RADVISION LTD
Form 20-F
June 05, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2006

OR

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

For the transition period from _____ to _____

o **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.

(Exact Name 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)

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 (as of December 31, 2006)	22,251,552

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

Yes o No x

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 o No x

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 x No o

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 o Accelerated filer x Non-accelerated filer o

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 o Item 18 x

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 o No x

This report on Form 20-F is being incorporated by reference into our Registration Statements on Form S-8 File Nos. 333-45422, 333-53814, 333-55130, 333-66250, 333-82488, 333-104377, 333-116964, 333-127013 and 333-141654.

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INTRODUCTION

RADVISION Ltd., incorporated under the laws of the State of Israel, is a designer, developer and supplier 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. Since our initial public offering on March 14, 2000, our ordinary shares have been listed on the NASDAQ Global Market (symbol: RVSN). Since October 20, 2002, our ordinary shares have also traded on the Tel Aviv Stock Exchange. We were incorporated in January 1992, commenced operations in October 1992 and commenced sales of our products in the fourth quarter of 1994.

We have obtained U.S. trademark registrations for RADVISION, V²oIP and CU-SeeMe. We have pending U.S. trademark applications for SCOPIA, DELIVERING THE VISUAL EXPERIENCE, IMS EXPRESS, PATHFINDER and FLAT CAPACITY PLUS. 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, ProLab, 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.

We currently have sales offices in the United States and Israel and marketing, representative and liaison offices in Brazil, China, France, Germany, Hong Kong, India, Italy, Japan, Korea, Singapore, Spain and the United Kingdom. As used in this annual report, the terms we, us , our, and RADVISION mean RADVISION Ltd. and its subsidiaries, unless otherwise indicated.

RADVISION Ltd. is a foreign private issuer as defined in Rule 3b-4 under the Securities Exchange Act of 1934. As a result, we are eligible to file this annual report pursuant to Section 13 of the Securities Exchange Act of 1934 Act on Form 20-F and to file interim reports on Form 6-K.

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 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.

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, 2006, 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, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004 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, 2003 and 2002 and for the years ended December 31, 2003 and 2002 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 consolidated financial statements and notes thereto included elsewhere in this annual report.

Consolidated Statement of Operations Data:

	Year Ended December 31,				
	2002	**2003**	**2004**	**2005**	**2006**
	(in thousands, except per share data)				
Revenues	$ 49,095	$ 51,304	$ 64,236	$ 74,012	$ 91,023
Cost of revenues	11,574	12,270	13,880	13,110	18,165
Gross Profit	37,521	39,034	50,356	60,902	72,858
Operating expenses:					
Research and development	15,338	14,573	17,484	20,110	25,331

	Year Ended December 31,				
Marketing and selling	17,996	19,050	23,848	24,588	30,648
General and administrative	4,098	4,040	4,900	4,677	6,492
Patent settlement reserve	-	-	-	-	1,900
Restructuring cost	-	(1,061)	-	-	-
Total operating expenses	37,432	36,602	46,232	49,375	64,371
Operating income	89	2,432	4,124	11,527	8,487
Financial income, net	2,667	2,130	1,860	3,051	5,825
Income before taxes on income	$ 2,756	$ 4,562	$ 5,984	14,578	14,312
Taxes benefit, net	-	-	-	112	936
Net income	$ 2,756	$ 4,562	$ 5,984	$ 14,690	$ 15,248
Basic net earnings per Ordinary share	$ 0.15	$ 0.24	$ 0.30	$ 0.70	$ 0.69
Weighted average number of Ordinary shares used to compute basic net earnings per share	18,353	18,660	19,822	21,122	22,077
Diluted net earnings per Ordinary share	$ 0.15	$ 0.23	$ 0.28	$ 0.66	$ 0.67
Weighted average number of Ordinary shares used to compute diluted net earnings per share	18,983	19,963	21,399	22,215	22,747

Consolidated Balance Sheet Data:

	As at December 31,				
	2002	2003	2004	2005	2006
Cash and cash equivalents	$ 13,825	$ 16,433	$ 20,206	$ 32,927	$ 23,110
Working capital	38,158	44,411	65,395	93,175	103,661
Total assets	106,671	117,012	131,882	156,748	182,559
Shareholders' equity	85,015	94,302	106,776	130,667	152,605
Capital stock	104,773	104,850	107,463	116,664	127,172

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.

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.

One OEM customer accounted for approximately 35.0% of our sales in 2006 and approximately 27.0% of our sales in both 2005 and 2004. Our agreement with this OEM customer continues on a year to year basis and either party may terminate the relationship no later than ninety days prior to the expiration of the then current term. If this partner 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.

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.

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 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.

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., Tandberg and Codian Ltd. The principal competitors in the market for our toolkit business unit products currently include Hughes Software Systems acquired in 2004 by Flextronics Software Systems (now Aricent), Data Connection Limited 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 resources than we do. This may limit our ability to compete effectively and discourage customers from purchasing our products and technology.

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, Alcatel, Cisco, Comverse, Huawei, IBM, LifeSize, Siemens, Telstra and others. Some of these companies also purchase the 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 source code 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. Other companies, including Microsoft and Nokia, may offer similar development kits as part of their product offerings. In addition 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.

