UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from _____ to _____

OR

☐ **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 0-29452

RADCOM Ltd.
(Exact name of registrant as specified in its charter)

Israel
(Jurisdiction of incorporation or organization)

24 Raoul Wallenberg Street, Tel-Aviv 69719, Israel
(Address of principal executive offices)

Jonathan Burgin: (+972) 3 645 5055 (tel), (+972) 3 647 4681 (fax)
24 Raoul Wallenberg Street, Tel Aviv 69719, Israel
(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

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 0.20 par value per share	**NASDAQ Capital 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 **May 31, 2008 following the issuer's one-for-four reverse share split: 5,075,910 Ordinary Shares, NIS 0.20 par value per share. (As of December 31, 2007, prior to the reverse split effect, the close of the period covered by this annual report, there were 16,364,888 Ordinary Shares, NIS 0.05 par value per share)** .Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☒

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

U.S. GAAP ☒

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

Other ☐

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

Item 17 ☐

Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

INTRODUCTION

RADCOM develops, manufactures, markets and supports innovative network test and service monitoring solutions for communications service providers and equipment vendors. We were incorporated in 1985 under the laws of the State of Israel and commenced operations in 1991.

Except for the historical information contained herein, the statements contained in this annual report are forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, with respect to our business, financial condition and results of operations. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including all the risks discussed in "Item 3—Key Information—Risk Factors" and elsewhere in this annual report.

We urge you to consider that statements that use the terms "believe," "do not believe," "expect," "plan," "intend," "estimate," "anticipate" and similar expressions are intended to identify forward-looking statements. These statements reflect our current views regarding future events and are based on assumptions and are subject to risks and uncertainties. Except as required by applicable law, including the securities laws of the United States, we do not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

As used in this annual report, the terms "we," "us," "our," "RADCOM" and the "Company" mean RADCOM Ltd. and its subsidiaries, unless otherwise indicated.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

We have derived the following selected consolidated financial data as of December 31, 2006 and 2007 and for each of the years ended December 31, 2005, 2006 and 2007 from our consolidated financial statements and notes included in this annual report. The selected consolidated financial data as of December 31, 2003, 2004 and 2005 and for the years ended December 31, 2003 and 2004 have been derived from audited consolidated financial statements not included in this annual report. We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States.

You should read the selected consolidated financial data together with “Item 5—Operating and Financial Review and Prospects” and our consolidated financial statements and related notes included elsewhere in this annual report. All references to “dollar,” “dollars” or “$” in this annual report are to the “U.S. dollar” or “U.S. dollars.” All references to “NIS” are to the New Israeli Shekels.

	Year Ended December 31, (in thousands of U.S. dollars – except weighted average number of ordinary shares, and basic and diluted income (loss) per ordinary share)				
	2003	2004	2005	2006	2007
Statement of Operations Data:					
Revenues:					
Products	$ 10,228	$ 13,956	$ 20,514	$ 20,641	$ 10,158
Services	975	2,099	1,826	2,900	3339
	11,203	16,055	22,340	23,541	13,497
Cost of revenues:					
Products	4,854	5,045	7,290	7,213	4,927
Services	40	82	108	183	466
	4,894	5,127	7,398	7,396	5,393
Gross profit	6,309	10,928	14,942	16,145	8,104
Operating expenses:					
Research and development	5,593	5,232	5,815	6,826	7,378
Less - royalty-bearing participation	1,997	1,722	1,735	1,904	2,096
Research and development, net	3,596	3,510	4,080	4,922	5,282
Sales and marketing	7,411	6,983	7,881	9,196	9,279
General and administrative	1,620	2,191	1,689	2,553	2,391
Total operating expenses	12,627	12,684	13,650	16,671	16,952
Operating (loss) income	(6,318)	(1,756)	1,292	(526)	(8,848)
Financing income, net	93	78	235	472	265
Net (loss) income	(6,225)	(1,678)	1,527	(54)	(8,583)
Basic net income (loss) per ordinary share	$ (2.37)	$ (0.50)	$ 0.42	$ (0.01)	$ (2.10)
Weighted average number of ordinary shares used to compute basic net income (loss) per ordinary share	2,623,296	3,363,377	3,674,023	3,973,509	4,084,789
Diluted net income (loss) per ordinary share	$ (2.37)	$ (0.50)	$ 0.39	$ (0.01)	$ (2.10)
Weighted average number of ordinary shares used to compute diluted net income (loss) per ordinary share	2,623,296	3,363,377	3,890,396	3,973,509	4,084,789
Balance Sheet Data:					
Working capital	$ 5,702	$ 10,051	$ 12,987	$ 15,783	$ 7,303
Total assets	$ 14,403	$ 20,129	$ 23,790	$ 27,753	$ 18,896
Shareholders' equity	$ 6,246	$ 10,024	$ 12,485	$ 15,373	$ 7,578
Share capital	$ 57	$ 101	$ 107	$ 120	$ 122

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Our business, operating results and financial condition could be seriously harmed due to any of the following risks, among others. If we do not successfully address the risks to which we are subject, we could experience a material adverse effect on our business, results of operations and financial condition and our share price may decline. We cannot assure you that we will successfully address any of these risks.

Risks Related to Our Business and Our Industry

We may incur losses in the future.

Although we had net income in the fiscal year ended December 31, 2005, in the fiscal years ended December 31, 2006 and 2007, we incurred losses, and we also incurred a loss in the first quarter of 2008 of $0.9 million. We may incur losses in the future, which could materially affect our cash, liquidity and adversely affect the value and market price of our shares. See item 5.B, Liquidity and Capital Resources for further discussion.

We have a history of quarterly fluctuations and unpredictability in our results of operations and expect these fluctuations to continue. This may cause our stock price to decline.

We have experienced and expect to experience in the future significant fluctuations in our quarterly results of operations. Factors that may contribute to fluctuations in our quarterly results of operations include:

- the variation in size and timing of individual purchases by our customers;
- absence of long-term customer purchase contracts;
- seasonal factors that may affect capital spending by customers, such as the varying fiscal year-ends of customers and the reduction in business during the summer months, particularly in Europe;
- the relatively long sale cycles for our products;
- competitive conditions in our markets;
- the timing of the introduction and market acceptance of new products or product enhancements by us and by our customers, competitors and suppliers;
- changes in the level of operating expenses relative to revenues;
- product quality problems;
- supply interruptions;
- changes in global or regional economic conditions or in the telecommunications industry;
- delays in purchasing decisions or customer orders due to customer consolidation;
- changes in the mix of products sold; and
- size and timing of approval of grants from the Government of Israel.

We believe, therefore, that period-to-period comparisons of our operating results should not be relied upon as a reliable indication of future performance.

- Our revenues in any period generally have been, and may continue to be, derived from a relatively small number of orders with relatively high average revenues per order. Therefore, the loss of any order or a delay in closing a transaction could have a more significant impact on our quarterly revenues and results of operations than on those of companies with relatively high volumes of sales or low revenues per order. Our products generally are shipped within 15 to 30 days after orders are received. As a result, we generally do not have a significant backlog of orders, and revenues in any quarter are substantially dependent on orders booked, shipped and installed in that quarter.

We may experience a delay in generating or recognizing revenues for a number of reasons and based on revenue recognition accounting requirements. Unfulfilled orders at the beginning of each quarter are typically substantially less than our expected revenues for that quarter. Therefore, we depend on obtaining orders in a quarter for shipment in that quarter to achieve our revenue objectives. Moreover, demand for our products may fluctuate as a result of seasonality.

Our revenues for a particular period may also be difficult to predict and may be adversely affected if we experience a non-linear (back-end loaded) sales pattern during the period. We generally experience significantly higher levels of sales towards the end of a period as a result of customers submitting their orders late in the period or as a result of manufacturing issues or component shortages which may delay shipments. Such non-linearity in shipments can increase costs, as irregular shipment patterns result in periods of underutilized capacity and periods when overtime expenses may be incurred, and also lead to additional costs associated with inventory planning and management. Furthermore, orders received towards the end of the period may not ship within the period due to our manufacturing lead times.

- Except for our cost of revenues, most of our costs, including personnel and facilities costs, are relatively fixed at levels based on anticipated revenue. As a result, a decline in revenue from even a limited number of orders could result in our failure to achieve expected revenue in any quarter and unanticipated variations in the timing of realization of revenue could cause significant variations in our quarterly operating results and could result in losses.

- If our revenues in any quarter remain level or decline in comparison to any prior quarter, our financial results could be materially adversely affected. In addition, if we do not reduce our expenses in a timely manner in response to level or declining revenues, our financial results for that quarter could be materially adversely affected.

- Due to the factors described above, as well as other unanticipated factors, in future quarters our results of operations could fail to meet the expectations of public market analysts or investors. If this occurs, the price of our ordinary shares may fall.

A slowdown in the telecommunications industry generally, or in the sectors of the industry that we target (currently primarily 3G and 3.5G Cellular and triple-play networks), could materially adversely affect our revenues and results of operations.

Our future success is dependent upon the continued growth of the telecommunications industry. The global telecommunications industry is evolving rapidly, and it is difficult to predict its potential growth rate or future trends in technology development. The deregulation, privatization and economic globalization of the worldwide telecommunications market that have resulted in increased competition and escalating demand for new technologies and services may not continue in a manner favorable to us or our business strategies. In addition, the growth in demand for Internet services and the resulting need for high speed or enhanced telecommunications equipment may not continue at its current rate or at all.

Our future success depends upon the increased utilization of our test solutions by next-generation network operators and telecommunications equipment vendors. Industry-wide network equipment and infrastructure development driving the demand for our products and services may be delayed or prevented by a variety of factors, including cost, regulatory obstacles or the lack of, or reduction in, consumer demand for advanced telecommunications products and services. Telecommunications equipment vendors and network operators may not develop new technology or enhance current technology. Further, any such new technology or enhancements may not lead to greater demand for our products.

Continued negative trends and factors affecting the telecommunications industry specifically and the economy in general may result in reduced demand and pricing pressure on our products.

Negative trends and factors affecting the telecommunications industry specifically and the economy in general over the past several years have negatively affected our results of operations. As a result of the build-up of capacity by telecommunications companies in the late 1990s, the telecommunications sector has been facing significant challenges from excess capacity, new technologies and intense price competition. This excess network capacity, combined with the failure of many competitors in the telecommunications sector, has contributed to delayed adoption of next-generation cellular and wireline networks. In addition, weak economic conditions that started during the second half of 2007 resulted in reduced capital expenditures, reluctance to commit to long-term capital outlays and longer sales processes for network procurements by our customers. Although this trend has abated, we cannot predict the duration of the improvement or the impact it may have on our results of operations. Furthermore, during 2007, we were affected by a slowdown in the pace of new 3G and 3.5G Cellular deployments. Generally, if economic growth in the United States and other countries' economies is slowed, many customers may delay or reduce technology purchases. This could result in reductions in sales of our products, longer sales cycles, slower adoption of new technologies and increased price competition. In addition, weakness in the end-user market could negatively affect the cash flow of our distributors and resellers who could, in turn, delay paying their obligations to us. This would increase our credit risk exposure and cause delays in our recognition of revenues on future sales to these customers. Any of these events would likely harm our business, operating results and financial condition. If global economic and market conditions, or economic conditions in the United States or other key markets deteriorate, we may experience material impacts on our business, operating results, and financial condition. Finally, an overall trend toward industry consolidation and rationalization among our customers, competitors and suppliers can affect our business, especially if any of the sectors we service or the countries or regions in which we do business are affected. Industry consolidation may slow down the implementation of new systems and technologies. Any future weakness in the economy or the telecommunications industry could affect us through reduced demand for our products, leading to a reduction in revenues and a material adverse effect on our business and results of operations.

The market for our products is characterized by changing technology, requirements, standards and products, and we may be materially adversely affected if we do not respond promptly and effectively to such changes.

The telecommunications market for our products is characterized by rapidly changing technology, changing customer requirements, evolving industry standards and frequent new product introductions, certain changes of which could reduce the market for our products or require us to develop new products. For example, the new IPTV market required us to develop a new product to keep ahead with customer requirements.

New or enhanced telecommunications and data communications-related products developed by other companies could be incompatible with our products. Therefore, our timely access to information concerning, and our ability to anticipate, changes in technology and customer requirements and the emergence of new industry standards, as well as our ability to develop, manufacture and market new and enhanced products successfully and on a timely basis, will be significant factors in our ability to remain competitive. For example, many of our strategic initiatives and investments are aimed at meeting the requirements of application providers of 3G and 3.5G Cellular and triple-play networks. If networking evolves toward greater emphasis on application providers, we believe we have positioned ourselves well relative to our key competitors. If it does not, however, our initiatives and investments in this area may be of no or limited value. As a result we cannot quantify the impact of new product introductions on our future operations.

In addition, as a result of the need to develop new and enhanced products, we expect to continue making investments in research and development before or after product introductions. Some of our research and development activities relate to long-term projects, and these activities may fail to achieve their technical or business targets and may be terminated at any point, and revenues expected from these activities may not be received for a substantial time, if at all.

Our inventory may become obsolete or unusable.

We make advance purchases of various component parts in relatively large quantities to ensure that we have an adequate and readily available supply. Our failure to accurately project our needs for these components and the demand for our products that incorporate them, or changes in our business strategy or technology that reduce our need for these components, could result in these components becoming obsolete prior to their intended use or otherwise unusable in our business. This would result in a write-off of inventories for these components.

Any reversal or slowdown in deregulation of telecommunications markets could materially harm the markets for our products.

Future growth in the markets for our products will depend, in part, on the continued privatization, deregulation and the restructuring of telecommunications markets worldwide, as the demand for our products is generally higher when a competitive environment exists. Any reversal or slowdown in the pace of this privatization, deregulation or restructuring could materially harm the markets for our products. Moreover, the consequences of deregulation are subject to many uncertainties, including judicial and administrative proceedings that affect the pace at which the changes contemplated by deregulation occur, and other regulatory, economic and political factors. Furthermore, the uncertainties associated with deregulation have in the past, and could in the future, cause our customers to delay purchasing decisions pending the resolution of these uncertainties.

Our business could be harmed if we were to lose the services of one or more members of our senior management team, or if we are unable to attract and retain qualified personnel.

Our future growth and success depends to a significant extent upon the continuing services of our executive officers and other key employees. We do not have long-term employment agreements or non-competition agreements with any of our employees. Competition for qualified management and other high-level telecommunications industry personnel is intense, and we may not be successful in attracting and retaining qualified personnel. If we lose the services of any key employees, we may not be able to manage our business successfully or to achieve our business objectives.

Our success also depends on our ability to identify, attract and retain qualified technical, sales, finance and management personnel. We have experienced, and may continue to experience, difficulties in hiring and retaining candidates with appropriate qualifications. If we do not succeed in hiring and retaining candidates with appropriate qualifications, our revenues and product development efforts could be harmed.

We may lose significant market share as a result of intense competition in the markets for our existing and future products.

Many companies compete with us in the market for network testing and service monitoring solutions. We expect that competition will increase in the future, both with respect to products that we currently offer and products that we are developing. Moreover, manufacturers of data communications and telecommunications equipment, which are current and potential customers of ours, may in the future incorporate into their products capabilities similar to ours, which would reduce the demand for our products. In addition, affiliates of ours that currently provide services to us may, in the future, compete with us.

Many of our existing and potential competitors have substantially greater resources, including financial, technological, engineering, manufacturing and marketing and distribution capabilities, and several of them may enjoy greater market recognition than us. We may not be able to compete effectively with our competitors. A failure to do so could adversely affect our revenues and profitability.

We are dependent upon the success of distributors and sales representatives who are under no obligation to distribute our products.

We are highly dependent upon our distributors for their active marketing and sales efforts and for the distribution of our products and sales representatives in North America to a lesser degree. Many of our distributors outside of North America and China are the only entities engaged in the distribution of our products in their respective geographical areas. Typically, our arrangements with them do not prevent our distributors from distributing competing products, or require them to distribute our products in the future. Our distributors may not give a high priority to marketing and supporting our products. Our results of operations could be materially adversely affected by changes in the financial situation, business or marketing strategies of our distributors. Any such changes could occur suddenly and rapidly.

We may lose customers and/or distributors on whom we currently depend and we may not succeed in developing new distribution channels.

We had one customer in North America who accounted for more than 10% of our sales in each of 2005 and 2006. This customer reduced its orders in 2007, thereby accounting for less than 10% of our sales, which caused a decrease in our operating results.

Our seven largest distributors accounted for a total of approximately 36.1% of our sales in 2005, 40.7% of our sales in 2006 and 39.3% of our sales in 2007. One of our largest distributors in Europe accounted for about 10% of our sales in 2005. None of our distributors accounted for more than 10% of our sales in 2006 or 2007. If we terminate or lose any of our distributors or if they downsize significantly, we may not be successful in replacing them on a timely basis, or at all. Any changes in our distribution and sales channels, particularly the loss of a major distributor or our inability to establish effective distribution and sales channels for new products, will impact our ability to sell our products and result in a loss of revenues.

We could be subject to warranty claims and product recalls, which could be very expensive and harm our financial condition.

Products as complex as ours sometimes contain undetected errors. These errors can cause delays in product introductions or require design modifications. In addition, we are dependent on other suppliers for key components that are incorporated in our products. Defects in systems in which our products are deployed, whether resulting from faults in our products or products supplied by others, due to faulty installation or any other cause, may result in customer dissatisfaction, product return and, potentially, product liability claims being filed against us. Our warranties permit customers to return defective products for repair. The warranty period is for one year. Any failure of a system in which our products are deployed (whether or not our products are the cause), any product recall or product liability claims with any associated negative publicity, could result in the loss of, or delay in, market acceptance of our products and harm to our business.

We incorporate open source technology in our products, which may expose us to liability and have a material impact on our product development and sales.

Some of our products utilize open source technologies. These technologies are licensed to us on varying license structures, including the General Public License. This license and others like it pose a potential risk to products in the event they are inappropriately integrated. In the event that we have not, or do not in the future, properly integrate software that is subject to such licenses into our products, we may be required to disclose our own source code to the public, which could enable our competitors to eliminate any technological advantage that our products may have over theirs. Any such requirement to disclose our source code or other confidential information related to our products could, therefore, materially adversely affect our competitive advantage and impact our business results of operations and financial condition.

We depend on limited sources for key components and if we are unable to obtain these components when needed, we will experience delays in manufacturing our products.

We currently obtain key components for our products from either a single supplier or a limited number of suppliers. We do not have long-term supply contracts with any of our existing suppliers. This presents the following risks:

- Delays in delivery or shortages in components could interrupt and delay manufacturing and result in cancellations of orders for our products.
- Suppliers could increase component prices significantly and with immediate effect.
- We may not be able to locate alternative sources for product components.
- Suppliers could discontinue the manufacture or supply of components used in our products. This may require us to modify our products, which may cause delays in product shipments, increased manufacturing costs and increased product prices.
- We may be required to hold more inventory than would be immediately required in order to avoid problems from shortages or discontinuance.
- We have experienced delays and shortages in the supply of components on more than one occasion in the past. This resulted in delays in our delivering products to our customers.

We depend on a limited number of independent manufacturers, which reduces our ability to control our manufacturing process.

We rely on a limited number of independent manufacturers, some of which are small, privately held companies, to provide certain assembly services to our specifications. We do not have any long-term supply agreements with any third-party manufacturer. If our assembly services are reduced or interrupted, our business, financial condition and results of operations could be adversely affected until we are able to establish sufficient assembly services supply from alternative sources. Alternative manufacturing sources may not be able to meet our future requirements, and existing or alternative sources may not continue to be available to us at favorable prices.

If we do not effectively manage our planned growth, our business and operating results could be adversely affected.

Our planned growth has placed, and is expected to continue to place, significant demands on our management and our administrative and operational resources. To manage our planned expansion effectively, we need to continue to develop and improve our operational and financial systems, sales and marketing capabilities and expand, train, retain, manage and motivate our employee base. Our systems, procedures or controls may not be adequate to support our operations and our management may not be able to successfully exploit future market opportunities, including, without limitation, strategic partnerships and joint ventures, or successfully manage our relationships with customers and other third parties. We may not continue to grow and, if we do, we may not effectively manage such planned growth. Any failure to manage planned growth could have an adverse effect on our business, financial condition and results of operations.

Our proprietary technology is difficult to protect and unauthorized use of our proprietary technology by third parties may impair our ability to compete effectively.

Our success and ability to compete depend in large part upon protecting our proprietary technology. We rely upon a combination of contractual rights, software licenses, trade secrets, copyrights, nondisclosure agreements and technical measures to establish and protect our intellectual property rights in our products and technologies. In addition, we sometimes enter into non-competition, non-disclosure and confidentiality agreements with our employees, distributors and manufacturers' representatives, and certain suppliers with access to sensitive information. However, we have no registered patents, and these measures may not be adequate to protect our technology from third-party infringement. Moreover, pursuant to current U.S. and Israeli laws, we may not be able to enforce certain existing non-competition agreements. Additionally, effective trademark, patent and trade secret protection may not be available in every country in which we offer, or intend to offer, our products.

We may be subject to litigation, including without limitation, regarding infringement claims or claims that we have violated intellectual property rights, which could seriously harm our business.

Third parties may from time to time assert against us infringement claims or claims that we have violated a patent or infringed a copyright, trademark or other proprietary right belonging to them. If such infringement were found to exist, we might be required to modify our products or intellectual property or obtain a license or right to use such technology or intellectual property. Any infringement claim, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

Yehuda Zisapel and Zohar Zisapel, beneficially own approximately 39.3% of our ordinary shares and therefore have significant influence over the outcome of matters requiring shareholder approval, including the election of directors.

As of May 31, 2008, Yehuda Zisapel and Zohar Zisapel (our Chairman of the Board of Directors), who are brothers, beneficially owned an aggregate of 1,993,447 ordinary shares, representing approximately 39.3% of the ordinary shares. As a result, Yehuda Zisapel and Zohar Zisapel have significant influence over the outcome of various actions that require shareholder approval, including the election of our directors. In addition, Yehuda Zisapel and Zohar Zisapel may be able to delay or prevent a transaction in which shareholders might receive a premium over the prevailing market price for their shares and prevent changes in control of management.

We engage in transactions, and compete, with companies controlled by Yehuda Zisapel and Zohar Zisapel, which may result in potential conflicts.

We are engaged in, and expect to continue to be engaged in, numerous transactions with companies controlled by Yehuda Zisapel and Zohar Zisapel. We believe that such transactions are beneficial to us and are generally conducted upon terms that are no less favorable to us than would be available from unaffiliated third parties. Nevertheless, these transactions may result in a conflict of interest between what is best for us and the interests of the other parties in such transactions. In addition, several products of such affiliated companies may be used in place of our products, and it is possible that direct competition between us and one or more of such affiliated companies may develop in the future. Moreover, opportunities to develop, manufacture, or sell new products (or otherwise enter new fields) may arise in the future and be pursued by one or more affiliated companies instead of or in competition with us. This could materially adversely affect our business and results of operations.

We may encounter difficulties with our international operations and sales which could affect our results of operations.

While we are headquartered in Israel, approximately 96.6% of our sales in 2005, 98.5% of our sales in 2006 and 96.4% of our sales in 2007 were generated outside of Israel, including in North America, Europe, Asia, South America and Australia. This subjects us to many risks inherent in international business activities, including:

- national standardization and certification requirements and changes in tax law and regulatory requirements;
- longer sales cycles, especially upon entry into a new geographic market;
- export license requirements;
- trade restrictions;
- changes in tariffs;
- currency fluctuations;
- economic or political instability;
- greater difficulty in safeguarding intellectual property; and
- difficulty in managing overseas subsidiaries, branches or international operations.

We may encounter significant difficulties in connection with the sale of our products in international markets as a result of one or more of these factors. In particular, the significant devaluation of the U.S. dollar vis-à-vis the NIS during 2007 had and may continue to have an adverse effect on our operations, as we derive most of our revenues in U.S. dollars while we incur most of our expenses in NIS.

Any inability to comply with Section 404 of the Sarbanes-Oxley Act of 2002 regarding internal control attestation may negatively impact the report on our financial statements to be provided by our independent auditors.

We are subject to the reporting requirements of the United States Securities and Exchange Commission (the "SEC"). The SEC, as directed by Section 404 of the United States Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), adopted rules requiring public companies to include a report of management on the Company's internal control over financial reporting in its annual report on Form 10-K or Form 20-F, as the case may be, that contains an assessment by management of the effectiveness of the Company's internal control over financial reporting. In addition, the Company's independent registered public accountants must attest to and report on management's assessment of the effectiveness of the Company's internal control over financial reporting. Our management may not conclude that our internal controls over financial reporting are effective. Moreover, even if our management does conclude that our internal controls over financial reporting are effective, if the independent accountants are not satisfied with our internal controls, the level at which our controls are documented, designed, operated or reviewed, or if the independent accountants interpret the requirements, rules or regulations differently from us, they may issue an adverse opinion on our internal control over financial reporting. Any of these possible outcomes could result in a loss of investor confidence in the reliability of our financial statements, which could negatively impact the market price of our shares.

As a non-accelerated filer, we must now comply with the annual disclosure requirements of Section 404 regarding management's report on internal control over financial reporting. Pursuant to Section 404(b), we will be required to provide an independent auditor's attestation in the 2009 annual report, i.e., for the year ended December 31, 2009.

If we determine that we are not in compliance with Section 404, we may be required to implement new internal control procedures and re-evaluate our financial reporting. We may experience higher than anticipated operating expenses as well as outside auditor fees during the implementation of these changes and thereafter. Further, we may need to hire additional qualified personnel in order for us to be compliant with Section 404. If we are unable to implement these changes effectively or efficiently, it could harm our operations, financial reporting or financial results and could result in our conclusion that our internal controls over financial reporting are not effective.

Our adoption of SFAS 123(R) will result in ongoing accounting charges that will significantly reduce our net income.

In December 2004, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"), which requires all companies to measure compensation expense for all share-based payments (including employee stock options) at fair value, and which became effective for public companies for annual reporting periods of fiscal years beginning after June 15, 2005. Our adoption of SFAS 123(R) required us to record an expense of $564,000 for stock-based compensation plans during 2007 and will continue to result in ongoing accounting charges that will significantly reduce our net income. See Note 6 of our Notes to the Consolidated Financial Statements for further information.

If we are characterized as a passive foreign investment company, our U.S. shareholders may suffer adverse tax consequences.

As more fully described below in "Item 10—Additional Information—Taxation—United States Federal Income Tax Considerations—Taxation of Ordinary Shares—Passive Foreign Investment Company Status," if for any taxable year our passive income, or our assets that produce (or are held for the production of) passive income, exceed specified levels, we may be characterized as a passive foreign investment company ("PFIC") for U.S. federal income tax purposes. This characterization could result in adverse U.S. tax consequences to our U.S. shareholders, including gain on the disposition of our ordinary shares being treated as ordinary income and any resulting U.S. federal income tax being increased by an interest charge. Rules similar to those applicable to dispositions generally will apply to certain "excess distributions" in respect of our ordinary shares. We believe that we were not a PFIC for 2007 based upon our income, assets, activities and market capitalization during such year. However, there are no assurances that the IRS will agree with our conclusion or that we will not become a PFIC in subsequent taxable years. U.S. shareholders should consult with their own U.S. tax advisors with respect to the U.S. tax consequences of investing in our ordinary shares.

Volatility of the market price of our ordinary shares could adversely affect us and our shareholders.

The market price of our ordinary shares has been and is likely to continue to be highly volatile and could be subject to wide fluctuations in response to numerous factors, including the following:

- market conditions or trends in our industry;
- political, economic and other developments in the State of Israel and worldwide;
- actual or anticipated variations in our quarterly operating results or those of our competitors;
- announcements by us or our competitors of technological innovations or new and enhanced products;
- changes in the market valuations of our competitors;
- announcements by us or our competitors of significant acquisitions;
- entry into strategic partnerships or joint ventures by us or our competitors; and
- additions or departures of key personnel.

In addition, the stock market in general, and the market for Israeli and technology companies in particular, has been highly volatile. Many of these factors are beyond our control and may materially adversely affect the market price of our ordinary shares, regardless of our performance. Shareholders may not be able to resell their ordinary shares following periods of volatility because of the market's adverse reaction to such volatility and we may not be able to raise capital through an offering of securities.

From time to time we may need to raise financing. If adequate funds are not available on terms favorable to us or to our shareholders, our operations and growth strategy will be materially adversely affected.

From time to time we may be required to raise financing in connection with our operations and growth strategy. We do not know whether additional financing will be available when needed, or whether it will be available on terms favorable to us. If adequate funds are not available on terms favorable to us or to our shareholders, our operations and growth strategy will be materially adversely affected.

We might not satisfy all the requirements for continued listing on the NASDAQ Capital Market, and our shares may be delisted.

Following a one-to-four reverse share split that we effected on June 16, 2008, we are currently in compliance with all requirements for continued listing on the NASDAQ Capital Market, to which we transferred from the NASDAQ Global Market on October 1, 2007. We cannot assure you, however, that we will maintain such compliance over the long term or that we will be able to maintain compliance with all of the continued listing requirements for the NASDAQ Capital Market. If we fail to comply with any of the continued listing requirements, we could be delisted from the NASDAQ Capital Market. Our shares would then be quoted on the Over-The-Counter Bulletin Board (assuming we satisfied the continued listing requirements for that quotation system). During 2007 and 2008, our share price decreased below the required minimum bid price. In addition, in 2007, we fell below the minimum $10 million shareholders' equity requirement of the NASDAQ Global Market and we had to transfer to the NASDAQ Capital Market in order to continue to be listed on NASDAQ. The post-reverse share split price of our ordinary share is approximately $2.50 as of June 1, 2008; however, if our share price continues to decline we might be unable to satisfy the NASDAQ Capital Market continued listing requirements, including its minimum bid price of a $1 per share.

