the company and resulted in a person becoming a holder of more than 45% of the voting rights in the company.

**Merger.** The Israeli Companies Law permits merger transactions if approved by each party's board of directors and, except under certain circumstances specified below, by the majority of each party's shares voted on the proposed merger at a shareholders meeting convened upon prior notice of at least 35 days (which may be shortened to 14 days in certain circumstances). A merger is defined as the transfer of all assets and liabilities, including conditional, future, known and unknown debts of the target company to the surviving company, as a result of which the target company is liquidated, and stricken out of the Companies Register.

Under the Israeli Companies Law, if the approval of a general meeting of the shareholders is required, merger transactions may be approved by holders of a simple majority of the shares present and voting, in person or by proxy or by written ballot, at the general meeting convened to approve the transaction. If one of the merging companies, or a shareholder that holds 25% or more of the means of control of one of the merging companies, or a 25% shareholder, holds shares of the other merging company, then a dissenting vote of holders of the majority of the shares of the other merging company present and voting, excluding shares held by the merging company or a 25% shareholder thereof, or by anyone acting on behalf of either of them, their relatives and corporations controlled thereby, is sufficient to reject the merger transaction. Means of control are defined as any of the following: (i) the right to vote at a general meeting of a company; and (ii) the right to appoint a director of a company. If the transaction would have been approved but for the exclusion of the votes as previously indicated, a court may still approve the merger upon the request of holders of at least 25% of the voting rights of the company. The court will not approve a merger unless it is convinced that the merger is fair and reasonable, taking into account the values of the merging companies and the consideration offered to the shareholders. Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of the merged company. In addition, a merger may not be completed unless at least 50 days have passed from the date that a proposal for approval of the merger was filed with the Israeli Registrar of Companies and 30 days from the date that shareholder approval of both merging companies was obtained.

Notwithstanding the foregoing, a merger is not subject to the approval of the shareholders of the target company if the target company is a wholly-owned subsidiary of the surviving company. A merger is not subject to the approval of the shareholders of the surviving company if:

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the merger does not require the alteration of the memorandum or articles of association of the surviving company;

the acquiring company would not issue more than 20% of the voting rights thereof to the shareholders of the target company in the course of the merger and no person will become, as a result of the merger, a controlling shareholder of the surviving company, on a fully diluted basis;

neither the target company, nor any shareholder that holds 25% of the means of control of the target company is a shareholder of the surviving company; and

there is no person that holds 25% or more of the means of control in both companies.

#### **Disclosure of Shareholders Ownership**

The Israeli Securities Law, 5728-1968 and regulations promulgated thereunder contain various provisions regarding the ownership threshold above which shareholders must disclose their share ownership. However, these provisions do not apply to companies, such as ours, whose shares are publicly traded in Israel as well as outside of Israel. As a result of the listing of our ordinary shares on the Tel Aviv Stock Exchange, we are required pursuant to the Israeli Securities Law and the regulations promulgated thereunder to deliver to the Israeli Share Registrar, the Israeli Securities Exchange Commission and the Tel Aviv Stock Exchange, all reports, documents, forms and information received by us from our shareholders regarding their shareholdings, provided that such information was published or required to be published under applicable foreign law.

#### **C. MATERIAL CONTRACTS**

While we have numerous contracts with customers, resellers and distributors we do not deem any such individual contract to be material.

#### **D. EXCHANGE CONTROLS**

Israeli law and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our ordinary shares. In May 1998, a new general permit was issued under the Israeli Currency Control Law, 1978, which removed most of the restrictions that previously existed under such law, and enabled Israeli citizens to freely invest outside of Israel and freely convert Israeli currency into non-Israeli currencies.

Non-residents of Israel who purchase our ordinary shares will be able to convert dividends, if any, thereon, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, into freely repatriable dollars, at the exchange rate prevailing at the time of conversion, provided that the Israeli income tax has been withheld (or paid) with respect to such amounts or an exemption has been obtained.

#### **E. TAXATION**

The following is a discussion of Israeli and United States tax consequences material to our shareholders. To the extent that the discussion is based on new tax legislation which has not been subject to judicial or administrative interpretation, the views expressed in the discussion might not be accepted by the tax authorities in question. The discussion is not intended, and should not be construed, as legal or professional tax advice and does not exhaust all possible tax considerations.

**You are urged to consult your own tax advisor as to the Israeli, United States and other tax consequences of the purchase, ownership and disposition of our ordinary shares, including, in particular, the effect of any non-Israeli, state or local taxes.**

## ISRAELI TAX CONSIDERATIONS

The following is a summary of the principal Israeli tax laws, applicable to us, of the Israeli Government programs from which we benefit and of Israeli foreign exchange regulations. This section also contains a discussion of material Israeli tax consequences to our shareholders who are not residents or citizens of Israel. This summary does not discuss all aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances, or to some types of investors subject to special treatment under Israeli law. Examples of investors subject to special treatment under Israeli law include residents of Israel, traders in securities, or persons who own, directly or indirectly, 10% or more of our outstanding voting capital, all of whom are subject to special tax regimes not covered in this discussion. Some parts of this discussion are based on new tax legislation that has not been subject to judicial or administrative interpretation. The discussion should not be construed as legal or professional tax advice and does not cover all possible tax consequences.

### General Corporate Tax Structure

Israeli companies were generally subject to corporate tax at the rate of 27% in 2008, which was reduced to 26% in 2009 and will be further reduced to 25% in 2010 and thereafter. However, the rate is effectively reduced for income derived from an approved enterprise and beneficiary enterprise, as discussed below.

As of December 31, 2008, the net operating loss carry-forwards of our U.S. subsidiary for U.S. tax purposes amounted to approximately \$5.7 million. These losses are available to offset any future U.S. taxable income of our U.S. subsidiary and will expire in the years 2020 through 2026.

### Tax Benefits under the Law for the Encouragement of Capital Investments, 1959

We have two capital investment programs that have been granted approved enterprise status under the Law for the Encouragement of Capital Investments, 1959, commonly referred to as the Investment Law, and two programs that qualify as beneficiary enterprises pursuant to an amendment to the Investment Law that came into effect on April 1, 2005. One of the beneficiary enterprise programs was converted from a previously approved enterprise program pursuant to the approval of the Israel Tax Authority that we received in October 2007.

Prior to the April 2005 amendment, the Investment Law provided that capital investments in a production facility (or other eligible assets) may be designated as an approved enterprise upon prior approval from the Investment Center of the Israel Ministry of Industry, Trade and Labor, or the Investment Center. Each certificate of approval for an approved enterprise relates to a specific investment program, delineated both by the financial scope of the investment and by the physical characteristics of the facility or the asset. The April 2005 amendment to the Investment Law revised the criteria for investment programs qualified to receive tax benefits, which, if qualified, are referred to as a beneficiary enterprise (rather than the previous terminology of approved enterprise). Companies that meet the specified criteria will receive the tax benefits without need for prior approval and instead, a company may claim the tax benefits offered by the Investment Law directly in its tax returns. Among other things, the April 2005 amendment provides tax benefits to both local and foreign investors. The period of tax benefits for a new beneficiary enterprise commences in the year that is the later of: (i) the year in which taxable income is first generated by a company, or (ii) a year selected by the company for commencement, on the condition that the company meets certain provisions provided by the Investment Law. The amendment does not apply to investment programs approved prior to December 31, 2004 and applies only to new investment programs. We began to generate income under the provision of the amendment as of the beginning of 2006.

A company that owns an approved enterprise and/or beneficiary enterprise is eligible for governmental grants, but may elect to receive an alternative package comprised of tax benefits, referred to as the alternative track. Under the alternative track, a company's undistributed income derived from an approved enterprise and beneficiary enterprise is exempt from corporate tax for an initial period (two to ten years, depending on the geographic location of the approved enterprise and beneficiary enterprise within Israel). The exemption begins in the first year that the company realizes taxable income from the approved enterprise.

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After expiration of the initial tax exemption period, the company is eligible for a reduced corporate tax rate of 10% to 25% for the following five to eight years, depending on the extent of foreign investment in the company (as shown in the table below). The benefits period is limited to 12 years from completion of the investment under the approved plan or 14 years from the date of the approval, whichever is earlier. A company in which more than 25% of the shareholders are non-residents of Israel, defined under the Investment Law as a Foreign Investors Company, may be eligible for benefits for an extended period of up to ten years.

The tax benefits relate only to taxable income attributable to the specific approved enterprise and/or beneficiary enterprise. To the extent we have more than one approved enterprise and/or beneficiary enterprise or only a portion of our capital investments are derived from approved or beneficiary enterprises, our effective tax rate will be the result of a weighted combination of the applicable rates.

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Percent of Foreign Ownership	Rate of Reduced Tax	Reduced Tax Period	Tax Exemption Period
0-25%	25%	5 years	2 years
25-49%	25%	8 years	2 years
49-74%	20%	8 years	2 years
74-90%	15%	8 years	2 years
90-100%	10%	8 years	2 years

If a company distributes dividends from tax-exempt approved enterprise and/or beneficiary enterprise income, the company will be taxed on the otherwise exempt income at the same reduced corporate tax rate that applies to it after the initial exemption period. Distribution of dividends derived from approved enterprise and beneficiary enterprise income that was taxed at reduced rates, but not tax exempt, does not result in additional tax consequences to the company. Shareholders who receive dividends derived from approved enterprise and beneficiary enterprise income are generally taxed at a rate of 15%, which is withheld and paid by the company paying the dividend, if the dividend is distributed during the benefits period or within the following 12 years (but the 12-year limitation does not apply to a Foreign Investors Company).

The benefits available to an approved enterprise program and a beneficiary enterprise program are dependent upon the fulfillment of conditions stipulated in the Investment Law and related regulations (which include making specified investments in property and equipment, and financing a percentage of these investments with share capital) and, for an approved enterprise, the conditions contained in the certificate of approval from the Investment Center, and for our beneficiary enterprises, a pre-ruling that we received from the Israeli Tax Authority in October 2007. If we do not fulfill these conditions, in whole or in part, the benefits can be cancelled and we may be required to refund the amount of the benefits, linked to the Israeli consumer price index plus interest. We believe that our approved enterprise and beneficiary enterprise programs currently operate in compliance with all applicable conditions and criteria, but we cannot assure you that they will continue to do so.

We have derived, and expect to continue to derive, a substantial portion of our operating income from our approved enterprise and beneficiary enterprise facilities. We are therefore eligible for a tax exemption from income for two years, which is allocated to each of the programs on undistributed approved enterprise and beneficiary enterprise income, and an additional subsequent period of reduced corporate tax rates ranging between 10% and 25%, depending on the level of foreign ownership of our shares. The tax benefits attributable to our current approved enterprises and beneficiary enterprises are scheduled to expire in phases between 2009 and 2017. We intend to reinvest the entire amount of our tax-exempt income and not to distribute such income as a dividend.

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### **Tax Benefits and Grants for Research and Development**

Israeli tax law permits, under specific conditions, a tax deduction in the year incurred for expenditures, including capital expenditures, relating to scientific research and development projects, if the expenditures are approved by the relevant Israeli government ministry, determined by the field of research, and the research and development is for the promotion of the company and is carried out by or on behalf of the company seeking such deduction. Expenditures not so approved are deductible over a three-year period. However, expenditures from proceeds made available to us through government grants are not deductible according to Israeli law.

### **Tax Benefits Under the Law for the Encouragement of Industry (Taxes), 1969**

According to the Law for the Encouragement of Industry (Taxes), 1969, or the Industry Encouragement Law, an Industrial Company is a company resident in Israel, at least 90% of the income of which, in a given tax year, determined in Israeli currency (exclusive of income from some government loans, capital gains, interest and dividends), is derived from an industrial enterprise owned by it. An industrial enterprise is defined as an enterprise whose major activity in a given tax year is industrial production activity.

Under the Industry Encouragement Law, Industrial Companies are entitled to the following preferred corporate tax benefits:

- amortization of purchases of acquired technology and patents over an eight-year period for tax purposes;

- amortization of specified expenses incurred in connection with a public issuance of securities over a three-year period for tax purposes;

right to elect, under specified conditions, to file a consolidated tax return with additional related Israeli Industrial Companies; and accelerated depreciation rates on equipment and buildings.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority.

We cannot assure you that we will continue to qualify as an Industrial Company or that the benefits described above will be available to us in the future.

### **Special Provisions Relating to Taxation under Inflationary Conditions**

The Income Tax Law (Inflationary Adjustments), 1985, referred to as the Inflationary Adjustments Law, represents an attempt to overcome the problems presented to a traditional tax system by an economy undergoing rapid inflation. This law is highly complex. Until December 31, 2005, we measured our Israeli taxable income in accordance with the provisions of this law. Since January 1, 2006, however, we have elected to measure our taxable income based on the changes in the exchange rate of the U.S. dollar rather than on the basis of inflation, and the provisions of this law have not been applicable to us.

On February 26, 2008, the Israeli Parliament (the Knesset) enacted the Income Tax Law (Inflationary Adjustments) (Amendment No. 20) (Restriction of Effective Period), 2008. In accordance with the amendment, the effective period of the Inflationary Adjustments Law will cease at the end of the 2007 tax year and as of the 2008 tax year the provisions of the law shall no longer apply, other than the transitional provisions intended at preventing distortions in the tax calculations.

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### **Taxation of Dividends Paid on our Ordinary Shares**

#### *Taxation of Israeli Shareholders*

Israeli resident individuals are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares, other than bonus shares (share dividends) or stock dividends, at the rate of 20%, or 25% for a shareholder that is considered a material shareholder (within the meaning of the Israeli Income Tax Ordinance) at any time during the 12-month period preceding such distribution. Dividends paid on our ordinary shares to Israeli companies are exempt from such tax, except for dividends distributed from income derived outside of Israel, which are subject to the 25% tax rate.

Dividends paid from income derived from any of our approved enterprises or beneficiary enterprises are subject to tax, which is withheld at the source, at the rate of 15%, although we cannot assure you that we will designate the profits that are being distributed in a way that will reduce shareholders' tax liability to this tax rate.

#### *Taxation of Non-Israeli Shareholders*

Non-residents of Israel are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares, at the rates applicable to Israeli residents, which tax will be withheld at source, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence.

Under the U.S.-Israel Treaty, the maximum Israeli withholding tax on dividends paid by us is 25%. Dividends of an Israeli company distributed from income of an approved enterprise or beneficiary enterprise are subject to a 15% withholding tax under Israeli law. The U.S.-Israel Tax Treaty further provides for a 12.5% Israeli dividend withholding tax on dividends paid by an Israeli company to a U.S. corporation owning at least 10% or more of such Israeli company's issued voting power for, in general, the part of the tax year which precedes the date of payment of the dividend and the entire preceding tax year, provided such U.S. corporation meets certain limitations concerning the amount of its dividend and interest income. The lower 12.5% rate applies only to dividends from income not derived from an approved enterprise or beneficiary enterprise in the applicable period and does not apply if the company has more than 25% of its gross income derived from certain types of passive income. Residents of the United States generally will have withholding tax in Israel deducted at source. They may be entitled to a credit or deduction for U.S. federal income tax purposes in the amount of the taxes withheld, subject to detailed rules contained in U.S. tax legislation.