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 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.

We provide 3G-324M-based solutions to both service providers and equipment developers. If our 3G customers move to all IP networks, the demand for these products will end.

The 3G-324M protocol is a circuit switched protocol for delivering real-time services (video primarily) over 3G mobile networks. This is a strong market both for our service provider gateways and our Technology Business Unit developer toolkits. However, we believe that the

3G-324M protocol will only be used until such time as packet switching technology such as HSPA (high school proficiency assessment), IMS (IP multimedia subsystem) or an all-IP broadband mobile 3G network can sustain high quality, high bandwidth services. This is not expected to happen for a few years, but there are specific markets, such as in the United States, where the goal is to provide video services based exclusively on packet switching technology. As technology for real-time IP communications gains acceptance, service providers are expected to gradually move to all-IP architectures, as a result of which they may gradually cease to need our 3G-324M gateway. As service providers move to all-IP networks, our telecommunications equipment developer customers will no longer need to develop 3G-324M-based devices and sales of our 3G-324M toolkits would be adversely affected.

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.

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. We intend to increase substantially the number of our employees who perform these functions. 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.

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. We believe we are in compliance with these regulations. If we are unable to timely comply with these new 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 intend to 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 intend to 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.

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:

- 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.

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.

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

Conducting business in Israel entails special risks.

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, the 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.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, and a state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. Although Israel has entered into various agreements with Egypt, Jordan and the Palestinian Authority, 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 2006. In July 2006, an armed conflict began between Israel and Hezbollah forces in Lebanon, which involved rocket attacks on populated areas in the northern parts of Israel. On August 14, 2006, a cease-fire between Hezbollah and Israel took effect. This situation has had an adverse effect on Israel s economy, primarily in the geographical areas directly harmed by this conflict. Any future armed conflict, political instability or violence in the region may have a negative effect on our business condition, harm our results of operations and adversely affect our share price.

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.

No predictions can be made as to whether or when a final resolution of the area s problems will be achieved or the nature thereof and to what extent the situation will impact Israel s economic development or our operations.

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 if inflation in Israel is not offset on a timely basis by a devaluation of the new Israeli shekel 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 the related personnel expenses, are in NIS. As a result, we are 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. Over time, the NIS has been 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 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 three investment programs at our manufacturing facility, one of which we are currently in the process of converting to a beneficiary enterprise program, and a fourth program, which was granted beneficiary enterprise status. 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, will be 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. 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.

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.

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.

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.

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.

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. A foreign private issuer that elects to follow a home country practice instead of such 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. As a foreign private issuer listed on The NASDAQ Global Market, we may follow home country practice with regard to, among other things, composition of the board of directors, director nomination procedure, compensation of officers, and quorum at shareholders meetings. In addition, we may follow our home country law, instead of the NASDAQ Marketplace Rules, which require that we 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.

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 this 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. The information on our website is not incorporated by reference into this annual report.

We are 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 (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 approximately 450 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 Italy. Hundreds of enterprises around the world and tens of telecommunications operators are using our 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.

On March 15, 2005, we acquired substantially all of the assets of FVC and its wholly owned subsidiary, CUseeMe Networks, Inc., in a bankruptcy proceeding. We acquired FVC s leading software products that enable interactive voice, video and data collaboration over IP-based networks.

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. The NBU also provides video services solutions to service providers, both 3G mobile and IP wireline. We sell our products and platforms to major telecom equipment vendors, such as Cisco and Alcatel, which then integrate our solutions into their larger communications platforms and architectures. These integrated solutions enable the delivery of real-time interactive IP and 3G-based multimedia streaming and video telephony services over both broadband connections (such as cable and DSL) and 3G mobile networks.

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 products and solutions. The TBU provides protocol development tools and platforms, as well as associated solutions such as testing platforms and our Multimedia Terminal Framework that enable equipment vendors and service

providers to develop and deploy new IP and 3G-based converged networks, services, and technologies.

Our TBU solutions include developer toolkits for SIP, MEGACO/H.248, MGCP, H.323, RTSP (real time streaming protocol) and 3G-324M, our ProLab Test Management Suite and our Multimedia Terminal Framework. TBU also offers an IMS (IP multimedia subsystem) development suite, which extends our existing toolkits to IMS, and recently added new toolkits as part of the IMS development suite, including the IMS Diameter toolkit and NAT traversal.

Our toolkits have been used by developers 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.

Our capital expenditures for the years ended December 31, 2004, 2005 and 2006 were approximately $2.3 million, $2.0 million and $2.3 million, respectively. These expenditures were principally for research and development equipment, office furniture and equipment and leasehold improvements.

B. BUSINESS OVERVIEW

Overview and Strategy

We are the industry s leading provider of high quality, scalable and easy-to-use products and technologies for videoconferencing, video telephony, and the development of unified communications systems 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 approximately 450 customers worldwide using our TBU products including, Aethra, Alcatel, Broadreach, Cisco, Comverse, Huawei, LG Electronics, LifeSize, Microsoft, Nortel, NTT/DoCoMo, Orange Telecom, Philips, Samsung, Siemens, Sony and Telecom Italy. Hundreds of enterprises around the world and tens of telecommunications operators are using our videoconferencing systems and solutions.