Risks Relating to Our Location in Israel

Conditions in Israel affect our operations and may limit our ability to produce and sell our products.

We are incorporated under Israeli law and our principal offices and manufacturing and research and development facilities are located in the State of Israel. Political, economic and military conditions in Israel directly affect our 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 in degree and intensity, has led to security and economic problems for Israel. We could be adversely affected by hostilities involving Israel, the interruption or curtailment of trade between Israel and its trading partners, a significant increase in inflation, or a significant downturn in the economic or financial condition of Israel. Since October 2000, there has been a marked increase in hostilities between Israel and the Palestinians, which has adversely affected the peace process and has negatively influenced Israel's relationship with several Arab countries. Also, the political and security situation in Israel may result in certain parties with whom we have contracts claiming that they are not obligated to perform their commitments pursuant to force majeure provisions of those contracts. In January 2006, Hamas, an Islamic movement responsible for many attacks against Israelis, won the majority of the seats in the Parliament of the Palestinian Authority. The election of a majority of Hamas-supported candidates is expected to be a major obstacle to relations between Israel and the Palestinian Authority, as well as to the stability in the Middle East as a whole. During the third quarter of 2006, Israel was engaged in war with the Hezballah in Lebanon; however, the war did not materially affect the Company's results. There have been extensive hostilities along Israel's border with the Gaza Strip since June 2007 when the Hamas effectively took control of the Gaza Strip. Further escalation has occurred during 2008.

Since our manufacturing facilities are located exclusively in Israel, we could experience disruption of our manufacturing due to acts of terrorism or any other hostilities involving or threatening Israel. If an attack were to occur, any Israeli military response that results in the call to duty of the country's reservists (as further discussed below) could affect the performance of our Israeli facilities for the short term. Our business interruption insurance may not adequately compensate us for losses that may occur and any losses or damages incurred by us could have a material adverse effect on our business. We do not believe that the political and security situation has had any material impact on our business to date; however, we can give no assurance that it will have no such effect in the future.

Some neighboring countries, as well as certain companies and organizations, continue to participate in a boycott of Israeli firms and others doing business with Israel or with Israeli companies. We are also precluded from marketing our products to certain of these countries due to U.S. and Israeli regulatory restrictions. Because none of our revenue is currently derived from sales to these countries, we believe that the boycott has not had a material adverse effect on us. However, restrictive laws, policies or practices directed towards Israel or Israeli businesses could have an adverse impact on the expansion of our business.

All male adult citizens and permanent residents of Israel under the age of 51 are, unless exempt, obligated to perform military reserve duty annually. Additionally, these residents are subject to being called to active duty at any time under emergency circumstances. Many of our officers and employees are currently obligated to perform annual reserve duty. Given these requirements, we believe that we have operated relatively efficiently since beginning operations in 1991 and since increased hostilities with the Palestinians beginning in October 2000. In addition, our operations were not materially affected by the war with Lebanon that took place during the third quarter of 2006. However, we cannot assess what the full impact of these requirements on our workforce or business would be if the situation with the Palestinians changed, and we cannot predict the effect on our business operations of any expansion or reduction of these military reserve requirements.

We may be adversely affected if the rate of inflation in Israel exceeds the rate of devaluation of the New Israeli Shekel against the dollar, and if the value of the New Israeli Shekel against the dollar increases.

A portion of our expenses, primarily labor expenses, is incurred 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 will lag behind inflation in Israel. Further, during 2007 the dollar decreased in value relative to the NIS by about 9%. This trend has continued during the first five months of 2008 by an additional devaluation of the dollar relative to the NIS by about 10% . If this trend towards devaluation continues, it, coupled with a high inflation rate in Israel, may result in higher dollar costs for our operations in Israel, adversely affecting our dollar-measured results of operations.

We currently benefit from government programs and tax benefits that may be discontinued or reduced.

We currently receive grants and potential tax benefits under Government of Israel programs. In order to maintain our eligibility for these programs and benefits, we must continue to meet specific conditions, including making specific investments in fixed assets and paying royalties with respect to grants received. In addition, some of these programs restrict our ability to manufacture particular products outside of Israel or to transfer particular technology. If we fail to comply with these conditions in the future, the benefits received could be canceled and we could be required to refund any payments previously received under these programs, or pay increased taxes. The Government of Israel has reduced the benefits available under these programs in recent years and these programs and tax benefits may be discontinued or curtailed in the future. If we do not receive these grants in the future, we will have to allocate funds to product development at the expense of other operational costs. The amount, if any, by which our taxes will increase depends upon the rate of any tax increase, the amount of any tax benefit reduction and the amount of any taxable income that we may earn in the future. If the Government of Israel ends these programs and tax benefits, our business, financial condition and results of operations could be materially adversely affected.

Provisions of Israeli law may delay, prevent or make difficult a merger or acquisition of us, which could prevent a change of control and depress the market price of our shares.

The Israeli Companies Law (the "Companies Law") generally requires that a merger be approved by a company's board of directors and by a majority of the shares voting on the proposed merger. Unless a court rules otherwise, the statutory merger will not be deemed approved if shares representing a majority of the voting power present at the shareholders meeting, and which are not held by the potential merger partner (or by any person who holds 25% or more of the shares of capital stock or the right to appoint 25% or more of the directors of the potential merger partner or its general manager), vote against the merger. Upon the request of any creditor of a party to the proposed merger, a court may delay or prevent the merger if it concludes that there is a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy its obligations. In addition, a merger may generally not be completed unless at least (i) 50 days have passed since the filing of the merger proposal with the Israeli Registrar of Companies by each of the merging companies, and (ii) 30 days have passed since the merger was approved by the shareholders of each of the parties to the merger.

Finally, Israeli tax law treats some acquisitions, such as stock-for-stock exchanges between an Israeli company and a foreign company less favorably than do U.S. tax laws. For example, Israeli tax law may, under certain circumstances, subject a shareholder who exchanges his ordinary shares for shares in another corporation to taxation prior to the sale of the shares received in such a stock-for-stock swap.

These provisions of Israeli corporate and tax law and the uncertainties surrounding such law may have the effect of delaying, preventing or making more difficult a merger with us or an acquisition of us. This result could prevent a change of control over us and depress our ordinary shares' market price which otherwise might rise as a result of such a change of control.

It may be difficult to (i) effect service of process, (ii) assert U.S. securities laws claims and (iii) enforce U.S. judgments in Israel against directors, officers and auditors named in this annual report.

We are incorporated in Israel. All of our executive officers and directors named in this annual report are non-residents of the United States, except for Avi Zamir who is a resident of the United States. A substantial portion of our assets and the assets of such persons are located outside the United States. Therefore, it may be difficult to enforce a judgment obtained in the United States against us or any of those persons or to effect service of process upon those persons. It may also be difficult to enforce civil liabilities under U.S. federal securities laws in original actions instituted in Israel.

Our ordinary shares are listed for trading in more than one market and this may result in price variations.

Our ordinary shares are listed for trading on the NASDAQ, and since February 20, 2006, on the Tel-Aviv Stock Exchange (the "TASE"). Trading in our ordinary shares are traded on these markets in different currencies (U.S. dollars on the NASDAQ and New Israeli Shekels on the TASE), and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). Actual trading volume on the TASE is expected to be lower compared to the trading volume on the NASDAQ, and as such, could be subject to higher volatility. The trading prices of our ordinary shares on these two markets are expected to often differ, resulting from as a result of the factors described above, as well as in this paragraph, and because of differences in exchange rates. 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.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Both our legal and commercial name is RADCOM Ltd, and we are an Israeli company. RADCOM Ltd. was incorporated in 1985 under the laws of the State of Israel, and we commenced operations in 1991. The principal legislation under which we operate is the Israeli Company Laws 1999 (the "Israeli Companies Law"). Our principal executive offices are located at 24 Raoul Wallenberg Street, Tel Aviv 69719, Israel, and our telephone and fax numbers are 972-3-645-5055 and 972-3-647-4681, respectively. Our website is www.radcom.com. Information on our website and other information that can be accessed through it are not part of, or incorporated by, reference into this annual report.

In 1993, we established a wholly-owned subsidiary in the United States, RADCOM Equipment, Inc. ("RADCOM Equipment, Inc."), a New Jersey corporation, which serves as our agent for service of process in the United States. RADCOM Equipment is located at 6 Forest Avenue, Paramus, New Jersey 07652, and its telephone number is (201) 518-0033. In 1996, we incorporated a wholly-owned subsidiary in Israel, RADCOM Investments (1996) Ltd. ("RADCOM Investments"), located at our office in Tel Aviv, Israel; its telephone number is the same as ours (972-3-645-5055). In 2001, we established a wholly-owned subsidiary in the United Kingdom, RADCOM (UK) Ltd., a United Kingdom corporation. RADCOM (UK) Ltd. is located at 2440 The Quadrant, Aztec West, Almondsbury, Bristol, BS32 4AQ England, and its telephone number is 44-1454-878827.

For a discussion of important events in the development of the Company's business, see "—Business Overview. For a discussion of our capital expenditures and divestitures, see "Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources."

BUSINESS OVERVIEW

Below are the definitions of certain technical terms that are used throughout this 20-F and that are important for understanding our business.

GLOSSARY

3G	A third-generation digital cellular telecommunication.
3.5G	3.5 generation digital cellular networks.
Asynchronous Transfer Mode (ATM)	A cell-based network technology protocol that supports simultaneous transmission of data, voice and video typically at T1/E1 or higher speeds.
Code Division Multiple Access (CDMA)	A digital wireless technology that uses a modulation technique in which many channels are independently coded for transmission over a single wideband channel.
CDMA2000 1X (EV-DO)	A third-generation digital high-speed wireless technology for packet-based transmission of text, digitized voice, video, and multimedia that is the successor to CDMA.
Time Division Synchronous Code Division Multiple Access (TD-SCDMA)	A 3G mobile telecommunications standard, being pursued in the People's Republic of China by the Chinese Academy of Telecommunications Technology (CATT).
Global System for Mobile Communications (GSM)	A digital wireless technology that is widely deployed in Europe and, increasingly, in other parts of the world.

General Packet Radio Service (GPRS)	A packet-based digital intermediate speed wireless technology based on GSM. (2.5 generation)
Universal Mobile Telecommunications Service (UMTS)	A third-generation digital high-speed wireless technology for packet-based transmission of text, digitized voice, video, and multimedia that is the successor to GSM.
Voice Over IP (VoIP)	A telephone service that uses the Internet as a global telephone network.
IP Multimedia Subsystem (IMS)	An internationally recognized standard defining a generic architecture for offering Voice over IP and multimedia services to multiple-access technologies.
Triple Play	A marketing term for the provisioning of the three services: high-speed Internet, television (Video on Demand or regular broadcasts) and telephone service over a single broadband connection.
Internet Protocol TV (IPTV)	Transmitting video in IP packets. Also called “TV over IP,” IPTV uses streaming video techniques to deliver scheduled TV programs or video on demand (VOD).
Protocol	A specific set of rules, procedures or conventions governing the format, means and timing of transmissions between two devices.
Session	A lasting connection between a user (or user agent) and a peer, typically a server, usually involving the exchange of many packets between the user's computer and the server. A session is typically implemented as a layer in a network protocol.

Overview

We develop, manufacture, market and support innovative network test and service assurance solutions for communications service providers and equipment vendors. We specialize in next generation cellular as well as voice, data and video over IP networks. Our solutions are used in the development and installation of network equipment and in the maintenance of operational networks. Our products facilitate fault management, network service performance monitoring and analysis, troubleshooting and pre-mediation (the ability to collect network information for a third-party application). We currently offer the following solutions:

Network Monitoring

Our award-winning Omni-Q is a unique, next-generation network testing, monitoring and performance management solution. The Omni-Q system consists of a powerful and user-friendly central management module and a broad range of intrusive and non-intrusive probes covering various networks and services, including VoIP, UMTS, CDMA, IPTV, IMS data and others. The Omni-Q’s central management module is designed to exploit the unique capabilities and feature set of our probes. It consolidates captured information into a comprehensive, integrated network service view that facilitates performance monitoring, fault detection, and network and service troubleshooting.

Protocol Analyzers

Our award-winning network protocol analyzers offer a powerful network analysis and test solutions available to the Cellular, VoIP and data communications industry. Our network analyzers support over 700 protocols with multiple interfaces, allowing users to troubleshoot and analyze the most complex and advanced networks, quickly and simply.

Our Customers and the Market for Our Solutions

The key benefits of our solutions to markets and customers are described below:

For Developers: Reduced time to market, reduced development costs, automated testing and application versatility from research and development(“ R&D”) to QA (quality assurance) through final testing and field service.

For Service Providers/Enterprises:

- reduced quality degradation, reduced outages, improved network utilization and longer customer hold times;
- ability to employ fewer and less experienced maintenance staff due to the utilization of a single test system environment, controlled by a central console, ensuring ease of use and reduced learning curves; and
- decreased support costs through centralized management, portable high-end solutions for in-depth troubleshooting, ability to offer premium SLAs (service level agreements) and LOE (level of experience) parameters based on measurable parameters and all-inclusive, probe-based solution.

The market for our products consists of the following types of end-users:

Telecommunications Service Providers (Cellular and Wireline) are organizations responsible for providing telecommunications services. This group of companies uses of our product fall into four main categories:

- Fault detection – to detect when there is a problem;
- Performance – to analyze the behavior of network components and customer network usage in order to understand trends, performance and optimization (to help identify faults before the customer complains);
- Troubleshooting – to drill down to resolve specific issues; and
- Pre-Mediation – to provide call detail records or CDR information to third-party operations support systems (OSS) or other solutions.

Labs of Telecommunication Service Providers. This group of customers includes companies that buy specific equipment and networks from manufacturers, and provide services to their customers. Our products may be used by these customers to evaluate the quality and performance of this equipment and networks and verify the conformance and interoperability between vendors.

Data Communications and Telecommunications Equipment Developers and Manufacturers. This group of customers includes companies that develop, manufacture and market data communications and telecommunications equipment.

Our Strategy

Our objective is to become a market leader in network test and service monitoring solutions. To this end, we seek to deliver customer-oriented, technically advanced and cost-effective products and to support them according to world-class standards. Key elements of our strategy include:

- Capitalizing on the growth in the Cellular network and the move of wireline networks to IP technology markets and their associated monitoring needs;
- Leveraging and expanding our top-tier customer base and distribution channels to gain access to the service providers who are offering these new technologies;
- Broadening our penetration of major service providers and vendors;

- Extending our sales capabilities and distribution channels;
- Repeating sales to our existing customers;
- Leveraging our experience and knowledge in the area of converged networks and technology platforms to produce comprehensive testing and analysis solutions for triple-play networks;
- Maintaining technological leadership while addressing the needs of emerging technology markets;
- Partnering with companies that offer complementary solutions and applications; and
- Carrying out synergistic acquisitions of companies in tangent markets to broaden our solution portfolio and our sales and marketing reach.

Our sales network includes North America through our wholly-owned U.S. subsidiary, RADCOM Equipment, a sales office in China and, in the rest of the world, a network of more than 35 distributors selling in over 35 countries. RADCOM Equipment sells our products to end-users through a direct sales force and through 9 independent sales representatives. Our testing and monitoring equipment has been sold to a number of international companies and government agencies, including Hutchison, British Telecom, Telstra, Deutsche Telekom, Verizon Wireless, Vodafone, KPN, Nortel Networks, Lucent, Siemens, Cisco, NTT, NEC, Nokia, ZTE, Huawei, Detang, Alcatel and Ericsson.

Industry Background

Service providers deploy unified, packet-based platforms with broadband and 3G technologies to enhance the value proposition of converged networks. These technologies allow service providers to offer new types of revenue-enhancing services, such as voice calls, video calls, video streaming, IPTV, music downloading and messaging solutions. Mainstream deployment of converged networks has begun and equipment vendors are under pressure to develop and improve the required technologies. Both types of our main market players equipment vendors and service providers need sophisticated testing solutions. Equipment vendors need these solution to speed time-to-market while achieving the highest standard of products, and service providers need to evaluate vendors' products and to monitor customer experience and quality of service (QoS) on an ongoing basis. For these reasons, the demand for new testing and monitoring equipment is growing. For example, analysis from Frost & Sullivan predicts that the VoIP testing and monitoring market will grow from $379 million in 2006 to $1.9 billion in 2013 for a compound annual growth rate (CAGR) of 25.7% during that period and IMS test and monitoring market will grow from an estimated $274.1 million in 2007 to $1.2 billion in 2013, for a compound annual growth rate of 27.9%

Products and Solutions

We categorize our products into two primary lines: (i) the Omni-Q network monitoring solution and (ii) the Performer family.

The Omni-Q Network Monitoring Solution

- The Omni-Q is a unique, comprehensive, next-generation probe base service assurance solution for network and service monitoring. The Omni-Q solution consists of a powerful and user-friendly central management server and a broad range of intrusive and non-intrusive probes covering various networks and services, including VoIP, UMTS, CDMA and data. These probes are based on the R70 probe and Performer family platforms, enabling the Omni-Q to deliver full visibility at the session and application level (and not only at the single packet or message level), with full 7-layer analysis. The R70 probe platform is an embedded Linux platform, based on our GearSet technology. The GearSet is a technology extension of our successful GEAR chip technology, allowing a full session tracing and analysis in a chip set and permitting wirespeed analysis of network services.

- In addition, the Omni-Q benefits global telecommunications carriers, by providing end-to-end voice quality monitoring and management. The Omni-Q is designed to enable service providers and vendors to successfully face significant challenges in the coming years, including:

    - deployment of next-generation networks such as UMTS, CDMA2000 and triple-play;

    - integration of new architectures such as high-speed downlink packet access (HSDPA), high-speed uplink packet access (HSUPA), long-term evolution (LTE), IMS, UMTS Release 6 and CDMA Rev' A or evolution data voice (EVDV);

    - successful delivery of advanced services such as VoIP, IPTV and video conferencing; and

    - proactive management of call quality on existing and next-generation service providers' production networks, along with maintenance of high-availability, high-quality voice services over packet telephony.

- Telecommunications Service Providers (Cellular and Wireline) use the Omni-Q in four main areas:

    - Performance monitoring – to analyze the behavior of network components and customer network usage in order to understand trends, performance and optimization (i.e., to help identify faults before the customer complains).

    - Fault detection – to detect when and where there is a problem.

    - Troubleshooting – to drill down to resolve specific issues.

    - Pre-Mediation – to provide call detail records or CDR information to third-party operations support systems (OSS) or other solutions.

- The Omni-Q is comprised of the following components:

    - The Omni-Q's central management module is designed to take advantage of the unique capabilities and feature set of our platform by consolidating the monitoring and analysis information into a comprehensive, integrated view that enables visibility, fault detection, performance and troubleshooting.

    - The Omni-Q Wireline monitoring solution gives service providers, incumbent local exchange carriers(ILECs) and cable/multi-system operators(MSOs) complete visibility into the voice, video or TV service running over the network, enabling early-stage fault detection, pre-emptive maintenance and optimization, and drill-down troubleshooting that leads to quick and easy fault resolution.

    - The Omni-Q UMTS/CDMA2000 Network Monitoring gives cellular service providers complete visibility into their networks, enabling long-term real-time traffic analysis, fault detection, troubleshooting and data collection. It monitors and analyzes the performance of Radio Access, Core Signaling and Core IP components. It provides extensive and flexible Key Performance Indicators (KPIs) and Key Quality Indicators (KQIs) analyses with real-time alarms that allow operators to detect faults before their customers experience problems.

The Performer Family

The Performer family is an open platform that supports a wide range of test applications over a variety of technologies. With simplified control from a central console, the Performer hardware and software suite tests the quality and grade of service of a real-world network environment. The Performer family is a PC-based system, utilizing our generic analyzer processor, or GEAR-based, hardware. Our GEAR (GenEric AnalyzeR processor) chip is our main differentiating technology. It is a proprietary, one-chip analyzer processor designed to provide on all layers wirespeed testing performance, independent of protocols and technologies. The GEAR processor positions us as the industry leader in the high-performance, communication test-equipment market. It allows one platform to carry out both network troubleshooting and analysis as well as packet and cell analysis in real time, at up to 2.5 gigabytes per second (Gbps), with no limitation on interface type or protocols. The GEAR technology also allows us to rapidly develop and roll out new interfaces by merely adding a new interface with the appropriate functionality. The Performer family is unique for its combination of strong hardware performance and flexible software use.

The Performer's architectural advantages include:

- Single Platform - Our single-platform technology enables all functions to be performed on one platform, as opposed to the multi-system architecture of its competitors;

- Scalable - Our systems are fully scalable, can migrate quickly to new applications, and can be easily integrated with third-party applications; and

- Distributed system - Our solution is based on a GPS synchronization technology, IP connectivity and management console/server architecture.

The Performer family response to customer needs is twofold:

- Post-deployment/quality management solutions and troubleshooting for convergence service providers, and

- Pre-deployment, predictive test systems for convergence vendors.

Our system solutions are critical for the successful rollout of next-generation 3G Cellular networks, Voice over IP and Video over IP technologies. Our solutions lead the market in their ability to troubleshoot connectivity problems and analyze network performance, helping equipment vendors and service providers to ensure a trouble-free network environment and a high-quality user experience. We continuously extend our solutions in response to rapidly changing technology and customer requirements, evolving industry standards and frequent new product introductions. In addition, our ability to provide highly cost-effective solutions has been a critical asset in this competitive market.

Network Protocol Analyzer

The Performer's innovative approach provides customers with real-time cell and packet analysis and troubleshooting capabilities at all seven telecommunications layers, including, basic physical and link layer testing, complex tracing of NAS layer voice, IP session signaling and data/voice quality of service validation. This analyzer supports Ethernet, WAN, ATM and POS interfaces, and can decode over 700 communication protocols. The Network Protocol Analyzer, a fully distributed system, is an ideal solution for vendor research and development, quality assurance and integration labs, as well as for use by operators during network setup and operation for protocol verification, cell/frame-level analysis, voice call and IP session analysis and streaming media and voice quality testing.

The Cellular Performer

The Cellular Performer is an application that runs on our Performer platform launched in February 2003. The Cellular Performer is a multi-layer session-level analysis of applications and services that gives users a simple, intuitive and powerful troubleshooting tool. Used for drilling down to each of a cellular networks interfaces, our cellular protocol analysis tools enable users to trace a call over a whole network, and identify the source of network problems. This allows users to quickly pinpoint specific problems, and to smooth out the performance of highly complex networks. The product supports all major 2.5 and third-generation networks, including GPRS, UMTS, CDMA2000, Enhanced Data Rates for Global Revolution Standard (Edge) and Time Division Synchronous CDMA (TD-SCDMA).

The Network Consultant is an advanced cellular network analysis application that enables mobile operators to quickly verify subscriber connectivity and proactively monitor end-to-end network performance. The Network Consultant gathers and processes data from multiple server links from the Radio Access Network, Core signaling, and Core IP. It enables full drill-down analysis capabilities of the call session, voice calls and video calls. Using it, customers can zoom in and view the signaling and procedures on each interface separately – online and offline.

The RANalysis is a solution that enables fast and easy RAN analysis in UMTS networks. With the RANalysis, different types of RAN problems can be identified. And with the number of services, mobile devices, and customers expected to grow every year, radio-optimization engineers need a long-term solution that can provide a quick and easy view of problems in the cells. RANalysis offers engineers rich functionality, with an easy-to-use application and focused reports. RANalysis changes the way deep UMTS radio analysis is done. Based on a vast amount of detailed radio measurements, RANalysis supports the RAN optimization process, reduces the huge expenses involved in drive-testing and helps shorten radio troubleshooting turnaround time.

The Voice-over-IP Performer

- The Voice-over-IP Performer is designed to support pre-deployment testing of current and emerging convergence technologies. The Voice-over-Data Performer is the first performance testing solution that we launched.

The following are some of the highlights of the Voice-over-IP Performer:

- SIPSim – The SIPSim is a SIP services load generator that focuses on high-stress load testing of any SIP application. The SIPSim provides high industry performance while retaining the flexibility needed to emulate all types of services. By emulating up to hundreds of thousands of users over the SIPSim's Triple M capability (multi-IP, multi-MAC and multi-VLAN), any service can be emulated over any type of network configuration. The SIPSim is capable of stress-testing different SIP services and network elements, including softswitch, SBC and IMS networks. Using the SipStudio, the user can build scripts to customize the SipSim to simulate almost any call flow. This is especially important in the IMS environment, where network topology is complex and each new service introduces a new flow;

- MediaPro – A real-time hardware-based, multi-protocol, multi-technology VoIP and Video analyzer, capable of analyzing a wide variety of VoIP signaling protocols and media CODECs; and

- QPro – The QPro is a multi-technology call quality analyzer that enables users to test many call quality parameters over a variety of interfaces.

The following table shows the breakdown of our consolidated sales for the fiscal years 2005, 2006 and 2007 by product:

	Year ended December 31,		
	2005	2006	2007
	(in thousands of U.S. dollars)		
The Omni-Q family	$ 3,940	$ 15,765	$ 9,537
The Performer family and others	$ 18,400	$ 7,776	$ 3,960
Total	$ 22,340	$ 23,541	$ 13,497

Sales and Marketing

We sell our products in North America through our wholly-owned U.S. subsidiary, RADCOM Equipment, which sells our products to end-users primarily directly or through independent representatives. Most of these representatives have exclusive rights to the distribution of our products in their respective geographical areas throughout North America (with the exception of some accounts and the Omni-Q, our monitoring solution which we handle directly) and are compensated by us on a commission basis. The activities of our representatives and our other sales and marketing efforts in North America are coordinated by RADCOM Equipment's employees, who also provide product support to our North American customers. The independent representatives do not hold any of our inventory, and they do not buy products from us. Our representatives locate customers, provide a demo if needed (in which case they use our demo equipment), and in some cases they provide training to the end-users. The customers submit orders directly to our wholly owned subsidiary, RADCOM Equipment, which invoices the end-user customers and collects payment directly, and then pays commissions to the representative for the sales in their territory. The commission is between 7.5% and 15%, depending on the agreement RADCOM Equipment has with the individual representative.

Outside North America, we sell our products through a global network of distributors who market data communications-related hardware and software products. We currently have more than 35 independent distributors, some of whom have exclusive rights to sell our products in their respective geographical areas. We have opened regional sales support offices in China, Singapore, Korea and Spain. These offices support our distributors in these regions. We continue to search for new distributors to penetrate new geographical markets or to better serve our target markets.

Our distributors serve as an integral part of our marketing and service network around the world. They offer technical support in the end-user's native language, attend to customer needs during local business hours, organize user programs and seminars and, in some cases, translate our manuals and product and marketing literature into the local language. We have a standard contract with our distributors. Based on this agreement, sales to distributors are final, and distributors have no right of return or price protection. The distributors do not need to disclose to us their customers' names, prices or date of order. To the best of our knowledge, a distributor places an order with us after it receives an order from its end-user, and does not hold our inventory for sale. Usually, we are not a party to the agreements between distributors and their customers. Distributors may hold products for a demo or as repair parts in order to keep their service agreement with a customer. According to our agreement with the distributors, a distributor generally should buy at least one demo unit in order to present the equipment to their customers. This is a final sale, and there are no rights of return. The distributor cannot sell this equipment to the end-user; the license is only for the distributor. We do not consider this a benefit to the distributors since we sell only the demo systems with a special software discount.

We focus a significant amount of our sales and marketing resources on our distributors, providing them with ongoing communications and support, and our employees regularly visit distributors' sites. We organize annual distributors' meetings to further our relationships with our distributors and familiarize them with our products. In addition, in conjunction with our distributors, we participate in the exhibitions of our products worldwide, place advertisements in local publications, encourage exposure in the form of editorials in communications journals and prepare direct mailings of flyers and advertisements. The table below indicates the approximate breakdown of our revenue by territory:

	Year ended December 31,			Year ended December 31,		
	(in millions of U.S. dollars)			(in percentages)		
	2005	2006	2007	2005	2006	2007
North America	8.8	7.6	4.3	39.5%	32.3%	31.8%
Europe	8.6	9.4	5.7	38.5	40.0	42.2
Far East	3.3	2.6	1.6	14.8	11.1	11.9
South America	0.7	2.6	1.2	3.2	11.1	8.9
Others	0.9	1.3	0.7	4.0	5.5	5.2
Total revenues	22.3	23.5	13.5	100.0%	100.0%	100.0%

Seasonality of Our Business

Generally, we are affected by the capital spending of the end-users of our products. These end-users tend to spend more towards the end of their fiscal year, which is typically the end of the calendar year, resulting in more orders during the second half of the year compared to the first half of the year. This has been the pattern over the last few years.

Customer Service and Support

We believe that providing a high level of customer service and support to end-users is essential to the acceptance of our products. We offer a toll-free technical support help desk to our representatives in the United States and a technical support help desk to our distributors worldwide. We also support our customers via fax, email and cellular phone service, and provide additional technical information on our Internet home page. We also offer an E-Learning system, which provides technical courses to our distributors, representatives and sales and technical support people at remote locations. These services are partially available to end-users. We regularly produce a newsletter which is sent to representatives and distributors, and we publish application notes and technical briefs for representatives, distributors and end-users to assist them in using our products more efficiently.