**Capital gains taxes applicable to non-Israeli shareholders**

Capital gains from the sale of our ordinary shares by non-Israeli shareholders are exempt from Israeli taxation, provided that the capital gain is not derived from a permanent establishment in Israel. In addition, the United States-Israel tax treaty exempts United States residents who hold less than 10% of our voting rights, and who held less than 10% of our voting rights during the 12 months prior to a sale of their shares, from Israeli capital gains tax in connection with such sale.

**UNITED STATES FEDERAL INCOME TAX CONSEQUENCES**

*The following discussion summarizes the material U.S. federal income tax considerations applicable to the purchase, ownership and disposition of our ordinary shares. Unless otherwise stated, this summary deals only with shareholders that are U.S. Holders (as defined below) who hold their ordinary shares as capital assets.*

As used in this section, the term **U.S. Holder** means a beneficial owner of an ordinary share who is:

an individual citizen or resident of the United States or an individual treated as a U.S. citizen or resident for U.S. federal income tax purposes;

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a corporation or other entity taxable as a corporation for U.S. federal income tax purposes created or organized in or under the laws of the United States, any State or the District of Columbia;

an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or

any trust if (A)(i) a court within the United States is able to exercise primary supervision over the administration of the trust and (ii) one or more United States persons have the authority to control all substantial decisions of the trust, or (B) such trust validly elects to be treated as a United States person.

The term **Non-U.S. Holder** means a beneficial owner of an ordinary share that is an individual, corporation, estate or trust and is not a U.S. Holder. The tax consequences to a Non-U.S. Holder may differ substantially from the tax consequences to a U.S. Holder. Certain aspects of U.S. federal income tax relevant to a Non-U.S. Holder are discussed below.

This description is based on provisions of the U.S. Internal Revenue Code of 1986, as amended (the **Code**), existing and proposed U.S. Treasury regulations promulgated thereunder, administrative and judicial interpretations thereof, and the US-Israel Tax Treaty, each as in effect as of the date of this prospectus. These sources may change, possibly with retroactive effect, and are open to differing interpretations. This description does not discuss all aspects of U.S. federal income taxation that may be applicable to investors in light of their particular circumstances or to investors who are subject to special treatment under U.S. federal income tax law, including:

insurance companies;

dealers in stocks, securities or currencies;

financial institutions and financial services entities;

real estate investment trusts;

regulated investment companies;

persons that receive ordinary shares in connection with the performance of services;

tax-exempt organizations;

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persons that hold ordinary shares as part of a straddle or appreciated financial position or as part of a hedging, conversion or other integrated instrument;

persons who acquire their ordinary shares through the exercise or cancellation of employee stock options or otherwise as consideration for their services;

individual retirement and other tax-deferred accounts;

expatriates of the United States and certain former long-term residents of the United States;

persons liable for the alternative minimum tax;

persons having a "functional currency" other than the U.S. dollar; and

direct, indirect or constructive owners of 10% or more, by voting power or value, of our company.

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If a partnership or an entity treated as a partnership for U.S. federal income tax purposes owns ordinary shares, the U.S. federal income tax treatment of a partner in such a partnership will generally depend upon the status of the partner and the activities of the partnership. A partnership that owns ordinary shares and the partners in such partnership should consult their tax own advisors about the U.S. federal income tax consequences of holding and disposing of ordinary shares.

This discussion does not consider the possible application of U.S. federal gift or estate tax or alternative minimum tax.

**All investors are urged to consult their own tax advisors as to the particular tax consequences to them of an investment in our ordinary shares, including the effect and applicability of United States federal, state, local and foreign income and other tax laws (including estate and gift tax laws) and tax treaties.**

### Distributions Paid on the Ordinary Shares

Subject to the discussion below under *Passive Foreign Investment Company Considerations*, a U.S. Holder generally will be required to include in his or her gross income as ordinary dividend income the amount of any distributions paid on the ordinary shares, including the amount of any Israeli taxes withheld, to the extent that those distributions are paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. Subject to the discussion below under *Passive Foreign Investment Company Considerations*, distributions in excess of our earnings and profits will be applied against and will reduce the U.S. Holder's tax basis in its ordinary shares and, to the extent they exceed that tax basis, will be treated as gain from a sale or exchange of those ordinary shares. Our dividends will not qualify for the dividends-received deduction applicable in some cases to U.S. corporations.

Dividends that we pay in NIS, including the amount of any Israeli taxes withheld therefrom, will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day such dividends are received, regardless of whether the payment is in fact converted into U.S. dollars. A U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at an exchange rate other than the rate in effect on such day will have a foreign currency exchange gain or loss that would be treated as ordinary income or loss. U.S. Holders should consult their own tax advisors concerning the U.S. tax consequences of acquiring, holding and disposing of NIS.

Subject to certain limitations, qualified dividend income received by a noncorporate U.S. Holder in tax years beginning on or before December 31, 2010 will be subject to tax at a reduced maximum tax rate of 15%. Distributions taxable as dividends paid on the ordinary shares should qualify for the 15% rate provided that we are not a passive foreign investment company (see disclosure below) for U.S. tax purposes and that either: (i) we are entitled to benefits under the income tax treaty between the United States and Israel (the U.S.-Israel Tax Treaty) or (ii) the ordinary shares are readily tradable on an established securities market in the United States and certain other requirements are met. We believe that we are entitled to benefits under the U.S.-Israel Tax Treaty and that the ordinary shares currently will be readily tradable on an established securities market in the United States. However, no assurance can be given that the ordinary shares will remain readily tradable. The rate reduction does not apply unless certain holding period requirements are satisfied. With respect to the ordinary shares, the U.S. Holder must have held such shares for at least 61 days during the 121-day period beginning 60 days before the ex-dividend date. The rate reduction also does not apply to dividends received from passive foreign investment companies, see discussion below, or in respect of certain hedged positions or in certain other situations. The legislation enacting the reduced tax rate contains special rules for computing the foreign tax credit limitation of a

taxpayer who receives dividends subject to the reduced tax rate. U.S. Holders of ordinary shares should consult their own tax advisors regarding the effect of these rules in their particular circumstances.

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Subject to the discussion below under **Information Reporting and Back-up Withholding**, a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on dividends received on ordinary shares unless that income is effectively connected with the conduct by that Non-U.S. Holder of a trade or business in the United States, in which case a corporate Non-U.S. Holder may also be subject to the U.S. branch profits tax.

### **Foreign Tax Credit**

Any dividend income resulting from distributions we pay to a U.S. Holder with respect to the ordinary shares generally will be treated as foreign source income for U.S. foreign tax credit limitation purposes. Subject to certain conditions and limitations, Israeli tax withheld on dividends may be deducted from taxable income or credited against a U.S. Holder's U.S. federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, any dividend that we distribute generally will constitute passive category income, or, in the case of certain U.S. Holders, general category income. The rules relating to the determination of foreign source income and the foreign tax credit are complex, and the availability of a foreign tax credit depends on numerous factors. Each investor who is a U.S. Holder should consult with its own tax advisor to determine whether its income with respect to the ordinary shares would be foreign source income and whether and to what extent that investor would be entitled to a foreign tax credit.

### **Disposition of Ordinary Shares**

Upon the sale or other disposition of ordinary shares, subject to the discussion below under **Passive Foreign Investment Company Considerations**, a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount realized on the disposition and the holder's adjusted tax basis in the ordinary shares. U.S. Holders should consult their own advisors with respect to the tax consequences of the receipt of a currency other than U.S. dollars upon such sale or other disposition.

Gain or loss upon the disposition of the ordinary shares will be treated as long-term if, at the time of the sale or disposition, the ordinary shares were held for more than one year. The deductibility of capital losses by a U.S. Holder is subject to limitations. In general, any gain or loss recognized by a U.S. Holder on the sale or other disposition of ordinary shares will be U.S. source income or loss for U.S. foreign tax credit purposes. U.S. Holders should consult their own tax advisors concerning the source of income for U.S. foreign tax credit purposes and the effect of the U.S.-Israel Tax Treaty on the source of income.

Subject to the discussion below under **Information Reporting and Back-up Withholding**, a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale or exchange of ordinary shares unless:

that gain is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States, and, if a tax treaty applies, is attributable to a permanent establishment or fixed base of the Non-U.S. Holder in the United States; or

in the case of any gain realized by an individual Non-U.S. Holder, that holder is present in the United States for 183 days or more in the taxable year of the sale or exchange, and other conditions are met.

### **Passive Foreign Investment Company Considerations**

There is a substantial risk that we are a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. Special U.S. federal income tax rules apply to U.S. Holders owning shares of a PFIC.

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For U.S. federal income tax purposes, a non-U.S. corporation will be considered a PFIC for any taxable year in which, after applying certain look-through rules, 75% or more of its gross income consists of specified types of passive income, or 50% or more of the average value of its assets consists of assets that produce, or are held for the production of, passive income. For this purpose, passive income includes generally dividends, interest, royalties, rents, annuities and the excess of gains over losses from the disposition of assets which produce passive income. As a result of our substantial cash position and the decline in the value of our stock, we believe that there is a substantial risk that we qualified as a

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PFIC, for U.S. federal income tax purposes, during the taxable year ended December 31, 2008, under a literal application of the asset test described above, which looks solely to the market value. We believe that there is a substantial risk that we will also qualify as a PFIC during the taxable year ended December 31, 2009.

If we were classified as a PFIC, a U.S. Holder could be subject to increased tax liability upon the sale or other disposition of ordinary shares or upon the receipt of amounts treated as excess distributions. Under these rules, the excess distribution and any gain would be allocated ratably over the U.S. Holder's holding period for the ordinary shares, and the amount allocated to the current taxable year and any taxable year prior to the first taxable year in which we were a PFIC would be taxed as ordinary income. The amount allocated to each of the other taxable years would be subject to tax at the highest marginal tax rate in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed on the resulting tax allocated to such other taxable years. The tax liability with respect to the amount allocated to years prior to the year of the disposition, or excess distribution, cannot be offset by any net operating losses. In addition, holders of stock in a PFIC may not receive a step-up in basis on shares acquired from a decedent. If we are a PFIC in any year, a U.S. Holder would be required to file an annual return on IRS Form 8621 regarding distributions received with respect to ordinary shares and any gain realized on the disposition of ordinary shares.

The PFIC tax consequences described above will not apply to a U.S. Holder if the U.S. Holder makes an election to treat us as a qualified electing fund, or QEF. If a U.S. Holder makes a timely QEF election, the U.S. Holder would be required to include in income for each taxable year its pro rata share of our ordinary earnings as ordinary income and its pro rata share of our net capital gain as long-term capital gain, whether or not such amounts are actually distributed to the U.S. Holder. However, a U.S. Holder would not be eligible to make a QEF election unless we comply with certain applicable information reporting requirements. We will provide U.S. Holders with the information needed to report income and gain under a QEF election should we become a PFIC.

As an alternative to making a QEF election, a U.S. Holder of PFIC stock which is publicly traded may in certain circumstances avoid certain of the tax consequences generally applicable to holders of a PFIC by electing to mark the stock to market annually and recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the PFIC stock and the U.S. Holder's adjusted tax basis in the PFIC stock. Losses would be allowed only to the extent of net mark-to-market gain previously included by the U.S. Holder under the election for prior taxable years. Income recognized and deductions allowed under the mark-to-market provisions, as well as any gain or loss on the disposition of ordinary shares with respect to which the mark to market election is made, is generally treated as ordinary income or loss (except that loss is treated as capital loss to the extent the loss exceeds the net mark-to-market gains, if any, that a U.S. Holder included in its income with respect to such ordinary shares in prior years). However, gain or loss from the disposition of ordinary shares (as to which a mark-to-market election was made) in a year in which we are no longer a PFIC, will be capital gain or loss. The mark-to-market election is available for so long as our ordinary shares constitute marketable stock, which includes stock of a PFIC that is regularly traded on a qualified exchange or other market. Generally, a qualified exchange or other market includes a national securities exchange that is registered with the Securities and Exchange Commission or the national market system established pursuant to Section 11A of the Securities Exchange Act of 1934. A class of stock that is traded on one or more qualified exchanges or other markets is regularly traded on an exchange or market for any calendar year during which that class of stock is traded, other than in de minimis quantities, on at least 15 days during each calendar quarter. We believe that The NASDAQ Global Market will constitute a qualified exchange or other market for this purpose. However, we can not be certain that our ordinary shares will continue to trade on The NASDAQ Global Market or that the ordinary shares will be regularly traded for this purpose.

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The rules applicable to owning shares of a PFIC are complex, and each holder who is a U.S. Holder should consult with its own tax advisor regarding the consequences of investing in a PFIC.

### **Information Reporting and Backup Withholding**

Payments in respect of ordinary shares may be subject to information reporting to the U.S. Internal Revenue Service and to U.S. backup withholding tax at a rate equal to the fourth lowest income tax rate applicable to individuals (which, under current law, is 28%). Backup withholding will not apply, however, if you (i) are a corporation or come within certain exempt categories, and demonstrate the fact when so required, or (ii) furnish a correct taxpayer identification number and make any other required certification. U.S. Holders who are required to establish their exempt status generally must provide such certification on IRS Form W-9.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a U.S. Holder's U.S. tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS.

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Any U.S. holder who holds 10% or more in vote or value of our ordinary shares will be subject to certain additional United States information reporting requirements.

### U.S. Gift and Estate Tax

An individual U.S. Holder of ordinary shares will generally be subject to U.S. gift and estate taxes with respect to ordinary shares in the same manner and to the same extent as with respect to other types of personal property.

### F. DIVIDENDS AND PAYING AGENTS

Not applicable.

### G. STATEMENT BY EXPERTS

Not applicable.

### H. DOCUMENTS ON DISPLAY

We are subject to certain of the reporting requirements of the Securities and Exchange Act of 1934, as amended, or the Exchange Act, as applicable to foreign private issuers as defined in Rule 3b-4 under the Exchange Act. As a foreign private issuer, we are exempt from certain provisions of the Exchange Act. Accordingly, our proxy solicitations are not subject to the disclosure and procedural requirements of Regulation 14A under the Exchange Act, and transactions in our equity securities by our officers and directors are exempt from reporting and the short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we file with the Securities and Exchange Commission an annual report on Form 20-F containing financial statements audited by an independent accounting firm. We also submit to the Securities and Exchange Commission reports on Form 6-K containing (among other things) press releases and quarterly unaudited financial information. We post our annual report on Form 20-F and quarterly unaudited financial statements filed on Form 6-K on our website ([www.radvision.com](http://www.radvision.com)) promptly following the filing of such reports with the Securities and Exchange Commission. The information on our website is not incorporated by reference into this annual report.

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This annual report and the exhibits thereto and any other document we file pursuant to the Exchange Act may be inspected without charge and copied at prescribed rates at the Securities and Exchange Commission public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the Securities and Exchange Commission's public reference room in Washington, D.C. by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Exchange Act file number for our Securities and Exchange Commission filings is 0-29871.