Our goal is to develop and deliver market-leading technology 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, network infrastructure, as well as integrated solutions that complement the communication solutions of other vendors such as those from Aethra, Alcatel, Cisco, Huawei, IBM, LifeSize, and Sony. 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 IP communications. 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 technology for a broad range of IP and 3G communication products and services. In this regard, in 2006 we announced support for IBM s Lotus Sametime and continue to support Cisco s Unified Communications architecture. During 2006, we announced the new SCOPIA architecture that includes an all new MCU (multipoint conferencing unit) with advanced video processing including high definition videoconferencing, and support for a new telecommunications grade chassis. 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 Cisco, Alcatel, Aethra, Comverse 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.

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 technology vendors such as Cisco and IBM, as well as developing partnerships with broadband and wireless service providers, to transform videoconferencing from a meeting room application to a new mode of personal communication. The announcement in 2006 of our integration of our enabling technology with IBM Lotus Sametime, allowing video conferencing and data collaboration, was a significant step in this

direction. In 2004, Cisco announced and began deploying desktop video networks based, in part, on our technology. In 2006, we introduced the PC (personal computer)-to-Mobile solution that connects desktop videoconferencing and 3G video phones. 3G operators around the world have performed pilots of our powered video telephony and video streaming applications. Our platforms are key technologies in all of these solutions and we will continue to work to expand the use of video for communications and entertainment at the desktop, in the home and over broadband mobile networks.

Strengthen and expand our relationships with our OEM customers. We have established and continue to maintain collaborative working relationships with many company s in the IP communication market, including Aethra, Cisco and Lifesize as OEMs and Alcatel, Huawei, IBM, Nokia, Nortel, 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.

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 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 continue to be active in enhancing industry standards by improving the call set-up time in video cellular calls, contributing to Firewall/NAT (network address translation) traversal standardization (H.460.18/19) and H.248 video enhancements. 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.

Leverage service provider opportunities. We are working closely with telecommunications equipment providers, 3G mobile carriers, and residential IP (wireline) service providers to enable video services (both communications and streaming/entertainment) to be delivered to the home and the mobile device. In 2005, our 3G products were commercially used for the first time. 3G carriers around the world continued to perform pilots and trials for our video services in 2006. We expect that the market will continue to grow into general use in the next few years, although we cannot assure you what, if any, will be our market share.

Enable desktop conferencing and communication through strategic partners. We plan 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 Cisco and their efforts in enterprise video telephony by virtue of our Cisco OEM arrangement for certain products, such as MCUs (multipoint conferencing units) and gateways,and the integration of such products into Cisco s MeetingPlace collaboration product.

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 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 multimedia communication, 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 telecommunication carrier solutions enables the development and delivery of real-time video services (both streaming and communications) to wireless, wireline, and broadband mobile users. Our solutions can be used by institutions, enterprises, and 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. The SCOPIA line of products have replaced the viaIP line of products. These are a family of customizable, scalable array of ports, management solutions, and custom functionality with which customers can design and quickly deploy a highly configured, highly scalable visual communication network for each client s individual needs. With the SCOPIA product line, the customer can choose the best port configuration, management solution and additional applications, and the entire solution is 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 carrier-grade 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 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 (which replaced our former product known as INVISION). The SCOPIA 12/24 bundle 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 stand alone system.

In addition, the SCOPIA 3G Video Gateway bridges the gap between mobile networks and wireline 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 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 manager a conference management server that registers users and sets up conferences using Microsoft Active Directory services.

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

As part of the unified communications concept, we integrate The CTM solution into Microsoft s Real-Time Communication family of products, such as Live Meeting and Office Communicator, and into IBM s Lotus Notes and Same Time environments, so that users are using the same applications that they are already familiar with, but with the CTM audio/video collaboration engine.

For carriers and mobile service providers, our NBU offers a wide range of IMS (IP multimedia subsystem)-ready products that enable mobile, wireline and wireless operators, application service providers, or ASPs, and integrators to deploy and roll out interactive video services. This suite of carrier-grade products, based on advanced video processing, enables access from any bearer including wireline, wireless, cable, and 3G-324M. These products enable interactive video services that help carrier and operators increase chargeable bandwidth, maximize average revenue per unit, reduce churn and strengthen subscriber loyalty.

Our Interactive Video Platform, released under the SCOPIA name in early 2007, is an IMS (IP multimedia subsystem)-ready, carrier-grade advanced media server with flexible application programming interfaces (APIs) for deployment and delivery of multiple converged services over any bearer. The SCOPIA Interactive Video Platform enables carriers and service providers to roll out customized interactive mobile video services.

Mobile operators and ASPs can use our PC (personnel computer)-to-mobile solution to deploy a value added service that enables mobile subscribers to initiate and receive billable video calls from personnel computers or mobile handsets.

Leveraging technologies pioneered by us over three years ago and which can already be found powering 3G networks trials worldwide, the SCOPIA network infrastructure and SCOPIA Interactive Video Platform are key components in enabling new revenue-generating video-based services that will complement traditional voice and data services these providers already offer. Sample services that can be delivered using the SCOPIA infrastructure and SCOPIA Interactive Video Platform include:

video telephony and conferencing;

video mail, video messaging;

multimedia content streaming (such as television and movies);

video call centers;

remote surveillance and reporting; and

live entertainment and communications services.