In addition to our direct service and support activities, our representatives in North America and our distributors worldwide provide to end-user customers sales, service and technical support functions for our products in their respective territories. We organize annual technical seminars in different areas of the world every year to increase the technical knowledge of distributors in the use of our products.

Our products are designed and manufactured to meet standards required by our customers. We provide a free one-year warranty, which includes bug-fixing solutions and a hardware warranty on our products. After the initial update period, our customers can purchase an extended warranty for one-, two- or three-year periods. The extended warranty includes bug fixing and full hardware repair of any faulty units. Generally the cost of the extended warranty is based on a percentage of the overall cost of the product as an annual maintenance fee. For the Prism products the cost is fixed.

Manufacturing and Suppliers

Our manufacturing facilities, which are located in Tel Aviv, Israel, consist primarily of final assembly, testing and quality control. Electronic components and subassemblies are prepared by subcontractors according to our designs and specifications. Certain components used in our products are presently available from, or supplied by, only one source and others are only available from limited sources. In addition, some of the software packages that we include in our product line are being developed by unaffiliated subcontractors. The manufacturing processes and procedures are generally ISO 2000 and ISO 14000 certified.

Research and Development

The industry in which we compete is subject to rapid technological developments, evolving industry standards, changes in customer requirements, and new product introductions and enhancements. As a result, our success, in part, depends upon our ability, on a cost-effective and timely basis, to continue to enhance our existing products and to develop and introduce new products that improve performance and reduce total cost of ownership. In order to achieve these objectives, we work closely with current and potential end-users, distributors and manufacturer’s representatives and leaders in certain data communications and telecommunications industry segments to identify market needs and define appropriate product specifications. We intend to continue developing products that meet key industry standards and to support important protocol standards as they emerge. Still, there can be no assurances that we will be able to successfully develop products to address new customer requirements and technological changes, or that such products will achieve market acceptance.

Our gross research and development costs were approximately $5.8 million in 2005, $6.8 million in 2006 and $7.4 million in 2007, representing 26.0%, 28.9% and 54.7% of our sales, respectively. Aggregate research and development expenses funded by the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor, (the "Chief Scientist") were approximately $1.7 million in 2005, $1.9 million in 2006 and $2.1 million in 2007. For more information on the Office of the Chief Scientist, see "Israeli Office of the Chief Scientist" below. We expect to continue to invest significant resources in research and development.

As of December 31, 2007, our research and development staff consisted of 55 employees. Research and development activities take place at our facilities in Tel Aviv. We occasionally use independent subcontractors for portions of our development projects.

Israeli Office of the Chief Scientist

From time to time we file applications for grants under programs of the Office of the Chief Scientist. Grants received under such programs are repaid through a mandatory royalty based on revenues from products (and related services) incorporating know-how developed with the grants. This government support is contingent upon our ability to comply with certain applicable requirements and conditions specified in the Chief Scientist's programs and with the provisions of the Law for the Encouragement of Research and Development in Industry, 1984 and the regulations promulgated thereunder (the "R&D Law").

Under the R&D Law, research and development programs that meet the specified criteria and are approved by the Research Committee of the Chief Scientist (the "Research Committee") are usually eligible for grants of up to 50% of certain approved expenditures of such programs, as determined by this Research Committee.

In exchange, the recipient of such grants is required to pay the Chief Scientist royalties from the revenues derived from products incorporating know-how developed within the framework of each such program or derived from such program (including ancillary services in connection with such products), usually up to an aggregate of 100% of the dollar-linked value of the total grants received in respect of such program, plus interest. As of January 1, 2007, our royalty rate was 3.5%.

In 2006 the Israeli government announced a process of formulating a proposed amendment to the royalty regulations promulgated under the R&D Law. The amendment is expected to include changes to the royalty rates, which would vary from company to company based on the amount of its revenues and the approval date of its program, up to a rate of 6%, and, as of 2006, to increase the rate of interest accruing on grants by 1% per year. The amendment may have a retroactive effect, although there is no indication as to whether and when it will be adopted.

The R&D Law generally requires that the product developed under a program be manufactured in Israel. However, upon notification to the Chief Scientist, up to 10% of the manufacturing volume may be performed outside of Israel; furthermore, with the approval of the Chief Scientist, a greater portion of the manufacturing volume may be performed outside of Israel, provided that the grant recipient pays royalties at an increased rate, which may be substantial, and the aggregate repayment amount is increased, which increase might be up to 300% of the grant, depending on the portion of the total manufacturing volume that is performed outside of Israel. The R&D Law further permits the Chief Scientist to approve the transfer of manufacturing rights outside Israel in exchange for an import of different manufacturing into Israel as a substitute, in lieu of the increased royalties. The R&D Law also allows for the approval of grants in cases in which the applicant declares that part of the manufacturing will be performed outside of Israel or by non-Israeli residents and the Research Committee is convinced that doing so is essential for the execution of the program. This declaration will be a significant factor in the determination of the Chief Scientist as to whether to approve a program and the amount and other terms of benefits to be granted. The increased royalty rate and repayment amount will be required in such cases.

The R&D Law also provides that know-how developed under an approved research and development program may not be transferred to another person or entity in Israel without the approval of the Research Committee. Such approval is not required for the sale or export of any products resulting from such research or development. The R&D Law permits the transfer of Chief Scientist-funded know-how outside of Israel, under certain circumstances and subject to the Chief Scientist's prior approval, only in the following cases: (a) if the subject company pays to the Chief Scientist a portion of the sale price paid in consideration of such funded know-how; (b) if the subject company receives know-how from a third party in exchange for its funded know-how; or (c) if such transfer of funded know-how arises in connection with certain types of cooperation in research and development activities.

The R&D Law imposes reporting requirements with respect to certain changes in the ownership of a grant recipient. The law requires the grant recipient and its controlling shareholders and foreign interested parties to notify the Chief Scientist of any change in control of the recipient or a change in the holdings of the means of control of the recipient that results in a non-Israeli becoming an interested party directly in the recipient, and requires the new interested party to undertake to the Chief Scientist to comply with the R&D Law. In addition, the rules of the Chief Scientist may require additional information or representations in respect of certain of such events. For this purpose, "control" is defined as the ability to direct the activities of a company other than any ability arising solely from serving as an officer or director of the company. A person is presumed to have control if such person holds 50% or more of the means of control of a company. "Means of control" refers to voting rights or the right to appoint directors or the chief executive officer. An "interested party" of a company includes a holder of 5% or more of its outstanding share capital or voting rights, its chief executive officer and directors, someone who has the right to appoint its chief executive officer or at least one director, and a company with respect to which any of the foregoing interested parties owns 25% or more of the outstanding share capital or voting rights or has the right to appoint 25% or more of the directors. Accordingly, any non-Israeli who acquires 5% or more of our ordinary shares will be required to notify the Office of the Chief Scientist that it has become an interested party and to sign an undertaking to comply with the R&D Law.

The funds available for Chief Scientist grants made out of the annual budget of the State of Israel were reduced in 1998, and the Israeli authorities have indicated in the past that the government may further reduce or abolish the Chief Scientist grants in the future. Even if these grants are maintained, we cannot presently predict the amounts of future grants, if any, that we might receive. In each of the last ten fiscal years, we have received such royalty-bearing grants from the Chief Scientist. At December 31, 2007, our contingent liability to the Office of the Chief Scientist in respect of grants received was approximately $23.2 million.

Binational Industrial Research and Development Foundation

We received from the Binational Industrial Research and Development Foundation (the "BIRD Foundation") funding for the research and development of products. At December 31, 2007, our contingent liability to the BIRD Foundation for funding received was approximately $319,000. We have not received grants from the BIRD Foundation since 1995.

Proprietary Rights

To protect our rights to our intellectual property, we rely upon a combination of trademarks, contractual rights, trade secret law, copyrights, nondisclosure agreements and technical measures to establish and protect our proprietary rights in our products and technologies. We own registered trademarks for the names PrismLite, Omni-Q, MediaPro, GearSet, SipSim and Wirespeed. In addition, we sometimes enter into non-disclosure and confidentiality agreements with our employees, distributors and manufacturer's representatives and with certain suppliers with access to sensitive information. However, we have no registered patents or trademarks (except for those listed above) and these measures may not be adequate to protect our technology from third-party infringement, and our competitors may independently develop technologies that are substantially equivalent or superior to ours.

Given the rapid pace of technological development in the communications industry, there also can be no assurance that certain aspects of our internetworking test solutions do not or will not infringe on existing or future proprietary rights of others. Although we believe that our technology has been independently developed and that none of our technology or intellectual property infringes on the rights of others, from time to time third parties may assert infringement claims against us. If such infringement is found to exist, or if infringement is found to exist on existing or future proprietary rights of others, we may be required to modify our products or intellectual property or obtain the requisite licenses or rights to use such technology or intellectual property. However, there can be no assurance that such licenses or rights can be obtained or obtained on terms that would not have a material adverse effect on us.

Competition

The markets for our products are very competitive and we expect that competition will increase in the future, both with respect to products that we are currently offering and products that we are developing. We believe that the principal competitive factors in the market for internetworking test and analysis equipment include:

- name recognition;
- product performance;
- product fit to customer workflow and procedures;
- support of the required interfaces and protocols;
- support of the right services;
- quality of the software and the hardware;
- technical features;
- multitechnology support;
- price;
- customer service and support;
- ease of use; and
- ability to integrate with other information systems.

Our principal competitors are Agilent , Tektronix, Tekelek, NetHawk, Anritsu (Nettest), SPIRENT Communications, Sunrise Telecom Inc., Empirix and Brix Networks. In addition to these competitors, we expect substantial competition from established and emerging computer, communications, network management and test equipment companies. Many of these competitors have substantially greater resources than we have, including financial, technological, engineering, manufacturing and market and distribution capabilities, and some of them may enjoy greater market recognition than we do.

Employees

As of December 31, 2007, we had 114 permanent employees and 1 temporary employee located in Israel, 9 permanent employees of RADCOM Equipment located in the United States and 9 permanent employees in total located in Spain, Singapore, Korea and China, collectively. Of the 115 employees located in Israel, 55 were employed in research and development, 15 in operations (including manufacturing and production), 34 in sales and marketing and 11 in administration and management. Of the 9 employees located in the United States, 7 were employed in sales and marketing and 2 were employed in administration and management. All the 9 employees located in Spain, Singapore, Korea and China, were employed in sales and marketing. We consider our relations with our employees to be good and we have never experienced a labor dispute, strike or work stoppage. Most of our permanent employees have employment agreements and none of our employees are represented by labor unions. Our temporary employees are paid an hourly rate, have employment agreements and are not represented by a labor union.

Although we are not a party to a collective bargaining agreement, we are subject to certain provisions of general collective agreements between the Histadrut (General Federation of Labor in Israel) and the Coordinating Bureau of Economic Organizations (including the Industrialists' Association) that are applicable to our employees by virtue of expansion orders of the Israeli Ministry of Labor and Welfare. In addition, Israeli labor laws are applicable to all of our employees in Israel. These provisions and laws principally concern the length of the work day, minimum daily wages for workers, procedures for dismissing employees, determination of severance pay and other conditions of employment.

In Israel, a general practice we follow (although not legally required) is the contribution of funds on behalf of most of our permanent employees to an individual insurance policy known as "Managers' Insurance." This policy provides a combination of savings plan, insurance and severance pay benefits to the insured employee. It provides for payments to the employee upon retirement or death and accumulates funds on account of severance pay, if any, to which the employee may be legally entitled upon termination of employment. Each participating employee contributes an amount equal to 5% of such employee's base salary, and we contribute between 13.3% and 14.7% of the employee's base salary. Full-time employees who are not insured in this way are entitled to a savings account, to which each of the employee and the employer makes a monthly contribution of 5% of the employee's base salary. We also provide our permanent employees with an Education Fund, to which each participating employee contributes an amount equal to 2.5% of such employee's base salary and we contribute an amount equal to 7.5% of the employee's base salary. In the United States we provide benefits, in the form of health, dental, vision and disability coverage, in an amount equal to 14.49% of the employee's base salary. All Israeli employers, including us, are required to provide certain increases in wages as partial compensation for increases in the consumer price index. The specific formula for such increases varies according to the general collective agreements reached among the Manufacturers' Association and the Histadrut. Israeli employees and employers also are required to pay pre-determined sums which include a contribution to national health insurance to the Israel National Insurance Institute, which provides a range of social security benefits.

C. ORGANIZATIONAL STRUCTURE

In January 1993, we established our wholly-owned subsidiary in the United States, RADCOM Equipment, which conducts the sales and marketing of our products in North America. In July 1996, we incorporated a wholly-owned subsidiary in Israel, Radcom Investments (1996) Ltd., for the purpose of making various investments, including the purchase of securities. As of May 31, 2008, Radcom Investments did not hold any of our outstanding shares. In August 2001, we established our wholly-owned subsidiary in the United Kingdom, RADCOM (UK) Ltd., which is currently not active, but in the past conducted the sales and marketing of our products in the United Kingdom. In 2002, we established our wholly-owned Representative Office in China, which conducts the marketing for our products in China. Following are our subsidiaries, all of which are wholly-owned:

Name of Subsidiary	Jurisdiction of Incorporation
RADCOM Equipment, Inc.	United States
RADCOM Investments (1996) Ltd.	Israel
RADCOM (UK) Ltd.	United Kingdom

Yehuda Zisapel and Zohar Zisapel are co-founders and principal shareholders of our Company. Individually or together, they are also founders, directors and principal shareholders of several other privately and publicly held high technology and real estate companies which, together with us and the other subsidiaries and affiliates, are known as the "RAD-Bynet Group." In addition to engaging in other businesses, members of the RAD-Bynet Group are actively engaged in designing, manufacturing, marketing and supporting data communications and telecommunications products. Our Company has limited competition with RADVision Ltd., which supplies as part of its technology package a protocol simulation that may serve some of the needs of our customers for test equipment. Some of the products of members of the RAD-Bynet Group are complementary to, and have been and are currently used in connection with, our products.

D. PROPERTY, PLANTS AND EQUIPMENT

We do not own any real property. We currently lease an aggregate of approximately 2,442 square meters of office premises in Tel Aviv, which includes approximately 2,186 square meters from affiliates of our principal shareholders. Our manufacturing facilities consist primarily of final assembly, testing and quality control of materials, wiring, subassemblies and systems. In 2007, aggregate annual lease and maintenance payments for the Tel Aviv premises were approximately $585,000, of which approximately $415,000 was paid to affiliates of our principal shareholders. We may, in the future, lease additional space from affiliated parties. We also lease premises in Paramus, New Jersey from an affiliate. In 2007, we leased approximately 6,131 square feet from an affiliate, approximately 276 square feet of which we now sub-lease to a related party. In 2007, aggregate annual lease payments for the premises were approximately $126,000 and we received $5,000 from the related party for those sub-leases. We also lease approximately 142 square meters in Beijing. In 2007, our aggregate annual lease payments for those premises were approximately $27,000. The rental agreements for the premises in Tel Aviv and New Jersey, United States, expire on December 31, 2008 and on January 15, 2011, respectively.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this annual report.

This discussion contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements are based on current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," "continues," "may," variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements - including those identified below, as well as certain factors - including, but not limited to, those set forth in "Item 3—Key Information—Risk Factors" - are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

Overview

We develop, manufacture, market and support innovative network test and service monitoring solutions for communications service providers and equipment vendors. We specialize in next generation cellular as well as voice, data and video over IP networks. Our solutions are used in the development and installation of network equipment and in the maintenance of operational networks. Our products facilitate fault management, network service performance monitoring and analysis, troubleshooting and pre-mediation, the latter of which refers to the ability to collect network information for a third-party application.

General

Our discussion and analysis of our financial condition and results of operation are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. Our operating and financial review and prospects should be read in conjunction with our financial statements, accompanying notes thereto and other financial information appearing elsewhere in this annual report.

We commenced operations in 1991. Since then, we have focused on developing and enhancing our products, building our worldwide direct and indirect distribution network and establishing and expanding our sales, marketing and customer support infrastructures.

Most of our revenues are generated in U.S. dollars or are dollar-linked and the majority of our expenses are incurred in dollars and, as such, we use the dollar as our functional currency. Our consolidated financial statements are prepared in dollars and in accordance with generally accepted accounting principles in the United States.

Our technology vision is based on an architectural evolution of networking from simple connectivity of products to application systems, or as we refer to it, the “Application Provider.” As such, many of our strategic initiatives and investments are aimed at meeting the requirements of Application Providers of 3G Cellular and triple-play networks. If networking evolves toward greater emphasis on Application Providers, we believe we have positioned ourselves well relative to our key competitors. If it does not, however, our initiatives and investments in this area may be of no or limited value. As a result we cannot quantify the impact of new product introductions on our historical operations or anticipated impact on future operations.

As we evaluate our growth prospects and manage our operations for the future, we continue to believe that the leading indicator of our growth will be the deployment of 3G Cellular and triple-play networks. During fiscal year 2007, we continued to focus our resources on the 3G Cellular segment and triple-play networks. While this potentially increases our exposure to changes in telecommunications industry conditions, we feel that this is a growing area and that we have the technology to capitalize on this market growth.

After commencing sales of our Performer in the first quarter of 2003, our revenues began to increase. Through 2005, our Performer family was the main driver increasing our revenues. In 2006 our comprehensive monitoring solution started to evolve as our main product. As a result of these developments, we enjoyed increased sales across all converged network product lines and the average size of our deals began to rise. Unfortunately, this momentum did not continue in 2007. We view this as a temporary weakness and not as the new state for 2008 and onwards.

Our net sales for 2007 were $13.5 million, compared with $23.5 million in fiscal year 2006. Net loss for 2007 was $8.6 million, compared with net loss of $54,000 in fiscal 2006. Our cash, cash equivalents and short-term deposits decreased by $6.3 million in 2007 compared with a decrease of $0.5 million in 2006.

In 2008, we are continuing to focus on our two major growth areas of 3G and 3.5G Cellular and triple-play networks with the goal of continuing to expand our sales and profits. With analysts (Informa Telecoms & Media, WCIS and 3G America) projecting that the 3G market will eventually include 200-300 operators and an even larger number of next-generation wireline players, we believe there is a lot of room for additional growth. Among the key factors that will influence our 2008 performance are the continued evolution of the global telecommunications industry towards converged services and our customers' perspective regarding the prospects for improving conditions, together with our ability to continue to improve the execution of our strategy.

Revenues. Our revenues are derived primarily from sales of our products and, to a lesser extent, from sales of warranty services. Product revenues consist of gross sales of products, less discounts, refunds and returns.

Cost of sales. Cost of sales consists primarily of our manufacturing costs, warranty expenses, allocation of overhead expenses and royalties to the Chief Scientist. As part of our plan to reduce product cost and improve manufacturing flexibility, we have shifted to a subcontracting model for the manufacturing of our products. Currently, the functions performed by us are the planning and integration of other companies' solutions into our products, while the subcontractors purchase the component parts, assemble the product and test it. These functions can be divided as follows:

RADCOM	Subcontractor
Planning	Purchase component parts
Integration	Assembly
	Testing

We provide a non-binding rolling forecast every quarter for the coming year, and submit binding purchase orders quarterly for material needed in the next quarter. Purchase orders are generally filled within three months of placing the order. We are charged by the unit, which ensures that unnecessary charges for reimbursements are minimal. We are not required to reimburse subcontractors for losses that are incurred in providing services to us and there are no minimum purchase requirements in our subcontracting arrangements. If we change components in our products, however, and the subcontractor already bought components based on a purchase order, we would reimburse the subcontractor for any losses incurred relating to the subcontractor's disposal of such components. The subcontracting arrangements are generally governed by one-year contracts that are automatically renewable and that can be terminated by either party upon ninety days' written notice.

By reducing fixed manufacturing costs including by using the subcontractors, we seek to ensure that our cost of goods sold fluctuates more directly in line with revenues.

Our gross profit is affected by several factors, including the introduction of new products, price erosion due to increasing competition, product mix and integration of other companies' solutions into our own. During the initial launch and manufacturing ramp-up of a new product, our gross profit is generally lower as a result of manufacturing inefficiencies during that period. As the difficulties in manufacturing new products are resolved and the volume of sales of such products increases, our gross profit generally improves. For example, in 2003, during the initial launch of the Performer, our gross profit was lower and subsequently improved.

Most of our products consist of a combination of hardware and software. Following an initial purchase of a product, a customer can add additional functions by purchasing software packages. These packages may add functions to the product such as providing additional testing data or adding the ability to test equipment based on different transmission technologies. Since there are no incremental hardware costs associated with the sale of the add-on software, the gross margins on these sales are higher. We also have higher gross profit on sales in North America, where we sell directly and through representatives, than on sales outside North America where we sell through distributors.

Research and Development. Research and development costs consist primarily of salaries and, to a lesser extent, payments to subcontractors, raw materials and overhead expenses. We use raw materials to build prototypes of our hardware and software products. These prototypes have no value since they cannot be sold or otherwise capitalized as inventory. The allocation of overhead expenses consists of a variety of costs, including rent, office expenses (including telecommunications expenses) and administrative costs, such as human resources activities. The methodology for allocating these expenses depends on the nature of the expense. Costs such as rent and associated costs are based on the square meters used by the R&D department. Administrative costs such as human resources activities are allocated based on the number of employees in the department. There has been no change in methodology from year to year. These expenses have been partially offset by royalty-bearing grants from the Chief Scientist.

Sales and Marketing. Sales and marketing expenses consist primarily of salaries, commissions to representatives, advertising, trade shows, promotional expenses, web site maintenance, and overhead expenses.

General and Administrative Expenses. General and administrative expenses consist primarily of salaries and related personnel expenses for executive, accounting and administrative personnel, professional fees (which include legal, audit and additional consulting fees), bad debt expenses and other general corporate expenses.

Financial Income, Net. Financial income, net, consists primarily of interest earned on bank deposits, gains and losses from the exchange rate differences of monetary balance sheet items denominated in non-dollar currencies and interest expenses paid on bank short-term loans.

Additional Expense for Share-Based Compensation

SFAS 123(R), which requires all companies to measure compensation expense for all share-based payments (including employee stock options) at fair value, became effective for public companies for fiscal years beginning after June 15, 2005. As a result of SFAS 123(R), we have been required to record an expense for stock-based compensation plans; this has resulted in ongoing accounting charges that have significantly reduced our net income. For further information, see the section entitled “Share-Based Compensation” in Note 6 of the Notes to our Consolidated Financial Statements.

Summary of Our Financial Performance in Fiscal Year 2007 Compared to Fiscal Year 2006

For the year ended December 31, 2007 our revenues decreased by 43% to $13.5 million, while our loss for the year increased to approximately $8.6 million.

During fiscal 2007, our cash, cash equivalents and short-term deposits decreased by $6.3 million, of which $6.0 million of our cash, cash equivalents and short-term deposits was used in operating activities. Capital expenditures in fiscal 2007 amounted to $0.4 million.

Fiscal 2007 was a disappointing year for us and below our expectations. The combination of weakness in the 3G and 3.5G Cellular market, longer-than-usual average sales cycles and internal execution problems, led to a significant decrease in our revenues compared to 2006.

During 2007 we carried out activities designed to return us to profitability as quickly as possible. Among such activities were a cost-cutting program, including a 23% reduction in the workforce and structural changes throughout the Company. In making these cuts, we have been careful to maintain our focus on sales and customers.

The other part of our program to return-us-to-profitability was focused on expanding our sales. This part included increasing our closing rate of deals strengthening our distributor network, especially in the Far East; increasing our sales efforts in the Emerging Markets instead of the saturated markets like North America; and increasing our pipeline.

We began to see the fruits of the program in the fourth quarter of 2007 when we reported breakeven results compared to losses in the first three quarters of the year. These positive results continued in the first quarter of 2008 with an increase of 40% to $4.5 million in revenues compared with the first quarter of 2007. Our forecast for 2008 is that our results will be better than 2007, both in revenues and net income (loss).

Organization of Our Business

Management receives sales information by product groups and by geographical regions. The cost of material and related gross profit for the Omni-Q and the Performer family is almost identical. Research and development, sales and marketing, and general and administrative expenses are reported on a combined basis only (i.e. they are not allocated to product groups or geographical regions). Because a measure of operating profit or loss by product groups or geographical regions is not presented to the Company's management, we have concluded that we operate in one reportable segment.

A. OPERATING RESULTS

The following table sets forth, for the periods indicated, certain financial data expressed as a percentage of sales:

	Year Ended December 31,		
	2005	2006	2007
Sales	100.0%	100.0%	100.0%
Cost of sales	33.1	31.4	40.0
Gross profit	66.9	68.6	60.0
Operating expenses:			
Research and development	26.0	29.0	54.7
Less royalty-bearing participation	7.8	8.1	15.5
Research and development, net	18.2	20.9	39.2
Sales and marketing	35.3	39.1	68.7
General and administrative	7.6	10.8	17.7
Total operating expenses	61.1	70.8	125.6
Operating income (loss)	5.8	(2.2)	(65.6)
Financial income, net	1.0	2.0	2.0
Net income (loss)	6.8	(0.2)	(63.6)

Financial Data for Year Ended December 31, 2007 Compared with Year Ended December 31, 2006

Revenues

	Year Ended December 31, (in millions of U.S. dollars)			% Change 2006 vs.	% Change 2007 vs.
	2005	2006	2007	2005	2006
The Omni-Q family	3.9	15.7	9.5	303	(39)
The Performer family and others	18.4	7.8	4.0	(58)	(49)
Total revenues	22.3	23.5	13.5	5	(43)

Revenues. In 2007, our revenue decreased by 43% compared to 2006 due to the combination of weakness in the 3G and 3.5G Cellular market, longer average sales cycles and internal execution problems. As identified in the second half of 2006, during 2007, we continued to see an increase in triple-play network deployments, which reflected a new scale of triple-play network deployments in the marketplace and which is indicative of the significant challenge the triple-play network operators must overcome in order to maintain quality services. Due to the nature of the service provider orders which represents a potential for larger sales on average than equipment vendor orders, both the average size of our transactions and the length of the sales cycle have increased.

Our sales network includes RADCOM Equipment, our wholly-owned subsidiary in the United States, as well as nine independent representatives, and more than 35 independent distributors in over 35 other countries. The table below shows the sales breakdown by territory:

	Year Ended December 31, (in millions of U.S. dollars)			Year Ended December 31, (as percentages)		
	2005	2006	2007	2005	2006	2007
North America	8.8	7.6	4.3	39.5%	32.3%	31.8%
Europe	8.6	9.4	5.7	38.5	40.0	42.2
Far East	3.3	2.6	1.6	14.8	11.1	11.9
South America	0.7	2.6	1.2	3.2	11.1	8.9
Others	0.9	1.3	0.7	4.0	5.5	5.2
Total revenues	22.3	23.5	13.5	100.0%	100.0%	100.0%

During 2005 we announced that we signed a multi-million dollar contract with a major 3G CDMA mobile operator in North America. This major mobile operator in North America accounted for more than 10% of our sales in both 2005 and 2006. One of our distributors in Europe accounted for more than 10% of our sales in 2005. During 2007 no single customer accounted for more than 10% of our sales.

Cost of sales and Gross profit

	Year ended December 31, (in millions of U.S. dollars)		
	2005	2006	2007
Cost of sales	7.4	7.4	5.4
Gross profit	14.9	16.1	8.1

Cost of sales. Over the years, we have increasingly shifted to a subcontracting model for the manufacture of our products. We believe that this approach, which decreases our fixed cost, will ensure that our cost of sales fluctuates more directly in line with revenues. Our cost of sales consisted of fixed costs of approximately $2.2 million in 2007 and $1.8 million in 2006.

Most of our revenues come from products that we develop internally, but in order to able to deliver a broader range of products and services to our customers in target markets, we must integrate other companies' solutions, mainly servers and storage units, into our Omni-Q system. The gross margins on these integrated sales are lower than the products that we develop internally. In 2007 our gross margins were lower than expected because revenues were lower than expected and decreased by 43% compared to 2006. In the future, assuming revenue levels similar to 2006 or greater for the year, we expect gross margins to improve.

Our cost of sales during 2007 included an expense of $18,000 for share-based compensation and, $14,000 for share-based compensation in 2006.

The following table provides the approximate operating costs and expenses of the Company in the 2005, 2006 and 2007, as well as the percent change of such expenses in 2006 compared to 2005 and in 2007 compared to 2006:

Operating Costs and Expenses

	Year ended December 31, (in millions of U.S. dollars)			% Change 2006 vs.	% Change 2007 vs.
	2005	2006	2007	2005	2006
Research and development	5.8	6.8	7.4	17.2	8.8
Less royalty-bearing participation	1.7	1.9	2.1	11.8	10.5
Research and development, net	4.1	4.9	5.3	19.5	8.2
Sales and marketing	7.9	9.2	9.3	16.5	1.1
General and administrative	1.7	2.6	2.4	52.9	(7.7)
Total operating expenses	13.7	16.7	17.0	21.9	1.8

Research and Development. The increase in our gross research and development expenses from 2006 to 2007 reflects our policy to support our growing activities in various geographic regions and our long-term development goals. Although the number of research and development employees decreased during the year from 71 to 55 employees, the total expense increased. The reason for this is that the employees are in Israel and are paid in NIS. As a result of the negative impact of the strengthening of the value of the NIS against the U.S. dollar the total expense is higher than the previous year. Research and development expenses, gross, increased from $6.8 million in 2006 to $7.4 million in 2007. As a percentage of total revenues, research and development expenses, gross, increased from 29.0% in 2006 to 54.7% in 2007. Our research and development costs during 2007 included an expense of $123,000 for share-based compensation, and $113,000 for share-based compensation in 2006.