The Securities and Exchange Commission maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the Securities and Exchange Commission using its EDGAR (Electronic Data Gathering, Analysis, and Retrieval) system.

The documents concerning our company which are referred to in this annual report may also be inspected at our offices located at 24 Raoul Wallenberg Street, Tel Aviv 69719, Israel.

### I. SUBSIDIARY INFORMATION

Not applicable.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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We are exposed to a variety of risks, including changes in interest rates and foreign currency fluctuations.

We are exposed to market risks arising primarily from weak economic conditions in the markets in which we sell our products and from changes in exchange rates or interest rates.

The securities in our portfolio are rated at the least as A1. Securities representing about 62.0% of the portfolio are rated as AAA.

### Interest Rate Risk

As of December 31, 2008, we had cash and cash equivalents, short and long-term investments and short and long-term marketable securities of \$121.3 million. We invest our cash surplus in time deposits, cash deposits, U.S. federal agency securities and corporate bonds with an average credit rating of AA. These investments are not purchased for trading or other speculative purposes.

The performance of the capital markets affects the value of funds held by us in marketable securities. These assets are subject to market fluctuations and yield uncertain returns, which may fall below our projected return rates. Due to recent market developments, including a series of rating agency downgrades, the fair value of these investments has declined and may decline in the future. We expect that market conditions will continue to fluctuate in the foreseeable future and that the fair value of our investments may be impacted accordingly.

One of our primary market risk exposures is to changes in interest rates as a result of our investment in marketable securities. Our marketable securities portfolio includes states and political subdivisions debt instruments, corporate debt instruments and auction rate securities. A decline in market interest rates could have an adverse effect on our investment income. In a declining interest rate environment, borrowers may seek to refinance their borrowings at lower rates and, accordingly, prepay or redeem securities we hold more quickly than we initially expected. This action may cause us to reinvest the redeemed proceeds in lower yielding investments. An increase in market interest rates could also have an adverse effect on the value of our investment portfolio, for example, by decreasing the fair value of the fixed income securities that comprise a substantial majority of our investment portfolio.

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### Foreign Currency Exchange Risk

We develop products in Israel and sell them in the Americas, the Asia-Pacific region and several European countries. As a result our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets.

Most of our revenues generated outside of the United States are denominated in U.S. dollars. Costs not effectively denominated in U.S. dollars are translated into U.S. dollars, when recorded, at the prevailing exchange rates at the date of the transaction. Consequently, fluctuations in the rates of exchange between the U.S. dollar and non-U.S. dollar currencies will affect our results of operations. An increase in the value of a particular currency relative to the U.S. dollar will increase the dollar reporting value for transactions in that particular currency, and a decrease in the value of that currency relative to the U.S. dollar will decrease the dollar reporting value for those transactions.

Since most of our sales are quoted in dollars, and a portion of our expenses are incurred in NIS, our results may be adversely affected by the appreciation of the NIS against the U.S. dollar or by a change in the rate of inflation in Israel or if such change in the rate of inflation is not offset, or is offset on a lagging basis, by a corresponding devaluation of the NIS against the U.S. dollar and other foreign currencies. In 2006, 2007 and 2008, the NIS appreciated by approximately 8.2%, 9.0% and 1.1%, respectively, against the U.S. dollar. In 2006 the deflation rate in Israel was approximately 0.1%, compared to an annual inflation rate of approximately 3.4% and 3.8% in 2007 and 2008, respectively.

To manage this risk, from time to time, we have entered into forward exchange contracts to hedge some of our foreign currency exposure. As of December 31, 2008, we had outstanding forward exchange contracts for the acquisition of NIS 89.0 million in consideration for \$23.0 million maturing in a period of up to one year from that date. As of December 31, 2008, the changes in fair value of these contracts were \$348,000.

### ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

**Material Modifications to the Rights of Security Holders**

None.

**Use of Proceeds**

We sold 4,370,000 of our ordinary shares in our initial public offering on March 14, 2000. The aggregate offering price of the shares sold was \$87.4 million. The total expenses of the offering were approximately \$8,950,000. None of such expenses were paid directly or indirectly to directors, officers, persons owning 10% or more of any class of equity securities of our company or to our affiliates. The net public offering proceeds to us, after deducting the total expenses were approximately \$78,500,000. Such proceeds have been invested in liquid investments and short-term bank deposits and have been used for working capital purposes. As of December 31, 2008, we had \$89.9 million in cash, cash equivalents and short-term bank deposits.

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**ITEM 15. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in its Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our chief executive officer and chief financial officer to allow timely decisions regarding required disclosure. Our management, including our chief executive officer and chief financial officer, conducted an evaluation of our disclosure controls and procedures, as defined under Exchange Act Rule 13a-15(e), as of the end of the period covered by this Annual Report on Form 20-F. Based upon that evaluation, our chief executive officer and chief financial officer have concluded that, as of such date, our disclosure controls and procedures were effective.

**Management's Annual Report on Internal Control over Financial Reporting**

Our management, including our chief executive officer and chief financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined under Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with appropriate authorizations; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In conducting its assessment of internal control over financial reporting, management based its evaluation on the framework in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations, or the COSO, of the Treadway Commission. Based on that assessment, our management has concluded that our internal control over financial reporting was effective as of December 31, 2008.

The effectiveness of our internal control over financial reporting as of December 31, 2008 has been audited by Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, an independent registered public accounting firm, that audited and reported on our consolidated financial statements for the year ended December 31, 2008. The attestation report of our independent public accounting firm is set forth on page F-4 of our audited consolidated financial statements set forth in Item 18 Financial Statements, and is incorporated herein by reference.

**Changes in Internal Control over Financial Reporting**

There was no change in our internal controls over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

**ITEM 16. RESERVED.**

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our board of directors has determined that Mr. Joseph Atsmon, an outside director and the Chairman of our Audit Committee, qualifies as an audit committee financial expert, as defined by rules of the Securities and Exchange Commission. For a brief description of Mr. Atsmon's relevant experience, see Item 6.A. Directors, Senior Management and Employees Directors and Senior Management.

**ITEM 16B. CODE OF ETHICS**

We have adopted a Code of Business Conduct and Ethics that applies to our executive and financial officers and all of our employees. The Code of Business Conduct and Ethics is publicly available on our website at [www.radvision.com](http://www.radvision.com) and we will provide shareholders with a written copy upon request. If we make any substantive amendments to the Code of Business Conduct and Ethics or grant any waivers, including any implicit waiver, from a provision of these codes to our chief executive officer, chief financial officer or corporate controller, we will disclose the nature of such amendment or waiver on our website.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

**Fees Paid to Independent Registered Public Accounting Firm**

The following table sets forth, for each of the years indicated, the fees paid to our independent registered public accounting firm. All such fees were pre-approved by our Audit Committee.

Services Rendered	Year ended December 31,	
	2007	2008
Audit (1)	\$ 340,000	\$ 260,000
Tax (2)	\$ 106,000	\$ 35,000
<b>Total</b>	<b>\$ 446,000</b>	<b>\$ 295,000</b>

(1) Audit fees are for audit services for each of the years shown in the table, including fees associated with the annual audit (including audit of our internal control over financial reporting) and reviews of our quarterly financial results submitted to the Securities and



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Exchange Commission on Form 6-K, consultations on various accounting issues and audit services provided in connection with other statutory or regulatory filings.

- (2) Tax fees relate to services performed by the tax division for tax compliance, tax planning, and tax advice related to actual or contemplated transactions, review of our tax returns and tax consulting associated with international transfer prices.

### Pre-Approval Policies and Procedures

Our Audit Committee has adopted policies and procedures for the pre-approval of audit and non-audit services rendered by our independent registered public accountants, Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global. The policy generally pre-approves certain specific services in the categories of audit services, audit-related services and tax services up to specified amounts, and sets requirements for specific case-by-case pre-approval of certain projects, those which may have a material effect on our operations or services over certain amounts. Pre-approval may be given as part of the Audit Committee's approval of the scope of the engagement of our independent registered public accountants or on an individual basis. Any proposed services exceeding general pre-approved levels also requires specific pre-approval by our audit committee. The pre-approval of services is sometimes delegated to one or more of the Audit Committee's members, but the decision must be presented to the full Audit Committee at its next scheduled meeting. The policy prohibits retention of the independent public accountants to perform the prohibited non-audit services defined in Section 201 of the Sarbanes-Oxley Act or the rules of the Securities and Exchange Commission, and also considers whether proposed services are compatible with the independence of the registered public accountants.

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### ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

### ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

#### Issuer Purchase of Equity Securities

During the third quarter of 2007, we announced that our Board of Directors has authorized the repurchase of up to \$30 million of our ordinary shares in the open market from time to time at prevailing market prices. The repurchase program received the approval of the District Court in Tel Aviv Jaffa in November 2007 in accordance with the requirements of the Israeli Companies Law. As of December 31, 2008, we had repurchased 1,978,483 ordinary shares under the program at a total purchase price of approximately \$15.1 million, or an average price of \$7.67 per share, of which 351,179 ordinary shares were repurchased during 2007 at a total purchase price of approximately \$4.0 million, or an average price of \$11.49 per share, and 1,627,304 ordinary shares were repurchased during 2008 at a total purchase price of approximately \$11.1 million, or an average price of \$6.84 per share.

The following table sets forth, for each of the months indicated, the total number of shares purchased by us, the average price paid per share, the number of shares purchased as part of our publicly announced repurchase programs, the maximum number of shares that may yet be purchased under the programs.

Period in 2008	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January	-	-	-	\$ 25,991,029
February	119,323	\$ 7.76	470,502	\$ 25,065,232
March	371,980	\$ 7.10	842,482	\$ 22,425,706

Period in 2008	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April	-	-	-	\$ 22,425,706
May	205,745	\$ 7.04	1,048,227	\$ 20,976,448
June	202,454	\$ 6.92	1,250,681	\$ 19,575,646
July	-	-	-	\$ 19,575,646
August	163,793	\$ 6.53	1,414,474	\$ 18,506,087
September	145,047	\$ 7.33	1,559,521	\$ 17,442,338
October	-	-	-	\$ 17,442,338
November	257,134	\$ 6.00	1,816,655	\$ 15,899,369
December	161,828	\$ 6.47	1,978,483	\$ 14,852,442

**ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

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**ITEM 16G. CORPORATE GOVERNANCE**

Under NASDAQ Marketplace Rule 4350, or Rule 4350, foreign private issuers, such as our company, are permitted to follow certain home country corporate governance practices instead of certain provisions of Rule 4350. A foreign private issuer that elects to follow a home country practice instead of any of such provisions of Rule 4350, must submit to NASDAQ, in advance, a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws.

On May 12, 2008, we provided NASDAQ with a notice of non-compliance with respect to the requirement to obtain shareholder approval for the establishment or amendment of certain equity based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company. Under Israeli law and practice, the approval of the board of directors is required for the establishment or amendment of equity based compensation plans. For the approvals and procedures required under Israeli law and practice for an issuance that will result in a change of control of the company, private placements and acquisitions of the stock or assets of another company, see in this Item 6.C. Directors, Senior Management and Employee Board Practices Approval of Related Party Transactions Under Israeli Law-Disclosure of Personal Interests of a Controlling Shareholder; Approval of Transactions with Controlling Shareholders and Item 10.B. Additional Information Memorandum and Articles of Association Provisions Restricting Change in Control of Our Company.

**PART III****ITEM 17. FINANCIAL STATEMENTS**

Not applicable.

**ITEM 18. FINANCIAL STATEMENTS**

**Consolidated Financial Statements**

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**ITEM 19. EXHIBITS**

<b>Exhibit</b>	<b>Description</b>
1.1	Memorandum of Association of the Registrant <sup>(1)</sup>
1.2	Articles of Association of the Registrant, as amended
2.1	Form of Ordinary Share Certificate <sup>(1)</sup>
4.1	Form of 2000 Employee Stock Option Plan <sup>(2)</sup>
4.2	Key Employee Share Incentive Plan, as amended <sup>(1)</sup>
4.3	Consultant Option Plan, as amended <sup>(1)</sup>
8	List of Subsidiaries of the Registrant
12.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act, as amended
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act, as amended
13.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global

(1) Filed as an exhibit to our registration statement on Form F-1, registration number 333-30916, as amended, filed with the Securities and Exchange Commission, and incorporated herein by reference.

- (2) Filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2001, filed with the Securities and Exchange Commission, and incorporated herein by reference.

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**RADVISION LTD. AND ITS SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2008**  
**U.S. DOLLARS IN THOUSANDS**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Board of Directors and Shareholders of**

**RADVISION LTD.**

We have audited the accompanying consolidated balance sheets of RADVISION Ltd. ( the Company ) and its subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the accompanying financial statement schedule II. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the accompanying financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 17, 2009 expressed an unqualified opinion thereon.

Tel-Aviv, Israel  
March 17, 2009

/s/ Kost Forer Gabbay and Kasierer  
KOST FORER GABBAY & KASIERER  
A Member of Ernst & Young Global

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

**RADVISION LTD.**

We have audited RADVISION Ltd. ("Radvision" or the Company) and its subsidiaries internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company and its subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of

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operations, changes in shareholders equity and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the accompanying financial statement schedule II. Our report dated March 17, 2009 expressed an unqualified opinion thereon.

Tel-Aviv, Israel  
March 17, 2009

/s/ Kost Forer Gabbay and Kasierer  
KOST FORER GABBAY & KASIERER  
A Member of Ernst & Young Global

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**RADVISION LTD. AND ITS SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

U.S. dollars in thousands, except share and per share data

	December 31,	
	2007	2008
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 45,370	\$ 37,872
Short-term bank deposits	42,242	52,026
Short-term marketable securities	28,037	14,350
Trade receivables (net of allowance for doubtful accounts of \$805 and \$927 as of December 31, 2007 and 2008, respectively)	15,011	14,118
Other accounts receivable and prepaid expenses	8,464	6,102
Inventories	1,691	1,185
<b>Total current assets</b>	<b>140,815</b>	<b>125,653</b>
<b>LONG-TERM INVESTMENTS AND OTHER ASSETS:</b>		
Long-term marketable securities	15,093	17,005
Long-term prepaid expenses	1,618	1,278
Severance pay fund	4,555	4,591
Long-term deferred tax asset	3,394	4,995
<b>Total long-term investments and other assets</b>	<b>24,660</b>	<b>27,869</b>
<b>PROPERTY AND EQUIPMENT, NET</b>	<b>5,237</b>	<b>5,428</b>
<b>GOODWILL</b>	<b>2,966</b>	<b>2,966</b>
<b>OTHER INTANGIBLE ASSETS, NET</b>	<b>1,362</b>	<b>272</b>
<b>Total assets</b>	<b>\$ 175,040</b>	<b>\$ 162,188</b>

	December 31,	
<b>CURRENT LIABILITIES</b>		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Trade payables	\$ 2,389	\$ 2,052
Deferred revenues	6,829	8,309
Accrued expenses and other accounts payable	12,607	16,389
<b>Total current liabilities</b>	<b>21,825</b>	<b>26,750</b>
<b>ACCRUED SEVERANCE PAY</b>	<b>5,656</b>	<b>5,855</b>
<b>Total liabilities</b>	<b>27,481</b>	<b>32,605</b>
<b>SHAREHOLDERS' EQUITY:</b>		
Share capital-		
Ordinary shares of NIS 0.1 par value - Authorized: 45,000,000 shares as of December 31, 2007 and 2008; Issued: 22,516,223 shares as of December 31, 2007 and 2008; Outstanding: 21,255,017 and 19,632,713 shares as of December 31, 2007 and 2008, respectively	234	234
Additional paid-in capital	135,327	141,107
Treasury stock (1,261,206 and 2,883,510 Ordinary shares as of December 31, 2007 and 2008, respectively)	(21,662)	(32,733)
Accumulated other comprehensive income	55	348
Retained earnings	33,605	20,627
<b>Total shareholders' equity</b>	<b>147,559</b>	<b>129,583</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 175,040</b>	<b>\$ 162,188</b>

The accompanying notes are an integral part of the consolidated financial statements.