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 can 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 the 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, as well as emerging IMS (IP multimedia subsystem) 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 signal 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.

Major vendors who provide video telephony and desktop multimedia communications. In 2006, IBM entered into the desktop multimedia communications space with the launch of its SameTime 7.5 software. Microsoft also continues to improve its Office Communicator. Both of these vendors are competing in the enterprise collaboration market with the use of all available medias (such as voice, data and video). We believe that due to our unique IP-based architecture and support of standards, such as SIP, we are well positioned to provide complementary solutions and/or capitalize on the strong marketing and solution trends that these two large companies, as well as others in the industry, are offering to the information technology (IT) manager, chief executive officer, chief information officer and chief technology officer. We have has also integrated our SCOPIA product portfolio with Cisco s Video Telephony desktop solution, VT Advantage.

The spread of video telephony beyond the enterprise, into the home and on the road. End users are beginning to use multimedia applications for their communication not only in the enterprise through meeting rooms and desktops, but also at home and on the road. We are encountering this trend and have begun to realize sales from service providers as they are beginning to use our technology to deliver video telephony services to residential homes as just another broadband application like Internet access and video-on-demand. Additionally, 3G wireless providers are increasingly looking to deliver real-time multimedia content to their mobile subscribers. We believe we are well suited to play a role in this market with our 3G-324M architecture and multimedia services support.

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 were 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 provides standards-based protocol toolkits and testing solutions for the development of real-time voice, video and data communication solutions over packet, 3G and IMS (IP multimedia subsystem) networks.

TBU Products

We offer one of the most complete sets of development toolkits for IP and next generation environments. We sell core enabling technology for real-time IP and 3G-based communications in the form of software development kits and testing tools. Communication equipment providers and developers seeking to create and market industry standard compliant IP telephony and multimedia products, systems and applications need core IP communication protocol software to develop their IP-centric solutions. The same holds true for developers of 3G and next generation-based multimedia 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 Development Toolkit. 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 Toolkit enables the development of products that require full user/agent functionality. The SIP Toolkit 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. The RADVISION SIP Server Toolkit enables the development of SIP-based infrastructure devices such as IP-PBXs and softswitches. 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) as a mandatory part of the IMS architecture for next generation mobile and fixed networks. The SIP Toolkit 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.

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-compliancy, the IMS DIAMETER Toolkit allows seamless integration with IMS based IP networks (3GPP and TISPAN). The IMS DIAMETER Toolkit is standards-based (IETF, TISPAN and 3GPP), and offers highly reliable performance.

RADVISION NAT Traversal Toolkit. We offer a complete NAT (network address translation) traversal solution for developers. The RADVISION NAT Traversal Toolkit is an Internet Engineering Task Force standards-based Simple Traversal Underneath NAT (STUN) solution that comprises of the latest NAT-related solutions available today for SIP, RTSP, MEGACO/H.248, Diameter and others.

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.

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 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 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.

RADVISION ProLab 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.

Advanced RTP Toolkit. The RADVISION s 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 f*or standards 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, and other protocols such as 3G-324M and MEGACO/ H.248.

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 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.

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

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:

- 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;

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

the introduction of the IMS next generation network architecture for both fixed and wireless operators. IMS mandates SIP as its primary signaling protocol and requires a set of new protocols (such as Diameter) as well as major changes and solutions of existing protocols. We offer a complete IMS developers suite that accommodates the growing demand from the IMS developer community.

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.

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

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;

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. We believe this trend will increase when all-IP networks, such as IMS (IP multimedia subsystem), gain greater acceptance.

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. Being circuit-switched based, the standard has all the hallmarks of a protocol ideal for streaming real-time multimedia, including a fixed delay, low overhead of CODECS, and no IP/UDP/RTP header overheads.

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 (news, sports, etc.) 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. Recently, our amendment to the protocol was adopted by the ITU to provide faster call set-up time.

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 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. We have recently added an IMS portfolio that includes both toolkits and testing tools to provide IMS developers with IMS-compliant software infrastructure. We believe that IMS represents the actual standardized evolution of both wireless (3G evolution to IMS) and fixed (next generation and cable) networks into an all-IP network architecture. Accordingly, we view IMS as an opportunity for us to leverage our technological leadership to achieve business growth.

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 their private label.

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 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, 2005 and 2006, one customer accounted for approximately 27% and 35%, respectively, of our sales.

The following is a representative list of our major customers in 2006:

Aethra Ltd	Huawei	NTT
Alcatel Ltd	Hypcom	Oracle
Broadreach	IPC	Presidio
Cisco	Iwatsu	Shenzhen SunLong Communication
Comneon	Kelyan Lab	Shanghai Caohejing
Computer Assets	LG	Siemens
Comverse	Logica CMG	Sony
Conference Solutions	Merck & Co.	Spirent
ECI	Motorola	Telefonica
E-Soft	MSTEL Corporation	TIM
France Telecom	Nortel	Wisepot
Glovicom	Northrop Grumman	Wire One
GS Plus		

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, Washington 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, 2006 was 57.6% in the Americas, 21.1% in Europe, 4.3% in the Middle East and 17% in the Asia-Pacific region.