Sales and Marketing. As part of our cost-cutting program, we decreased our ongoing employee related expenses and other expenses during the year in the different regions in which we operate, mainly in North America. This decrease, however, has been offset by the negative impact of the strengthening of the value of the NIS against the U.S. dollar on our salaries paid in Israel and a liability of $0.4 million, representing an arbitration verdict rendered in a dispute between the Company and Qualitest Ltd., previously one of our non-exclusive distributors in Israel.

Sales and marketing expenses increased from approximately $9.2 million in 2006 to approximately $9.3 million in 2007. As a percentage of total revenues, sales and marketing expenses increased from 39.1% in 2006 to 68.7% in 2007.

Our sales and marketing expenses during 2007 included an expense of $203,000 for share-based compensation and $193,000 for share-based comp in 2006.

General and Administrative. General and administrative expenses for 2007 decreased by 6.3% compared to 2006. General and administrative expenses included a provision for bad debts and other expenses totaling approximately $(2,000) for 2007, $557,000 for 2006 and $17,000 for 2005. In 2007 there was an increase in salary and auditing expenses and in expenses related to compliance with the Sarbanes-Oxley Act. The expenses during 2007 included $220,000 for share-based compensation and $238,000 for share-based compensation in 2006.

Financial Income, Net. Financial income, net, was approximately $265,000 in 2007 compared to $472,000 in 2006. The decrease in financial income, net, in 2007 compared to 2006 was due to lower cash levels and lower prevailing rates of return. The lower rates of return were due to general economic conditions.

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

The following discussion of 2006 compared with 2005 should be read in conjunction with the section of this report above entitled "Financial Data for Year Ended December 31, 2007 Compared to Year Ended December 31, 2006."

Revenues. Our revenue in 2006 increased by 5.4% compared to 2005 due to the continuing improvement in market conditions discussed above and due to our success in penetrating additional service providers around the world. During the first half of 2006, the main component of our sales was to 3G cellular operators. In the second half of 20006, we began to see an increase in triple-play network deployments. This reflects a new scale of triple-play network deployments in the marketplace, and is part of the significant challenge the triple-play network operators must overcome in order to maintain quality services. Due to the nature of the service provider orders which represents a potential for larger sales on average than equipment vendor orders, both the average size of our transactions and the length of the sales cycle have increased.

Cost of Sales. Since 2001, we have increasingly shifted to a subcontracting model for the manufacture of our products. As a result, cost of sales consisted of fixed costs of approximately $1.8 million for 2006 and $1.3 million for 2005. We believe that the reduction of our fixed manufacturing costs will ensure that our cost of sales fluctuates more directly in line with revenues.

Research and Development. The increase in gross research and development expenses from 2005 to 2006 reflects our policy to support our growing activity and our long-term development goals. This increase is indicative primarily of an increase in the average number of our research and development personnel. Research and development expenses, gross, increased from $5.8 million in 2005 to $6.8 million in 2006. As a percentage of total revenues, research and development expenses, gross, increased from 26.0% in 2005 to 29.0% in 2006. Our research and development costs during 2006 included an expense of $113,000 for share-based compensation and $0 in 2005.

Sales and Marketing. In North America, we mainly sell our products to end-users directly compared to 2005 when we sold mainly via sales representatives, which has increased our salary and other expenses. This increase, however, has been partially offset by lower commissions paid to sales representatives. We have also expanded our sales and marketing activities in China with the goal of preparing ourselves to address the area's emerging 3G market. We are still waiting for this development to materialize. The increase in sales and marketing expenses from 2005 to 2006, which included primarily an increase in the average number of sales personnel and salary expenses, together with the expenses associated with opening our new sales offices in Singapore and Korea, reflects these activities. Sales and marketing expenses increased from approximately $7.9 million in 2005 to approximately $9.2 million in 2006. As a percentage of total revenues, sales and marketing expenses increased from 35.3% in 2005 to 39.1% in 2006.

General and Administrative. General and administrative expenses for 2006 increased by 51.2% compared to 2005. General and administrative expenses included a provision for bad debts and other expenses totaling approximately $557,000 for 2006 and $17,000 for 2005. The other main reason for the increase in general and administrative expenses during 2006 was an expense of $238,000 for share-based compensation and $12,000 for share-based compensation in 2005.

Financial Income, Net. Financial income, net, was approximately $472,000 in 2006 compared to $235,000 in 2005. The increase in financial income, net, in 2006 compared to 2005 was due to higher prevailing rates of return.

B. LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations through cash generated from operations, from the proceeds of our 1997 initial public offering and from our 2004 private placement transaction. Cash and cash equivalents, marketable securities and short-term deposits at December 31, 2005, 2006 and 2007 were approximately $10.5 million, $10.1 million and $3.8 million, respectively. During the first two quarters of 2008, we increased our cash balances by about $5 million: $2.5 million from a private placement transaction and the other $2.5 million from a venture lending loan. For more information, see "Item 8—Financial Information—Significant Changes" below. We believe that our existing capital will be sufficient for the Company's requirements for at least the next twelve months.

Net Cash Generated by/Used in Operating Activities. Net cash used in operating activities was approximately $2.6 million in 2006 and $6.0 million in 2007, while net cash generated from operations in 2005 was approximately $1.4 million. The negative net cash flow in 2007 was primarily due to the Company's loss of approximately $8.6 million, an increase of approximately $1.1 million in inventory, a decrease of approximately $1.1 million in trade payables and an increase of approximately $195,000 in other current assets. This was partially offset by a net decrease during the year of approximately $3.9 million in trade receivables and by an increase of approximately $378,000 in other payables and accruals,, and also by employees' share-option compensation of approximately $564,000 and approximately $687,000 of depreciation expenses.

The trade receivables and days sales outstanding (DSO) are primarily impacted by payment terms, shipment linearity in the quarter and collections performance. Trade receivables decreased from 2006 to 2007 by $3.9 million due primarily to the decrease in our total revenue.

The overall increase in inventory in 2007 relative to 2006 was due to the impact of increased purchases in the first half of 2007 in anticipation of sales at least at a similar level as 2006 during the year that did not materialize. All inventories are accounted for at the lower of cost or market.

The increase in other current assets from 2006 to 2007 was primarily a result of a temporary increase in prepaid expenses and Value Added Tax. The decrease in trade payables was primarily due to the decrease in purchases of inventory in the second half of the year. The increase in payables and accruals in 2007 was primarily a result of an increase in advances from customers and our provision for our dispute with Qualitest, which dispute is discussed in more detail in "Item 8—Financial Information—Consolidated Statements and Other Financial Information—Legal Proceedings."

Net Cash Provided by/Used in Investing Activities. Our investing activities generally consist of two components: purchase and sale of short-term deposits, and purchase of equipment. We invest cash that is surplus to our operating requirements in our short-term deposit portfolio in order to maximize our interest rates. In 2005, we sold marketable securities which provided us cash in the amount of $2.0 million. In 2006, we invested surplus cash in the amount of $8.0 million. In 2007, we sold short-term deposits, which provided us cash in the amount of $10.5 million and invested surplus cash in the amount of $2.5 million. Net cash provided by (used in) investing activities in 2005, 2006 and 2007 was approximately $1.7 million, $(8.3) million and $7.6 million, respectively.

Purchase of Equipment. Purchases of equipment in 2005, 2006 and 2007 were approximately $336,000, $327,000 and $437,000, respectively. These expenditures were principally for computers and equipment purchases.

Net Cash Provided by Financing Activities. In 2005, net cash provided by financing activities totaled approximately $909,000, of which $184,000 came from the exercise of shares options and approximately $725,000 from the exercise of warrants from the private placement as described below. In 2006, net cash provided by financing activities totaled approximately $2.4 million, $974,000 from the exercise of share options and approximately $1.4 million from the exercise of warrants from the private placement as described below under "—Private Placement." In 2007, net cash provided by financing activities totaled approximately $224,000, representing approximately $224,000 from the exercise of share options.

Private Placement. In March 2004, we raised $5.5 million in a private placement, or PIPE, of ordinary shares and warrants. This equity financing enabled us, among other things, to sustain compliance with certain continued listing requirements of the NASDAQ Global Market, from which we transferred to the NASDAQ Capital Market in October 2007. (See "Item 3—Key Information—Risk Factors—We might not satisfy all the requirements for continued listing on the NASDAQ Capital Market, and our shares may be delisted.") Under the PIPE transaction, we issued 3,851,540 of our ordinary shares at an aggregate purchase price of $5.5 million, or $1.428 per ordinary share. The investors in the PIPE included Star Ventures, B.C.S. Group, Yehuda Zisapel, Zohar Zisapel, and others. We also issued to the investors warrants to purchase up to 962,887 ordinary shares at an exercise price of $2.253 per share. The warrants were exercisable for two years from the closing of the PIPE. As part of the private placement, we filed with the SEC a resale registration statement covering the shares purchased in the private placement (including the shares underlying the warrants); our F-3 was filed with the SEC on May 13, 2004, while our amended F-3/As were filed on October 15, 2004 and November 26, 2004. The registration was declared effective by the SEC on December 10, 2004. We incurred expenses of approximately $189,000 in connection with the offering. Our net proceeds from the offering were approximately $5.3 million. In 2005 and 2006 the investors exercised warrants to purchase 328,256 ordinary shares and 625,877 ordinary shares, respectively. Our net proceeds from these exercises were approximately $725,000 and $1.4 million, respectively.

Impact of Related Party Transactions

We have entered into a number of agreements with certain companies, of which Yehuda Zisapel and Zohar Zisapel are co-founders, directors and/or principal shareholders (collectively, the "RAD-Bynet Group"). Of these agreements, the office space leases and the distribution agreement with Bynet Electronics Ltd. (described in the section entitled "Related Party Transactions" below) in Israel are material to our operations. The pricing of the transactions was determined based on negotiations between the parties. Members of our management reviewed the pricing of the lease and distribution agreements and confirmed that these agreements were not different from terms that could have been obtained from unaffiliated third parties. We believe, however, that due to the affiliation between us and the RAD-Bynet Group, we have greater flexibility on certain issues than what may be available from unaffiliated third parties. In the event that the transactions with members of the RAD-Bynet Group are terminated and we enter into similar transactions with unaffiliated third parties, that flexibility may no longer be available to us.

In February 2008, we completed a PIPE in which we raised $2.5 million from certain investors, including our Chairman (Mr. Zohar Zisapel), Zohar Gilon (one of our directors) and his son (Amit Gilon). For more information regarding this PIPE, see "Item 8—Financial Information—Significant Changes" below.

Impact of Inflation and Foreign Currency Fluctuations

The majority of our sales are denominated in U.S. dollars or are dollar-linked. The currency of the primary economic environment in which our operations are conducted is, therefore, the dollar, which is our functional currency.

Since we pay the salaries of our Israeli employees in NIS, the dollar cost of our operations is influenced by the exchange rates between the NIS and the dollar. While we incur some expenses in NIS, inflation in Israel will have a negative affect on our profits for contracts under which we are to receive payment in dollars or dollar-linked NIS, unless such inflation is offset on a timely basis by a devaluation of the NIS in relation to the dollar.

Inflation in Israel has occasionally exceeded the devaluation of the NIS against the dollar or we have faced the strengthening of the value of the NIS against the U.S. dollar. In the first quarter of 2008, for example, the value of the NIS expressed in dollar terms increased significantly, raising our Israeli-based costs as expressed in dollars. Under these conditions, we experienced higher dollar costs for our operations in Israel, adversely affecting our dollar-measured results of operations.

Because exchange rates between the NIS and the dollar fluctuate continuously exchange rate fluctuations will have an impact on our profitability and period-to-period comparisons of our results. The effects of foreign currency re-measurements are reported in our financial statements as financial income or expense.

Effective Corporate Tax Rate

Israeli companies were generally subject to corporate tax on their taxable income at the rate of 29% for the 2007 tax year. Following an amendment to the Israeli Income Tax Ordinance [New Version], 1961 (the "Tax Ordinance"), the corporate tax rate is scheduled to continue to decrease as follows: 27% for the 2008 tax year, 26% for the 2009 tax year and 25% for the 2010 tax year and thereafter. Israeli companies are generally subject to capital gains tax at a rate of 25% for capital gains (other than gains deriving from the sale of listed securities) derived after January 1, 2003.

Our manufacturing facilities have been granted "Approved Enterprise" status under the "Investments Law" - the Law for the Encouragement of Capital Investments, 1959, as amended – and consequently are eligible, subject to compliance with specific requirements, for tax benefits beginning when such facilities first generate taxable income. (For additional information on Approved Enterprise status, see "Item 10—Additional Information—Taxation—Israeli Tax Considerations—Law for the Encouragement of Capital Investments, 1959.") The tax benefits under the Investment Law are not available with respect to income derived from products manufactured outside of Israel. We have derived, and expect to continue to derive, a substantial portion of our income from our Approved Enterprise facilities. We are entitled to a tax exemption for a period of two to four years (in respect of income derived from our Tel Aviv facility), commencing in the first year in which such income is earned, subject to certain time restrictions. These time periods have not yet commenced because we have incurred net operating losses for Israeli tax purposes. At December 31, 2007, we had net operating loss carry-forwards (unlimited in time) of approximately $32.6 million.

Our effective corporate tax rate may substantially exceed the Israeli tax rate. Our U.S. subsidiary will generally be subject to applicable U.S. federal, state, local and foreign taxation, and we may also be subject to taxation in the other foreign jurisdictions in which we own assets, have employees or conduct activities. Our U.S. subsidiary had net operating loss carry-forwards of approximately $11.2 million available at December 31, 2007 for U.S. federal and state income tax purposes. These carry-forwards may offset future taxable income and expire from 2008 through 2026 for U.S. federal income tax purposes. Because of the complexity of these local tax provisions, we are unable to anticipate the actual combined effective corporate tax rate that will apply to us. Our U.K. subsidiary had net loss carry-forwards available at December 31, 2007 of approximately $399,000 for U.K. tax purposes.

We recorded a valuation allowance at December 31, 2007 for all of our deferred tax assets. Based on the weight of available evidence, it is more likely than not that all of our deferred tax assets will not be realized.

Government Grants and Related Royalties

The Government of Israel, through the Office of the Chief Scientist, encourages research and development projects pursuant to the R&D Law and the regulations promulgated thereunder. We may receive from the Office of the Chief Scientist up to 50% of certain approved research and development expenditures for particular projects. We recorded grants from the Office of the Chief Scientist totaling approximately $1.7 million in 2005, $1.9 million in 2006 and $2.1 million in 2007. Pursuant to the terms of these grants, we are obligated to pay royalties of 3.5% of revenues derived from sales of products (and related services) funded with these grants. In the event that a project funded by the Office of the Chief Scientist does not result in the development of a product which generates revenues, we would not be obligated to repay the grants we received for the product's development. Royalties' expenses relating to the Office of the Chief Scientist grants included in the cost of sales for years ended December 31, 2005, 2006 and 2007 were $769,000, $807,000 and $412,000, respectively. The total research and development grants that we have received from the Office of the Chief Scientist as of December 31, 2007 were $27.1 million. For projects authorized since January 1, 1999, the repayment interest rate is LIBOR. The accumulated interest as of December 31, 2007 was $3.3 million. As of December 31, 2007, the accumulated royalties paid to the Office of the Chief Scientist were $7.2 million. At December 31, 2007, our contingent liability to the Office of the Chief Scientist in respect of grants received was approximately $23.2 million. For additional information, see "Item 4—Information on the Company—Business Overview—Israeli Office of the Chief Scientist."

We are also obligated to pay royalties to the BIRD Foundation, with respect to sales of products based on technology resulting from research and development funded by the BIRD Foundation. Royalties to the BIRD Foundation are payable at the rate of 5% based on the sales revenues of such products, up to 150% of the grant received, linked to the United States Consumer Price Index. As of December 31, 2007, we had a contingent obligation to pay the BIRD Foundation aggregate royalties in the amount of approximately $319,000. Since 1995 we have not received grants from the BIRD Foundation.

Critical Accounting Policies and Estimates

Our significant accounting policies are more fully described in Note 2 to our Notes to the Consolidated Financial Statements. However, certain of our accounting policies are particularly important to the portrayal of our financial position and results of operations. In applying these critical accounting policies, our management uses its judgment to determine the appropriate assumptions to be used in making certain estimates. Those estimates are based on our historical experience, the terms of existing contracts, our observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. These estimates are subject to an inherent degree of uncertainty. With respect to our policies on revenue recognition, warranty costs and inventories, our historical experience is based principally on our operations since we commenced sales. Our critical accounting policies include the following:

Revenue recognition. Revenue from product sales is recognized in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition," when the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred, (3) the vendor's fee is fixed or determinable and (4) collectibility is probable. Amounts received from customers prior to product shipments are classified as advances from customers. With our products, we provide a one-year warranty, which includes bug fixing and a hardware warranty (the "Warranty"). We record an appropriate provision for Warranty in accordance with SFAS No. 5, "Accounting for Contingencies."

After the Warranty period initially provided with our products, we may sell extended warranty contracts, which includes bug fixing and a hardware warranty. In such cases, revenues attributable to the extended warranty are deferred at the time of the initial sale and recognized ratably over the extended contract warranty period.

Most of our revenues are generated from sales to independent distributors. We have a standard contract with our distributors. Based on this agreement, sales to distributors are final and distributors have no rights of return or price protection. We are not a party to the agreements between distributors and their customers.

We also generate sales through independent representatives. These representatives do not hold any of our inventories, and they do not buy products from us. We invoice the end-user customers directly, collect payment directly and then pay commissions to the representative for the sales in its territory. We report sales through independent representatives on a gross basis, based on the indicators of EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent."

Allowance for product Warranty. Our products sold are generally covered by a warranty for a period of one year. In respect of contracts where the Warranty was recognized upon delivery, we recorded an appropriate provision.

Trade receivables. Trade receivables are recorded less the related allowance for doubtful accounts receivable. We consider accounts receivable to be doubtful when we think it is probable that we will be unable to collect all amounts, after taking into account current information regarding the customer's ability to repay its obligations. The balance sheet allowance for doubtful accounts for all of the reported periods through December 31, 2007, is determined as a specific amount for those accounts the collection of which is uncertain. If our customers' ability to repay their obligations diminishes in the future, the actual allowance for doubtful accounts may not be adequate.

Inventories. Inventories are stated at the lower of cost or market, cost being determined on the basis of the average cost method for raw materials and on the basis of actual manufacturing costs for work-in-progress and sub-contractors. Inventory write-off and write-down provisions are provided to cover risks arising from slow-moving items or technological obsolescence. Spare parts and raw materials that are no longer used in producing our product are written down to their fair market value. If changes in the market conditions or changes in the Company's products occur in the future, it is possible that additional write-offs will be made at such time. In addition, we add to the cost of finished products and work in process held in inventory the overhead from our manufacturing process. If these estimates change in the future, the amount of overhead allocated to cost of revenues would change.

Share option plans. On January 1, 2006, we adopted SFAS No. 123(R), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. SFAS 123(R) supersedes our previous accounting under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") for periods beginning in fiscal 2006. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to SFAS 123(R). We have applied the provisions of SAB 107 in its adoption of SFAS 123(R). We adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006. Our consolidated financial statements as of and for the years ended December 31, 2006 and December 31, 2007 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, our consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Share-based compensation expense recognized under SFAS 123(R) for fiscal 2007 was $564,000.

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the grant date using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our consolidated statements of operations. Prior to the adoption of SFAS 123(R), we accounted for share-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under SFAS 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Share-based compensation expense recognized during the current period is based on the value of the portion of share-based payment awards that is ultimately expected to vest.

SFAS 123(R) requires forfeitures to be estimated at the time of grant in order to estimate the amount of share-based awards that will ultimately vest. The estimate is based on our historical rates of forfeiture. Share-based compensation expense recognized in our consolidated statement of operations for fiscal 2007 includes (i) compensation expense for share-based payment awards granted prior to, but not yet vested as of December 31, 2006, based on the grant-date fair value estimated in accordance with the pro forma provisions of SFAS 123 and (ii) compensation expense for the share-based payment awards granted subsequent to December 31, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R).

As share-based compensation expense recognized in the consolidated statements of operations is based on awards ultimately expected to vest, it has been reduced by estimated forfeitures. Upon adoption of SFAS 123(R), we did not change our method of valuation for share-based awards which is the Black-Scholes option pricing model . See also Notes 2P and 6C of the Notes to our Consolidated Financial Statements, for further information.

Deferred Income Tax. We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred tax asset and liability account balances are recognized for the future tax consequences attributable to differences between the financial statements' carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of operations in the period that includes the enactment date. We provide a valuation allowance to reduce deferred tax assets to the extent we believe it is more likely than not that such benefits will not be realized.

Effective January 1, 2007, we adopted the provisions of FASB Interpretation, No. 48, ("FIN 48"), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109. FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. The adoption of FIN 48 did not have a material impact on our financial position or results of operations

Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, Fair Value Measurement. SFAS No. 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. The Statement does not require any new fair value measures. The SFAS is effective for fair value measures already required or permitted by other standards for fiscal years beginning after November 15, 2007. The Company is required to adopt SFAS No. 157 beginning on January 1, 2008. SFAS No. 157 is required to be applied prospectively, except for certain financial instruments. Any transition adjustment will be recognized as an adjustment to opening retained earnings in the year of adoption. In February 2008, the FASB issued SFAS No. 157-2, which grants a one-year deferral of SFAS No. 157's fair-value measurement requirements for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. We are currently evaluating the impact of adopting SFAS No. 157 on our results of operations and financial position.

In February 2007, the FASB issued “SFAS No. 159”, The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115, which permits entities to irrevocably choose to measure many financial assets and liabilities at fair value that are not currently required to be measured at fair value. If the fair value option is elected, changes in fair value would be recorded in results of operations at each subsequent reporting date. The Statement allows entities to achieve an offset accounting effect for certain changes in fair value of certain related assets and liabilities without having to apply complex hedge accounting provisions. This Statement is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. We are currently evaluating the effect, if any, that the adoption of SFAS No. 159 will have on our future consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations (Statement 141R) and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements- an amendment to ARB No. 51 (Statement 160). Statements 141R and 160 require most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at “full fair value” and require noncontrolling interests (previously referred to as minority interests) to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. Both Statements are effective for periods beginning on or after December 15, 2008, and earlier adoption is prohibited. Statement 141R will be applied to business combinations occurring after the effective date. Statement 160 will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. We are currently evaluating the effect, if any, of the adoption of SFAS No. 141R and SFAS 160 on our future consolidated results of operations and financial condition.

In December 2007, the FASB issued FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements – an amendment to ARB No. 51 (“SFAS 160”). SFAS 160 requires noncontrolling interests (previously referred to as minority interests) to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. SFAS 160 is effective for periods beginning on or after December 15, 2008, and earlier adoption is prohibited. SFAS 160 will be applied prospectively to all non-controlling interests, including any that arose before the effective date. We are currently evaluating the effect, if any, that the adoption of SFAS 160 will have on our future consolidated results of operations and financial condition.

In March 2008, the FASB issued FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities (“SFAS 161”). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand the effects of the derivative instruments on an entity’s financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning on or after November 15, 2008, with early adoption encouraged. We are currently evaluating the effect, if any, that the adoption of SFAS 161 will have on our future consolidated results of operations and financial condition.

In December 2007 the SEC staff issued Staff Accounting Bulletin No. 110 (“SAB 110”), which, effective January 1, 2008, amends and replaces SAB 107, Share-Based Payment. SAB 110 expresses the views of the SEC staff regarding the use of a “simplified” method in developing the expected life assumption in accordance with FASB Statement No. 123(R), Share-Based Payment. The use of the “simplified” method, was scheduled to expire on December 31, 2007. SAB 110 extends the use of the “simplified” method in certain situations. The SEC staff does not expect the “simplified” method to be used when sufficient information regarding exercise behavior, such as historical exercise data or exercise information from external sources, becomes available. We currently use simplified estimates and expect to continue using such method until historical exercise data will provide useful information to develop expected life assumption.

On May 9, 2008, the FASB issued FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)." FSP APB 14-1 requires issuers of convertible debt that may be settled wholly or partly in cash when converted to account for the debt and equity components separately. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 and must be applied retrospectively to all periods presented. We are currently evaluating the effect, if any, that the adoption of FSP APB 14-1 will have on our consolidated results of operations and financial condition.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

See “Item 4—Information on the Company—Business Overview—Research and Development” and “Item 4—Information on the Company—Business Overview—Proprietary Rights.”

D. TREND INFORMATION

In 2007, there was increased spending in the industry by service providers, compared to 2006, as they began to expand and upgrade their networks, including next-generation wireless technologies and Voice over Internet Protocol, or IP, solutions. This increase in industry spending was strongest with the build-up of new technologies mainly in emerging markets. Our traditional large competitors remain strong and focused on certain key factors, such as customer relationships, repeat sales to their customer base, innovative and reliable products, services and price.

Data service adoption over the new 3G and 3.5G cellular networks is increasing but at a slower rate than expected. There is an increasing number of 3G and 3.5G networks but most of them are used mainly for voice. We continue to believe the data service adoption will occur and will introduce an increased demand for our solutions.

There is a clear global trend pursuant to which government regulation is gradually opening the communication market for competition. As a result, in each major market, at least three service providers compete in the same segment and area. This competition drives increased spending on introducing next-generation services. The increase in service usage increases the potential need for service assurance solutions. While services are getting more established and more technologically advanced, the quality of services becomes an issue that our potential customers, the service providers must address.

As part of this increase in competition, we have begun to see rapid adoption of SIGTRAN technology to lower the operational cost for signaling networks and to handle the increased network capacity. This move helps service providers justify the move to NGN solutions and increases our potential customers.

Fixed mobile Convergence (FMC) has become a significant challenge for most service providers. As result we see a trend towards service provider consolidation. Recent examples are the KPN and KPN mobile and Cingular, and the AT&T mergers. These mergers influenced decision making processes, resulting in a temporary slowdown in procurement and deployment of new telecommunications equipment. From the technology side, IMS is being accepted as the technology of choice to implement and deliver converged network services. Different service providers, mainly those that own both cellular and wireline operations, are currently at the trial level and anticipate moving into operation of IMS technology during 2008 - 2010. This movement could increase the need for service monitoring solutions, as it is a new service platform and introduces new challenges for service providers regarding how to monitor their networks.

Another area which has growth potential in the future is IPTV. Wireline service providers, mainly the incumbent carriers, are starting to spend money on TV over IP solutions. In 2007 spending was limited mainly for trial networks, and this trend is expected to continue in 2008. Following the trial period, we expect spending to increase in the years 2009 - 2011. This trend is part of a triple-play strategy aimed at competing with the cable operators offering digital TV.

E. OFF-BALANCE SHEET ARRANGEMENTS

None.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table of our material contractual obligations as of December 31, 2007, summarizes the aggregate effect that these obligations are expected to have on our cash flows in the periods indicated:

	Payments due by period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(in thousands of U.S. dollars)		
Property Leases	$ 932	$ 699	$ 229	$ 4	—
Open Purchase Orders	650	650	—	—	—
Operating Leases	784	444	326	14	—
Total	$ 2,366	$ 1,793	$ 555	$ 18	—

Open purchase orders. We purchase components from a variety of suppliers and use several contract manufacturers to provide manufacturing services for our products. During the normal course of business, in order to manage manufacturing lead times and help assure adequate component supply, we enter into agreements with contract manufacturers and suppliers that allow them to procure inventory based upon criteria as defined by our requirements. In certain instances, we provide a non-binding forecast every 12 months, and we submit binding purchase orders quarterly for material needed in the next quarter. These agreements allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to firm orders being placed. There are no penalties incurred for not taking delivery; however, if we alter the components in our products, when the manufacturer has bought components based on a purchase order, we reimburse the manufacturer for any losses incurred relating to the manufacturer's disposal of such components. Consequently, only a portion of our reported purchase commitments arising from these agreements are firm, non-cancelable, and unconditional commitments and included in the table above**.**

Our liability for severance pay for Israeli employees is calculated pursuant to Israeli severance pay law based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date. After completing one full year of employment, our Israeli employees are entitled to one month's salary for each year of employment or a portion thereof. Our total liability at December 31, 2007 was $3,240,000. Timing of payment of this liability is dependant on the timing of the departure of the employees.

In addition, we are required to pay royalties as percentages of the revenues derived from products incorporating know-how developed from research and development grants from the Office of the Chief Scientist. Royalty rates were 3% - 3.5% in 2003 and 3.5% in 2004 and subsequent years. As of December 31, 2007, our contingent liability to the Office of the Chief Scientist in respect of grants received was approximately $23.2 million and our contingent liability to the BIRD Foundation in respect of funding received was approximately $319,000. If we do not generate revenues from products incorporating know-how developed within the framework of these programs, we will not be obligated to pay royalties.