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**RADVISION LTD. AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

U.S. dollars in thousands, except per share data

	Year ended December 31,		
	2006	2007	2008
<b>Revenues:</b>			
Products	\$ 56,222	\$ 55,570	\$ 51,905
License and royalties	17,210	16,329	14,186
Services	17,591	19,684	18,656

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	Year ended December 31,		
	2019	2018	2017
<b>Total revenues</b>	91,023	91,583	84,747
Cost of revenues:			
Products	13,602	12,584	12,636
Services	4,563	5,710	6,143
<b>Total cost of revenues</b>	18,165	18,294	18,779
Gross profit	72,858	73,289	65,968
Operating costs and expenses:			
Research and development	25,331	30,329	36,883
Selling and marketing	30,648	32,627	35,330
General and administrative	6,492	8,633	8,954
Patent settlement accrual	1,900	-	-
<b>Total operating costs and expenses</b>	64,371	71,589	81,167
Operating income (loss)	8,487	1,700	(15,199)
Financial income, net	5,825	6,095	2,539
Income (loss) before tax benefit (taxes on income)	14,312	7,795	(12,660)
Tax benefit (taxes on income)	936	1,790	(280)
<b>Net income (loss)</b>	<b>\$ 15,248</b>	<b>\$ 9,585</b>	<b>\$ (12,940)</b>
Basic net earnings (loss) per Ordinary share	\$ 0.69	\$ 0.44	\$ (0.63)
Diluted net earnings (loss) per Ordinary share	\$ 0.67	\$ 0.43	\$ (0.63)

The accompanying notes are an integral part of the consolidated financial statements.

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**RADVISION LTD. AND ITS SUBSIDIARIES**

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

U.S. dollars in thousands, except share data



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	Ordinary shares		Additional paid-in capital	Treasury stock	Accumulated other comprehensive income	Total comprehensive income (loss) *)	Retained earnings	Total shareholders' equity
	Number	Amount						
Balance as of January 1, 2006	21,803,997	\$ 218	\$ 116,446	\$ -	\$ -	\$ 14,003	\$ 130,667	
Reversal of valuation allowance relating to loss carryforwards in respect of exercise of stock options	-	-	1,767	-	-	-	1,767	
Tax benefit resulting from exercise of stock options	-	-	244	-	-	-	244	
Purchase of treasury shares	(455,973)	-	-	(6,992)	-	-	(6,992)	
Exercise of share options by employees	794,643	10	3,711	5,322	-	(2,148)	6,895	
Stock-based compensation	-	-	4,776	-	-	-	4,776	
Net income	-	-	-	-	-	\$ 15,248	15,248	15,248
Total comprehensive income						\$ 15,248		
Balance as of December 31, 2006	22,142,667	228	126,944	(1,670)	-	27,103	152,605	
Tax benefit related to exercise of stock options	-	-	100	-	-	-	100	
Purchase of treasury shares	(1,526,930)	-	-	(27,017)	-	-	(27,017)	
Exercise of share options by employees	639,280	6	2,835	7,025	-	(3,083)	6,783	
Stock-based compensation	-	-	5,448	-	-	-	5,448	
Other comprehensive income:								
Changes in fair value of cash flow hedge	-	-	-	-	237	\$ 237	-	237
Unrealized loss from available-for-sale marketable securities	-	-	-	-	(182)	(182)	-	(182)
Net income	-	-	-	-	-	9,585	9,585	9,585
Total comprehensive income						\$ 9,640		
Balance as of December 31, 2007	21,255,017	234	135,327	(21,662)	55	33,605	147,559	
Tax benefit related to exercise of stock options	-	-	364	-	-	-	364	
Purchase of treasury shares	(1,627,304)	-	-	(11,139)	-	-	(11,139)	
Exercise of share options by employees	5,000	-	-	68	-	(38)	30	
Stock-based compensation	-	-	5,416	-	-	-	5,416	
Other comprehensive loss:								
Changes in fair value of cash flow hedge	-	-	-	-	111	\$ 111	-	111
Reclassification to statements of operations of other-than-temporary impairment from available-for-sale marketable securities	-	-	-	-	182	182	-	182
Net loss	-	-	-	-	-	(12,940)	(12,940)	(12,940)

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	Ordinary shares	Additional paid-in capital	Treasury stock	Accumulated other comprehensive income	Total comprehensive income (loss) (*)	Retained earnings	Total shareholders' equity
Total comprehensive loss					\$ (12,647)		
Balance as of December 31, 2008	19,632,713	\$ 234	\$ 141,107	\$ (32,733)	\$ 348	\$ 20,627	\$ 129,583

The accompanying notes are an integral part of the consolidated financial statements.

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RADVISION LTD. AND ITS SUBSIDIARIES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands

\*) Accumulated other comprehensive income (loss)

	Year ended December 31,		
	2006	2007	2008
Accumulated changes in fair value of cash flow hedge	\$ -	\$ 237	\$ 348
Accumulated unrealized loss from available-for-sale marketable securities	-	(182)	-
Total	\$ -	\$ 55	\$ 348

The accompanying notes are an integral part of the consolidated financial statements.

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RADVISION LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2006	2007	2008
<u>Cash flows from operating activities:</u>			
Net income (loss)	\$ 15,248	\$ 9,585	\$ (12,940)
Adjustments required to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	2,939	3,633	3,924

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	Year ended December 31,		
Gain on sale of property and equipment	(22)	-	(6)
Accrued interest, amortization of premium, accretion of discount, other than temporary impairment, realized gain (loss) on sale of marketable securities and bank deposits, net	(905)	385	1,771
Stock-based compensation	4,776	5,448	5,416
Tax benefit relating to loss carryforwards resulting from exercise of stock options	(2,011)	(100)	(364)
Decrease (increase) in trade receivables, net	(609)	(2,145)	893
Decrease (increase) in other accounts receivable and prepaid expenses	(846)	(754)	2,058
Decrease (increase) in inventories	(386)	1,288	506
Decrease (increase) in long-term prepaid expenses	-	(1,618)	340
Change in deferred tax asset, net	(1,571)	(2,380)	(767)
Increase (decrease) in trade payables	1,136	(530)	(337)
Increase (decrease) in deferred revenues	215	(1,919)	1,480
Increase (decrease) in accrued expenses and other accounts payable	1,992	(1,163)	3,591
Increase in accrued severance pay, net	224	165	299
	<u>20,180</u>	<u>9,895</u>	<u>5,864</u>
<b>Net cash provided by operating activities</b>			
<b>Cash flows from investing activities:</b>			
Proceeds from redemption and sale of marketable securities	63,633	64,360	65,382
Purchase of marketable securities	(62,982)	(45,148)	(54,895)
Proceeds from withdrawal of bank deposits	19,132	142,831	155,611
Purchase of bank deposits	(49,315)	(125,521)	(165,696)
Purchase of property and equipment	(2,268)	(4,171)	(3,025)
Proceeds from sale of property and equipment	22	-	6
	<u>(31,778)</u>	<u>32,351</u>	<u>(2,617)</u>
<b>Net cash provided by (used in) investing activities</b>			
<b>Cash flows from financing activities:</b>			
Purchase of treasury shares at cost	(6,992)	(27,017)	(11,139)
Issuance of Ordinary shares and treasury stock for cash upon exercise of options	6,762	6,931	30
Tax benefit relating to loss carryforwards resulting from exercise of stock options	2,011	100	364
	<u>1,781</u>	<u>(19,986)</u>	<u>(10,745)</u>
<b>Net cash provided by (used in) financing activities</b>			
Increase (decrease) in cash and cash equivalents	(9,817)	22,260	(7,498)
Cash and cash equivalents at the beginning of the year	32,927	23,110	45,370
	<u>\$ 23,110</u>	<u>\$ 45,370</u>	<u>\$ 37,872</u>
<b>Cash and cash equivalents at the end of the year</b>			
<b>Supplemental disclosure of non-cash activity:</b>			
Receivables on account of shares	\$ 148	\$ -	\$ -
<b>Supplemental disclosure of cash flow activity:</b>			

Year ended December 31,

Cash paid during the year for:			
Interest	\$ 245	\$ 51	\$ 91
	<hr/>	<hr/>	<hr/>
Income taxes	\$ 71	\$ 209	\$ 323
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of the consolidated financial statements.

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## RADVISION LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

## NOTE 1: GENERAL

- a. RADVISION Ltd. ( the Company ) is an Israeli corporation which designs, develops and supplies products and technology that enable real-time voice, video and data communications over packet networks, including the Internet and other networks based on the Internet Protocol ( IP ).

The Company s products and technology are used by its customers to develop systems that enable enterprises and service providers to use packet networks for real-time IP communications.

The Company operates under two reportable segments: 1) the Networking Business Unit ( NBU ), which focuses on networking products and is responsible for developing networking products for IP-centric voice, video and data conferencing services; and 2) the Technology Business Unit ( TBU ), which focuses on creating developer toolkits for the underlying IP communication protocols and testing tools needed for real-time voice and video over IP.

The Company has nine wholly-owned subsidiaries: RADVISION Inc. and its wholly-owned subsidiary RADVISION Government Services, Inc. in the United States, RADVISION (HK) Ltd. in Hong Kong, RADVISION (UK) Ltd. in the United Kingdom, RADVISION FRANCE S.A.R.L. in France, RADVISION Japan KK in Japan, RADVISION B.V. in the Netherlands and RADVISION GmbH in Germany, all of which are primarily engaged in the sale and marketing of the Company s products and technology, and RADVISION Communication Development (Beijing) Co. Ltd. in China, which is primarily engaged in research and development and the sale and marketing of the Company s products and technology.

- b. Revenues derived from the Company s largest customer in 2008 represented 38.7% of total sales (see Note 13e).

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared according to generally accepted accounting principles in the United States ("U.S. GAAP").

- a. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

- b. Financial statements in U.S. dollars:

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The Company's revenues are generated in U.S. dollars ( dollar ). In addition, a significant portion of the Company's and its subsidiaries' costs is incurred in dollars. The Company's management believes that the dollar is the currency of the primary economic environment in which the Company and its subsidiaries operate. Thus, the functional and reporting currency of the Company and its subsidiaries is the dollar.

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### RADVISION LTD. AND ITS SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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##### U.S. dollars in thousands, except share and per share data

##### NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Accordingly, the Company's and its subsidiaries' transactions and balances denominated in dollars are presented at their original amounts. Non-dollar transactions and balances have been remeasured into dollars in accordance with Statement of Financial Accounting Standards No. 52, Foreign Currency Translation ( SFAS No. 52 ). Amounts in currencies other than U.S. dollars have been remeasured as follows:

Monetary balances at the exchange rate in effect on the balance sheet date; revenues and costs at the exchange rates in effect as of the date of the transactions.

All exchange gains and losses from the remeasurement mentioned above are reflected in the statements of operations under financial income, net.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated upon consolidation.

d. Cash and cash equivalents:

Cash and cash equivalents include short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less at the date of purchase.

e. Marketable securities:

The Company accounts for investments in debt securities in accordance with Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities ( SFAS No. 115 ). Management determines the appropriate classification of its investments in debt securities at the time of purchase and reevaluates such determinations at each balance sheet date. As of December 31, 2007 and 2008, the Company classified its marketable securities as available-for-sale or held-to-maturity securities.

Securities classified as available-for-sale are stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss) until realized, a separate component of shareholders' equity, net of taxes. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the consolidated statements of operations.

The Company presented its available-for-sale securities in long-term investments (see Note 3).

Debt securities are classified as held-to-maturity since the Company has the intent and ability to hold these securities to maturity. These securities are stated at amortized cost and are therefore adjusted for amortization of premiums or accretion of discounts to maturity. Such amortization, accretion and interest on the debt securities are included in financial income, net.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

FASB Staff Position (FSP) No. 115-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments ( FSP 115-1 ) provides guidance for determining when an investment is considered impaired, whether impairment is other-than-temporary, and measurement of an impairment loss. An investment is considered impaired if the fair value of the investment is less than its cost. The Company considers various factors to determine whether to recognize an impairment charge, including the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value, the length of time and extent to which the fair value has been less than the cost basis, the credit ratings of the securities and the financial condition and near-term prospects of the issuers. If, after consideration of all available evidence to evaluate the realizable value of its investment, impairment is determined to be other-than-temporary, then an impairment loss should be recognized equal to the difference between the investment's cost and its fair value. As of December 31, 2008, the Company recognized an other-than-temporary decline in the carrying value of its available-for-sale securities in the amount of \$1,767, which was included in the consolidated statements of operations as financial expenses.

## f. Short-term bank deposits:

Short-term bank deposits are deposits with maturities of more than three months but less than one year. The deposits are in dollars and bear interest at an annual weighted average rate of 4.99% and 2.60% at December 31, 2007 and 2008, respectively. The short-term deposits are presented at their cost, including accrued interest.

## g. Inventories:

Inventories are stated at the lower of cost or market value.

Cost is determined as follows:

Raw materials using the average cost method.

Finished products raw materials using the average cost method.

Inventory write-offs and write-down provisions are recorded to cover risks arising from slow-moving items or technological obsolescence. The Company periodically evaluates the quantities on hand relative to historical and projected sales volume (which is determined based on assumption of future demand and market conditions) and the age of the inventory. Based on this evaluation, provisions are made when required to write inventory down in an amount equal to the difference between the cost of inventory and the estimated market value. The Company's provision for slow-moving items or technological obsolescence was \$1,997 and \$744 as of December 31, 2007 and 2008, respectively.

## h. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, at the following annual rates:

	%
Computers and peripheral equipment	33
Office furniture and equipment	7 - 15
Motor vehicles	15
Leasehold improvements	Over the shorter of the term of the lease or useful lives

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

## i. Goodwill and intangible assets:

Goodwill reflects the excess of the purchase price of a business acquired over the fair value of net assets acquired. Intangible assets consist mainly of acquired technology and distribution network.