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

In October 2006, we announced that the global growth consulting company Frost & Sullivan selected RADVISION as the recipient of the 2006 Frost & Sullivan Competitive Strategy Leadership Award for its significant gains in market share in 2005 and distinctive market strategies in the Asia Pacific videoconferencing infrastructure systems market.

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 web site 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;

CableLabs, an organization of cable operators, which is currently working on defining the MGCP (media gateway control protocol) standard;

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.

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.

We provide global customer care and support services for our products and technology. Our customer care and technical support teams are located in Tel Aviv, Israel; Fair Lawn, New Jersey; Bedford, New Hampshire; Sunnyvale, California 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 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, 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.

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

Networking Products	Software development kits
Polycom Inc. Tandberg Codian Ltd. Arel In the 3G market: Ericsson Dilithium Networks NMS Communications	Trillium Digital Systems, acquired by Continuous Computing. Aricent Data Connection Limited Dilithium Networks Netbrics 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.

Both Vovida Networks, a subsidiary of Cisco Systems, Inc., and OpenH323 offer H.323 source code for free. In addition, Vovida Networks offers MGCP and SIP source code for free. If our customers choose to use the free source code offered by these organizations instead of purchasing our technology, our revenues from the sale of our software development kits will decline.

Manufacturing

Our manufacturing operations consist of materials planning, procurement, out-sourcing of sub-assembled kit s, final assembly, testing, quality control, packaging and shipping. We generally assemble our products in a subcontractor s facilities in Israel and test our products at our facilities in Tel Aviv, Israel. We test our products both during and after the assembly process using internally developed quality assurance testing procedures. We have a flexible assembly process that enables us to configure our products at the final assembly stage for customers who require that our products be modified to bear their private label (such as OEM arrangements). This flexibility is designed to reduce our assembly cycle time and reduce our need to maintain a large inventory of finished goods. We use an enterprise resource planning, or ERP, system that we purchased from BAAN Systems and modified to our specific needs. This system allows us to use just in time procurement and manufacturing procedures. We believe that the efficiency of our assembly process to date is largely due to our product architecture and our commitment to assembly process design. 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 defines 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 eight wholly-owned subsidiaries: RADVISION 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 engaged in research and development and in the sales 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, who formerly was a director, the Chairman of our Board of Directors and a principal shareholder of our company, 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 67,500 square feet of leased office space in Tel Aviv, Israel at an aggregate rental cost of approximately $1.2 million in 2006. The lease for our principal offices expires in June 2010. In the United States, we lease approximately 12,000 square feet of office space in Fair Lawn, New Jersey

expiring in September 2007, approximately 3,156 square feet in Sunnyvale, California expiring in April 2010 and approximately 22,000 square feet in Bedford, New Hampshire expiring in February 2011. We also lease approximately 2,600 square feet in Hong Kong expiring in May 2009, approximately 3000 square feet in the United Kingdom expiring in November 2007, approximately 6,500 square feet in China expiring in December 2008, approximately 900 square feet in Japan expiring in January 2008, approximately 1200 square feet in France expiring in March 2009 and approximately 1000 square feet in the Korea expiring in December 2007. The aggregate annual rent for our sales and service offices in the United States, Hong Kong, China, Japan the United Kingdom, Korea and France was approximately $1.2 million in 2006.

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.

We have eight wholly-owned subsidiaries: RADVISION 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.

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 in U.S. dollars or are linked to the dollar and a majority of our expenses are 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 Statement 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 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 approximately 450 customers worldwide including, Aethra, Alcatel, Broadreach, Cisco, Comverse, GS Plus, LifeSize, Microsoft, Nortel, NTT/DoCoMo, Orange Telecom, Philips, Review Video, Samsung, Siemens, Sony, Telecom Italy and Wisespot.

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 Click to Meet product line provides a unique highly scalable solution for desktop video collaboration and is sold 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 for SIP, MEGACO/H.248, MGCP, H.323, and 3G-324M. It also includes 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.

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 such as those from Cisco, Sony, Microsoft and Alcatel. 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

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, inventory valuation, goodwill and intangible assets, warranty, income tax valuation allowance, tax contingencies and contingencies. 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 web site 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, upgrade protection 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; and (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.

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.

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. 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 (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.

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 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 changes or losses become known.

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.

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. 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, 2006 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.

Tax Valuation Allowance. Estimates and judgments are required in the determination of the recoverability of certain of the deferred tax assets, which arise from net operating losses and temporary differences between the tax and financial statement bases of assets and liabilities. Statement of Financial Accounting Standards, or SFAS, No. 109, Accounting for Income Taxes, requires that the deferred tax assets be reduced by a valuation allowance, if based on the weight of available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods.

In evaluating our ability to recover our deferred tax assets, in full or in part, we consider all available positive and negative evidence including our past operating results, the existence of cumulative losses in the most recent fiscal years and our forecast of future taxable income on a jurisdiction by jurisdiction basis. In determining future taxable income, we are responsible for assumptions utilized, including the amount of Israel and international pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we use to manage the underlying businesses.

Based on estimates of future taxable profits and losses in certain foreign tax jurisdictions, we determined that a valuation allowance of $1.4 million was required for specific tax loss carryforwards and other temporary differences as of December 31, 2006. If these estimates prove inaccurate, a change in the valuation allowance could be required in the future.