Further, we provided performance guarantees in favor of two customers from Bank Hapoalim in Israel amounting to $489,000 as of December 31, 2007.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

The following table lists our current directors and executive officers:

Name	Age	Position
Zohar Zisapel(5)(6)	59	Chairman of the Board of Directors
David Ripstein	41	President, Chief Executive Officer
Jonathan Burgin	47	Chief Financial Officer
Shahaf Kieselstein	36	Vice President, Research and Development
Eyal Harari	31	Vice President, Products and Marketing
Dana Shahar-Gara	34	Vice President, Human Resources
Miki Shilinger	53	Vice President, Operations
Uzi Yahav	53	Vice President, Business Development
Avi Zamir	51	President, RADCOM Equipment
Uri Har (1)(2)(3)(4)(5)	71	Director
Zohar Gilon (2)(4)(6)	60	Director
Irit Hillel (1)(2)(4)(5)(6)	44	Director

(1) External Director
(2) Independent Director
(3) Chairman of Audit Committee
(4) Audit Committee Member
(5) Nominating Committee
(6) Compensation Committee

Mr. Zohar Zisapel, a co-founder of our Company, has served as our Chairman of the Board since our inception. Mr. Zisapel is also a founder and a director of RAD Data Communications Ltd., a worldwide data communications company headquartered in Israel, for which he currently serves as Chairman of the Board and served as President from 1982 to 1997. Mr. Zisapel is the Chairman of two other public companies RADVision Ltd., and Ceragon Ltd. as well as a director or Chairman of several private companies. Mr. Zisapel has a B.Sc. and a M.Sc. degree in Electrical Engineering from the Technion and an M.B.A. degree from Tel-Aviv University.

Mr. David Ripstein, our President and Chief Executive Officer since April 1, 2007, joined RADCOM in 2000 as General Manager of the Quality Management Unit, a position under which he formed and executed RADCOM's service quality management strategy and spearheaded the development of its differentiating R70 technology platform. In 2002, Mr. Ripstein was nominated to head the Company's R&D and marketing activities. In May 2006, Mr. Ripstein was appointed as RADCOM's Chief Operating Officer. Prior to joining RADCOM, Mr. Ripstein served for 11 years as an officer of an elite R&D unit within the Israel Defense Forces (IDF) Intelligence Division, and then co-founded two startups: Firebit, a provider of ISP security service solutions, and Speedbit, a developer of Internet download acceleration tools. Mr. Ripstein earned B.Sc. and M.Sc. degrees in Electronic Engineering from the Technion.

Mr. Jonathan Burgin, our Chief Financial Officer, joined us in July 2006. Prior to joining us, Mr. Burgin was Chief Financial Officer of XTL Biopharmaceuticals (NASDAQ: XTLB; LSE: XTL; TASE:XTL) beginning in 1999, where he took an active part in the process of listing its shares on the NASDAQ, London, and TASE and raising $110 million in four financing rounds. Previously, Mr. Burgin served as Chief Financial Officer of YLR Capital Markets, a publicly-traded Israeli investment bank, and as Senior Manager at Kesselman & Kesselman, the Israeli member of PricewaterhouseCoopers International Ltd. Mr. Burgin earned an M.B.A. and a B.A. in Accounting and Economics from Tel-Aviv University and is certified in Israel as a CPA.

Mr. Shahaf Kieselstein, our Vice President of Research and Development, joined us in September 2006. Prior to joining RADCOM, he was with Intel's LAN Division for eight years, beginning as a Software Team Manager and moving on to the position of Project Manager of large-scale networking software at Intel's Oregon plant. In 2002, he returned to Israel to take on the position of Software Manager of Intel's Israel LAN Division. Prior to his tenure at Intel, Mr. Kieselstein spent several years as a software engineer at Digital Semiconductor. Mr. Kieselstein holds B.Sc. and M.Sc. degrees in Computer Science, as well as a B.A. in Accounting from Hebrew University.

Mr. Eyal Harari**,** our Vice President of Products and Marketing, has been with RADCOM since 2000. Mr. Harari began in the Development side of RADCOM in 2000 as a software R&D group manager, later becoming the Director of Product Management for VoIP Monitoring Solutions, and finally the Senior Director of RADCOM's Product Management department. Before joining RADCOM, Mr. Harari served from 1995 in the Communication, Computers & Electronics Corps of the Israel Defense Forces, managing large-scale software projects. Mr. Harari received a B.A. in Computer Science from the Open University of Tel Aviv, and also holds an M.B.A. from Tel-Aviv University and an LL.M in Business Law from Bar Ilan University.

Ms. Dana Shahar-Gara has been with the Company since 2000, when she was the Company's Recruitment and Training Manager. In 2002, she took on the role of Human Resources Manager, and in 2007, she was appointed Vice President of Human Resources. Before joining RADCOM, Ms. Gara was a Placement Consultant for the Keinan-Sheffi Institute. She has a B.A. in Behavioral Science and Communication from Israel's Management College and an M.A. in Social Psychology from Bar Ilan University.

Mr. Miki Shilinger, our Vice President of Operations, joined us in June 1999. From May 1997 to May 1999 he was Director of Purchasing and Logistics for Tadiran - Telematics Ltd., an Israeli company involved in the marketing, development and production of systems for the location of vehicles, cargo and people. Prior to that Mr. Shilinger was a Director of Logistics at Galtronics Ltd., one of the leading companies in the manufacture of portable antennas for cellular systems. Prior to that Mr. Shilinger was the owner of a Management Information Systems Consulting firm implementing ERP Systems. Mr. Shilinger has a B.Sc. degree in Industry and Management from Ben-Gurion University.

Mr. Uzi Yahav, our Vice President of Business Development, joined us in November 2005. From 2002 to October 2005, he was the Vice President of Marketing and Business Development at Optibase Ltd. a developer of IPTV solutions for major operators and carriers worldwide. From 1999 to 2002, Mr. Yahav was the Vice President of Marketing at Be Connected Ltd. a subsidiary of Telrad Networks Ltd., a developer of integrated telecommunication solution for carriers. Prior to that, he was the Product Manager for advanced wireless solutions at Teledata Networks Ltd. Mr. Yahav has a B.Sc. degree in Electrical Engineering from Ben Gurion University, and an M.B.A. degree from Haifa University.

Mr. Avi Zamir, President of our wholly-owned U.S. subsidiary, RADCOM Equipment, rejoined us in May 2004. Mr. Zamir also serves as a director of RADCOM Equipment. From 1999 to 2004, Mr. Zamir was co-founder of Business Layers Inc., a company that focuses on eProvisioning solutions, which allow organizations to transform business rules and changes into a set of corresponding IT activities. Prior to that, from 1993 to 1999 Mr. Zamir was the President of RADCOM Equipment. Mr. Zamir has a Practical Engineering qualification from Ort Yad-Singalovski, Tel-Aviv.

Mr. Uri Har has served as a director since October 2007. He was the Director General of the Electronics and Software Industries of Israel from 1984 until 2006. Prior to that, Mr. Har served for 26 years in engineering and managerial positions in the Israeli Navy where his last assignment was the Israeli Naval Attache in the United States and Canada. Among his various positions in the Israeli Navy, he served for three years (1977 - 1980) as Head of the Budget and Comptroller Department. Mr. Har serves as a director of another public company, Formula Vision Ltd. He holds a B.Sc. degree and a M.Sc. degree in Mechanical Engineering from the Technion.

Mr. Zohar Gilon has served as a director since June 1995. He serves as a General Partner and Managing Director of Tamar Technologies Ventures, a venture capital fund investing in Israel and the United States. From 1993 until 1995, he served as President of W.S.P. Capital Holdings Ltd., which provides investment banking and underwriting services in Israel and invests in real estate and high-technology investments in Israel and abroad. Mr. Gilon serves as a director of another public company, Radware Ltd., and of several private companies. Mr. Gilon is also a private investor in numerous high-technology companies, including affiliates of ours in Israel. He holds a B.Sc. degree in Electrical Engineering from the Technion and an M.B.A. degree from Tel-Aviv University.

Ms. Irit Hillel has served as a director since October 2007. She has spent the last 15 years as an entrepreneur and senior executive in a number of high tech and financial services firms. She founded and served as the executive vice president for business development and as a board member for PrintPaks, which was acquired by Mattel Inc. (NYSE: MAT) in 1997. After leading the PrintPaks disposition effort, Ms. Hillel became the Managing Director of Mattel Interactive Europe. At Mattel, she led a multi-functional team located in six countries, bringing to market some of Europe's best-selling computer game titles. She has also served as a vice president at Power Paper Ltd. and worked with Hewlett Packard Co. (NYSE: HPQ) and Mirage Innovations Ltd. in strategy, capital raising and business development roles. Earlier in her career, Ms. Hillel was an investment manager in the high yield bonds and equities investment department at Columbia Savings in Beverly Hills, California. Ms. Hillel has an M.B.A. degree from the Anderson Graduate School of Business at University of California-Los Angeles, and a B.Sc. in Mathematics and Computer Science from Tel Aviv University.

B. COMPENSATION

The aggregate direct remuneration paid to all of our directors and officers as a group (16 persons) for the year ended December 31, 2007 was approximately $1.8 million. This amount includes approximately $292,000, which was set aside or accrued to provide pension, retirement or similar benefits, but does not include any amounts we paid to reimburse our affiliates for costs incurred in providing services to us during such period. These amounts include payments to 4 persons who are no longer officers of the Company - $0.5 million and $86,000, respectively. These amounts do not include the expense of share-based compensation as per SFAS 123(R).

As of December 31, 2007, our directors and officers as a group held options to purchase an aggregate of 367,439 ordinary shares. Other than the options granted to our directors under the Directors Share Incentive Plan (1997), the 2001 Share Option Plan, the International Employee Stock Option Plan and the 2003 Share Option Plan and reimbursement for expenses, we did not compensate our directors for serving on our Board of Directors during 2007. Starting in May 2008, our external directors will also receive a monetary compensation for each meeting NIS 1,060 per meeting and an annual fee NIS 18,300 per year as per a recent amendment to the regulations promulgated pursuant to the Israeli Companies Law.

Share Option Plans

We have the following eight share option plans for the granting of options to our employees, officers, directors and consultants: (i) the Directors Share Incentive Plan (1997); (ii) the 1998 Employee Bonus Plan; (iii) the 1998 Share Option Plan; (iv) the International Employee Stock Option Plan; (v) the 2000 Share Option Plan; (vi) the 2001 Share Option Plan; and (vii) the 2003 Share Option Plan. Options granted under our option plans generally vest over a period of between two and four years, and generally expire seven to ten years from the date of grant. The stock options plans are administered either by the Board of Directors or, subject to applicable law, by the Share Incentive Committee, which has the discretion to make all decisions relating to the interpretation and operation of the options plans, including determining who will receive an option award and the terms and conditions of the option awards.

In December 2004, the FASB issued SFAS 123(R), which requires all companies to measure compensation expense for all share-based payments (including employee stock options) at fair value, and became effective for public companies for annual reporting periods of fiscal years beginning after June 15, 2005. Our adoption of SFAS 123(R) required us to record an expense of $564,000 for share-based compensation plans during 2007 and will result in ongoing accounting charges that will significantly reduce our net income. See Notes 2P and 6C of the Notes to the Consolidated Financial Statements for further information.

As of December 31, 2007, we have granted options to purchase 1,323,296 ordinary shares, of which options to purchase 362,715 ordinary shares have been exercised and options to purchase 773,889 ordinary shares remain outstanding.

In August 2006 we elected, pursuant to Rule 4350(a) of the NASDAQ Marketplace Rules, to follow our home country practice in lieu of the NASDAQ Marketplace Rules with respect to the approvals required for the establishment and for material amendments to our share option plans. Consequently, the establishment of share option plans and material amendments thereto is now subject to the approval of our Board of Directors and is no longer subject to our shareholders' approval.

C. BOARD PRACTICES

Terms of Office

The current Board of Directors is comprised of Zohar Zisapel, Zohar Gilon, Uri Har and Irit Hillel. Our directors are elected by the shareholders at the annual general meeting of the shareholders, except in certain cases where directors are appointed by the Board of Directors and their appointment is later ratified at the first meeting of the shareholders thereafter. With the exception of external directors (Meses. Har and Hillel), whose terms expire in 2010, our directors serve until the next annual general meeting (in 2008). None of our directors have service contracts with the Company relating to their serving as a director, and none of the directors will receive benefits upon termination of their position as a director.

External Directors

We are subject to the provisions of the new Israeli Companies Law, 5759-1999, which became effective on February 1, 2000, superseding most of the provisions of the Israeli Companies Ordinance (New Version), 5743-1983.

Under the Companies Law, companies incorporated under the laws of Israel whose shares have been offered to the public in or outside of Israel are required to appoint at least two external directors. The Companies Law provides that a person may not be appointed as an external director if the person or the person's spouse, siblings, parents, grandparents, descendants, spouses' descendants of the spouse of any of the foregoing (collectively, a "relative"), partner, employer or any entity under the person's control, has, as of the date of the person's appointment to serve as external director, or had during the two years preceding that date, any affiliation with the company, any entity controlling the company or any entity controlled by the company or by such controlling entity. The term affiliation includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; and
- service as an office holder (defined in the Israeli Companies Law as a (i) director, (ii) general manager, (iii) chief business manager, (iv) deputy general manager, (v) vice general manager, (vi) executive vice president, (vii) vice president, (viii) another manager directly subordinate to the general manager and (ix) any other person assuming the responsibilities of any of the forgoing positions without regard to such person's title), excluding service as a director who was appointed to serve as an office holder during the three-month period in which the company first offers its shares to the public.

No person may serve as an external director if the person's position or other business creates, or may create, a conflict of interest with the person's responsibilities as an external director or if his or her position or business may interfere with his or her ability to serve as a director. Until the lapse of two years from termination of service as an external director, a company may not engage an external director to serve as an office holder and cannot employ or receive services from that person, either directly or indirectly, including through a corporation controlled by that person.

External directors are to be elected by a majority vote at a shareholders meeting, provided that either:

- a majority of the shares voted at the meeting, including at least one third of the shares of non-controlling shareholders, vote in favor of the election; or
- the total number of shares voted against the election of the external director does not exceed one percent of the aggregate number of voting shares of the company.

The initial term of an external director is three years and may be extended for an additional three years. In certain special situations, the term may be extended beyond these periods. Each committee of a company's board of directors is required to include at least one external director. Both Uri Har and Irit Hillel qualify as external directors under the Companies Law, and both are members of the Company's Audit Committee.

Audit Committee

NASDAQ Requirements

Our ordinary shares are listed for quotation on the NASDAQ Capital Market (to which we transferred from the NASDAQ Global Market in October 2007), and we are subject to the rules of the NASDAQ Marketplace Rules applicable to listed companies. Under the current NASDAQ rules, a listed company is required to have an audit committee consisting of at least three independent directors, all of whom are financially literate and one of whom has accounting or related financial management expertise. Uri Har, Irit Hillel and Zohar Gilon qualify as independent directors under the current NASDAQ requirements, and all are members of the Audit Committee. Zohar Gilon is our "audit committee financial expert." In addition, we have adopted an Audit Committee charter, which sets forth the Audit Committee's responsibilities.

As stated in our Audit Committee charter, the Audit Committee assists our board in fulfilling its responsibility for oversight of the quality and integrity of our accounting, auditing and financial reporting practices and financial statements and the independence qualifications and performance of our independent auditors. The Audit Committee also has the authority and responsibility to oversee our independent auditors, to recommend for shareholder approval the appointment and, where appropriate, replacement of our independent auditors and to pre-approve audit engagement fees and all permitted non-audit services and fees.

Companies Law Requirements

Under the Companies Law, the board of directors of a public company is required to appoint an audit committee, which must be comprised of at least three directors and include all of the external directors, but may not include:

- the chairman of the board of directors;
- any controlling shareholder or any relative of a controlling shareholder; and
- any director employed by the company or providing services to the company on a regular basis.

The duty of the audit committee is to identify irregularities in the management of the company's business, including in consultation with the internal auditor and the company's independent accountants, and to recommend remedial action relating to such irregularities. In addition, the approval of the audit committee is required under the Companies Law to effect certain related-party transactions.

An audit committee of a public company may not approve a related-party transaction under the Companies Law unless at the time of such approval the external directors are serving as members of the audit committee and at least one of them is present at the meeting at which such approval is granted.

Under the Companies Law, the board of directors of a public company must also appoint an internal auditor proposed by the audit committee. The duty of the internal auditor is to examine, among other things, whether the company's conduct complies with applicable law and orderly business procedure. Under the Companies Law, the internal auditor may not be an interested party, an office holder, or an affiliate, or a relative of an interested party, an office holder or affiliate, nor may the internal auditor be the company's independent accountant or its representative. An interested party is defined in the Companies Law as a 5% or greater shareholder, any person or entity who has the right to designate at least one director or the general manager of the company and any person who serves as a director or as a general manager.

Mr. Joseph Ginossar a partner of Fahn Kanne & Co., a member of Grant Thornton, serves as our internal auditor.

Exculpation, Indemnification and Insurance of Directors and Officers

We have agreed to exculpate and indemnify our office holders to the fullest extent permitted under the Companies Law. We have also purchased a directors and officers liability insurance policy. For information regarding exculpation, indemnification and insurance of directors and officers under applicable law and our articles of association, see "Item 10—Additional Information—Memorandum and Articles of Association."

Management Employment Agreements

We maintain written employment agreements with substantially all of our key employees. These agreements provide, among other matters, for monthly salaries, our contributions to Managers' Insurance and an Education Fund and severance benefits. Most of our agreements with our key employees are subject to termination by either party upon the delivery of notice of termination as provided therein.

Nominating Committee

The nominees to our Board are selected or recommended to the Board by our Nominating Committee. The written procedures addressing the nominating process, were approved by our Board. Zohar Zisapel, Uri Har and Irit Hillel constitute our Nominating Committee.

Compensation Committee

The compensation payable to executive officers must be approved either by a majority of the independent directors on our board or by a Compensation Committee. Our Compensation Committee is comprised of Zohar Zisapel, Zohar Gilon and Irit Hillel.

D. EMPLOYEES

As of December 31, 2007, we had 133 permanent and temporary employees worldwide, of which 55 were employed in research and development, 50 in sales and marketing, 13 in management and administration and 15 in operations. As of December 31, 2007, 115 of our employees were based in Israel, 9 were based in the United States and 9 were based in Spain, Singapore, Korea and China. All of our employees have executed employment agreements, including confidentiality and non-compete provisions, with us. We are subject to labor laws and regulations in Israel and the United States. We and our Israeli employees are also subject to certain provisions of the general collective agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (including the Industrialists Association) by order of the Israeli Ministry of Labor and Welfare. None of our employees are represented by a labor union and we have not experienced any work stoppages.

E. SHARE OWNERSHIP

The following table sets forth certain information regarding the beneficial ownership of our ordinary shares by our directors and officers as of May 31, 2008. The percentage of outstanding ordinary shares is based on 5,075,910[3][6] ordinary shares outstanding as of May 31, 2008.

Name	Number of Ordinary Shares Beneficially Owned[1]	Percentage of Outstanding Ordinary Shares Beneficially Owned[2][3]
Zohar Zisapel[4]	1,993,447	33.3%
All directors and executive officers as a group, except Zohar Zisapel (11 persons)[1] [2] [5]	166,107	2.9%

(1) Pursuant to applicable community property laws, each person named in the table has sole voting and investment power with respect to all ordinary shares listed as owned by such person. Shares beneficially owned include shares that may be acquired pursuant to options to purchase ordinary shares that are exercisable within 60 days of May 31, 2008.

(2) For determining the percentage owned by each person or group, ordinary shares for each person or group include ordinary shares that may be acquired by such person or group pursuant to options to purchase ordinary shares that are exercisable within 60 days of May 31, 2008.

(3) The number of outstanding ordinary shares does not include 30,843 shares that were repurchased by us.

(4) Includes beneficial ownership of ordinary shares held by RAD Data Communications Ltd and Klil and Michael Ltd, Israeli companies and 239,844 ordinary shares issuable upon exercise of options and warrants exercisable within 60 days of May 31, 2008. This information is based on Mr. Zisapel's Schedule 13G/A, filed with the SEC on February 12, 2008.

(5) Each of the directors and executive officers not separately identified in the above table beneficially own less than 1% of our outstanding ordinary shares (including options or warrants held by each such party, and which are vested or shall become vested within 60 days of May 31, 2008) and have therefore not been separately disclosed. The amount of shares includes 139,076 ordinary shares issuable upon exercise of options and warrants exercisable within 60 days of May 31, 2008.

(6) On May 6, 2008, our shareholders approved a one-to-four reverse share split, which we effected in June 2008.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of our ordinary shares as of May 31, 2008, by each person or entity known to own beneficially more than 5% of our outstanding ordinary shares based on information provided to us by the holders or disclosed in public filings with the SEC. The voting rights of our major shareholders do not differ from the voting rights of other holders of our ordinary shares. As of May 31, 2008, our ordinary shares had a total of 61 holders of record, of which 30 were registered with addresses in the United States. We believe that the number of beneficial owners of our shares is substantially greater than the number of record holders, because a large portion of our ordinary shares is held of record in broker "street name." As of May 31, 2008, U.S. holders of record held approximately 58% of our outstanding ordinary shares.

Name	Number of Ordinary Shares[1]	Percentage of Outstanding Ordinary Shares[2]
Zohar Zisapel[3][4]	1,770,961	33.3%
Yehuda Zisapel[3][5]	506,790	10.0%
RAD Data Communications Ltd.[6]	44,460	0.9%

(1) Except as otherwise noted and pursuant to applicable community property laws, each person named in the table has sole voting and investment power with respect to all ordinary shares listed as owned by such person. Shares beneficially owned include shares that may be acquired pursuant to options that are exercisable within 60 days of May 31, 2008.

(2) The percentage of outstanding ordinary shares is based on 5,075,910 ordinary shares outstanding as of May 31, 2008. For determining the percentage owned by each person, ordinary shares for each person includes ordinary shares that may be acquired by such person pursuant to options to purchase ordinary shares that are exercisable within 60 days of May 31, 2008.

The number of outstanding ordinary shares does not include 30,843 shares that were repurchased by us.

(3) Includes beneficial ownership of Messrs. Zohar Zisapel and Yehuda Zisapel of ordinary shares held by RAD Data Communications Ltd., an Israeli company.

(4) Includes 44,460 ordinary shares owned of record by RAD Data Communications, 13,625 ordinary shares owned of record by Klil and Michael Ltd., an Israeli company and 239,844 ordinary shares issuable upon exercise of options and warrants exercisable within 60 days of May 31, 2008. Zohar Zisapel is a principal shareholder and director of each of RAD Data Communications Ltd. and Klil and Michael Ltd. and, as such, Mr. Zisapel may be deemed to have voting and dispositive power over the ordinary shares held by RAD Data Communications and Klil and Michael Ltd. Mr. Zisapel disclaims beneficial ownership of these ordinary shares except to the extent of his pecuniary interest therein. This information is based on Mr. Zohar Zisapel's Schedule 13G/A, filed with the SEC on February 12, 2008.

(5) Includes 44,460 ordinary shares owned of record by RAD Data Communications and 227,590 ordinary shares owned of record by Retem Local Networks Ltd., an Israeli company. Yehuda Zisapel is a principal shareholder and director of each of RAD Data Communications and Retem Local Networks and, as such, Mr. Zisapel may be deemed to have voting and dispositive power over the ordinary shares held by RAD Data Communications and Retem Local Networks. Mr. Zisapel disclaims beneficial ownership of these ordinary shares except to the extent of his pecuniary interest therein. This information is based on Mr. Yahuda Zisapel's Schedule 13G/A, filed with the SEC on February 14, 2007.

(6) Messrs. Zohar and Yehudah Zisapel have shared voting and dispositive power with respect to the shares held by Rad Data Communications Ltd. The shares held by Rad Data Communications Ltd. are reflected under Zohar Zisapel's and Yehuda Zisapel's names in the table.

B. RELATED PARTY TRANSACTIONS

The RAD-BYNET Group

Messrs. Yehuda and Zohar Zisapel are the founders and principal shareholders of our Company. Zohar Zisapel is our Chairman of the Board of Directors. One or both of Messrs. Yehuda Zisapel and Zohar Zisapel are also founders, directors and principal shareholders of several other companies which, together with us and their respective subsidiaries and affiliates, are known as the RAD-BYNET Group. Such other corporations include, without limitation: RAD Data Communications Ltd.; RADVision Ltd.; BYNET Data Communications Ltd.; BYNET SAMECH LTD.; BYNET SYSTEMS APPLICATIONS LTD.; BYNET ELECTRONICS LTD. (a non-exclusive distributor in Israel for us); and AB-NET Communication Ltd.

Members of the RAD-BYNET Group, each of which is a separate legal entity, are actively engaged in designing, manufacturing, marketing and supporting data communications and telecommunications products, none of which is currently the same as any product of ours. One or both of Messrs. Yehuda Zisapel and Zohar Zisapel are also founders, directors and principal shareholders of several other real estate, services, holdings and pharmaceutical companies. The above list does not constitute a complete list of the investments of Messrs. Yehuda and Zohar Zisapel.

We and other members of the RAD-BYNET Group also market certain of our products through the same distribution channels. Certain products of members of the RAD-BYNET Group are complementary to, and may be used in connection with, products of ours, and others of such products may be used in place of (and thus may be deemed to be competitive with) our products. We incorporate into our product line a software package for voice-over-IP simulation (H.323, SIP), which we purchased from a member of the RAD-BYNET Group. The aggregate amounts of such purchases were approximately $30,000, $4,000 and $2,000 in 2005, 2006 and 2007, respectively.

We purchase certain products and services from members of the RAD-BYNET group, on terms that are either beneficial to us or are no less favorable than terms that might be available to us from unrelated third parties, based on quotes we received from unrelated third parties. In some cases, the RAD-BYNET Group obtains volume discounts for services from unrelated parties, and we pay our pro rata cost of such services. Based on our experience, the volume discounts provide better terms than we would be able to obtain on our own. The aggregate amounts of such purchases were approximately $63,000, $38,000 and $71,000 in 2005, 2006 and 2007, respectively.

Each of RAD and BYNET provides legal, tax, personnel and administrative services to us and leases space to us, and each is reimbursed by us for its costs in providing such services. The aggregate amounts of such reimbursements were approximately $45,000, $43,000 and $40,000 in 2005, 2006 and 2007, respectively.

We currently lease office premises in Tel Aviv and Paramus, New Jersey, from an affiliate. When these agreements were signed, the lease payments were at fair market prices based on quotes we received from third parties for similar space. Historically, we have had some additional flexibility to change the leased space, which we might not have had with unrelated third parties. The aggregate amount of lease payments were approximately $516,000, $502,000 and $526,000 in 2005, 2006 and 2007, respectively. We also sub-lease 276 square feet of the New Jersey premises to a related party, and received aggregate rental payments of approximately $5,000 for 2006 and 2007.

We are party to a non-exclusive distribution agreement with BYNET ELECTRONICS LTD., a related party. We sell our products and services to BYNET on the same terms and conditions as it sells to unrelated Israeli distributors with whom it has distribution agreements. The aggregate amounts of such sales were approximately $773,000, $335,000 and $407,000 in 2005, 2006 and 2007, respectively.

In February 2008, we completed a PIPE in which we raised $2.5 million from certain investors, including our Chairman, Mr. Zohar Zisapel Zohar Gilon, one of our directors; and his son, Amit Gilon. For more information, see “Item 8—Financial Information—Significant Changes” below.

We believe that the terms of the transactions in which we have entered and are currently engaged with other members of the RAD-BYNET Group are beneficial to us and no less favorable to us than terms that might be available to us from unaffiliated third parties. All future transactions and arrangements (or modifications of existing ones) with members of the RAD-BYNET Group in which our office holders have a personal interest or which raise issues of such office holders’ fiduciary duties will require approval by our Audit Committee and, in certain circumstances, approval of our shareholders under the Companies Law.

Registration Rights

As part of the two PIPEs we completed in 2004 and 2008, we have entered into agreements with certain of our directors and principal shareholders entitling them to certain registration rights. Pursuant to such agreements, such parties have the right to demand registration of their shares purchased in these PIPEs. We discharged our registration obligations with respect to the shares and warrants purchased in the 2004 PIPE transaction. For more information on the 2004 PIPE transaction, see “Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Private Placement.”

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Our consolidated financial statements and other financial information, which can be found at the end of this Annual Report on Form 20-F beginning on page F-1, are incorporated herein by reference to “Item 18—Financial Statements” below.

Export Sales

In 2007, the amount of our export sales was approximately $13.0 million, which represented 96.5% of our total sales.

Legal Proceedings

In November 2005, we were served with a claim in the amount of approximately $623,000 by Qualitest Ltd. an Israeli company which used to be a nonexclusive distributor of our products in Israel. Qualitest claims that we breached an exclusive distribution agreement. In December 2005, we filed a statement of defense against the claim asserting that an exclusive distribution agreement was never signed between the parties, and included a counterclaim in the amount of approximately $131,000 for unpaid invoices. The case has been brought before an arbitrator, the Honorable Judge (Retired) Amnon Strashnov. In June 2006, Qualitest paid us $69,000 in accordance with a partial verdict of the arbitrator. In June 2007, Qualitest paid the Company $18,000 and by that and the partial verdict, settled the Company's counterclaim. In July 2007 the arbitrator accepted Qualitest's claim against us and instructed us to pay $310,000 to Qualitest, in addition to $31,000 as expenses to Qualitest. We included an expense for the full amount in our statement of operations "Sales and marketing expenses". In August 2007, we filed a request with the District Court in Tel Aviv to annul the arbitration award. In June 2008, the District Court denied our request.

Dividend Policy

We have never declared or paid any cash dividends on our ordinary shares. We currently intend to retain any future earnings to finance operations and to expand our business and, therefore, do not expect to pay any cash dividends in the foreseeable future.