The Company follows the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ( SFAS No. 142 ), according to which goodwill is not amortized but instead is tested for impairment at least annually (or more frequently if impairment indicators arise) at the reporting unit level by comparing the fair value of the reporting unit with its carrying value. The reporting unit is described as an operating segment as that term is used in Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information ( SFAS No. 131 ), or one level below the operating segment. The Company allocated all of its goodwill to the NBU reporting unit.

SFAS No. 142 prescribes a two-phase process for impairment testing of goodwill. The first phase screens for impairment while the second phase (if necessary) measures impairment.

In the first phase of impairment testing, goodwill attributable to each of the reporting units is tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value was defined according to the discounted cash flows (a present value technique). As of December 31, 2006, 2007 and 2008, no instances of impairment were found. As a result, step two was not required.

Intangible assets are amortized over their useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up, in accordance with SFAS No. 142. The Company amortizes its intangible assets on a straight-line basis.

Goodwill and intangible assets resulted from the acquisitions of First Virtual Communication Inc. ( FVC ) in 2005 and VisioNex Technologies Inc. ( VisioNex ) in 2004 allocated to the NBU segment.

## j. Impairment of long-lived assets:

Long-lived assets are reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ( SFAS No. 144 ) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment exists when the carrying value of the asset exceeds the aggregate undiscounted cash flows expected to be generated by the asset. The impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. As of December 31, 2007 and 2008, no impairment has been identified.

## k. Severance pay:

The Company's liability for severance pay is calculated pursuant to Israel's Severance Pay Law based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date. Employees are entitled to one month's salary for each year of employment or a portion thereof. The Company covers this liability by monthly deposits for insurance policies and by an accrual.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data****NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The value of these policies is recorded as an asset in the Company's balance sheet. The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israel's Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash surrendered value of the policies and includes immaterial profits.

Severance pay expense for the years ended December 31, 2006, 2007 and 2008 amounted to approximately \$1,337, \$1,680 and \$1,770, respectively.

l. Derivative instruments:

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), requires companies to recognize all of their derivative instruments as either assets or liabilities in the statement of financial position at fair value.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e. hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Any gain or loss on a derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item is recognized in current earnings or losses during the period of change.

The Company entered into derivative instrument arrangements to hedge a portion of its anticipated New Israeli Shekel (NIS) payroll payments and inventory purchases. These derivative instruments are designated as cash flows hedges, as defined by SFAS No. 133, as amended, and are highly effective. The Company measures the fair value of the contracts in accordance with SFAS No. 157 at level 2. As of December 31, 2008, the Company recorded accumulated other comprehensive income in the amount of \$348 from its forward contracts with respect to anticipated payroll payments expected in 2009. Such amount will be recorded in earnings in 2009.

For the years ended December 31, 2007 and 2008, the Company recognized earnings of \$587 and a loss of \$56, respectively, as a result of these hedging activities. The Company did not enter into derivative instrument arrangements to hedge a portion of its anticipated NIS payroll payments and inventory purchases in 2006.

m. Revenue recognition:

The Company and its subsidiaries generate revenues mainly from: 1) sales of videoconferencing products, or networking business unit products (NBU); 2) licensing the rights to use their software products and royalty income, or technology business unit products (TBU); 3) maintenance and support, and 4) professional services. The Company and its subsidiaries sell their NBU products mainly through original equipment manufacturers (OEMs), system integrators and value added resellers, all of whom are considered end-users.

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**RADVISION LTD. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data****NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**



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Software licensing, royalties and sales of videoconferencing products revenues:

The Company accounts for its product and software licensing sales in accordance with Statement of Position 97-2, Software Revenue Recognition ( SOP 97-2 ). SOP 97-2 generally requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair value of the elements. The Company has adopted Statement of Position 98-9, Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions ( SOP 98-9 ). According to SOP No. 98-9, revenues should be allocated to the different elements in the arrangement under the residual method when Vendor Specific Objective Evidence ( VSOE ) of fair value exists for all undelivered elements and no VSOE exists for the delivered elements. Under the residual method, at the outset of the arrangement with the customer, the Company defers revenue for the fair value of its undelivered elements (usually maintenance and support) and recognizes revenue for the remainder of the arrangement fee attributable to the elements initially delivered in the arrangement (software product) when all other criteria in SOP 97-2 have been met. Any discount in the arrangement is allocated to the delivered element. If sufficient specific objective evidence does not exist for all undelivered elements, revenue is deferred for the entire arrangement until all revenue recognition criteria are met for such undelivered elements.

Revenues from license fees and sales of products are recognized when persuasive evidence of an arrangement exists, delivery of the product has occurred, no significant obligations with regard to implementation remain, the fee is fixed or determinable and collectability is probable.

Maintenance and support revenue included in multiple element arrangements is deferred and recognized on a straight-line basis over the term of the maintenance and support agreement.

The VSOE of fair value of the maintenance and support services is determined based on the price charged when sold separately (i.e. when renewed).

In arrangements which include software, support/maintenance and services a determination is made whether the service element can be accounted for separately. In order for the service element to be accounted for separately (a) sufficient VSOE of fair value should exist to permit allocation of the revenue to the various elements of the arrangement (b) the services must not be essential to the functionality of any other element in the arrangement and (c) the service must be described in the contract such that the total price of the arrangement would be expected to vary as the result of the inclusion or exclusion of the services. If all such criteria are not met the Company accounts for the services together with the other elements in the arrangement as applicable.

In cases where transaction terms include extended payment terms, the revenue is recognized when payment becomes due.

In case the agreement provide for specified upgrade, the revenue recognition is deferred upon the general release of the specified upgrade.

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**RADVISION LTD. AND ITS SUBSIDIARIES**

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data**

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Certain royalty agreements provide for per unit royalties to be paid to the Company based on the shipments by customers of units containing the Company's products. Revenues under such agreements are recognized at the time of shipment by customers, as they are reported to the Company by these customers, and when collectability is probable. Non-refundable payments on account of future royalties where no future obligation exists with regard to these royalties are recognized upon the signing of such arrangement and if collectability is probable.

When uncertainty of collectability exists, the Company and its subsidiaries defer revenues until collection.

Revenues from software licenses and or sale of products that require significant customization, integration and installation are recognized based on Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts ( SOP 81-1 ), according to which revenues are recognized on a percentage of completion basis. Percentage of completion is determined based on the Output Method , upon completion of milestones, and when collectability is probable. After delivery of milestones, if uncertainty exists about customer acceptance, revenue is not recognized until acceptance. Provisions for estimated losses on uncompleted contracts are recognized in the period in which the likelihood of the losses is identified. As of December 31, 2008, no such estimated losses were identified.

The Company believes that the use of the percentage of completion method is appropriate as the Company has the ability to make reasonably dependable estimates of the extent of progress towards completion, contract revenues and contract costs. In addition, contracts executed include provisions that clearly specify the enforceable rights regarding services to be provided and received by the parties to the contracts, the consideration to be exchanged and the manner and terms of settlement. In all cases, the Company expects to perform its contractual obligations and its licensees are expected to satisfy their obligations under the contract. According to SOP 81-1, costs that are incurred and are directly associated with a specific anticipated contract are being deferred, subject to evaluation of their probable recoverability, and recorded as unbilled contract costs.

Deferred revenue includes unearned amounts received under maintenance and support contracts, and amounts received from customers but not recognized as revenues due to the fact that these transactions did not meet the criteria for recognizing revenues.

The Company typically offers a one-year warranty on all of its products. The specific terms and conditions of those warranties vary depending upon the product sold and country in which the Company does business. The Company estimates the costs that may be incurred under its basic limited warranty and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect the Company's warranty liability include the number of installed units, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

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**RADVISION LTD. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands, except share and per share data**

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Liability for warranty expense is included in Accrued expenses and other accounts payable in the accompanying consolidated balance sheets. The rollforward of the liability for 2008 and 2007 was as follows:

	December 31,	
	2007	2008
Balance, beginning of period	\$ 699	\$ 488
Additions to the accrual - costs of product revenue	409	505
Usage	(620)	(524)
Balance, end of period	\$ 488	\$ 469

The Company and its subsidiaries generally do not grant a right of return to their customers. In accordance with Statement of Financial Accounting Standards No. 48, Revenue Recognition When Right of Return Exists , when returns are expected, the Company records a provision for estimated product returns at the time product revenues are recognized based on the Company's historical experience. As of December 31, 2007 and 2008, the Company had a provision for products returns in an amount of \$350 and \$164, respectively.

n. Research and development costs:

Research and development costs are charged to the statements of operations as incurred. Statement of Financial Accounting Standards No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed, requires capitalization of certain software development costs subsequent to the establishment of technological feasibility.

Based on the Company's product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working models and the point at which the products are ready for general release has been insignificant. Therefore, all research and development costs have been expensed.

o. Income taxes:

The Company utilizes the liability method of accounting for income taxes as set forth in Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109). Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is more likely than not that the deferred tax assets will not be realized.

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**RADVISION LTD. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data**

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

On January 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income tax. As of January 1, 2007, there was no material difference between the provisions of Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (SFAS 5) and FIN 48, therefore no adjustment was recorded to the retained earnings.

Prior to 2007, the Company determined its tax contingencies in accordance with SFAS 5. The Company recorded estimated tax liabilities to the extent the contingencies were probable and could be reasonably estimated.

p. Fair value of financial instruments:

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, short-term deposits, marketable securities (except held to maturity securities), accounts receivable, accounts payable and accrued liabilities, approximate fair value because of their generally short maturities.

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157) and, effective October 10, 2008, adopted FSP No. SFAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active, except as it applies to the nonfinancial assets and nonfinancial liabilities subject to FSP 157-2. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

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Level 1	Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
Level 2	Include other inputs that are directly or indirectly observable in the marketplace.
Level 3	Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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### RADVISION LTD. AND ITS SUBSIDIARIES

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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##### U.S. dollars in thousands, except share and per share data

##### NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Accounting for stock-based compensation:

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ( SFAS 123(R) ), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors to be based on estimated fair values. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ( APB 25 ) for periods beginning January 1, 2006, under which compensation expense was measured based on the intrinsic value method. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 ( SAB 107 ) relating to SFAS No. 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS No. 123(R).

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's consolidated statements of operations.

The Company adopted SFAS 123(R) using the modified prospective transition method which requires the application of the accounting standard starting from January 1, 2006, the first day of the Company's 2006 fiscal year. Under that transition method, compensation cost recognized during 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). Results for prior periods have not been restated.

In conjunction with the adoption of SFAS 123(R), the Company generally estimates option values using the Black-Scholes option pricing model. The option-pricing model requires a number of assumptions, of which the most significant are the expected stock price volatility, and option expected term (the amount of time from the grant date until the options are exercised or expired). Expected volatility was calculated based upon actual historical stock price movements over a period equal to the expected term of the options. Estimated forfeitures are based on actual historical pre-vesting forfeitures. The expected term of options granted before December 31, 2007 was calculated using the simplified method (expected term = (vesting term + original contractual term) / 2) permitted by SAB 107 in accordance with the guidance of SFAS 123 (R) and SAB 110. For options granted after December 31, 2007, the Company derived the expected term assumption based on the provisions of SAB 110, which, effective January 1, 2008, replaced SAB 107 and the use of the simplified method, and which states that a company will determine its expected terms according to its historical exercise data for share option grants with sufficient exercise experience, except for options which were re-priced, for which the expected term of the options before the re-pricing was calculated using the binomial method. The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term. The Company has historically not paid dividends and has no foreseeable plans to pay dividends, therefore estimated dividend yield is 0%. The Company recognized the compensation expense over the requisite service period using the straight-line method.

## RADVISION LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## U.S. dollars in thousands, except share and per share data

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The fair value for the options granted in 2006, 2007 and 2008 was estimated at the date of grant with the following weighted average assumptions:

	Year ended December 31,		
	2006	2007	2008
Risk free interest rate	4.60%	4.34%	3.06%
Dividend yields	0%	0%	0%
Volatility	0.60	0.39	0.39
Expected life (years)	5.4	4.2	3.37

## r. Concentration of credit risk:

Financial instruments that potentially subject the Company and its subsidiaries to concentrations of credit risk consist principally of cash and cash equivalents, marketable securities, short-term bank deposits, trade receivables, long-term bank deposits and derivatives.

The majority of the Company's cash and cash equivalents, short-term bank deposits and derivatives are invested in dollar investments with major banks in Israel and the United States. Such cash and cash equivalents and short-term bank deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. However, management believes that the financial institutions that hold the Company's investments are financially sound and accordingly, low credit risk exists with respect to these investments.

The marketable securities of the Company and its subsidiaries include investments in debentures of U.S. corporations, state and political subdivisions and auction rates securities. The Company's investment policy, approved by the Audit Committee, limits the amount the Company may invest in any one type of investment or issuer, thereby reducing credit risk concentrations.

As a result of the recent turmoil in the capital markets, the Company has tightened its control and monitoring over its marketable securities portfolio in order to minimize potential risks stemming from the current capital markets environment. Such measures included among others: reducing credit exposure to financial sector securities and increasing the overall credit quality of the portfolio.

The trade receivables of the Company and its subsidiaries are derived from sales to large and solid organizations located mainly in North America, Europe, the Far East and Israel. The Company and its subsidiaries perform ongoing credit evaluations of their customers and to date have not experienced any material losses. An allowance for doubtful accounts is determined with respect to those amounts that the Company and its subsidiaries have determined to be doubtful of collection. In certain circumstances, the Company and its subsidiaries may require letters of credit, other collateral or additional guarantees. When uncertainty of collectability exists, the Company and its subsidiaries defer revenues until collection.

Foreign exchange contracts are transacted with two major banks in Israel.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## U.S. dollars in thousands, except share and per share data

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- s. Basic and diluted net earnings (loss) per share:

Basic net earnings (loss) per share are computed based on the weighted average number of Ordinary shares outstanding during the year. Diluted net earnings (loss) per share further include the effect of dilutive stock options outstanding during the year, all in accordance with Statement of Financial Accounting Standards No. 128, Earnings per Share ( SFAS 128 ).

The total weighted average number of shares related to the outstanding options excluded from the calculations of diluted earnings (loss) per share, since they would have an anti-dilutive effect, was 1,358,160, 1,811,806 and 3,166,341 for 2006, 2007 and 2008, respectively.

- t. Comprehensive income:

The Company accounts for comprehensive income in accordance with Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income ( SFAS 130 ). This Statement establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders.

The Company determined that its items of comprehensive income relate to unrealized gains and losses on hedging derivative instruments and unrealized gains and losses on available-for-sale securities.

- u. Treasury shares:

The Company repurchases its Ordinary shares from time to time on the open market and holds such shares as treasury shares. The Company presents the cost to repurchase treasury shares as a reduction in shareholders' equity.

When treasury shares are reissued, the Company accounts for the re-issuance in accordance with Accounting Principles Board No. 6, Status of Accounting Research Bulletins ( APB No. 6 ) and charges the excess of the purchase cost over the re-issuance price (loss) to retained earnings. The purchase cost is calculated based on the weighted average method. In the event that the purchase cost is lower than the re-issuance price, the Company credits the difference to additional paid-in capital.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## U.S. dollars in thousands, except share and per share data

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- v. Recently issued accounting pronouncements:

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements ( SFAS 160 ). SFAS 160 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements ( ARB 51 ), to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 also changes the way the consolidated income statement is presented by requiring consolidated net income to be reported at amounts that include the

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amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of operations, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated and requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent owners and the interests of the noncontrolling owners of a subsidiary.