Tax contingencies. Like most companies, domestic and foreign tax authorities periodically audit our income tax returns. These audits include questions regarding our tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating the exposure associated with our various tax filing positions, including state, foreign and local taxes, we record reserve for probable exposures. A number of years may elapse before a particular matter, for which we have established a reserve, is audited and fully resolved. The estimate of our tax contingency reserve contains uncertainty because management must use judgment to estimate the exposure associated with our various filing positions. Although management believes that the estimates and judgments about the tax contingencies are reasonable, actual results could differ, and we may be exposed to gains or losses that could be material. To the extent we prevail in matters for which reserves have been established, or are required to pay amounts in excess of the reserve, our effective tax rate in a given financial statements period could be materially affected. An unfavorable tax settlement would require use of our cash and result in an increase in our effective tax rate in the year of resolution. A favorable tax settlement would be recognized as a reduction in our effective tax rate in the year of resolution.

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 and support services. We price our networking products on a per unit basis, and grant discounts based upon unit volumes. 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 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, overhead related to manufacturing and depreciation of manufacturing equipment. 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, 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.

Results of Operations

The following discussion of our results of operations for the years ended December 31, 2004, 2005 and 2006, 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,		
	2004	2005	2006
Revenues	100.0%	100.0%	100.0%
Cost of revenues	21.6	17.7	20.0*
Gross profit	78.4	82.3	80.0
Operating expenses:			
Research and development	27.3	27.2	27.8*
Marketing and selling	37.1	33.2	33.7*
General and administrative	7.6	6.3	7.1*
Patent settlement reserve	--	--	2.1

	December 31,		
Total operating expenses	72.0	66.7	70.7
Operating income	6.4	15.6	9.3
Financial income, net	2.9	4.1	6.4
Taxes benefit, net	--	(0.1)	(1.0)
Net income	9.3%	19.8%	16.7%

* Including stock-based compensation recorded in 2006 under Financial Accounting Standards Board Statement No. 123 (revised 2004), *Share-Based Payment,* representing 0.4%, 1.6%, 2.1% and 1.1% of total revenues relating to Cost of revenues, Research and development expenses, Marketing and selling expenses and General and administration expenses, respectively.

Year Ended December 31, 2006 Compared with Year Ended December 31, 2005

Revenues. Revenues increased by 23.0% from $74.0 million for the year ended December 31, 2005 to $91.0 million for the year ended December 31, 2006. This increase was due to a $15.5 million increase in sales of our networking products and a $1.5 million increase in sales of our technology products. The results reflect increased sales in all regions.

Revenues from networking products increased by 30.3% from $51.3 for the year ended December 31, 2005 to $66.8 million for the year ended December 31, 2006. The increase in revenues from networking products was primarily attributable to increased OEM sales to Cisco.

Revenues from technology products increased by 6.6% from $22.7 million for the year ended December 31, 2005 to $24.2 million for the year ended December 31, 2006. The increase in revenues from technology products was attributable to a $2.3 million increase in royalty fees from approximately $4.8 million in 2005 to approximately $7.1 million in 2006. This increase was offset in part by a $1.2 million decrease in software license fee from approximately $9.7 million in 2005 to approximately $8.5 million in 2006.

Revenue from sales to customers in the Americas increased from $40.0 million, or 54.1% of revenue, for the year ended December 31, 2005 to $52.5 million, or 57.7% of revenue, for the year ended December 31, 2006, an increase of $12.5 million, or 31.3%. This increase in sales to customers in the Americas was primarily attributable to increased OEM sales to Cisco.

Revenue from sales to customers in Europe and the Middle East increased from $20.9 million, or 28.2% of revenue, for the year ended December 31, 2005 to $23.1 million, or 25.4% of revenue, for the year ended December 31, 2006, an increase of $2.2 million, or 10.5%. This increase in sales to customers in Europe and the Middle East was primarily attributable to increased sales of our networking products.

Revenue from sales to customers in the Asia-Pacific region increased from $13.1 million, or 17.6% of revenue, for the year ended December 31, 2005 to $15.4 million, or 17.0% of revenue, for the year ended December 31, 2006, an increase of $2.3 million, or 17.6%. This increase in sales to customers in the Asia Pacific region is primarily attributable to increased sales of our networking products mainly in China, Australia, Hong Kong and Korea.

Cost of Revenues. Cost of revenues increased from $13.1 million for the year ended December 31, 2005 to $18.2 million for the year ended December 31, 2006, an increase of $5.1 million, or 38.6%. Gross profit as a percentage of revenues decreased from 82.3% for the year ended December 31, 2005 to 80.0% for the year ended December 31, 2006. The decrease in gross profit margin resulted from an increase in our networking product sales which have lower profit margins. In addition, cost of revenues for the year ended December 31, 2006 included $373,000 of stock-based compensation recorded under Financial Accounting Standards Board Statement No. 123 (revised 2004), *Share-Based Payment*, or FASB No. 123(R).