B. SIGNIFICANT CHANGES

Private Placement

In February 2008, we completed a PIPE in which we raised $2.5 million from certain investors, including our Chairman, Mr. Zohar Zisapel, who invested in this PIPE approximately $1.65 million, Zohar Gilon, one of our directors and his son, Amit Gilon. We issued in the 2008 PIPE 976,563 ordinary shares at a price per share of $2.56, as well as 325,520 warrants to purchase ordinary shares at an exercise price per warrant of $3.20. The warrants are exercisable for a period of three years. In connection with the PIPE, we undertook to file a registration statement covering the resale of the shares and warrants purchased in the PIPE. We expect to file this registration statement during the third quarter of 2008.

Venture Loan from Plenus

In April 2008, we closed a $2.5 million venture loan from Plenus, a leading Israeli venture-lending firm. The loan is for a period of three years, and bears interest at the rate of 10% per annum. In addition, we granted Plenus a warrant to purchase our ordinary shares in the amount of $450,000. The warrant is exercisable for a period of five years, and its exercise price is $2.56 per share. We also granted Plenus registration rights in respect of the shares underlying the warrant. In connection with the loan from Plenus, we granted Plenus a fixed charge over our intellectual property assets and a floating charge over our assets. Radcom Equipment Inc., our U.S. subsidiary, granted Plenus a security interest over its assets, and our subsidiaries provided Plenus with guaranties with respect to the loan. The loan also includes financial covenants which relate to the level of revenues, operating income and cash balances of the Company.for more details, see exhibit 4.19 – Loan Agreement dated as of April 1, 2008.

Reverse Share Split

In May 2008, our shareholders approved a one-to-four reverse share split. The purpose of the reverse share split was to enable the Company to continue to comply with the minimum $1.00 bid price of the NASDAQ Capital Market. We effected this reverse share split in June 2008. Following the effactuation of the reverse split, the total number of ordinary shares was reduced from 20,303,638 to approximately 5,075,910.

Except as otherwise disclosed in this Annual Report on Form 20-F, there has been no material change in our financial position since December 31, 2007.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

NASDAQ Capital Market

The following table sets forth the high and low bid prices of our ordinary shares as reported by the NASDAQ Global Market and the NASDAQ Capital Market, as applicable, for the calendar periods indicated:

	High	Low
2003	$ 8.76	$ 2.56
2004	$ 11.12	$ 4.00
2005	$ 14.36	$ 5.40
2006	$ 20.20	$ 6.96
2007	$ 12.72	$ 2.80
2006		
First Quarter	$ 20.20	$ 12.64
Second Quarter	$ 11.96	$ 8.00
Third Quarter	$ 12.72	$ 6.96
Fourth Quarter	$ 13.04	$ 9.44
2007		
First Quarter	$ 12.72	$ 10.40
Second Quarter	$ 11.28	$ 5.32
Third Quarter	$ 5.60	$ 2.80
Fourth Quarter	$ 4.20	$ 2.88
2008		
First Quarter	$ 3.40	$ 1.80
Most recent six months		
December 2007	$ 3.44	$ 2.88
January 2008	$ 3.04	$ 2.72
February 2008	$ 3.40	$ 2.76
March 2008	$ 2.80	$ 1.80
April 2008	$ 2.64	$ 2.20
May 2008	$ 2.72	$ 2.24
June 2008 (through June 24)	$ 2.80	$ 2.06

Dual Listing

In addition to trading on the NASDAQ Capital Market, on February 20, 2006, our ordinary shares began trading on the TASE. According to a publication of the Israeli Tax Authorities, sales of securities of an industrial company, such as us, by individuals and companies to whom Chapter B of the Inflationary Law does not apply will continue to enjoy benefits of a lower Israeli capital gains tax after a dual listing.

Tel-Aviv Stock Exchange

The following table sets forth the high and low bid prices of our ordinary shares as reported by the TASE for the calendar periods indicated:

	High	Low
2006		
2006 (February 20, 2006 through December 31, 2006)	NIS 96.16	NIS 31.48
First Quarter (February 20, 2006 through March 31, 2006)	NIS 96.16	NIS 76.32
Second Quarter	NIS 81.32	NIS 37.92
Third Quarter	NIS 52.04	NIS 31.48
Fourth Quarter	NIS 55.00	NIS 42.00
2007		
First Quarter	NIS 53.44	NIS 42.48
Second Quarter	NIS 47.80	NIS 21.70
Third Quarter	NIS 23.80	NIS 12.08
Fourth Quarter	NIS 16.36	NIS 11.12
2008		
First Quarter	NIS 12.24	NIS 6.76
Most recent six months		
December 2007	NIS 13.20	NIS 11.12
January 2008	NIS 11.24	NIS 9.88
February 2008	NIS 12.24	NIS 10.20
March 2008	NIS 11.00	NIS 6.76
April 2008	NIS 9.20	NIS 7.60
May 2008	NIS 10.00	NIS 7.88
June 2008 (through June 24)	NIS 8.80	NIS 7.74

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

Since our initial public offering on September 24, 1997 and until September 30, 2007 our ordinary shares have been traded on the NASDAQ Global Market under the symbol RDCM, and since October 1, 2007 our shares have been traded on the NASDAQ Capital Market. In addition, since February 20, 2006, our ordinary shares have been traded also on the TASE under the symbol "רדקם" . Prior to September 24, 1997, there was no market for our ordinary shares.

Our ordinary shares are currently listed on the NASDAQ Capital Market and are thereby subject to the rules and regulations established by NASDAQ and applicable to listed companies. Rule 4350 of the NASDAQ Marketplace Rules imposes various corporate governance requirements on listed securities. Section (a)(1) of Rule 4350 provides that foreign private issuers are required to comply with certain specific requirements of Rule 4350, but, as to the balance of Rule 4350, foreign private issuers may comply with the laws of their home jurisdiction in lieu of the requirements of such sections of Rule 4350.

We have chosen to follow the rules of our home jurisdiction, the Israeli Companies Law, in lieu of the requirements of (i) Rule 4350(b) regarding the requirement to distribute an annual report to our shareholders prior to our annual meeting of shareholders; (ii) Rule 4350(i)(1)(A) relating to the solicitation of shareholder approval prior to the issuance of designated securities when a stock option or purchase plan is to be established or materially amended; and (iii) Rule 4350(l) relating to the direct registration program. These requirements of Rule 4350 are not required under the Israeli Companies Law.

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSES OF THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

The following is a summary description of certain provisions of our memorandum of association and articles of association.

Objects and Purposes

We were first registered by the Israeli Registrar of Companies on July 5, 1985, as a private company. We later became a public company, registered by the Israeli Registrar of Companies on October 1, 1997 with the company number 52-004345-6.

The full details of all our objects and purposes can be found in Section 2 of our memorandum of association, as filed with the Israeli Registrar of Companies and amended from time to time by resolution of our shareholders. One of our objectives listed is to manufacture, market and deal - in all ways - with computer equipment, including communications equipment and all other equipment related in any way to such equipment. Some additional objects of our listing include: having business relationships with representatives and agents; engaging in research and development; acquiring intellectual property; engaging in business actions with other business owners; lending money when we deem it proper; dealing in any form of business (e.g., import, export, marketing, etc.); and many other general business activities, whether in Israel or in any other country.

Directors

According to our articles of association, our Board of Directors is to consist of not less than three and not more than nine directors (which may be changed by resolution of our shareholders).

Election of Directors

Directors, other than external directors, are elected by the shareholders at the annual general meeting of the shareholders or appointed by the board of directors. In the event that any directors are appointed by the board of directors, their appointment is required to be ratified by the shareholders at the next shareholders' meeting following such appointment. Our shareholders may remove a director from office in certain circumstances. There is no requirement that a director own any of our capital shares. Directors may appoint alternative directors in their place, with the exception of external directors, who may appoint an alternate director only in very limited circumstances.

Remuneration of Directors

Directors' remuneration is subject to shareholder approval, except for reimbursement of reasonable expenses incurred in connection with carrying out directors' duties, and except for the monetary compensation to external directors mandated by recent Israeli regulations, which is subject to approval by the board of directors only.

Powers of the Board

The board of directors may resolve to take action at a meeting when a quorum is present, and each resolution must be passed by a vote of at least a majority of the directors present at the meeting who are entitled to participate in the meeting. A quorum of directors requires at least a majority of the directors then in office. The board of directors may elect one director to serve as the chairman of the board of directors to preside at the meetings of the board of directors, and may also remove such director.

The board of directors retains all power in running the Company that is not specifically granted to the shareholders. The board of directors may, at its discretion, cause us to borrow or secure the payment of any sum or sums of money for our purposes at such times and upon such terms and conditions in all respects as it deems fit, and, in particular, through the issuance of bonds, perpetual or redeemable debentures, debenture stock, or any mortgages, charges, or other securities on the undertaking or the whole or any part of our property, both present and future, including our uncalled or called but unpaid capital for the time being.

Dividends

The board of directors may declare dividends as it deems justified, but the final dividend for any fiscal quarter must be proposed by the board of directors and approved by the shareholders. Dividends may be paid in assets or shares of capital stock, debentures or debenture stock of us or of other companies. The board of directors may decide to distribute our profits among the shareholders. Dividends that remain unclaimed after seven years will be forfeited and returned to us. Unless there are shareholders with special dividend rights, any dividend declared will be distributed among the shareholders in proportion to their respective holdings of our shares for which the dividend is being declared.

Neither our memorandum of association or our articles of association nor the laws of the State of Israel restrict in any way the ownership or voting of ordinary shares by non-residents of Israel, except with regard to subjects of countries which are in a state of war with Israel who may not be recognized as owners of ordinary shares. If we are wound up, then aside from any special rights of shareholders, our remaining assets will be distributed among the shareholders in proportion to their respective holdings.

Our articles of association allows us to create redeemable shares, although at the present time we do not have any such redeemable shares.

External Directors

See "Item 6—Directors, Senior Management and Employees—Board Practices—External Directors."

Fiduciary Duties of Office Holders

The Companies Law imposes a duty of care and a duty of loyalty on all office holders of a company.

The duty of care requires an office holder to act with the level of care with which a reasonable office holder in the same position would have acted under the same circumstances. The duty of care of an office holder includes a duty to utilize reasonable means to obtain:

- information regarding the advisability of a given action submitted for his or her approval or performed by him or her by virtue of his position; and
- all other important information pertaining to such actions.

The duty of loyalty of an office holder includes a duty to:

- refrain from any conflict of interest between the performance of his or her duties for the company and the performance of his or her other duties or personal affairs;
- refrain from any activity that is competitive with the company;
- refrain from exploiting any business opportunity of the company to receive a personal gain for himself or herself, or for others; and
- disclose to the company any information or documents relating to the company's affairs which the office holder has received due to his or her position as an office holder.

Each person listed in the table above under "Item 6—Directors, Senior Management and Employees—Directors and Senior Management" above is an office holder. Under the Companies Law, the approval of the board of directors is required for all compensation arrangements of office holders who are not directors. Under the Companies Law, directors' compensation arrangements require the approval of the audit committee and the board of directors, in such order, and in a public company, require the approval of the audit committee, the board of directors and the shareholders, in that order.

Conflict of Interest

The Companies Law requires that an office holder of a company disclose to the company, promptly and in any event no later than the board of directors meeting in which the transaction is first discussed, any personal interest that he or she may have and all related material information known to him or her in connection with any existing or proposed transaction by the company. A personal interest of an office holder includes an interest of a company in which the office holder is a 5% or greater shareholder, director or general manager or in which the office holder has the right to appoint at least one director or the general manager. In the case of an extraordinary transaction, the office holder's duty to disclose applies also to the personal interest of the office holder's relative, which term is defined in the Companies Law. See "Item 6—Directors, Senior Management and Employees—Board Practices" for the complete definition. Under Israeli law, an extraordinary transaction is a transaction which is:

- not in the ordinary course of business;
- not on market terms; or
- is likely to have a material impact of the company's profitability, assets or liabilities.

Under the Companies Law, the board of directors may approve a transaction between the company and an office holder or a third party in which an office holder has a personal interest. A transaction that is adverse to the company's interest may not be approved. If the transaction is an extraordinary transaction, the transaction requires the approval of the audit committee and the board of directors, in that order. In certain circumstances, shareholder approval may also be required. An office holder who has a personal interest in a transaction that is considered at a meeting of the board of directors or the audit committee generally may not be present at such meeting or vote on such transaction, unless a majority of the members of the board of directors or the audit committee, as the case may be, also have a personal interest. If a majority of the members of the board of directors or the audit committee, as the case may be, also have a personal interest, shareholder approval is also required.

Changing Rights of the Shareholders

The company may change the rights of owners of shares of capital stock only with the approval of a majority of the holders of such class of stock present and voting at a separate general meeting called for such class of stock. An enlargement of a class of stock is not considered changing the rights of such class of stock.

Shareholder Meetings

The company has two types of general shareholder meetings: the annual general meeting and the extraordinary general meeting. An annual general meeting must be held once in every calendar year, but not more than 15 months after the last annual general meeting. We are required to give notice of general meetings no less than seven days before the general meetings. A quorum in a general meeting consists of two or more holders of ordinary shares (present in person or by proxy), who together hold at least one-third (1/3) of the voting power of the company. If there is no quorum within an hour of the time set, the meeting is postponed until the following week (or any other time upon which the chairman of the board and the majority of the voting power represented at the meeting agree). Every ordinary share has one vote. A shareholder may only vote the shares for which all calls have been paid, except in separate general meetings of a particular class. A shareholder may vote in person or by proxy, or, if the shareholder is a corporate body, by its representative. We are exempted by the NASDAQ Marketplace Rules from the requirement to distribute our annual report to our shareholders, but we have undertaken to post a copy of it on our website, www.radcom.com, after filing it with the SEC.

Duties of Shareholders

Under the Companies Law, the disclosure requirements that apply to an office holder also apply to a controlling shareholder of a public company. A controlling shareholder is a shareholder who has the ability to direct the activities of a company, including a shareholder that holds 25% or more of the voting power of a company if no other shareholder owns more than 50% of the voting power of the company, but excluding a shareholder whose power derives solely from his or her position as a director of the company or any other position with the company. Extraordinary transactions of a public company with a controlling shareholder or with a third party in which a controlling shareholder has a personal interest, and the terms of engagement of a controlling shareholder as an office holder or employee, require the approval of the audit committee, the board of directors and the shareholders of the company, in such order. The shareholder approval must be by a majority vote, provided that either:

- at least one-third of the shares of shareholders who have no personal interest in the transaction and are present and voting, in person, by proxy or by written ballot, at the meeting, vote in favor of the transaction; or

- the shareholders who have no personal interest in the transaction who vote against the transaction do not represent more than one percent of the voting power of the company.

For information concerning the direct and indirect personal interests of certain of our office holders and principal shareholders in certain transactions with us, see “Item 7—Major Shareholders and Related Party Transactions.”

In addition, under the Companies Law each shareholder 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 any power he or she has in the company, such as in shareholder votes. In addition, certain shareholders have a duty of fairness toward the company, although such duty is not defined in the Companies Law. These shareholders include any controlling shareholder, any shareholder who knows that he or she possesses the power to determine the outcome of a shareholder vote and any shareholder who, pursuant to the provisions of the articles of association, has the power to appoint or to prevent the appointment of an office holder or any other power in regard to the company.

Exculpation of Office Holders

Under the Companies Law, an Israeli company may not exempt an office holder from liability with respect to a breach of his duty of loyalty, but may exempt in advance an office holder from his liability to the company, in whole or in part, with respect to a breach of his duty of care (except in connection with distributions), provided that the articles of association of the company permit it to do so. Our articles of association allow us to exempt our office holders to the fullest extent permitted by law.

Insurance of Office Holders

Our articles of association provide that, subject to the provisions of the Companies Law, we may enter into a contract for the insurance of the liability of any of our office holders with respect to an act performed by such individual in his or her capacity as an office holder, for:

- a breach of an office holder's duty of care to us or to another person;

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

- a financial liability imposed upon an office holder in favor of another person concerning an act performed by an office holder in his or her capacity as an office holder.

Indemnification of Office Holders

- Our articles of association provide that we may indemnify an office holder with respect to an act performed in his capacity as an office holder against:

- a financial liability imposed on him or her in favor of another person by any judgment, including a settlement or an arbitration award approved by a court; such indemnification may be approved (i) after the liability has been incurred or (ii) in advance, provided that our undertaking to indemnify is limited to events that our Board of Directors believes are foreseeable in light of our actual operations at the time of providing the undertaking and to a sum or criterion that our Board of Directors determines to be reasonable under the circumstances ;

- reasonable litigation expenses, including attorney's fees, expended by the office holder as a result of an investigation or proceeding instituted against him or her by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against him or her and either (i) concluded without the imposition of any financial liability in lieu of criminal proceedings or (ii) concluded with the imposition of a financial liability in lieu of criminal proceedings but relates to a criminal offense that does not require proof of criminal intent; and

- reasonable litigation expenses, including attorney's fees, expended by the office holder or charged to him or her by a court, in proceedings we institute against him or her or instituted on our behalf or by another person, a criminal indictment from which he was acquitted, or a criminal indictment in which he was convicted for a criminal offense that does not require proof of criminal intent.

Limitations on Exculpation, Indemnification and Insurance

The Companies Law provides that a company may not enter into a contract for the insurance of its office holders nor indemnify an office holder nor exempt an officer from responsibility toward the company, for any of the following:

- a breach by the office holder of his or her duty of loyalty, unless, with respect to insurance coverage or indemnification, the office holder acted in good faith and had a reasonable basis to believe that such act would not prejudice the company;
- a breach by the office holder of his or her duty of care if the breach was committed intentionally or recklessly;
- any act or omission committed with the intent to unlawfully yield a personal profit; or
- any fine imposed on the office holder.

In addition, under the Companies Law, indemnification of, and procurement of insurance coverage for, our office holders must be approved by our Audit Committee and Board of Directors and, if the beneficiary is a director, by our shareholders. Our Audit Committee, Board of Directors and shareholders resolved to indemnify and exculpate our office holders by providing them with indemnification agreements and approving the purchase of a directors and officers liability insurance policy.

Anti-Takeover Provisions; Mergers and Acquisitions

The Companies Law allows for mergers, provided that each party to the transaction obtains the approval of its board of directors and shareholders. For the purpose of the shareholder vote of each party, unless a court rules otherwise, a statutory merger will not be deemed approved if shares representing a majority of the voting power present at the shareholders meeting and which are not held by the other party to the potential merger (or by any person who holds 25% or more of the shares of the other party to the potential merger, or the right to appoint 25% or more of the directors of the other party to the potential merger) have voted against the merger. Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if the court concludes that there exists a reasonable concern that as a result of the merger the surviving company will be unable to satisfy the obligations of such party. Finally, a merger may not be completed unless at least (i) 50 days have passed from the time that the requisite proposals for approval of the merger were filed with the Israeli Registrar of Companies and (ii) 30 days have passed since the merger was approved by the shareholders of each merging company.

In addition, provisions of the Companies Law that address “arrangements” between a company and its shareholders allow for “squeeze-out” transactions in which a target company becomes a wholly-owned subsidiary of an acquiror. These provisions generally require that the merger be approved by a majority of the participating shareholders (excluding those abstaining) holding at least 75% of the shares voted on the matter. In addition to shareholder approval, court approval of the transaction is required, which entails further delay. The Companies Law also provides for a merger between Israeli companies after completion of the above procedure for an “arrangement” transaction and court approval of the merger.

The Companies Law also provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of such acquisition, the purchaser would become a 25% shareholder of the company. This rule does not apply if there is already another 25% shareholder of the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser would become a 45% or greater shareholder of the company, unless there is already a 45% or greater shareholder of the company. These requirements do not apply if, in general, the acquisition (i) was made in a private placement that received shareholder approval , including with respect to the fact that as a result of the transaction a party would become a shareholder of 25% or more, (ii) was from a 25% or greater shareholder of the company which resulted in the acquiror becoming a 25% or greater shareholder of the company, or (iii) was from a 45% or greater shareholder of the company which resulted in the acquiror becoming a 45% or greater shareholder of the company. The tender offer must be extended to all shareholders, but the offeror is not required to purchase more than 5% of the company's outstanding shares, regardless of how many shares are tendered by shareholders. The tender offer may be consummated only if (i) at least 5% of the company’s outstanding shares will be acquired by the offeror and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

If, as a result of an acquisition of shares, the acquirer will hold more than 90% of a company's outstanding shares, the acquisition must be made by means of a tender offer for all of the outstanding shares. If less than 5% of the outstanding shares are not tendered in the tender offer, all the shares that the acquirer offered to purchase will be transferred to it. The Companies Law provides for appraisal rights if any shareholder files a request in court within three months following the consummation of a full tender offer. If more than 5% of the outstanding shares are not tendered in the tender offer, then the acquiror may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares. Israeli tax law treats stock-for-stock acquisitions between an Israeli company and another company less favorably than does U.S. tax law. For example, Israeli tax law may, under certain circumstances, subject a shareholder who exchanges his or her ordinary shares for shares of another corporation to taxation prior to the sale of the shares received in such stock-for-stock swap.

C. MATERIAL CONTRACTS

For a summary of our material contracts, see "Item 7—Major Shareholders and Related Party Transactions" and "Item 4—Information on the Company—Property, Plants and Equipment," which is incorporated herein by reference.

D. EXCHANGE CONTROLS

There are currently no Israeli currency control restrictions on payments of dividends or other distributions with respect to our ordinary shares or the proceeds from the sale of our ordinary shares, except for the obligation of Israeli residents to file reports with the Bank of Israel regarding certain transactions. However, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time and from time to time.

E. TAXATION

Israeli Tax Considerations

The following is a summary of the current tax structure applicable to companies incorporated in Israel, with special reference to its effect on us. The following also contains a discussion of the material Israeli consequences to purchasers of our ordinary shares and Israeli government programs benefiting us.

This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. To the extent that the discussion is based on new tax legislation which has not been subject to judicial or administrative interpretation, we cannot assure you that the views expressed in the discussion will be accepted by the appropriate tax authorities or the courts. The discussion is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations.

Holders of our ordinary shares should consult their own tax advisors as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of ordinary shares, including, in particular, the effect of any foreign state or local taxes.

General Corporate Tax Structure

Israeli companies are generally subject to Corporate Tax on their taxable income at the rate of 29% for the 2007 tax year. Following an amendment to the Tax Ordinance , which became effective on January 1, 2006, the Corporate Tax rate was decreased to 27% for the 2008 tax year, 26% for the 2009 tax year and 25% for the 2010 tax year and thereafter. Israeli companies are generally subject to Capital Gains Tax at a rate of 25% for capital gains (other than gains deriving from the sale of listed securities) derived after January 1, 2003. However, the effective tax rate payable by a company that derives income from an approved enterprise (as further discussed below) may be considerably less.

Tax Benefits and Grants for Research and Development

Israeli tax law allows, under specified conditions, a tax deduction for expenditures, including capital expenditures, for the year in which they are incurred. These expenses must relate to scientific research and development projects and must be approved by the relevant Israeli government ministry, determined by the field of research, and the research and development must be for the promotion of the company and carried out by or on behalf of the company seeking such deduction. However, the amount of such deductible expenses shall be reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. Expenditures not so approved are deductible over a three-year period.

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

Under the Law for the Encouragement of Industry (Taxes), 1969 (the "Industry Encouragement Law"), Industrial Companies (as defined below) are entitled to the following tax benefits, among others:

- deductions over an eight-year period for purchases of know-how and patents;
- deductions over a three-year period of expenses involved with the issuance and listing of shares on a stock exchange;
- the right to elect, under specified conditions, to file a consolidated tax return with other related Israeli Industrial Companies; and
- accelerated depreciation rates on equipment and buildings.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority. Under the Industry Encouragement Law, an "Industrial Company" is defined as a company resident in Israel, at least 90% of the income of which, in any tax year, is derived from an "Industrial Enterprise" owned by it. An "Industrial Enterprise" is defined as an enterprise whose major activity in a given tax year is industrial production activity.

We believe that we currently qualify as an Industrial Company within the definition of the Industry Encouragement Law. No assurance can be given that we will continue to qualify as an Industrial Company or that the benefits described above will be available in the future.

Special Provisions Relating to Taxation Under Inflationary Conditions

The Income Tax Law (Inflationary Adjustments), 1985, represents an attempt to overcome the problems presented to a traditional tax system by an economy undergoing rapid inflation. The Inflationary Adjustments Law is highly complex. Its features which are material to us can be described as follows:

- When the value of a company's equity, as calculated under the Inflationary Adjustments Law, exceeds the depreciated cost of Fixed Assets (as defined in the Inflationary Adjustments Law), a deduction from taxable income is permitted equal to the product of the excess multiplied by the applicable annual rate of inflation. The maximum deduction permitted in any single tax year is 70% of taxable income, with the unused portion permitted to be carried forward, linked to the increase in the consumer price index.

- If the depreciated cost of Fixed Assets exceeds a company's equity, then the product of such excess multiplied by the applicable annual rate of inflation is added to taxable income.

- Subject to certain limitations, depreciation deductions on Fixed Assets and losses carried forward are adjusted for inflation based on the increase in the consumer price index.

On February 26, 2008, the Israeli Income Tax Law (Inflationary Adjustments) (Amendment No. 20) (Restriction of Period of Application) - 2008 ("the Amendment") was passed by the Knesset. According to the Amendment, the Inflationary Adjustments Law will no longer be applicable subsequent to the 2007 tax year, except for certain transitional provisions. Further, according to the Amendment, commencing with the 2008 tax year, the adjustment of income for the effects of inflation for tax purposes will no longer be calculated. Additionally, depreciation on fixed assets and tax loss carryforwards will no longer be linked to future changes in the CPI, such that these amounts will continue to be linked only to the CPI as of the end of the 2007 tax year and will not be linked to CPI changes after such date.

The Israeli Income Tax Ordinance and regulations promulgated thereunder allow "Foreign-Invested Companies," which maintain their accounts in U.S. dollars in compliance with the regulations published by the Israeli Minister of Finance, to base their tax returns on their operating results as reflected in the dollar financials statements or to adjust their tax returns based on exchange rate changes rather than changes in the Israeli consumer price index, in lieu of the principles set forth by the Inflationary Adjustments Law. For these purposes, a Foreign-Invested Company is a company, more than 25% of whose share capital, in terms of rights to profits, voting and appointment of directors, and of whose combined share and loan capital, is held by persons who are not residents of Israel. A company that elects to measure its results for tax purposes based on the dollar exchange rate cannot change that election for a period of three years following the election. We believe that we qualify as a Foreign Investment Company within the meaning of the Inflationary Adjustments Law. We have not yet elected to measure our results for tax purposes based on the U.S. dollar exchange rate, but may do so in the future.

In March 2008, an amendment to the Inflationary Adjustments Law went into effect. Pursuant to this amendment, as of the 2008 tax year, most of the provisions of the Inflationary Adjustments Law will no longer be in force, except for certain transitional provisions.

Capital Gains Tax on Sales of Our Ordinary Shares

Israeli law generally imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares in Israeli companies, by non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is equal to the increase in the purchase price of the relevant asset attributable to the increase in the Israeli consumer price index or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

Generally, the tax rate applicable to capital gains derived from the sale of shares, whether listed on a stock market or not, is 20% for Israeli individuals, unless such shareholder claims a deduction for financing expenses in connection with such shares, in which case the gain will generally be taxed at a rate of 25%. Additionally, if such shareholder is considered a "Significant Shareholder" at any time during the 12-month period preceding such sale, i.e. such shareholder holds directly or indirectly, including with others, at least 10% of any means of control in the company, the tax rate shall be 25%. Israeli Companies are subject to the Corporate Tax rate on capital gains derived from the sale of listed shares, unless such companies were not subject to the Adjustments Law (or certain regulations) in which case the applicable tax rate is 25%. However, the foregoing tax rates will not apply to: (i) dealers in securities; and (ii) shareholders who acquired their shares prior to an initial public offering (that may be subject to a different tax arrangement).

The tax basis of our shares acquired prior to January 1, 2003 will generally be determined in accordance with the average closing share price in the three trading days preceding January 1, 2003. However, a request may be made to the tax authorities to consider the actual adjusted cost of the shares as the tax basis if it is higher than such average price.

Non-Israeli residents are exempt from Israeli capital gains tax on any gains derived from the sale of shares on the TASE, under certain conditions, or from the sale of shares of Israeli companies publicly traded on a recognized stock exchange or regulated market outside of Israel (such as RADCOM), provided such shareholders did not acquire their shares prior to the issuer's initial public offering, that the gains did not derive from a permanent establishment of such shareholders in Israel and that such shareholders are not subject to the Inflationary Adjustment Law. However, non-Israeli corporations will not be entitled to such exemption if Israeli residents (i) have a controlling interest of 25% or more in such non-Israeli corporation, or (ii) are the beneficiaries of or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In some instances where our shareholders may be liable to Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at source.

U.S.-Israel Tax Treaty

Pursuant to the Convention between the Government of the United States of America and the Government of Israel with Respect to Taxes on Income, as amended (the "the U.S.- Israel Tax Treaty"), the sale, exchange or disposition of ordinary shares by a person who (i) holds the ordinary shares as a capital asset, (ii) qualifies as a resident of the United States within the meaning of the U.S.-Israel Tax Treaty and (iii) is entitled to claim the benefits afforded to such resident by the U.S.-Israel Tax Treaty generally will not be subject to Israeli capital gains tax unless either such resident holds, directly or indirectly, shares representing 10% or more of the voting power of a company during any part of the 12-month period preceding such sale, exchange or disposition, subject to certain conditions, or the capital gains from such sale, exchange or disposition can be allocated to a permanent establishment in Israel. In the event that the exemption shall not be available, the sale, exchange or disposition of ordinary shares would be subject to such Israeli capital gains tax to the extent applicable; however, under the U.S.-Israel Tax Treaty, such residents may be permitted to claim a credit for such taxes against U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel Tax Treaty does not relate to state or local taxes.