SFAS 160 is effective for fiscal periods, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of SFAS 160 is not expected to have a material effect on the Company's consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(revised), Business Combinations (SFAS 141(R)). This Statement replaces SFAS No. 141, Business Combinations, and requires an acquirer to recognize the assets acquired, the liabilities assumed, including those arising from contractual contingencies, any contingent consideration and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. SFAS 141(R) also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with SFAS 141(R)). In addition, SFAS 141(R)'s requirement to measure the noncontrolling interest in the acquiree at fair value will result in recognizing the goodwill attributable to the noncontrolling interest in addition to that attributable to the acquirer. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. As such, the adoption of SFAS 141(R) is not expected to have a material effect on the Company's consolidated financial statements.

In February 2008, the FASB issued FSP No. FAS 157-2, "Effective Date of FASB Statement No. 157". The Staff Positions defer the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities except for items that are recognized or disclosed at fair value on a recurring basis at least annually, and amend the scope of SFAS 157. As described in Note 4, the Company adopted SFAS 157 and the related FASB staff positions except for those items specifically deferred under FSP No. FAS 157-2. The Company is currently evaluating the potential impact, if any, of the adoption of FAS 157-2 on its consolidated financial statements.

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### RADVISION LTD. AND ITS SUBSIDIARIES

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands, except share and per share data

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. SFAS 161 requires entities to provide enhanced disclosures about how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations; and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact, if any, that SFAS 161 may have on its financial condition and results of operations. The Company's adoption of SFAS 161 will change its disclosures for derivative instruments and hedging activities beginning in 2009.

In April 2008, the FASB issued FASB Staff Position (FSP) FAS 142-3, Determination of the Useful Life of Intangible Assets. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008 and early adoption is prohibited. The Company is currently evaluating the potential impact, if any, of the adoption of FAS 142-3 on its consolidated financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S.

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GAAP. This statement shall be effective as of November 13, 2008. The Company does not expect the adoption of SFAS 162 to have a material impact on its consolidated financial statements.

**NOTE 3: MARKETABLE SECURITIES**

- a. Held-to-maturity securities:

Marketable securities with contractual maturities of less than one year are as follows:

	December 31,							
	2007				2008			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Debt investments of states and political subdivisions	\$ 8,697	\$ -	\$ (115)	\$ 8,582	\$ 5,230	\$ 30	\$ (15)	\$ 5,245
Corporate debentures	19,340	-	(235)	19,105	9,120	-	(149)	8,971
	<u>\$ 28,037</u>	<u>\$ -</u>	<u>\$ (350)</u>	<u>\$ 27,687</u>	<u>\$ 14,350</u>	<u>\$ 30</u>	<u>\$ (164)</u>	<u>\$ 14,216</u>

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**RADVISION LTD. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands, except share and per share data

**NOTE 3: MARKETABLE SECURITIES (Cont.)**

Marketable securities with contractual maturities of one year through two years are as follows:

	December 31,							
	2007				2008			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Debt investments of states and political subdivisions	\$ 10,078	\$ 13	\$ (108)	\$ 9,983	\$ 12,185	\$ 68	\$ (11)	\$ 12,242
Corporate debentures	1,466	-	(28)	1,438	3,080	-	(38)	3,042



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December 31,

\$ 11,544	\$ 13	\$ (136)	\$ 11,421	\$ 15,265	\$ 68	\$ (49)	\$ 15,284
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The unrealized losses in the Company's investments in debt investments of states and political subdivisions and corporate debentures were caused mainly by market interest rate changes. Out of the unrealized losses as of December 31, 2008, \$9 in losses has been outstanding more than 12 months. It is expected that the securities will not be settled at a price less than the amortized cost of the Company's investment. Based on Company's intention and ability to hold these investments until maturity, the bonds were not considered to be other than temporarily impaired at December 31, 2008, except as described below.

For the year ended December 31, 2008, the Company sold two held-to maturity securities for a total consideration of \$577, resulting in a net loss in the amount of \$73. The Company decided to sell such securities as a result of a securities significant rating downgrade during the year.

b. Available-for-sale marketable securities:

Auction rate securities and collateralized debt obligations:

	December 31,							
	2007				2008			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale securities	\$ 3,731	\$ -	\$ (182)	\$ 3,549	\$ 1,740	\$ -	\$ -	\$ 1,740

The other than temporary impairment of available-for-sale securities totaled \$379 and \$1,767 for the years ended December 31, 2007 and 2008, respectively, and such losses were recorded in the financial income, net. The adjustment to unrealized holding losses on available-for-sale marketable securities was included as a separate component of shareholders' equity, Accumulated other comprehensive income (loss), amounting to income of \$0 and \$182 for the years ended December 31, 2006 and 2007, respectively, and \$182 loss for the year ended December 31, 2008. The contractual maturities of the available-for-sale securities are greater than ten years.

During the year 2008, available-for-sale marketable securities in the aggregate amount of \$224 were redeemed at par value in the amount of \$600. As a result, a gain in the amount of \$376 was recognized.

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**RADVISION LTD. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands, except share and per share data

**NOTE 4: FAIR VALUE MEASUREMENTS**

In accordance with SFAS 157, the Company measures its short-term deposits, marketable securities (except held to maturity securities), auction rate securities and foreign currency derivative contracts at fair value. Short-term deposits and securities (except investments in auction rate securities) are classified within Level 1 or Level 2. This is because these assets are valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs. Foreign currency

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derivative contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments. Investments in auction rate securities are classified within Level 3 because they are valued using valuation techniques. Some of the inputs to these models are unobservable in the market and are significant.

The Company values the Level 3 investments based on an externally developed valuation using independent valuation firm using discounted cash flow model, whose inputs include interest rate curves, credit spreads, bond prices, volatilities and illiquidity considerations. Unobservable inputs used in these models are significant to the fair value of the investments.

The Company's financial assets measured at fair value on a recurring basis, excluding accrued interest components; consisted of the following types of instruments as of December 31, 2008:

	As of December 31, 2008			
	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
Auction rate securities	\$ -	\$ -	\$ 1,740	\$ 1,740
Foreign currency derivative contracts	-	348	-	348
<b>Total financial assets</b>	<b>\$ -</b>	<b>\$ 348</b>	<b>\$ 1,740</b>	<b>\$ 2,088</b>

The following table presents the changes in Level 3 instruments measured on a recurring basis for the year ended December 31, 2008. The Company's Level 3 instruments consist of auction rate securities with the unrealized losses reported in the consolidated statements of operations

Fair value measurements using significant unobservable inputs (Level 3):

	Auction rate securities & Cash Debt Obligations
Balance as of December 31, 2007	\$ 3,731
Redemption of collateralized debt obligations, net	(224)
Unrealized losses included in earning (other than temporary impairment)	(1,585)
Reclassification from other comprehensive income	(182)
<b>Balance as of December 31, 2008</b>	<b>\$ 1,740</b>

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**RADVISION LTD. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands, except share and per share data**

**NOTE 5: OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES**

December 31,

	December 31,	
	2007	2008
Government authorities	\$ 2,133	\$ 1,917
Prepaid expenses	3,373	1,873
Employees	431	619
Deferred taxes	2,527	1,693
	<u>8,464</u>	<u>6,102</u>
	<u>\$ 8,464</u>	<u>\$ 6,102</u>

**NOTE 6: INVENTORIES**

Inventories are composed of the following:

	December 31,	
	2007	2008
Raw materials	\$ 876	\$ 691
Finished products	815	494
	<u>1,691</u>	<u>1,185</u>
	<u>\$ 1,691</u>	<u>\$ 1,185</u>

**NOTE 7: PROPERTY AND EQUIPMENT, NET**

Composition of assets, grouped by major classifications, is as follows:

	December 31,	
	2007	2008
Cost:		
Computers and peripheral equipment	\$ 13,272	\$ 15,976
Office furniture and equipment	2,433	2,524
Motor vehicles	41	22
Leasehold improvements	2,062	2,311
	<u>17,808</u>	<u>20,833</u>
Less - accumulated depreciation	12,571	15,405
	<u>5,237</u>	<u>5,428</u>
Depreciated cost	<u>\$ 5,237</u>	<u>\$ 5,428</u>

Depreciation expenses for the years ended December 31, 2006, 2007 and 2008 amounted to \$1,849, \$2,543 and \$2,834, respectively. Retirement of property and equipment was \$0, \$5,185 and \$27 for the years ended December 31, 2006, 2007 and 2008, respectively.

## RADVISION LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

**NOTE 8: OTHER INTANGIBLE ASSETS, NET**

- a. The following table shows the Company's intangible assets for the periods presented:

	December 31,	
	2007	2008
Cost:		
Technology	\$ 3,958	\$ 3,958
Distribution networks	1,075	1,075
	5,033	5,033
Less - accumulated amortization	3,671	4,761
Amortized cost	\$ 1,362	\$ 272

Intangible assets resulted from the acquisitions of FVC in 2005 and VisioNex in 2004.

- b. Amortization expenses amounted to \$1,090 for each of the years ended December 31, 2006, 2007 and 2008.
- c. The amortization expenses in respect of identifiable intangible assets for the year ended December 31, 2009 will be \$272.

**NOTE 9: ACCRUED EXPENSES AND OTHER ACCOUNTS PAYABLE**

	December 31,	
	2007	2008
Payroll and related accruals	\$ 3,845	\$ 4,730
Accrued expenses	5,324	8,984
Government authorities	437	486
Contingent liability for patent claims (see Note 10e)	2,884	2,189
Other	117	-
	\$ 12,607	\$ 16,389

**NOTE 10: COMMITMENTS AND CONTINGENCIES**

- a. In connection with its research and development, the Company received participation payments from the Israel U.S. Binational Industrial Research and Development Foundation ( BIRD-F ), in the total amount of approximately \$188. In return for the

participation, the Company is committed to pay royalties at a rate of 2.5% of proceeds from the first year's sales and 5% of the proceeds from the succeeding years' sales, up to the amount of the grant. Once the amount of the grant has been repaid, royalties will be payable at the rate of 2.5% of proceeds, until royalties equal to one half of the grant amount have been repaid. The Company's total commitment for royalties payable with respect to future sales, based on BIRD-F participations received, net of royalties paid or accrued, totaled approximately \$276 as of December 31, 2007 and 2008. During the years ended December 31, 2006, 2007 and 2008, the Company did not pay or accrue royalties to the BIRD-F.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 10: COMMITMENTS AND CONTINGENCIES (Cont.)

- b. The Company and its subsidiaries operate from leased premises in Israel, the United States, China, Japan, the United Kingdom, France, Korea and Hong Kong. The leases expire through February 2015 (some with renewal options). The Company leases its motor vehicles under operating lease agreements that expire on various dates, the last of which is in 2012.

Annual minimum future lease payments due under the above agreements, at the exchange rate in effect on December 31, 2008, are approximately as follows:

2009	\$ 3,908
2010	2,486
2011	591
2012	307
2013 and thereafter	149
	\$ 7,441

For the years ended December 31, 2006, 2007 and 2008, rent expenses and motor vehicle lease expenses were \$3,585, \$4,785 and \$5,612, respectively.

- c. The Company obtained bank guarantees in the amount of \$522 in connection with securing its office space in Israel and in connection with custom tax payments.
- d. The Company is committed to pay royalties to several third parties for the integration of these third parties' technologies into the Company's products. Royalties are generally payable based on the sales volume of these products, as long as the Company uses these technologies.

The rates for the royalties to the third parties are based on an amount per product sold by the Company. The agreements pursuant to which the royalties are payable have no expiration dates.

The Company expensed royalties in the amount of \$525, \$184 and \$264 in the years ended December 31, 2006, 2007 and 2008, respectively, in cost of revenues.

- e. In 1998, a third party sent correspondence to a related party of the Company alleging that certain products manufactured by the Company infringe upon patents held by the third party and offered to license these patents to the Company. In subsequent correspondence, the Company's related party requested that the third party specifically substantiate each allegation of infringement before the Company's related party would be prepared to enter into any licensing arrangements. The Company's related party has received further correspondence from the third party, in which the third party has, among other things, reiterated its claims. The Company's related party does not believe the third party has substantiated its claims and has communicated this belief to the third party. The Company's related party has advised the Company that the alleged infringement claims are unresolved.

In 2003, another third party sent correspondence to the Company alleging that some products manufactured by the Company infringe upon patents held by this third party and offered to license these patents to the Company. Subsequent correspondence was exchanged during 2004, in which additional requests were made by this third party.

As of December 31, 2008, the Company has a provision of \$2,189, which it believes covers the probable loss from such allegations.

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**RADVISION LTD. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data**

**NOTE 10: COMMITMENTS AND CONTINGENCIES (Cont.)**

In 2005, the Company received a claim from Avistar Inc. ( Avistar ) (a U.S. company) regarding a potential infringement of ten of its patents. In August 2006, the parties began discussions to attempt to reach a settlement. In June 2007, the Company concluded a settlement with Avistar in the amount of \$4,000 pertaining to their claim and grant of a license and standard maintenance support for two years. Part of the payment was recorded by the Company as a patent settlement reserve in 2006. The remainder is presented as long-term and short-term prepaid expenses in the amount of \$1,618 and \$336, respectively as of December 31, 2007 and presented as long-term and short-term prepaid expenses in the amount of \$1,278 and \$336 as of December 31, 2008 and will be gradually recognized over the estimated term of the Company's use of the Avistar technology.

In addition, during 2006, the Company received a notification from TANDBERG, which was sued by Avistar for infringement of certain of Avistar patents (some of the same patents Avistar claimed that the Company infringed). TANDBERG sought indemnification from the Company against the Avistar claim. In September 2006, the Company sent a letter to TANDBERG setting forth its positions and refuting the allegations made by TANDBERG. Since such time, the Company has not received a response from TANDBERG. In March 2007, TANDBERG and Avistar settled their dispute, the details of which settlement were not publicly disclosed. Due to the fact that the Company concluded a patent license agreement with Avistar, as described above, the Company believes that the probability of the TANDBERG indemnification claim against the Company being sustained is remote and that a material loss is not probable, therefore the Company has not recorded any related provision in the financial statements.

- f. In October 2007, the Company received a letter from one of its resellers in China claiming that the Chinese representative office was obligated to perform certain undertakings for the benefit of the reseller and that the representative office had not met these obligations. The reseller has not made any monetary claim as to its demands or expectations. Due to the preliminary stage of the claim, the Company and its legal advisors cannot currently assess the outcome or possible adverse effect on the Company's financial position or results of operations. However, the Company believes that it has substantial legal claims to oppose these allegations. For the years ended December 31, 2007 and 2008, the Company did not recognize any revenues related to the reseller.
- g. The Company is periodically a party to routine litigation incidental to its business. The Company does not believe that it is a party to any pending legal proceeding that is likely to have a material adverse effect on its business, financial condition or results of operations.