Research and Development Expenses. Research and development expenses increased from $20.1 million for the year ended December 31, 2005 to $25.3 million for the year ended December 31, 2006, an increase of $5.2 million, or 26.0%. The increase was primarily attributable to an increase in the number of research and development personnel. In addition, research and development expenses for the year ended December 31,

2006 included $1.5 million of stock-based compensation recorded under FASB No. 123(R). Research and development expenses as a percentage of revenues increased from 27.2% for the year ended December 31, 2005 to 27.8% for the year ended December 31, 2006.

Marketing and Selling Expenses. Marketing and selling expenses increased from $24.6 million for the year ended December 31, 2005 to $30.6 million for the year ended December 31, 2006, an increase of $6.0 million, or 24.4%. The increase was primarily attributable to an increase in the number of sales and marketing personnel and increased expenses related to personnel. Marketing and selling expenses as a percentage of revenues increased from 33.2% for the year ended December 31, 2005 to 33.7% for the year ended December 31, 2006. In addition, marketing and selling expenses for the year ended December 31, 2006 included $1.9 million of stock-based compensation recorded under FASB No. 123(R).

General and Administrative Expenses. General and administrative expenses increased from $4.7 million for the year ended December 31, 2005 to $6.5 million for the year ended December 31, 2006, an increase of $1.8 million, or 38.3%. This increase was primarily attributable to $1.0 million of stock-based compensation recorded under FASB No. 123(R) and increased expenses related to personnel. General and administrative expenses as a percentage of revenues increased from 6.3% for the year ended December 31, 2005 to 7.1% for the year ended December 31, 2006.

Patent settlement reserve. In 2005, we received a claim from Avistar Communications Corporation, a U.S. developer of video technologies, alleging that we infringed on ten of their patents. During the second half of 2006, following a number of meetings with Avistar, we had the ability to estimate the portion of the possible settlement related to past due royalties in the amount of approximately $1.9 million.

Financial Income, Net. Financial income, net increased from $3.1 million for the year ended December 31, 2005 to $5.8 million for the year ended December 31, 2006. The increase was primarily a result of higher prevailing interest rates and an increase in funds available for investment. Financial income in 2006 was principally 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.

Taxes on Income. 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.

Year Ended December 31, 2005 Compared with Year Ended December 31, 2004

Revenues. Revenues increased by 15.3% from $64.2 million for the year ended December 31, 2004 to $74.0 million for the year ended December 31, 2005. This increase was due to a $3.3 million increase in sales of our technology products and a $6.5 million increase in sales of our networking products. The increased sales in networking products were derived from our traditional products and sales of our Click to Meet products that we acquired from FVC in March 2005. The results primarily reflect increased sales in the Americas, Asia-Pacific region and Middle East.

Revenues from networking products increased by 14.5% from $44.8 million for the year ended December 31, 2004 to $51.3 million for the year ended December 31, 2005. The increase in revenues from networking products was primarily attributable to $5.1 million revenues from the sales of the Click to Meet products that we acquired from FVC in March 2005.

Revenues from technology products increased by 17.0% from $19.4 million for the year ended December 31, 2004 to $22.7 million for the year ended December 31, 2005. The increase in revenues from technology products was attributable to a $1.4 million increase in software license fees from approximately $8.3 million in 2004 to approximately $9.7 million in 2005, a $0.9 million increase in royalty revenues, and a $1.5 million increase in maintenance revenues. This was offset in part by a $0.5 million decrease in professional services with respect to customization services.

Revenue from sales to customers in the Americas increased from $33.7 million, or 52.0 % of revenue, for the year ended December 31, 2004, to $40.0 million, or 54.1% of revenue, for the year ended December 31, 2005, an increase of $6.3 million, or 18.7%. This increase in sales to customers in the Americas was primarily attributable to increased sales to Cisco and due to revenues from the sales of the Click to Meet products that we acquired from FVC in March 2005.

Revenue from sales to customers in Europe and the Middle East increased from $18.9 million, or 29.4% of revenue, for the year ended December 31, 2004, to $20.9 million, or 28.2% of revenue, for the year ended December 31, 2005, an increase of $2.0 million, or 10.6%, mainly due to increased sales to service providers.

Revenue from sales to customers in the Asia-Pacific region increased from $11.7 million, or 18.2% of revenue, for the year ended December 31, 2004, to $13.1 million, or 17.6% of revenue, for the year ended December 31, 2005, an increase of $1.4 million, or 12.0%. This increase in sales to customers in the Asia-Pacific region is primarily attributable to increase in sales in Korea, Japan and Taiwan.

Cost of Revenues. Cost of revenues decreased from $13.9 million for the year ended December 31, 2004 to $13.1 million for the year ended December 31, 2005, a decrease of $0.8 million, or 5.8%. Gross profit as a percentage of revenues increased from 78.4% for the year ended December 31, 2004 to 82.3% for the year ended December 31, 2005. The increase in gross profit margin resulted from an increase in revenues volume, sales of Click To Meet products which have higher gross margin, and the product mix.

Research and Development. Research and development expenses increased from $17.5 million for the year ended December 31, 2004 to $20.1 million for the year ended December 31, 2005, an increase of $2.6 million, or 14.9%. The increase is primarily attributable to an increase in the number of research and development personnel, mainly to support the acquisition of the Click to Meet products. Research and development expenses as a percentage of revenues remained constant at approximately 27.2% for the years ended December 31, 2004 and 2005.