Taxation of Non-Residents on Dividends

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. Such sources of income include passive income such as dividends. On distributions of dividends, income tax is withheld at the source at the rate of 20%, or 25% for a shareholder that is considered a Significant Shareholder at any time during the 12-month period preceding such distribution, or 15% for dividends deriving from income generated by an Approved Enterprise; unless a different rate is provided in a treaty between Israel and the shareholder's country of residence. Under the U.S.-Israel Tax Treaty, the maximum tax on dividends paid to a holder of ordinary shares who is a U.S. resident will be 25%; provided, however, that under the Investments Law, dividends deriving from income generated by an Approved Enterprise (or Benefited Enterprise) are taxed at the rate of 15%. Furthermore, dividends not generated by an Approved Enterprise (or Benefited Enterprise) paid to a U.S. company holding at least 10% of our issued voting power during the part of the tax year which precedes the date of payment of the dividend and during the whole of its prior tax year, are generally taxed at a rate of 12.5%, provided that not more than 25% of our gross income consists of interests or dividends.

For information with respect to the applicability of Israeli capital gains taxes on the sale of ordinary shares by United States residents, see "— Capital Gains Tax on Sales of Our Ordinary Shares" above.

Law for the Encouragement of Capital Investments, 1959

The Law for the Encouragement of Capital Investments, 1959, or the "Investments Law," as in effect until April 2005 provides that a capital investment in eligible facilities may, upon application to the Investment Center of the Ministry of Industry and Commerce of the State of Israel, be designated as an Approved Enterprise. See discussion below regarding an amendment to the Investments Law that came into effect in 2005.

Each certificate of approval for an Approved Enterprise relates to a specific investment program delineated both by its financial scope, including its capital sources, and by its physical characteristics, e.g., the equipment to be purchased and utilized pursuant to the program. Taxable income of a company derived from an Approved Enterprise is subject to company tax at the maximum rate of 25% (rather than the regular Corporate Tax rates) for the "Benefit Period," a period of seven years commencing with the year in which the Approved Enterprise first generated taxable income (limited to 12 years from commencement of production or 14 years from the year of receipt of approval, whichever is earlier) and, under certain circumstances (as further detailed below), extending to a period of ten years from the commencement of the Benefit Period. Tax benefits under the Investments Law shall also apply to income generated by a company from the grant of a usage right with respect to know-how developed by the Approved Enterprise, income generated from royalties, and income derived from a service which is auxiliary to such usage right or royalties, provided that such income is generated within the Approved Enterprise's ordinary course of business.

A company that has an Approved Enterprise program is eligible for further tax benefits if it qualifies as a "foreign investors' company." A "foreign investors' company" is a company more than 25% of whose shares of capital stock and combined share and loan capital is owned by non-Israeli residents. A company that qualifies as a foreign investors' company and has an approved enterprise program is eligible for tax benefits for a ten year benefit period. As specified below, depending on the geographic location of the Approved Enterprise within Israel, income derived from the Approved Enterprise program may be exempt from tax on its undistributed income for a period of between two and ten years and will be subject to a reduced tax rate for the remainder of the benefits period. The tax rate for the remainder of the benefits period is between 10% and 25%, depending on the level of foreign investment in each year.

A company with an Approved Enterprise designation may elect (as we have done) to forego certain Government grants extended to Approved Enterprises in return for an "alternative package of benefits." Under such alternative package of benefits, a company's undistributed income derived from an Approved Enterprise will be exempt from Company Tax for a period of between two and ten years from the first year of taxable income, depending on the geographic location of the Approved Enterprise within Israel, and such company will be eligible for the tax benefits under the Investments Law for the remainder of such Benefits Period.

A company that has elected such alternative package of benefits and that subsequently pays a dividend out of income derived from the Approved Enterprise(s) during the tax exemption period will be subject to Corporate Tax in respect of the amount distributed (including the tax thereon) at the rate which would have been applicable had the company not elected the alternative package of benefits (10%-25%, depending on the extent of foreign shareholders holding the company's ordinary shares). The dividend recipient is taxed at the reduced rate applicable to dividends from Approved Enterprises (15%), if the dividend is distributed out of the income derived in the tax exemption period. This tax must be withheld by the company at source, regardless of whether the dividend is converted into foreign currency. See Note 7 to the Consolidated Financial Statements.

In distributing dividends (if any), we may decide from which profits to declare such dividends for tax purposes in any given year. However, we are not obliged to distribute exempt retained profits under the alternative package of benefits, and we may generally decide from which year's profits to declare dividends. We intend to permanently reinvest the amount of our tax-exempt income and not to distribute such income as a dividend. In the event that we pay a dividend from income that is derived from our Approved 3Enterprise and, thus, is tax exempt, we would be required to pay tax at the rate which would have been applicable had we not elected the alternative package of benefits (generally 10%-25%, as described above), and to withhold 15% at source for the dividend recipient, on the amount distributed and the corporate tax thereon.

In 1994, our investment program in our Tel Aviv facility was approved as an Approved Enterprise under the Investments Law. We elected the alternative package of benefits in respect thereof. Our program for expansion of our Approved Enterprise to Jerusalem was submitted to the Investment Center for approval in October 1994 and the approval thereof was received in February 1995. As we selected the alternative package of benefits for our program, once we begin generating taxable net income we will be entitled to a tax exemption with respect to the additional income derived from that program for six years and will be taxed at a rate of 10%-25%, depending on the level of foreign investment, for one additional year. The period of benefits under such approvals expired in 2006. The approval provides that the tax rates on income allocated to our research and development and marketing and management activities (which are located in Tel Aviv) are to be determined by the Israeli tax authorities. The approval also provides that the six-year period may be extended to ten years if our application to the Investment Center for recognition as a "high technology" facility is approved. In this case we would not be entitled to an additional year at the 10%- 25% tax rate. In letters dated May 30, 1996 and June 16, 1996, the Israeli tax authorities provided that, for the purpose of determining our tax liability, our income will be allocated to our manufacturing plant (which is located in Jerusalem) and to our research and development center (in Tel Aviv), according to the formula described below. Income allocated to the manufacturing plant will benefit from a six-year tax exemption , and for the year immediately following, will be taxed at a rate of 10%-25%, depending on the level of foreign investment, or benefit from a ten year tax exemption , while income allocated to the research and development center will benefit from a two-year exemption and for a five-year period immediately following will be taxed at a 10%-25% rate. The tax authorities further provided that the income allocated to our research and development center will be in an amount equal to the expenses of such center (after deducting the grants from the Office of the Chief Scientist and adding royalties paid to the Office of the Chief Scientist as well as a pro rata portion of our general and administrative expenses) plus a certain portion of our profit derived from our industrial activities, calculated as follows. If we are not profitable, no profits before tax will be allocated to the research and development center. If profits do not exceed 35% of sales, the profits allocated to the research and development center will be at a rate equal to our rate of profits on our sales, plus 5%, up to a maximum of 35%. In the event that profits exceed 35% of sales, the research and development center will be allocated profits at a 35% rate. The letter also states that the Israeli tax authorities may reexamine the above arrangement in 1998 or when we are granted an approval for an additional expansion, whichever is earlier, based on development in the manufacturing plant, the number of employees employed therein and its location. Any such new arrangement would be applied only with respect to tax years following the year in which we were notified of an intention to reexamine the arrangement.

In December 1996, our request for a second expansion of our Approved Enterprise in Jerusalem was approved by the Investment Center. The investments relating to this expansion were completed as of April 15, 1998.

Each application to the Investment Center is reviewed separately and a decision as to whether or not to approve such application is based, among other things, on the then prevailing criteria set forth in the law, on the specific objectives of the applicant company set forth in such application and on certain financial criteria of the applicant company. Accordingly, there can be no assurance that any such application will be approved. In addition, the benefits available to an Approved Enterprise are conditional upon the fulfillment of certain conditions stipulated in the law and its regulations and the criteria set forth in the specific certificate of approval, as described above. In the event that these conditions are violated, in whole or in part, we would be required to refund the amount of tax benefits, with the addition of the consumer price index linkage adjustment and interest.

We believe our Approved Enterprise operates in substantial compliance with all such conditions and criteria although none of the tax benefits have been utilized by RADCOM to date. We cannot assure you that our program will continue to be approved and/or that we will continue to receive benefits for it at the current level, if at all. See "Item 3—Key Information—Risk Factors—Risks Relating to Our Location in Israel."

Amendment of the Investments Law

On April 1, 2005, an amendment to the Investments Law went into effect. Pursuant to the amendment, a company's facility will be granted the status of "Approved Enterprise" only if it is proven to be an industrial facility (as defined in the Investments Law) that contributes to the economic independence of the Israeli economy and is a competitive facility (as defined in the Investments Law) that contributes to the Israeli gross domestic product. The amendment provides that the Israeli Tax Authority and not the Investment Center will be responsible for an Approved Enterprise under the alternative package of benefits, referred to as a Benefited Enterprise. A company wishing to receive the tax benefits afforded to a Benefited Enterprise is required to select the tax year from which the period of benefits under the Investments Law are to commence by simply notifying the Israeli Tax Authority within 12 months of the end of that year. In order to be recognized as owning a Benefited Enterprise, a company is required to meet a number of conditions set forth in the amendment, including making a minimal investment in manufacturing assets for the Benefited Enterprise and having completed a cooling-off period of no less than three years from the company's previous year of commencement of benefits under the Investments Law.

Pursuant to the amendment, a company with a Benefited Enterprise is entitled, in each tax year, to accelerated depreciation for the manufacturing assets used by the Benefited Enterprise and to certain tax benefits, provided that no more than 12 years have passed since the beginning of the year of election under the Investments Law. The tax benefits granted to a Benefited Enterprise are determined, as applicable to RADCOM, according to one of the following new tax routes:

- Similar to the currently available alternative route, exemption from corporate tax on undistributed income for a period of two to ten years is available, depending on the geographic location of the Benefited Enterprise within Israel, and a reduced corporate tax rate of 10 to 25% for the remainder of the benefits period, depending on the level of foreign investment in each year. Benefits may be granted for a term of from seven to ten years, depending on the level of foreign investment in the company. If the company pays a dividend out of income derived from the Benefited Enterprise during the tax exemption period, such income will be subject to corporate tax at the applicable rate (10%-25%). The company is required to withhold tax at the source at a rate of 15% from any dividends distributed from income derived from the Benefited Enterprise; and

- A special tax route enabling companies owning facilities in certain geographical locations (zone A) in Israel to pay corporate tax at the rate of 11.5% on income of the Benefited Enterprise. The benefits period is ten years. Upon payment of dividends, the company is required to withhold tax at source at a rate of 15% for Israeli residents and at a rate of 4% for foreign residents.

Generally, a company that is Abundant in Foreign Investment (as defined in the Investments Law) is entitled to an extension of the benefits period by an additional five years, depending on the rate of its income that is derived in foreign currency.

The amendment changes the definition of "foreign investment" in the Investments Law so that the definition now requires a minimal investment of NIS five million by foreign investors. Furthermore, such definition now also includes the purchase of shares of a company from another shareholder, provided that the company's outstanding and paid-up share capital exceeds NIS five million. Such changes to the aforementioned definition retroactive from 2003.

The amendment will apply to Benefited Enterprise programs in which the year of election under the Investments Law is 2004 or later, unless such programs received "Approved Enterprise" approval from the Investment Center on or prior to December 31, 2004 in which case the amendment provides that terms and benefits included in any certificate of approval already granted will remain subject to the provisions of the law as they were on the date of such approval.

In December 2005, based on this amendment, we notified the Income Tax Authorities that 2004 fiscal year was chosen as the selected year for additional expansion of our Approved Enterprise.

Israeli Transfer Pricing Regulations

In November 2006, Israeli Income Tax Regulations (Determination of Market Terms), 2006, promulgated under Section 85A of the Israeli Income Tax Ordinance went into effect. Section 85A of the Israeli Income Tax Ordinance generally requires that all cross-border transactions carried out between related parties be conducted on arm's length terms and be taxed accordingly.

United States Federal Income Tax Considerations

Subject to the limitations described herein, the following discussion summarizes certain U.S. federal income tax consequences to a U.S. Holder of our ordinary shares. A "U.S. Holder" means a holder of our ordinary shares who is:

- an individual who is a citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States or any political subdivision thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust (i) if, in general, a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or (ii) that has in effect a valid election under applicable U.S. Treasury Regulations to be treated as a U.S. person.

Unless otherwise specifically indicated, this discussion does not consider the U.S. tax consequences to a person that is not a U.S. Holder (a "Non-U.S. Holder"). This discussion considers only U.S. Holders that will own our ordinary shares as capital assets (generally, for investment) and does not purport to be a comprehensive description of all of the tax considerations that may be relevant to each U.S. Holder's person's decision to purchase our ordinary shares.

This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), current and proposed Treasury Regulations promulgated thereunder, and administrative and judicial decisions as of the date hereof, all of which are subject to change, possibly on a retroactive basis. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular U.S. Holder in light of such holder's individual circumstances. In particular, this discussion does not address the potential application of the alternative minimum tax or U.S. federal income tax consequences to U.S. Holders that are subject to special treatment, including U.S. Holders that:

- are broker-dealers or insurance companies;
- have elected mark-to-market accounting;
- are tax-exempt organizations or retirement plans;
- are financial institutions or "financial services entities;"
- hold our ordinary shares as part of a straddle, "hedge" or "conversion transaction" with other investments;
- acquired our ordinary shares upon the exercise of employee stock options or otherwise as compensation;
- own directly, indirectly or by attribution at least 10% of our voting power;
- have a functional currency that is not the U.S. dollar;
- are grantor trusts;
- are certain former citizens or long-term residents of the United States; or
- are real estate investment trusts or regulated investment companies.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds our ordinary shares, the tax treatment of the partnership and a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its own tax advisor as to its tax consequences.

In addition, this discussion does not address any aspect of state, local or non-United States laws or the possible application of United States federal gift or estate tax.

Each holder of our ordinary shares is advised to consult such person's own tax advisor with respect to the specific tax consequences to such person of purchasing, holding or disposing of our ordinary shares, including the applicability and effect of federal, state, local and foreign income tax and other tax laws in such person's particular circumstances.

Taxation of Ordinary Shares

Taxation of Distributions Paid on Ordinary Shares. Subject to the discussion below under "Passive Foreign Investment Company Status," a U.S. Holder will be required to include in gross income as ordinary dividend income the amount of any distribution paid on our ordinary shares, including any non-U.S. taxes withheld from the amount paid, to the extent the distribution is paid out of our current or accumulated earnings and profits as determined for U.S. federal income tax purposes. Distributions in excess of such earnings and profits will be applied against and will reduce the U.S. Holder's basis in our ordinary shares and, to the extent in excess of such basis, will be treated as gain from the sale or exchange of our ordinary shares. The dividend portion of such distributions generally will not qualify for the dividends received deduction available to corporations.

Subject to the discussion below under "Passive Foreign Investment Company Status," dividends that are received by U.S. Holders that are individuals, estates or trusts will be taxed at the rate applicable to long-term capital gains (a maximum rate of 15% for taxable years beginning on or before December 31, 2010), provided that such dividends meet the requirements of "qualified dividend income." For this purpose, qualified dividend income generally includes dividends paid by a non-U.S. corporation if certain holding period and other requirements are met and either (i) the stock of the non-U.S. corporation with respect to which the dividends are paid is readily tradable on an established securities market in the U.S. (e.g., the NASDAQ Global Market and the NASDAQ Capital Market) or (ii) the non-U.S. corporation is eligible for benefits of a comprehensive income tax treaty with the United States, which benefits include an information exchange program and is determined to be satisfactory by the U.S. Secretary of the Treasury. The United States Internal Revenue Service (the "IRS") has determined that the U.S.-Israel Tax Treaty is satisfactory for this purpose. Dividends that fail to meet such requirements, and dividends received by corporate U.S. Holders, are taxed at ordinary income rates. No dividend received by a U.S. Holder will be a qualified dividend (i) if the U.S. Holder held the ordinary share with respect to which the dividend was paid for less than 61 days during the 121-day period beginning on the date that is 60 days before the ex-dividend date with respect to such dividend, excluding for this purpose, under the rules of Code Section 246(c), any period during which the U.S. Holder has an option to sell, is under a contractual obligation to sell, has made and not closed a short sale of, is the grantor of a deep-in-the-money or otherwise nonqualified option to buy, or has otherwise diminished its risk of loss by holding other positions with respect to, such ordinary share (or substantially identical securities); or (ii) to the extent that the U.S. Holder is under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in property substantially similar or related to the ordinary share with respect to which the dividend is paid. If we were to be a "passive foreign investment company" (as such term is defined in the Code) for any taxable year, dividends paid on our ordinary shares in such year or in the following taxable year would not be qualified dividends. In addition, a non-corporate U.S. Holder will be able to take a qualified dividend into account in determining its deductible investment interest (which is generally limited to its net investment income) only if it elects to do so; in such case the dividend will be taxed at ordinary income rates.

Distributions of current or accumulated earnings and profits paid in foreign currency to a U.S. Holder (including any non-U.S. taxes withheld therefrom) will be includible in the income of a U.S. Holder in a U.S. dollar amount calculated by reference to the exchange rate on the day the distribution is received. A U.S. Holder that receives a foreign currency distribution and converts the foreign currency into U.S. dollars subsequent to receipt may have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the U.S. dollar, which will generally be U.S. source ordinary income or loss.

U.S. Holders will have the option of claiming the amount of any non-U.S. income taxes withheld at source either as a deduction from gross income or as a dollar-for-dollar credit against their U.S. federal income tax liability. Individuals who do not claim itemized deductions, but instead utilize the standard deduction, may not claim a deduction for the amount of the non-U.S. income taxes withheld, but such amount may be claimed as a credit against the individual's U.S. federal income tax liability. The amount of non-U.S. income taxes which may be claimed as a credit in any taxable year is subject to complex limitations and restrictions, which must be determined on an individual basis by each shareholder. These limitations include, among others, rules which limit foreign tax credits allowable with respect to specific classes of income to the U.S. federal income taxes otherwise payable with respect to each such class of income. A U.S. Holder will be denied a foreign tax credit with respect to non-U.S. income tax withheld from a dividend received on the ordinary shares if such U.S. Holder has not held the ordinary shares for at least 16 days of the 31-day period beginning on the date which is 15 days before the ex-dividend date with respect to such dividend, or to the extent such U.S. Holder is under an obligation to make related payments with respect to substantially similar or related property. Any days during which a U.S. Holder has substantially diminished its risk of loss on the ordinary shares are not counted toward meeting the required 16-day holding period. Distributions of current or accumulated earnings and profits generally will be foreign source passive income for United States foreign tax credit purposes; however, special rules will apply if we are a "United States-owned foreign corporation." In that case, distributions of current or accumulated earnings and profits will be treated as U.S. source and foreign source income in proportion to our earnings and profits in the year of the distribution allocable to U.S. and foreign sources. We will be treated as a U.S.-owned foreign corporation as long as stock representing 50% or more of the voting power or value of our ordinary shares is owned, directly or indirectly, by U.S. persons. Foreign taxes allocable to the portion of our distributions treated as from U.S. sources under these rules may not be creditable against a U.S. Holder's U.S. federal income tax liability on such portion.

Taxation of the Disposition of Ordinary Shares. Subject to the discussion below under "Passive Foreign Investment Company Status," upon the sale, exchange or other disposition of our ordinary shares, a U.S. Holder will recognize capital gain or loss in an amount equal to the difference between such U.S. Holder's basis in such ordinary shares, which is usually the cost of such shares, and the amount realized on the disposition. A U.S. Holder that uses the cash method of accounting calculates the U.S. dollar value of the proceeds received on the sale as of the date that the sale settles, while a U.S. Holder that uses the accrual method of accounting is required to calculate the value of the proceeds of the sale as of the "trade date," unless such U.S. Holder has elected to use the settlement date to determine its proceeds of sale. Capital gain from the sale, exchange or other disposition of ordinary shares held more than one year is long-term capital gain, and is eligible for a reduced rate of taxation for individuals (currently a maximum rate of 15% for taxable years beginning on or before December 31, 2010). Gains recognized by a U.S. Holder on a sale, exchange or other disposition of ordinary shares generally will be treated as United States source income for U.S. foreign tax credit purposes. A loss recognized by a3 U.S. Holder on the sale, exchange or other disposition of ordinary shares generally is allocated to U.S. source income. The deductibility of a capital loss recognized on the sale, exchange or other disposition of ordinary shares is subject to limitations. A U.S. Holder that receives foreign currency upon disposition of ordinary shares and converts the foreign currency into U.S. dollars subsequent to the settlement date or trade date (whichever date the taxpayer was required to use to calculate the value of the proceeds of sale) may have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the U.S. dollar, which will generally be U.S. source ordinary income or loss.

Passive Foreign Investment Company Status. We would be a passive foreign investment company (a "PFIC") for 2007 if (taking into account certain "look-through" rules with respect to the income and assets of our corporate subsidiaries) either (i) 75 percent or more of our gross income for the taxable year was passive income or (ii) the average percentage (by value) of our total assets that are passive assets during the taxable year was at least 50 percent. As discussed below, we believe that we were not a PFIC for 2007.

If we were a PFIC, each U.S. Holder would (unless it made one of the elections discussed below on a timely basis) be taxable on gain recognized from the disposition of our ordinary shares (including gain deemed recognized if the ordinary shares are used as security for a loan) and upon receipt of certain excess distributions (generally, distributions that exceed 125% of the average amount of distributions in respect to such ordinary shares received during the preceding three taxable years or, if shorter, during the U.S. Holder's holding period prior to the distribution year) with respect to our ordinary shares as if such income had been recognized ratably over the U.S. Holder's holding period for the ordinary shares. The U.S. Holder's income for the current taxable year would include (as ordinary income) amounts allocated to the current taxable year and to any taxable year period prior to the first day of the first taxable year for which we were a PFIC. Tax would also be computed at the highest ordinary income tax rate in effect for each other taxable year period to which income is allocated, and an interest charge on the tax as so computed would also apply. Additionally, if we were a PFIC, U.S. Holders who acquire our ordinary shares from decedents (other than nonresident aliens) would be denied the normally-available step-up in basis for such shares to fair market value at the date of death and, instead, would have a tax basis in such shares equal to the decedent's basis, if lower.

As an alternative to the tax treatment described above, a U.S. Holder could elect to treat us as a "qualified electing fund" (a "QEF"), in which case the U.S. Holder would be taxed currently, for each taxable year that we are a PFIC, on its pro rata share of our ordinary earnings and net capital gain (subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge). Special rules apply if a U.S. Holder makes a QEF election after the first taxable year in its holding period in which we are a PFIC. We have agreed to supply U.S. Holders with the information needed to report income and gain under a QEF election if we were a PFIC. Amounts includable in income as a result of a QEF election will be determined without regard to our prior year losses or the amount of cash distributions, if any, received from us. A U.S. Holder's basis in its ordinary shares will increase by any amount included in income and decrease by any amounts not included in income when distributed because such amounts were previously taxed under the QEF rules. So long as a U.S. Holder's QEF election is in effect with respect to the entire holding period for its ordinary shares, any gain or loss realized by such holder on the disposition of its ordinary shares held as a capital asset ordinarily will be capital gain or loss. Such capital gain or loss ordinarily would be long-term if such U.S. Holder had held such ordinary shares for more than one year at the time of the disposition. For non-corporate U.S. Holders, long-term capital gain is generally subject to a maximum U.S. federal income tax rate of 15% for taxable years beginning on or before December 31, 2010. The QEF election is made on a shareholder-by-shareholder basis, applies to all ordinary shares held or subsequently acquired by an electing U.S. Holder and can be revoked only with the consent of the IRS.

As an alternative to making a QEF election, a U.S. Holder of PFIC stock that is "marketable stock" (e.g., "regularly traded" on the NASDAQ Capital Market) may, in certain circumstances, avoid certain of the tax consequences generally applicable to holders of stock in a PFIC by electing to mark the stock to market as of the beginning of such U.S. Holder's holding period for the ordinary shares. As a result of such an election, in any taxable year that we are a PFIC, a U.S. holder would generally be required to report gain or loss to the extent of the difference between the fair market value of the ordinary shares at the end of the taxable year and such U.S. Holder's tax basis in its ordinary shares at that time. Any gain under this computation, and any gain on an actual disposition of the ordinary shares, would be treated as ordinary income. Any loss under this computation, and any loss on an actual disposition of the ordinary shares, generally would be treated as ordinary loss to the extent of the cumulative net-mark-to-market gain previously included. Any remaining loss from marking ordinary shares to market will not be allowed, and any remaining loss from an actual disposition of ordinary shares generally would be capital loss. A U.S. Holder's tax basis in its ordinary shares is adjusted annually for any gain or loss recognized under the mark-to-market election. There can be no assurances that there will be sufficient trading volume with respect to the ordinary shares for the ordinary shares to be considered "regularly traded" or that our ordinary shares will continue to trade on the NASDAQ Capital Market. Accordingly, there are no assurances that our ordinary shares will be marketable stock for these purposes. As with a QEF election, a mark-to-market election is made on a shareholder-by-shareholder basis, applies to all ordinary shares held or subsequently acquired by an electing U.S. Holder and can only he revoked with consent of the IRS (except to the extent the ordinary shares no longer constitute "marketable stock").

We believe that we were not a PFIC for 2007, 2006, 2005, 2004 or any year prior to 2001, based upon our income, assets, activities and market capitalization during each such year. Based upon independent valuations of our assets as of the end of each quarter of 2001, 2002 and 2003, we believe that we were not a PFIC for 2001, 2002 or 2003 despite the relatively low market price of our ordinary shares during much of those taxable years. The tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of future income and assets or the future price of our ordinary share, which are all relevant to this determination. Accordingly, there can be no assurance that we will not become a PFIC. If we determine that we have become a PFIC, we will notify our U.S. Holders and provide them with the information necessary to comply with the QEF rules. U.S. Holders who hold ordinary shares during a period when we are a PFIC will be subject to the foregoing rules, even if we cease to be a PFIC, subject to certain exceptions for U.S. Holders who made a QEF, mark-to-market or certain other special elections. U.S. Holders are urged to consult their tax advisors about the PFIC rules, including the consequences to them of making a mark-to-market or QEF election with respect to our ordinary shares in the event that we qualify as a PFIC.

Tax Consequences for Non-U.S. Holders of Ordinary Shares

Except as described in "—Information Reporting and Back-up Withholding" below, a Non-U.S. Holder of ordinary shares will not be subject to U.S. federal income or withholding tax on the payment of dividends on, and/or the proceeds from the disposition of, our ordinary shares, unless, in the case of U.S. federal income taxes:

- such item is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States and, in the case of a resident of a country which has a treaty with the United States, such item is attributable to a permanent establishment or, in the case of an individual, a fixed place of business, in the United States; or

- the Non-U.S. Holder is an individual who holds the ordinary shares as a capital asset and is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met.

Information Reporting and Backup Withholding

U.S. Holders (other than exempt recipients, such as corporations) generally are subject to information reporting requirements with respect to dividends paid on, or proceeds from the disposition of, our ordinary shares. U.S. Holders are also generally subject to backup withholding (currently at a rate of 28%) on dividends paid on, or proceeds from the disposition of, our ordinary shares unless the U.S. Holder provides IRS Form W-9 or otherwise establishes an exemption.

Non-U.S. Holders generally are not subject to information reporting or back-up withholding with respect to dividends paid on, or upon the proceeds from the disposition of, our ordinary shares, provided that such Non-U.S. Holder provides taxpayer identification number, certifies to its foreign status, or otherwise establishes an exemption.

The amount of any back-up withholding will be allowed as a credit against a U.S. or Non-U.S. Holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that certain required information is furnished to the IRS.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

We are required to file reports and other information with the SEC, under the Exchange Act and the regulations thereunder applicable to foreign private issuers. We are subject to the informational requirements of the Exchange Act, applicable to foreign private issuers and fulfill the obligation with respect to such requirements by filing reports with the SEC. You may read and copy any document we file with the SEC without charge at the SEC's public reference room, located at 100 F Street, N.E ., Washington, D.C. 20549. Copies of such material may be obtained by mail from the Public Reference Branch of the SEC at such address, at prescribed rates. Please call the SEC at l-800-SEC-0330 for further information on the public reference room. In addition, some of our filings are available to the public at the SEC's website (www.sec.gov). We also generally make available on our own web site (www.radcom.com) our annual reports as well as other information. Our website is not part of this annual report.

Any statement in this annual report about any of our contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to this annual report, the contract or document is deemed to modify the description contained in this annual report. We urge you to review the exhibits themselves for a complete description of the contract or document.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act. A copy of each report submitted in accordance with applicable United States law is available for public review at our principal executive offices.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a variety of risks, including changes in interest rates affecting primarily the interest received on short-term deposits and foreign currency fluctuations. We do not use derivative financial instruments. We may in the future undertake hedging or other similar transactions or invest in market risk sensitive instruments if our management determines that it is necessary to offset these risks.