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**RADVISION LTD. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data**

**NOTE 11: SHAREHOLDERS EQUITY**

- a. The Ordinary shares of the Company are traded on the NASDAQ Global Market and on the Tel-Aviv Stock Exchange.

The Ordinary shares confer upon their holders the right to receive notice, to participate and vote in general meetings of the Company, and the right to receive dividends, if declared.

- b. In August 2006, the Company's Board of Directors authorized the purchase of up to \$30,000 but not more than 2,000,000 of its outstanding Ordinary shares in the open market, from time to time, at prevailing market prices. No time limit was given with respect to the duration of the share purchase program. As of December 31, 2007, the Company had repurchased 1,631,724 Ordinary shares under the program for total consideration of approximately \$30,000, or an average price of \$18.37 per share, and the program was completed.

In July 2007, the Company's Board of Directors authorized the purchase of up to additional \$30,000 of its outstanding Ordinary shares in the open market, from time to time, at prevailing market prices. No time limit was given with respect to the duration of the share purchase program. As of December 31, 2008, the Company had repurchased 1,978,483 Ordinary shares under the program for total consideration of \$15,173, or an average price of \$7.67 per share.

In 2006, 2007 and 2008, the Company issued 347,088, 374,609 and 5,000, respectively, of the repurchased shares upon the exercise of employee stock options. The excess of the purchase price of the shares over their aggregate re-issuance price in the amount of \$2,148, \$3,083 and \$38 was charged as a reduction to retained earnings for the years ended December 31, 2006, 2007 and 2008, respectively. As of December 31, 2008, the Company had a balance of 2,883,510 repurchased shares.

- c. On November 25, 2008, the Company commenced a tender offer to eligible employees (other than its directors, Chief Executive Officer, Chief Financial Officer, president and senior officers who report to the Chief Executive Officer) to exchange outstanding options to purchase Ordinary shares issued under the Company's 2000 Employee Stock Option Plan (the "2000 Plan") having an exercise price of \$7.50 or more per share, for replacement options issued under the 2000 Plan that entitle the holder to purchase the same number of the Company's Ordinary shares at an exercise price equal to the greater of: (i) \$7.50 per share, and (ii) the per share closing price of the Ordinary shares on the NASDAQ Global Market on the date the replacements options are granted. Pursuant to the exchange offer that expired on December 24, 2008, the Company accepted for exchange eligible options to purchase an aggregate of 1,276,950 Ordinary shares, with exercise prices ranging from \$7.80-\$28.0 per share, that had been granted under the 2000 Plan and granted new options to purchase an aggregate of 1,276,950 Ordinary shares, with an exercise price of \$7.50 per share, under the 2000 Plan. The new options will vest over a period of up to four years and nine months in accordance with the vesting schedule described in the tender offer documents. The new options were granted for a period of six years except for cases when the six year period ended after the original expiration date of the exchanged options. In which case the original expiration date was not extended.

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**RADVISION LTD. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands, except share and per share data**

**NOTE 11: SHAREHOLDERS EQUITY (Cont.)**

The Company accounted for the exchange of options under the provisions of SFAS 123(R) as a modification. A modification to the terms of an award should be treated as an exchange of the original award for a new award with total compensation cost equal to the grant-date fair value of the original award plus the incremental value measured at the same date. Under Statement 123(R), the calculation of the incremental value is based on the excess of the fair value of the new (modified) award based on current circumstances over the fair value of the original option measured immediately before its terms are modified based on current circumstances. That is, the original (pre-modification) option will be valued based on current assumptions, without regard to the assumptions made on the grant date. The modification date was considered to be December 24, 2008. As a result of the modification, the Company will record incremental compensation cost of \$581 to be recognized over the new service period beginning on the modification date. The unrecognized compensation cost remaining from the original grant date valuation is recognized over the remainder of the original requisite period. In its financial statements as of December 31, 2008, the Company included an additional expense of \$5 with respect of this transaction.

- d. According to regulations adopted under the Israeli Companies Law, the terms of compensation of an outside director must be set and agreed to prior to the commencement of each three-year term of service of an outside director and may not be modified during the three year term other than to conform to the terms of a newly appointed outside director. During the second quarter of 2008, after receiving an opinion from the Company's legal advisors, the Company's Board of Directors cancelled options to purchase 117,500 Ordinary shares granted to two of its outside directors, due to certain terms of the aforementioned regulations which were not met. In the third quarter of 2008, the Company granted to each of its outside directors options to purchase 30,000 Ordinary shares, or in the aggregate options to purchase 90,000 Ordinary shares, exercisable at \$6.78 per share. Of such options, options to purchase 60,000 Ordinary shares will vest quarterly over three years, commencing May 14, 2006 (the date of the appointment of two of the directors as outside directors), and options to purchase 30,000 Ordinary shares will vest quarterly over three years commencing September 24, 2008. The options are exercisable within 12 months after termination or resignation from office as a director of the Company. According to SFAS 123(R), the option exchange was treated as a cancellation of the option and a grant of new options. Accordingly, in the financial statements ended December 31, 2008, the Company recognized all the remaining compensation cost in the amount of \$309 due to the cancellation of options. The fair value of the new options granted in the amount of \$184 is recognized over the remaining vesting period. In 2008, \$111 compensation costs were recognized.

In addition, at the annual general meeting of shareholders held in August 2008, the shareholders resolved to modify the terms of options granted to the Company's directors for his/her service in such capacity, such that the exercise period of such options (including previously granted options), be extended from 30 days to 12 months after a director's resignation from or termination of office. As a result of this modification, the Company recorded an additional expense of \$35 in the financial statements for the year ended December 31, 2008. The Company will record an additional expense in the amount of \$8, which will be recognized according to the future vesting schedules.

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## RADVISION LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

## NOTE 11: SHAREHOLDERS EQUITY (Cont.)

- e. The Company currently has one employee option plan, which provides for the grant by the Company of options to purchase up to an aggregate of 7,530,233 Ordinary shares to officers, employees, directors and consultants of the Company and its subsidiaries at an exercise price equal to at least the fair market value at the date of grant. The options vest ratably over vesting periods of approximately four years. The options expire six to ten years from the date of grant. The option plan provides for the reservation of up to 4% of the Company's Ordinary shares on a diluted basis, in each year.

As of December 31, 2008, 821,882 Ordinary shares are available for future issuance under the option plan. Options that are cancelled or forfeited become available for future grant.

A summary of option activity during the year ended December 31, 2008 is summarized as follows:

	Year ended December 31, 2008			
	Amount	Weighted average exercise price	Weighted remaining contractual life (years)	Aggregate intrinsic value *)
Options outstanding at beginning of year	3,588,953	\$ 12.00**)		
Granted	551,000	\$ 6.35		
Exercised	(5,000)	\$ 5.91		
Cancelled	(117,500)	\$ 16.56		
Forfeited	(722,768)	\$ 5.27		



## Year ended December 31, 2008

Options outstanding at end of year	3,294,685	\$	10.18	5.13	\$ 88
Vested and expected to vest at end of year	2,616,926	\$	10.83	5.10	\$ 68
Options exercisable at end of year	1,081,648	\$	12.28	4.89	\$ 33

The total compensation cost related to options granted to employees under the Company's share-based compensation plan recognized for the years ended December 31 2006, 2007 and 2008 amounted to \$4,776, \$5,448 and \$5,416, respectively, net of estimated forfeitures. The total intrinsic value of options exercised during the years ended December 31, 2006, 2007, and 2008, was \$8,085, \$6,948 and \$8, respectively. As of December 31, 2008, there was \$8,103 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's option plan. That cost is expected to be recognized over a weighted-average period of 2.47 years.

\*) Aggregate intrinsic value represents the total intrinsic value (the difference between the Company's closing stock price on the last trading day of the fiscal year 2008 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2008. This amount changes based on the fair market value of the Company's stock. The aggregate intrinsic value as of December 31, 2008 is based on the share price of the Company's Ordinary shares as of December 31, 2008 (\$5.39 per share).

\*\*\*) The weighted average exercise price of the options outstanding at the beginning of year was adjusted as a result of the option exchange offering.

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## RADVISION LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## U.S. dollars in thousands, except share and per share data

## NOTE 11: SHAREHOLDERS' EQUITY (Cont.)

All options were granted at an exercise price that was equal to the market price of the Ordinary shares at the date of grant. The weighted average grant date fair values of options granted during the years ended December 31, 2006, 2007 and 2008 were as follows:

Year ended December 31,					
2006		2007		2008	
Options	Weighted average fair value	Options	Weighted average fair value	Options	Weighted average fair value
1,043,000	\$ 9.82	1,118,000	\$ 6.35	551,000	\$ 2.01

- e. In the event that cash dividends are declared in the future, such dividends will be paid in New Israeli Shekel (NIS) or in foreign currency subject to any statutory limitations. The Company does not intend to pay cash dividends in the foreseeable future. The

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Company has decided not to declare dividends out of tax exempt earnings (see Note 15).

**NOTE 12: NET EARNINGS (LOSS) PER SHARE**

The following table sets forth the computation of basic and diluted net earnings (loss) per share:

	Year ended December 31,		
	2006	2007	2008
<b>Numerator:</b>			
Net income (loss)	\$ 15,248	\$ 9,585	\$ (12,940)
<b>Denominator:</b>			
Weighted average number of Ordinary shares outstanding during the year, used to compute basic net earnings (loss) per share	22,076,563	21,951,028	20,471,648
Incremental shares attributable to exercise of outstanding options (assuming proceeds would be used to purchase treasury stock)	670,625	530,991	-
Weighted average number of Ordinary shares used to compute diluted net earnings (loss) per share	22,747,188	22,482,019	20,471,648
Basic net earnings (loss) per Ordinary share	\$ 0.69	\$ 0.44	\$ (0.63)
Diluted net earnings (loss) per Ordinary share	\$ 0.67	\$ 0.43	\$ (0.63)

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**RADVISION LTD. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands, except share and per share data

**NOTE 13: SEGMENT REPORTING AND GEOGRAPHICAL INFORMATION**

- a. The Company operates under two reportable segments: the Technology Business Unit ( TBU ) and the Networking Business Unit ( NBU ).

The TBU is responsible for the development of enabling technologies for real-time voice and video over IP. The NBU is responsible for developing networking products for IP-centric voice, video and data conferencing services. There are no significant transactions between the two segments.

The Company evaluates segment performance based on revenues and operating income (loss) of each segment.

The Company's reportable operating segments have been determined in accordance with the Company's internal management structure, which is organized based on operating activities. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies, except for the accounting policy for share based payments as

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described in Note 2q. The Company's Chief Operating Decision Maker, who is the Company's Chief Executive Officer, evaluates the performance of the Company's segments based on revenues and expenses, which do not include stock-based compensation (recorded in financial statements in accordance with SFAS 123(R)).

Allocation of general and administrative costs is based on the number of employees assigned to the specific segment during the year.

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**RADVISION LTD. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands, except share and per share data

**NOTE 13: SEGMENT REPORTING AND GEOGRAPHICAL INFORMATION (Cont.)**

b. The following is information about reported segment gains and losses:

	NBU	TBU	Total
<b>2008</b>			
Total revenues	\$ 64,379	\$ 20,368	\$ 84,747
Expenses	75,777	18,753	94,530
Segment income	\$ (11,398)	\$ 1,615	(9,783)
Stock-based compensation			(5,416)
Financial income			2,539
Loss before taxes on income			(12,660)
Taxes on income			(280)
Net loss			\$ (12,940)
Depreciation and amortization	\$ 3,506	\$ 418	\$ 3,924
	NBU	TBU	Total
<b>2007</b>			
Total revenues	\$ 68,271	\$ 23,312	\$ 91,583
Expenses	67,615	16,820	84,435
Segment income	\$ 656	\$ 6,492	7,148
Stock-based compensation			(5,448)
Financial income			6,095

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	NBU	TBU	Total
Income before taxes benefit			7,795
Tax benefit			1,790
Net income			\$ 9,585
Depreciation and amortization	\$ 3,128	\$ 505	\$ 3,633
<b>2006</b>			
Total revenues	\$ 66,815	\$ 24,208	\$ 91,023
Expenses	61,316	14,544	75,860
Patent settlement	1,900	-	1,900
Segment income	\$ 3,599	\$ 9,664	13,263
Stock-based compensation			(4,776)
Financial income			5,825
Income before tax benefit			14,312
Tax benefit			936
Net income			\$ 15,248
Depreciation and amortization	\$ 2,564	\$ 375	\$ 2,939

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**RADVISION LTD. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands**

**NOTE 13: SEGMENT REPORTING AND GEOGRAPHICAL INFORMATION (Cont.)**

c. Summary information about geographic areas:

The Company markets and sells both of its product lines in the United States and other regions through its sales personnel and distributors.

The following represents total revenues according to the end customer's location for the years ended December 31, 2006, 2007 and 2008 and long-lived assets as of December 31, 2006, 2007 and 2008 according to their geographic location:

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	2006		2007		2008	
	Total revenues	Long-lived assets	Total revenues	Long-lived assets	Total revenues	Long-lived assets
The Americas	\$ 52,523	\$ 649	\$ 54,915	\$ 628	\$ 52,010	\$ 725
Europe and Africa	19,170	217	17,369	204	15,579	140
Far East	15,436	494	16,744	409	15,723	480
Israel	3,894	7,667	2,555	8,324	1,435	7,321
	<u>\$ 91,023</u>	<u>\$ 9,027</u>	<u>\$ 91,583</u>	<u>\$ 9,565</u>	<u>\$ 84,747</u>	<u>\$ 8,666</u>

- d. The Company does not allocate its assets to its reportable segments; accordingly, asset information by reportable segments is not presented.
- e. For the years ended December 31, 2006, 2007 and 2008, one customer accounted for approximately 35.0%, 33.8% and 38.7%, respectively, of the Company's sales for that period.

**NOTE 14: RELATED PARTY BALANCES AND TRANSACTIONS**

- a. Balances with related parties:

	December 31,	
	2007	2008
Trade receivables	\$ 60	\$ 78
Trade payables	\$ 94	\$ 2

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**RADVISION LTD. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands, except share and per share data

**NOTE 14: RELATED PARTY BALANCES AND TRANSACTIONS (Cont.)**

- b. Transactions with related parties:

	Year ended December 31,		
	2006	2007	2008
Revenues (1)	\$ 257	\$ 303	\$ 208
Cost of revenues (3)	\$ 16	\$ 23	\$ 14
Research and development expenses (2)	\$ 83	\$ 118	\$ 84

Year ended December 31,

Marketing, selling, general and administrative expenses (2)	\$	360	\$	525	\$	459
-------------------------------------------------------------	----	-----	----	-----	----	-----

Purchase of property and equipment (4)	\$	582	\$	644	\$	344
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- (1) Includes revenues from the Company's products and maintenance sold to companies held by principal shareholders (affiliated companies).
- (2) Includes administrative services provided to the Company by affiliated companies that the Company reimburses for the costs incurred in providing these services.
- (3) Includes the purchase of components from affiliated companies.
- (4) Includes property and equipment that were purchased from affiliated companies.