Marketing and Selling. Marketing and selling expenses increased from $23.8 million for the year ended December 31, 2004 to $24.6 million for the year ended December 31, 2005, an increase of $0.8 million, or 3.4%. Marketing and selling expenses as a percentage of revenues decreased from 37.1% for the year ended December 31, 2004 to 33.2% for the year ended December 31, 2005.

General and Administrative. General and administrative expenses decreased from $4.9 million for the year ended December 31, 2004 to $4.7 million for the year ended December 31, 2005, a decrease of $0.2 million, or 4.1%. General and administrative expenses as a percentage of revenues decreased from 7.6% for the year ended December 31, 2004 to 6.3% for the year ended December 31, 2005.

Financial Income, Net. Financial income increased from $1.9 million for the year ended December 31, 2004 to $3.1 million for the year ended December 31, 2005, principally as a result of higher prevailing interest rates and higher cash and cash equivalent, deposits and marketable securities balances. Financial income in 2005 was principally 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.

Taxes on Income. Income tax benefits were $0.1 million for the year ended December 31, 2005. The benefit mainly derived from an increase in deferred income tax assets on temporary differences. We did not record an income tax benefit in 2004.

Consolidated Balance Sheet Data

Trade Receivables. Trade receivables increased from $12.3 million at December 31, 2005 to $12.9 million at December 31, 2006, an increase of $0.6 million, or 4.8%. This increase was primarily attributable to increased sales volume.

Allowance for Doubtful Accounts. Allowance for doubtful accounts remained constant at approximately $0.7 million at December 31, 2005 and 2006. Allowance for doubtful accounts as a percentage of trade receivables decreased from 5.4% as of December 31, 2005 to 5.1% as of December 31, 2006.

Other Receivables and Prepaid Expenses. Other receivables and prepaid expenses increased from $4.3 million at December 31, 2005 to $5.8 million at December 31, 2006, an increase of $1.5 million, or 34.9%. This increase was primarily attributable to an increase in government authorities receivables and deferred tax assets.

Inventories. Inventories increased from $2.6 million at December 31, 2005 to $3.0 million at December 31, 2006, an increase of $0.4 million, or 15.4%. The number of inventory days outstanding decreased from approximately 72 days at December 31, 2005 to approximately 61 at December 31, 2006. The increase in inventory level was primarily attributed to changes we performed in our inventory management.

Trade Payables. Trade payables increased from $1.8 million at December 31, 2005 to $2.9 million at December 31, 2006, an increase of $1.1 million, or 61.1%. The increase was primarily attributed to an increase in our operating volume.

Other Payables, Accrued Expenses and Deferred Revenues. Other payables, accrued expenses and deferred revenues increased from $20.7 million at December 31, 2005 to $22.6 million at December 31, 2006, an increase of $1.9 million, or 9.2%. The increase was primarily attributed

to a $2.0 patent settlement reserve that we recorded for the year ended December 31, 2006.

Quarterly Results of Operations

The following tables present consolidated statements of operations data for each of the eight fiscal quarters ended December 31, 2006, in dollars and as a percentage of revenues. In management s opinion, this unaudited information has been prepared on the same basis as our audited consolidated financial statements and includes all adjustments, consisting only of normal recurring adjustments, necessary for fair presentation of the unaudited information for the quarters presented. The results of operations for any quarter are not necessarily indicative of results that we might achieve for any subsequent periods.

	Mar. 31, 2005	June 30, 2005	Sept. 30, 2005	Dec. 31, 2005	Mar. 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006
Revenues	$ 16,280	$ 17,473	$ 19,089	$ 21,170	$ 20,136	$ 22,004	$ 23,622	$ 25,261
Cost of revenues	2,776	3,103	3,401	3,830	3,651	4,429	4,833	5,252
Gross profit	13,504	14,370	15,688	17,340	16,485	17,575	18,789	20,009
Operating expenses:								
Research and development	4,655	5,054	5,171	5,230	5,745	6,160	6,571	6,855
Marketing and selling	5,757	6,006	6,165	6,660	7,399	7,767	7,635	7,847
General and administrative	1,159	1,152	1,165	1,201	1,461	1,515	1,629	1,887
Patent settlement reserve	-	-	-	-	-	-	1,900	-
Operating income	1,933	2,158	3,187	4,249	1,880	2,133	1,054	3,420
Financial income, net	561	768	774	948	1,271	1,433	1,500	1,621
Tax benefit, net	-	(30)	(11)	153	254	355	569	(2,114)
Net income	$ 2,494	$ 2,896	$ 3,950	$ 5,350	$ 2,897	$ 3,211	$ 1,985	$ 7,155
As a percentage of revenues:								
Revenues	100%	100%	100%	100%	100%	100%	100%	100%
Cost of revenues	17	18	18	18	18	20	20	21
Gross profit	83	82	82	82	82	80	80	79
Operating expenses:								
Research and development	29	29	27	25	29	28	28	27
Marketing and selling	35	34	32	31	37	35	32	31
General and administrative	7	7	6	6	7	7	7	8
Patent settlement reserve	-	-	-	-	-	-	8	-
Operating income	12	12	17	20	9	10	5	13
Financial income, net	3	4	4	4	6	7	6	7