**NOTE 15: TAXES ON INCOME**

- a. The Company adopted the provisions of FIN 48 on January 1, 2007. Prior to adoption of FIN 48, the Company used the provisions of SFAS 5 to determine tax contingencies. As of January 1, 2007, there was no material difference between the provision under FIN 48 and SFAS 5, therefore there was no effect on the Company's shareholders equity upon the Company's adoption of FIN 48.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Gross unrecognized tax benefits as of January 1, 2008	\$	1,029
Interest		50
		<u>          </u>
Gross unrecognized tax benefits as of December 31, 2008	\$	<u>1,079</u>

The Company conducts business globally and, as a result, the Company or one or more of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world, including such major jurisdictions as Israel, China and the United States. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years prior to 2004 and is no longer subject to Israeli examinations for years prior to 2005.

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**RADVISION LTD. AND ITS SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands, except share and per share data

**NOTE 15: TAXES ON INCOME (Cont.)**

- b. Israeli corporate tax structure:

Taxable income of Israeli companies is subject to tax at the rate of 27% in 2008, 26% in 2009 and 25% in 2010 and thereafter.

- c. Tax benefits under the Law for the Encouragement of Capital Investment, 1959 (the Law):

The Investment Law empowers the Israeli Investment Center to grant Approved Enterprise status to capital investments in production facilities that meet certain relevant criteria ( Approved Enterprise ) specified by the law and the regulations specified thereafter. The tax benefits derived from any Approved Enterprise relate only to taxable income attributable to the specific program of investment to which the status was granted by the Investment Center.

On April 1, 2005, an amendment to the Investment Law came into effect (the Amendment ) and has significantly changed the provisions of the Investment Law. The Amendment limits the scope of enterprises which may be approved by the Investment Center by setting criteria for the approval of a facility as a Beneficiary Enterprise, such as provisions generally requiring that at least 25% of the Beneficiary Enterprise's income will be derived from export. Additionally, the Amendment enacted major changes in the manner in which tax benefits are awarded under the Investment Law so that companies no longer require Investment Center approval in order to qualify for tax benefits. However, the Investment Law provides that terms and benefits included in any letter of approval already granted will remain subject to the provisions of the law as they were on the date of such approval.

The Company has two capital investment programs that have been granted Approved Enterprise status, under the Law for Encouragement of Capital Investments, 1959 (the Approved Programs ) and a third and a fourth program under Beneficiary Enterprise status pursuant to the Amendment (the Beneficiary Programs ). Pursuant to the Beneficiary and Approved programs, the Company is entitled to a tax benefit period of seven to 10 years on income derived from these programs, as follows: a full income tax exemption for the first two years and a reduced income tax rate of 10%-25% (instead of the regular rate of 29% and 27% in 2007 and 2008, respectively) for the remaining five to eight years depending on the level of foreign ownership of the Company.

The duration of tax benefits detailed above for the Approved Enterprise is subject to limits of 12 years from the year of commencement of production, or 14 years from the date of granting the approval, whichever is earlier. The Company's Approved and Beneficiary programs expire between the years 2009 and 2017. The Company began using the tax benefits during the year 2006.

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**RADVISION LTD. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data**

**NOTE 15: TAXES ON INCOME (Cont.)**

Out of the Company's retained earnings as of December 31, 2008, approximately \$9,800 are tax-exempt earnings attributable to its Approved Enterprise programs and \$12,700 are tax-exempt earnings attributable to its Beneficiary Enterprise program. The tax-exempt income attributable to the Approved and Beneficiary enterprises cannot be distributed to shareholders without subjecting the Company to taxes. If these retained tax-exempt profits are distributed, the Company would be taxed at the corporate tax rate applicable to such profits as if the Company had not elected the alternative benefits track (as of December 31, 2008, this tax rate is 20%). According to the Amendment, tax-exempt income generated under the Beneficiary Enterprise will be taxed upon dividend distribution or complete liquidation, whereas tax exempt income generated under the Approved Enterprises will be taxed only upon dividend distribution (and not upon complete liquidation, where the tax liability will be incurred by the shareholders). As of December 31, 2008, if the income attributed to the Approved Enterprises was distributed as a dividend, the Company would incur a tax liability of approximately \$2,450 at a rate of 20%, while if income attributed to the Beneficiary Enterprise was distributed as dividend, including upon liquidation, the Company would incur a tax liability in the amount of \$3,193, also at a rate of 20%.

These amounts will be recorded as an income tax expense in the period in which the Company declares the dividend or liquidates.

The Company's Board of Directors has determined that the Company will not distribute any amounts of its undistributed tax-exempt income as a dividend. The Company intends to reinvest its tax-exempt income. Accordingly, no deferred income taxes have been provided on income attributable to the Company's Approved and Beneficiary Enterprise programs, as the undistributed tax exempt income is essentially permanent in duration.

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The benefits from the Company's Approved and Beneficiary Enterprise programs are dependent upon the Company fulfilling the conditions stipulated by the Law, the Amendment and the regulations published thereunder (as applicable), as well as the criteria in the approval for the specific investments in the Company's Approved Enterprise programs. If the Company does not comply with those conditions, the tax benefits may be canceled, and the Company may be required to refund the amount of the canceled benefits, with the addition of linkage differences and interest. As of the date of these financial statements, the Company's management believes that it has complied with these conditions.

By virtue of the Law, the Company is entitled to claim accelerated depreciation on equipment used by the Approved Enterprises during five tax years. The Company chose not to utilize this benefit in 2008. Income from sources other than the Approved and Beneficiary Enterprises during the benefit period will be subject to tax at Israel's regular corporate tax rate.

- d. Measurement of taxable income under the Income Tax (Inflationary Adjustments) Law, 1985:

Results for tax purposes are usually measured and reflected in real terms in accordance with the change in the Israeli Consumer Price Index (CPI). As explained in Note 2b, the consolidated financial statements are presented in dollars. The differences between the change in the Israeli CPI and in the NIS/U.S. dollar exchange rate causes a difference between taxable income or loss and the income or loss before taxes reflected in the consolidated financial statements. Since January 1, 2006, however, the Company has elected to measure its taxable income based on the changes in the exchange rate of the U.S. dollar rather than on the basis of inflation, and the provisions of this law have not been applicable to the Company.

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### RADVISION LTD. AND ITS SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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##### U.S. dollars in thousands, except share and per share data

##### NOTE 15: TAXES ON INCOME (Cont.)

- e. During the fourth quarter of 2007, the Company reached an agreement with the Israeli Tax Authorities regarding the final tax assessments for the years ended December 31, 2003, 2004, and 2005. According to the agreement, the Company's carryforward tax losses were reduced by \$5,421.

- f. Income taxes for non-Israeli subsidiaries:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective country of residence.

Israeli income taxes and foreign withholding taxes were not provided for undistributed earnings of the Company's foreign subsidiaries. The Company's Board of Directors has determined that the Company will not distribute any amounts of its subsidiaries' undistributed earnings as a dividend. The Company intends to reinvest these earnings indefinitely in its foreign subsidiaries. Accordingly, no deferred income taxes have been provided. If these earnings were distributed to Israel in the form of dividends or otherwise, the Company would be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes.

- g. The Company's U.S. subsidiary's carryforward tax losses through December 31, 2008, amounted to approximately \$5,760. These losses may be offset against any future U.S. taxable income of the U.S. subsidiary and will expire in the years 2020 through 2026. Considering the Company's income projections, management concluded based on the weight of available evidence that it is more likely than not that the deferred tax asset associated with the net operating loss carryforward and the other deferred tax items will be partially utilized in coming years. See h below for the deferred taxes and valuation allowance recorded in respect of carryforward losses.

Utilization of U.S. net operating losses may be subject to substantial annual limitation due to the change in ownership provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitations may result in the expiration of net operating losses before utilization.



## RADVISION LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## U.S. dollars in thousands, except share and per share data

## NOTE 15: TAXES ON INCOME (Cont.)

## h. Deferred income taxes:

Deferred income taxes reflect the net tax effects of carryforward tax losses and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows:

	December 31,	
	2007	2008
Net operating loss carryforwards	\$ 2,632	\$ 4,422
Reserves and allowances	936	738
SFAS 123(R) - compensation cost	501	934
Intangible assets	119	126
Research and development expenses	2,864	1,140
	<u>7,052</u>	<u>7,360</u>
Valuation allowance	(1,131)	(672)
	<u>\$ 5,921</u>	<u>\$ 6,688</u>
Domestic:		
Current deferred tax asset, net	\$ 2,117	\$ 1,370
Non current deferred tax asset, net	1,382	2,604
	<u>3,499</u>	<u>3,974</u>
Foreign:		
Current deferred tax asset, net	410	323
Non current deferred tax asset, net	2,012	2,391
	<u>2,422</u>	<u>2,714</u>
	<u>\$ 5,921</u>	<u>\$ 6,688</u>

The Company's U.S. subsidiary provided valuation allowances in respect of a portion of its deferred tax assets since management currently believes that it is not more likely than not that such portion will be fully realized. During 2008, the valuation allowance, recorded in the previous years, was partially released in the net amount of \$459, out of which \$95 was released against the income

statement and \$364 was released to additional paid-in capital as it related to carryforward losses resulting from past exercise of stock options.

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## RADVISION LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

## NOTE 15: TAXES ON INCOME (Cont.)

i. The Company's total income (loss) before provision for income taxes is as follows:

	Year ended December 31,		
	2006	2007	2008
Domestic (Israel)	\$ 12,952	\$ 6,559	\$ (13,738)
Foreign	1,360	1,236	1,078
	<u>\$ 14,312</u>	<u>\$ 7,795</u>	<u>\$ (12,660)</u>

j. The tax benefits (expense) are comprised as follows:

Domestic (Israel):			
Current taxes	\$ (952)	\$ (477)	\$ -
Deferred taxes	916	2,380	475
Prior years	730	274	(306)
	<u>694</u>	<u>2,177</u>	<u>169</u>
Foreign:			
Current taxes	(348)	(365)	(690)
Deferred taxes	655	-	292
Prior years	(65)	(22)	(51)
	<u>242</u>	<u>(387)</u>	<u>(449)</u>
	<u>\$ 936</u>	<u>\$ 1,790</u>	<u>\$ (280)</u>

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## RADVISION LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

## NOTE 15: TAXES ON INCOME (Cont.)

- k. A reconciliation between the theoretical tax income, assuming all income is taxed at the statutory tax rate applicable to the income of the Company, and the actual tax income, as reported in the statements of operations, is as follows:

	Year ended December 31,		
	2006	2007	2008
Income (loss) before taxes on income	\$ 14,312	\$ 7,795	\$ (12,660)
Theoretical tax expense computed at the statutory rate *)	\$ 4,436	\$ 2,322	\$ (3,343)
Change in valuation allowance, net	(1,068)	(92)	(95)
Tax exempt income due to approved enterprise status **)	(5,179)	(5,425)	1,760
Tax benefit (expense) for prior years	(665)	(252)	358
Non-deductible stock-based compensation	1,073	1,224	1,144
Non-deductible expenses and others	467	433	456
Actual tax expense (benefit), net	\$ (936)	\$ (1,790)	\$ 280
***) Basic net earnings (loss) per Ordinary share	\$ (0.23)	\$ (0.25)	\$ 0.08
***) Diluted net earnings (loss) per Ordinary share	\$ (0.23)	\$ (0.24)	\$ 0.08

- \*) The tax rates for domestic income are 31%, 28% and 27% for the years 2006, 2007 and 2008, respectively. The tax rate for foreign income was 35% for the year 2006 and 34% for the years 2007 and 2008.

## NOTE 16: FINANCIAL INCOME, NET

	Year ended December 31,		
	2006	2007	2008
Financial and other income:			
Interest income	\$ 6,010	\$ 6,886	\$ 4,212
Exchange rate differences, net	-	-	19
Gain on redemption of collateralized debt obligations	-	-	376
Accretion of discount net of amortization of marketable securities premium	32	71	-
Financial and other expenses:			
Interest expenses	(22)	(59)	(12)

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	Year ended December 31,		
Amortization of marketable securities premium net of accretion of discount	-	-	(116)
Realized loss on sale of marketable securities	-	-	(73)
Commission and others	(97)	(98)	(100)
Other than temporary impairment of available-for-sale marketable securities, net	-	(379)	(1,767)
Exchange rate differences, net	(98)	(326)	-
	\$ 5,825	\$ 6,095	\$ 2,539

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**RADVISION Ltd. and Subsidiaries**  
**Schedule II Valuation and Qualifying Account**

Column A	Column B	Column C		Column D			Column E
	Additions		Deductions				
	Balance at Beginning of period	Charged to costs and expenses	Charged to shareholders equity	Due to write offs	Charged to costs and expenses	Charged to shareholders equity	Balance at end of period
<b>Year ended December 31, 2008:</b>							
Allowance for doubtful accounts	805,000	230,000	-	34,000	74,000	-	927,000
Provision for slow-moving inventory or technological obsolescence	1,997,000	842,000	-	2,025,000	70,000	-	744,000
Deferred taxes valuation allowances	1,131,000	-	-	-	95,000	364,000	672,000
<b>Total</b>	<b>\$ 3,933,000</b>	<b>\$ 1,072,000</b>	<b>\$ -</b>	<b>\$ 2,059,000</b>	<b>\$ 239,000</b>	<b>\$ 364,000</b>	<b>\$ 2,343,000</b>
<b>Year ended December 31, 2007:</b>							
Allowance for doubtful accounts	749,000	313,000	-	131,000	126,000	-	805,000
Provision for slow-moving inventory or technological obsolescence	1,246,000	751,000	-	-	-	-	1,997,000
Deferred taxes valuation allowances	1,378,000	-	-	55,000	92,000	100,000	1,131,000
<b>Total</b>	<b>\$ 3,373,000</b>	<b>\$ 1,064,000</b>	<b>\$ -</b>	<b>\$ 186,000</b>	<b>\$ 218,000</b>	<b>\$ 100,000</b>	<b>\$ 3,933,000</b>
<b>Year ended December 31, 2006:</b>							
Allowance for doubtful accounts	734,000	104,000	-	77,000	12,000	-	749,000
Provision for slow-moving inventory or technological obsolescence	895,000	581,000	-	230,000	-	-	1,246,000

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Column A	Column B	Column C	Column D	Column E			
Deferred taxes valuation allowances	7,150,000	593,000	-	2,937,000	1,661,000	1,767,000	1,378,000
<b>Total</b>	<b>\$ 8,779,000</b>	<b>\$ 1,278,000</b>	<b>\$ -</b>	<b>\$ 3,244,000</b>	<b>\$ 1,673,000</b>	<b>\$ 1,767,000</b>	<b>\$ 3,373,000</b>

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

RADVISION LTD.

By: /s/ Boaz Raviv

Boaz Raviv  
Chief Executive Officer

Dated: March 25, 2009

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