Interest Rate Risk

Our exposure to market risks for changes in interest rates relates primarily to our cash and cash equivalents and to loans we take that are based on a floating/fixed interest rate. Our cash and cash equivalents are held substantially in U.S. dollars with financial banks and bear annual interest of approximately 2.95%. For purposes of specific risk analysis, we use sensitivity analysis to determine the impact that market risk exposure may have on the financial income derived from our cash and cash equivalents.

Foreign Currency Exchange Risk

Our financial results may be negatively impacted by foreign currency fluctuations. Our foreign operations are generally transacted through our U.S. subsidiary and through our representatives and distributors. Typically, these sales and related expenses are denominated in U.S. dollars or in Euro for European countries, while most of our expenses are denominated in NIS. Because our financial results are reported in U.S. dollars, our results of operations may be adversely impacted by fluctuations in the rates of exchange between the U.S. dollar and other currencies, mainly the NIS.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

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

Use of Proceeds

Initial Public Offering. The initial public offering of our ordinary shares, NIS 0.20 per share, commenced on September 24, 1997, and terminated after the sale of all the securities registered. On June 12, 1996, we filed this registration statement with the SEC on Form F-1 (File No. 333-05022); we filed amended F-1s on August 1, 1997, September 4, 1997 and September 12, 1997. The managing underwriters of the offering were Unterberg Harris, Pennsylvania Merchant Group Ltd. and Fahnestock & Co., Inc. We registered 661,250 ordinary shares in the offering, including shares issued pursuant to the exercise of the underwriter's over--allotment option. Of such shares, we sold 661,250 ordinary shares at an aggregate offering price of approximately $25.1 million ($38.00 per share). Under the terms of the offering, we incurred underwriting discounts and commissions of approximately $1.7 million. We also incurred estimated expenses of $1.3 million in connection with the offering. None of the expenses consisted of amounts paid directly or indirectly to any of our directors, officers, general partners or their associates, any persons owning 10% or more of any class of our equity securities or any of our affiliates. The net proceeds that we received as a result of the offering were approximately $22.1 million. As of December 31, 2007, approximately $0.4 million of the net proceeds has been used for the construction of facilities; $8.3 million has been used for the purchase and installation of machinery and equipment; approximately $0.3 million has been used for the repurchase of 30,843 of our ordinary shares; and approximately $13.1 million has been used for operational expenditures.

Private Placement - 2004. In March 2004, we raised $5.5 million in our PIPE transaction (i.e., the private placement of ordinary shares and warrants). For additional information on this PIPE transaction, see "Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Private Placement." Under the PIPE transaction, we issued, in March 2004, 962,885 of our ordinary shares at an aggregate purchase price of $5.5 million, or $5.712 per ordinary share. We also issued to the investors warrants to purchase up to 240,722 ordinary shares at an exercise price of $9.012 per share. The warrants were exercisable for two years from the PIPE's date of closing. As part of the private placement, we filed with the SEC a resale registration statement covering the shares purchased in the private placement (including the shares underlying the warrants); our F-3 (File No. 333-115475) was filed with the SEC on May 13, 2004, while our amended F-3/As were filed on October 15, 2004 and November 26, 2004. The registration was declared effective by the SEC on December 10, 2004. We incurred expenses of approximately $189,000 in connection with the offering. Our net proceeds from the offering were approximately $5.3 million. In 2005 and 2006, our investors exercised warrants to purchase 82,064 ordinary shares and 156,469 ordinary shares, respectively. Our net proceeds from these exercises were approximately $725,000 and $1.4 million, respectively. The net proceeds of the exercise of the warrants have been, and will continue to be, used for working capital and general corporate purposes, and in accordance with our budget, as it is periodically approved by our Board of Directors. As of December 31, 2007, approximately $3.5 million has been used for operational expenditures.

Private Placement - 2008.

In February 2008, we raised $2.5 million in our PIPE transaction (i.e., the private placement of ordinary shares and warrants). For additional information on this PIPE transaction, see "Item 8—Financial Information- Significant Changes—Private Placement." Under the PIPE transaction, we issued, in February 2008, 976,563 of our ordinary shares at an aggregate purchase price of $2.5 million, or $2.56 per ordinary share. We also issued to the investors warrants to purchase up to 325,520 ordinary shares at an exercise price of $3.20 per share. The warrants are exercisable for three years from the PIPE's date of closing.

ITEM 15T. CONTROLS AND PROCEDURES

a. Disclosure Controls and Procedures

The Company's management, with the participation of its chief executive officer and chief financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures over financial reporting (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act), as of December 31, 2007. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that, as of December 31, 2007, the Company's disclosure controls and procedures were: (1) designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is accumulated and communicated to the Company's management, including the Company's chief executive officer and chief financial officer, and by others within those entities, as appropriate to allow timely decisions regarding required disclosure, particularly during the period in which this report was being prepared; and (2) effective, in that they provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

b. Management's Annual Report on Internal Control Over Financial Reporting

The Company's management, under the supervision of the Company's principal executive and principal financial officers, is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) of the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transaction and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; (3) provide reasonable assurance that our receipts and expenditures are made only in accordance with authorizations of our management and Board of Directors (as appropriate); and (4) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use of disposition of the Company's assets that could have a material effect on the financial statements.

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

Under the supervision and with the participation of Company's management, including its principal executive and financial officers, the Company conducted an evaluation, and assessed the effectiveness of, our internal control over financial reporting as of December 31, 2007, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control —Integrated Framework*.

Based on our assessment under that framework and the criteria established therein, our management concluded that, as of December 31, 2007, the Company's internal control over financial reporting was effective.

c. Attestation Report of the Registered Public Accounting Firm

This Annual Report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management's report in this Annual Report.

d. Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the year ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that Zohar Gilon is our "audit committee financial expert" (as defined in the Instruction to paragraph (a) of Item 16A of Form 20-F) serving on our Audit Committee, as defined in the applicable regulations, including Item 16A(b) of Form 20-F. Mr. Gilon qualifies as an "independent" director under the NASDAQ rules.

ITEM 16B. CODE OF ETHICS

On February 1, 2004, our Board of Directors adopted a our Code of Ethics and Business Conduct, a code that applies to all our directors, officers and other employees of the Company, including our Chief Executive Officer and President, and our Chief Financial Officer and Vice President of Finance. A copy of the Code of Ethics and Business Conduct was filed as Exhibit 11 to our Annual Report on Form 20-F, filed with the SEC on May 6, 2004.

Our Code of Ethics is publicly also available on our website at www.radcom.com.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

In the Company's annual meeting held in October 2007, our shareholders re-appointed Somekh Chaikin, an independent registered public accounting firm, a member of KPMG International, or KPMG Somekh Chaikin, to serve as our independent auditors.

KPMG Somekh Chaikin charged the following fees to us for professional services in each of the last two fiscal years:

	Year Ended December 31,	
	2007	2006
Audit Fees	$ 120,000	$ 110,000
Audit-Related Fees	-	-
Tax Fees	$ 5,000 -	-
All Other Fees	-	-
Total	$ 125,000	$ 110,000

"Audit Fees" are the aggregate fees billed or billable (for the year) for the audit of our annual financial statements and reviews of interim financial statements that are normally provided in connection with statutory and regulatory filings or engagements.

"Audit-Related Fees" are the aggregate fees billed (for the year) for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under Audit Fees.

"Tax Fees" are the aggregate fees billed (in the year) for professional services rendered for tax compliance.

Audit Committee's Pre-Approval Policies and Procedures

Our Audit Committee oversees our independent auditors. See also the description under the heading "Board Practices" in "Item 6—Directors, Senior Management and Employees." Our Audit Committee's policy is to approve any audit or permitted non-audit services proposed to be provided by our independent auditors before engaging our independent auditors to provide such services. Pursuant to this policy, which is designed to assure that such engagements do not impair the independence of our auditors, the Chairperson of our Audit Committee is authorized to approve any such services between the meetings of our Audit Committee, subject to ratification by the Audit Committee, and to report any such approvals to the Audit Committee at its next meeting.

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

Not applicable.

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

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of this item.

ITEM 18. FINANCIAL STATEMENTS

Our consolidated financial statements and the report of independent registered public accounting firm in connection therewith are filed as part of this Annual Report on Form 20-F, as noted below:

ITEM 19. EXHIBITS

The exhibits filed with or incorporated into this Annual Report on Form 20-F are listed below.

Exhibit No.	Description
1.1	Memorandum of Association[1]
1.2	Articles of Association, as amended[13]
2.1	Form of ordinary share certificate[1]
4.1	2000 Share Option Plan[2]
4.2	1998 Employee Bonus Plan[3]
4.3	1998 Share Option Plan[4]
4.4	International Employee Stock Option Plan[5]
4.5	Directors Share Incentive Plan (1997)[6]
4.6	Key Employee Share Incentive Plan (1996)[7]
4.7	2001 Share Option Plan[8]
4.8	2003 Share Option Plan[9]
4.9	Lease Agreement, dated November 15, 2000, among Vitalgo Textile Industries Ltd., Zisapel Properties (1992) Ltd., Klil and Michael Properties (1992) Ltd. and RADCOM Ltd. (English summary accompanied by Hebrew original)[10]
4.10	Lease Agreement, dated March 1, 2001, among Zisapel Properties (1992) Ltd., Klil and Michael Properties (1992) Ltd. and RADCOM Ltd. (English summary accompanied by Hebrew original)[10]
4.11	Lease Agreement, dated August 12, 1998, between RAD Communications Ltd. and RADCOM Ltd. (English summary accompanied by Hebrew original)[10]
4.12	Lease Agreement, dated December 1, 2000, among Zohar Zisapel Properties, Inc., Yehuda Zisapel Properties, Inc. and RADCOM Equipment, Inc.[10]
4.13	Lease Agreement, dated January 22, 2002, between Regus Business Centre and RADCOM Ltd.[11]
4.14	Software License Agreement, dated as of January 13, 1999, between RADVision, Ltd. and RADCOM Ltd., and Supplement No. 1 thereto, dated as of January 24, 2001[10]
4.15	Share and Warrant Purchase Agreement, dated as of March 17, 2004, by and between RADCOM Ltd. and the purchasers listed therein[12]
4.16	Form of Warrant[12]
4.17	Share and Warrant Purchase Agreement, dated as of December 19, 2007, by and between RADCOM Ltd. and the purchasers listed therein[13]
4.18	Form of Warrant - Share and Warrant Purchase Agreement dated December 19, 2007[13]
4.19	Loan Agreement, dated as of April 1, 2008, by and between RADCOM Ltd., Plenus Management (2004) and the other parties thereto[13]

Exhibit No.	Description
4.20	Fixed Charge Agreement, dated as of April 1, 2008, by and between RADCOM Ltd., Plenus Management (2004) and the other parties thereto[13]
4.21	Floating Charge Agreement, dated as of April 1, 2008, by and between RADCOM Ltd., Plenus Management (2004) and the other parties thereto[13]
4.22	Security Agreement, dated as of April 1, 2008, by and between RADCOM Equipment Inc., Plenus Management (2004) and the other parties thereto[13]
4.23	Form of Warrant - Loan Agreement, dated as of April 1, 2008[13]
8.1	List of Subsidiaries[13]
11.1	Code of Ethics[12]
12.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002[13]
12.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002[13]
13.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002[13]
13.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002[13]
14.1	Consent of KPMG Somekh Chaikin, a member firm of KPMG International, dated June 27, 2007[13]

(1) Incorporated herein by reference to the Registration Statement on Form F-1 of RADCOM Ltd. (File No. 333-05022), filed with the SEC on June 12, 1996.

(2) Incorporated herein by reference to the Registration Statement on Form S-8 of RADCOM Ltd. (File No. 333-13244), filed with the SEC on March 7, 2001.

(3) Incorporated herein by reference to the Registration Statement on Form S-8 of RADCOM Ltd. (File No. 333-13246), filed with the SEC on March 7, 2001.

(4) Incorporated herein by reference to the Registration Statement on Form S-8 of RADCOM Ltd. (File No. 333-13248) filed with the SEC on March 7, 2001.

(5) Incorporated herein by reference to the Registration Statement on Form S-8 of RADCOM Ltd. (File No. 333-13250), filed with the SEC on March 7, 2001.

(6) Incorporated herein by reference to the Registration Statement on Form S-8 of RADCOM Ltd. (File No. 333-13254), filed with the SEC on March 7, 2001.

(7) Incorporated herein by reference to the Registration Statement on Form S-8 of RADCOM Ltd. (File No. 333-13252), filed with the SEC on March 7, 2001.

(8) Incorporated herein by reference to the Registration Statement on Form S-8 of RADCOM Ltd. (File No. 333-14236), filed with the SEC on December 28, 2001.

(9) Incorporated herein by reference to the Registration Statement on Form S-8 of RADCOM Ltd. (File No. 333-111931), filed with the SEC on January 15, 2004.

(10) Incorporated herein by reference to the Form 20-F of RADCOM Ltd. for the fiscal year ended December 31, 2000, filed with the SEC on June 29, 2001.

(11) Incorporated herein by reference to the Form 20-F of RADCOM Ltd. for the fiscal year ended December 31, 2001, filed with the SEC on March 27, 2002.

(12) Incorporated herein by reference to the Form 20-F of RADCOM Ltd. for the fiscal year ended December 31, 2003, filed with the SEC on May 6, 2004.

(13) Filed herewith.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

RADCOM LTD.

By: */s/ David Ripstein*

Name: David Ripstein
Title: Chief Executive Officer
Date: June 30, 2008

Radcom Ltd.
and its Subsidiaries

Consolidated Financial Statements

As of December 31, 2007 and 2006
and for the years ended December 31, 2007, 2006 and 2005

Consolidated Financial Statements as of December 31, 2007 and 2006
and for the years ended December 31, 2007, 2006 and 2005

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Radcom Ltd.

We have audited the accompanying consolidated balance sheets of Radcom Ltd. (an Israeli Corporation) and its subsidiaries (collectively, the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss) and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's Board of Directors and of its management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Radcom Ltd. and its subsidiaries as of December 31, 2007 and 2006 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As explained in Note 2P to the consolidated financial statements, effective January 1, 2006, the Company changed its method of accounting for share-based compensation upon adoption of Statement of Financial Accounting Standards No. 123(R),"Share-Based Payment".

Somekh Chaikin
Certified Public Accountants (Isr.)
Member Firm of KPMG International

Tel Aviv, Israel

June 30, 2008

Consolidated Balance Sheets

	December 31	
	2007	**2006**
	US$ thousands	**US$ thousands**
Assets		
Current Assets		
Cash and cash equivalents (Note 8A1)	**3,763**	2,007
Short-term deposits (Note 8A2)	**-**	8,060
Trade receivables, net (Note 8A3)	**6,589**	10,461
Inventories (Note 8A4)	**3,454**	2,675
Other current assets (Note 8A5)	**1,150**	955
Total current assets	**14,956**	24,158
Assets held for severance benefits (Note 4)	**2,480**	2,187
Property and equipment, net (Note 3)	**1,460**	1,408
Total Assets	**18,896**	27,753

Consolidated Balance Sheets

	December 31	
	2007	**2006**
	US$ thousands	**US$ thousands**
Liabilities and Shareholders' Equity		
Current Liabilities		
Trade payables	**1,392**	2,551
Current deferred revenue	**1,593**	1,534
Other payables and accrued expenses (Note 8A6)	**4,668**	4,290
Total current liabilities	**7,653**	8,375
Long-Term Liabilities		
Long-term deferred revenue	**425**	1,109
Liability for employees severance pay benefits (Note 4)	**3,240**	2,896
Total long-term liabilities	**3,665**	4,005
Total liabilities	**11,318**	12,380
Commitments and contingencies (Note 5)		
Shareholders' Equity (Note 6)		
Share capital *	**122**	120
Additional paid-in capital	**48,328**	47,542
Accumulated deficit	**(40,872)**	(32,289)
Total shareholders' equity	**7,578**	15,373
Total Liabilities and Shareholders' Equity	**18,896**	27,753

Zohar Zisapel	David Ripstein	Jonathan Burgin
Chairman of the Board of Directors	Chief Executive Officer	Chief Financial Officer

Date: June 30, 2008

* 9,997,670 Ordinary Shares of NIS 0.20 par value ("Ordinary Shares") authorized as of December 31, 2007 and 2006, respectively; 4,091,222 and 4,058,069 Ordinary Shares issued and outstanding as of December 31, 2007 and 2006, respectively.

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

Consolidated Statements of Operations

	Year ended December 31		
	2007	**2006**	**2005**
	US$ thousands	**US$ thousands**	**US$ thousands**
	Except per share amounts		
Revenues (Note 8B1):			
Products	**10,158**	20,641	20,514
Services	**3,339**	2,900	1,826
	13,497	23,541	22,340
Cost of revenues:			
Products	**4,927**	7,213	7,290
Services	**466**	183	108
	5,393	7,396	7,398
Gross profit	**8,104**	16,145	14,942
Operating expenses:			
Research and development	**7,378**	6,826	5,815
Less - royalty-bearing participation (Note 5A1)	**2,096**	1,904	1,735
Research and development, net	**5,282**	4,922	4,080
Sales and marketing	**9,279**	9,196	7,881
General and administrative	**2,391**	2,553	1,689
Total operating expenses	**16,952**	16,671	13,650
Operating income (loss)	**(8,848)**	(526)	1,292
Financing income, net (Note 8B2):			
Financing income	**280**	497	270
Financing expenses	**(15)**	(25)	(35)
Financing income, net	**265**	472	235
Income (loss) before taxes on income	**(8,583)**	(54)	1,527
Taxes on income (Note 7)	**-**	-	-
Net income (loss) for the year	**(8,583)**	(54)	1,527
Income (loss) per share :			
Basic net income (loss) per Ordinary Share (US$)	**(2.10)**	(0.01)	0.42
Diluted net income (loss) per Ordinary Share (US$)	**(2.10)**	(0.01)	0.39
Weighted average number of Ordinary Shares used to compute basic net income (loss) per Ordinary Share	**4,084,789**	3,973,509	3,674,023
Weighted average number of Ordinary Shares used to compute diluted net income (loss) per Ordinary Share	**4,084,789**	3,973,509	3,890,396

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

Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss)

	Share capital					
	Number of shares	Amount	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total Shareholders' equity
		US$ (thousands)	US$ (thousands)	US$ (thousands)	US$ (thousands)	US$ (thousands)
Balance as of January 1, 2005	3,609,587	101	43,698	(13)	(33,762)	10,024
Changes during 2005:						
Net income for the year	-	-	-	-	1,527	1,527
Reclassification adjustment for loss on available for sale included in net income	-	-	-	13	-	13
Comprehensive income						1,540
Employees' stock option compensation	-	-	12	-	-	12
Exercise of options	47,968	2	182	-	-	184
Exercise of warrants, net of issuance expenses of US$14 thousand	82,064	4	721	-	-	725
Balance as of December 31, 2005	3,739,619	107	44,613	-	(32,235)	12,485
Changes during 2006:						
Net loss and comprehensive loss for the year	-	-	-	-	(54)	(54)
Employees' stock option compensation	-	-	558	-	-	558
Exercise of options	161,981	7	967	-	-	974
Exercise of warrants	156,469	6	1,404	-	-	1,410
Balance as of December 31, 2006	4,058,069	120	47,542	-	(32,289)	15,373
Changes during 2007:						
Net loss and comprehensive loss for the year	-	-	-	-	**(8,583)**	**(8,583)**
Employees' stock option compensation	-	-	**564**	-	-	**564**
Exercise of options	**33,153**	**2**	**222**	-	-	**224**
Balance as of December 31, 2007	**4,091,222**	**122**	**48,328**	**-**	**(40,872)**	**7,578**

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

Consolidated Statements of Cash Flows

	Year ended December 31		
	2007	**2006**	**2005**
	US$ thousands	**US$ thousands**	**US$ thousands**
Cash flows from operating activities:			
Net income (loss) for the year	**(8,583)**	(54)	1,527
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	**687**	603	579
Increase in value and accrued interest from marketable securities	**-**	-	5
Decrease (increase) of accrued interest on short-term bank deposits	**73**	(73)	-
Loss from sale of property and equipment	**-**	7	-
Employees' stock option compensation	**564**	558	12
Increase (decrease) in severance pay, net	**51**	135	(44)
Decrease (increase) in trade receivables, net	**3,872**	(2,605)	(2,515)
Increase (decrease) in deferred revenue	**(625)**	(63)	1,234
Decrease (increase) in other current assets	**(195)**	(575)	500
Decrease (increase) in inventories	**(1,141)**	(1,180)	143
Increase (decrease) in trade payables	**(1,099)**	380	138
Increase (decrease) in other payables and accrued expenses	**378**	276	(190)
Net cash provided by (used in) operating activities	**(6,018)**	(2,591)	1,389
Cash flows from investing activities:			
Proceeds from sale of marketable securities	-	-	2,000
Investment in short-term deposits	**(2,515)**	(7,987)	-
Proceeds from short-term deposits	**10,502**	-	-
Proceeds from sale of property and equipment	**-**	8	-
Purchase of property and equipment	**(437)**	(327)	(336)
Net cash provided by (used in) investing activities	**7,550**	(8,306)	1,664

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

Consolidated Statements of Cash Flows (cont'd)

	Year ended December 31		
	2007	**2006**	**2005**
	US$ thousands	**US$ thousands**	**US$ thousands**
Cash flows from financing activities:			
Exercise of warrants	**-**	1,410	725
Exercise of options	**224**	974	184
Net cash provided by financing activities	**224**	2,384	909
Increase (decrease) in cash and cash equivalents	**1,756**	(8,513)	3,962
Cash and cash equivalents at beginning of year	**2,007**	10,520	6,558
Cash and cash equivalents at end of year	**3,763**	2,007	10,520

Schedule A - Non-Cash Investing Activities

Purchase of property and equipment on credit aggregate US$12 thousand, US$72 thousand and US$49 thousand for the years ended December 31, 2007, 2006 and 2005, respectively.

Inventories capitalized as fixed assets aggregate US$362 thousand, US$443 thousand and US$319 thousand for the years ended December 31, 2007, 2006 and 2005, respectively.

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

Note 1 - General

Radcom Ltd. (the “Company”) is an Israeli corporation that operates in one business segment of communication networks. The Company provides innovative network test and service monitoring solutions for communications service providers and equipment vendors. The Company specializes in Next Generation Wireless and Wireline technologies for Voice, Data and Video. The Company’s products facilitate fault management, network service performance monitoring and analysis, troubleshooting and pre-mediation. RADCOM’ shares are listed on both the NASDAQ Capital Market and the Tel Aviv Stock Exchange under the symbol RDCM.

The Company has a wholly-owned subsidiary in the United States, Radcom Equipment, Inc. (the "US Subsidiary"), which was incorporated in 1993 under the laws of the State of New Jersey. The US Subsidiary is primarily engaged in the selling and marketing of the Company’s products in North America.

In addition, the Company has two other subsidiaries, one in the United Kingdom and one in Israel. As of December 31, 2007, these subsidiaries had no business activities.

Note 2 - Significant Accounting Policies

The financial statements are presented in accordance with United States generally accepted accounting principles (GAAP).

The significant accounting policies followed in the preparation of the financial statements, applied on a consistent basis, are as follows:

A. Certain definitions

CPI - Israeli Consumer Price Index

NIS - New Israeli Shekel

B. Financial statements in US dollars (“dollar” or "dollars")

Most of the Company's sales are denominated in dollars and are made outside Israel (see Note 8B1 regarding geographical distribution). Most purchases of materials and components, and most marketing costs, are incurred, primarily in transactions denominated in dollars. Therefore, the currency of the primary economic environment in which the operations of the Company are conducted is the United States dollar, which is used as the functional currency of the Company.

Transactions and balances originally denominated in dollars are presented at their original amounts. Transactions and balances in other currencies are remeasured into dollars in accordance with the principles set forth in Statement of Financial Accounting Standards ("SFAS") No.52.

All exchange gains and losses from remeasurement of monetary balance sheet items denominated in non-dollar currencies are reflected in the consolidated statement of operations when they arise.

Amounts in the financial statements representing the dollar equivalent of balances denominated in other currencies do not necessarily represent their real or economic value and such amounts may not necessarily be exchangeable for dollars.

Note 2 - Significant Accounting Policies (cont'd)

C. Estimates and assumptions

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting years. Actual results may vary from these estimates. Estimates and assumptions are periodically reviewed and the effects of any material revisions are reflected in the period that they are determined to be necessary.

D. Principles of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

E. Cash and cash equivalents

The Company considers all highly liquid deposit instruments purchased with an original maturity of three months or less at the date of purchase to be cash equivalents.

F. Marketable securities

In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", during 2005 the Company classified all its marketable securities as available-for-sale. Such marketable securities were stated at market value.

Unrealized gains and losses were reported as a separate component of shareholders' equity and comprehensive income (loss). Interest income was included in financing income. Realized gains and losses were included in financing income.

G. Trade receivables, net

Trade receivables are recorded net of an allowance for doubtful accounts receivable. Management considers current information and events regarding the customers' ability to repay their obligations in estimating and establishing the allowance for doubtful accounts receivable.

The balance sheet allowance for doubtful accounts receivable for all of the reported periods through December 31, 2007 is determined as a specific amount for those accounts for which collection is uncertain.

Note 2 - Significant Accounting Policies (cont'd)

H. Inventories

Inventories are stated at the lower of cost or market. Cost is determined on a "moving average" basis.
Inventory write-downs are provided to cover technological obsolescence, excess inventories and discontinued products.

I. Assets held for severance benefits

Assets held for employee severance benefits represent contributions to severance pay funds and cash surrender value of life insurance policies that are recorded at their current redemption value.

J. Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Maintenance and repairs are charged to operations as incurred.

Products used for research and development (unless no alternative future use exists) and demonstration equipment are capitalized at cost or, when applicable, at production costs.

Depreciation is calculated on the straight-line method over the estimated useful lives of the assets.

Annual rates of depreciation are as follows:

	%
Demonstration and rental equipment	33
Research and development equipment	25 - 50
Motor vehicles	15
Manufacturing equipment	15 - 33
Office furniture and equipment	7 - 33
Leasehold improvements	*

* At the shorter of the lease period or useful life of the leasehold improvement.

K. Impairment of long-lived assets

The Company’s long-lived assets (including intangible assets) are reviewed for impairment in accordance with SFAS No. 144 “Accounting for the Impairment or Disposal of Long- Lived Assets”, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of an asset to be held and used is assessed by a comparison of the carrying amount of the asset to the future undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. As of December 31, 2007, no impairment losses had been identified.

Note 2 - Significant Accounting Policies (cont'd)

L. Revenue recognition

1. Revenue from product sales is recognized in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition", when the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred, (3) the vendor's fee is fixed or determinable and (4) collectibility is probable. Amounts received from customers prior to product shipments are classified as advances from customers. With its products, the Company provides a one-year warranty, which includes bug fixing and a hardware warranty ("the Warranty"). The Company records an appropriate provision for Warranty in accordance with SFAS No. 5, "Accounting for Contingencies".

2. After the Warranty period initially provided with the Company's products, the Company may sell extended warranty contracts, which includes bug fixing and a hardware warranty. In such cases, revenues attributable to the extended warranty are deferred at the time of the initial sale and recognized ratably over the extended contract warranty period.

3. Most of the Company's revenues are generated from sales to independent distributors. The Company has a standard contract with its distributors. Based on this agreement, sales to distributors are final and distributors have no rights of return or price protection. The Company is not a party to the agreements between distributors and their customers.

4. The Company also generates sales through independent representatives. These representatives do not hold any of the Company's inventories, and they do not buy products from the Company. The Company invoices the end-user customers directly, collects payment directly and then pays commissions to the representative for the sales in its territory. The Company reports sales through independent representatives on a gross basis, based on the indicators of the Emerging Issues Task Force (“EITF”) No. 99-19, “Reporting Revenue Gross as a Principal versus Net as an Agent”.

M. Research and development costs

1. Research and development costs are expensed as incurred.

2. The Company applies the provisions of SFAS No. 86, "Accounting for Costs of Computer Software to be Sold, Leased or Otherwise Marketed". Expenditures incurred during the period between attaining technological feasibility and general release of the associated product are deferred and amortized over the estimated product life, however the expenditures incurred to date have been immaterial and accordingly, such costs have been expensed in the period incurred.

Note 2 - Significant Accounting Policies (cont'd)

N. Government grants

The Company receives royalty-bearing participation, which represents participation of the Government of Israel (specifically, the Office of the Chief Scientist - the "OCS") in approved programs for research and development. These amounts are recognized on the accrual basis as a reduction of research and development costs as such costs are incurred. Royalties to the OCS are recorded in cost of sales, when the related sales are recognized. See also Note 5A.

O. Allowance for product warranty

The Company's policy is to grant a product warranty for a period of up to 12 months on its products. The provision for warranties for all periods through December 31, 2007, is determined based upon the Company's past experience.

The followings are the changes in the liability for product warranty from January 1, 2006 to December 31, 2007:

	US$ (in thousands)
Balance at January 1, 2006	229
Accrual for warranties issued during the year	422
Reduction for payments and costs to satisfy claims	(296)
Balance at December 31, 2006	355
Accrual for warranties issued during the year	**193**
Reduction for payments and costs to satisfy claims	**(328)**
Balance at December 31, 2007	**220**

P. Share-based compensation

On January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), “Share-Based Payment” (“SFAS No. 123(R)”), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. SFAS No. 123(R) supersedes the Company’s previous accounting under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”) for periods beginning in fiscal 2006. In March 2005, the United States Securities and Exchange Commissions (the “SEC”) issued Staff Accounting Bulletin No. 107 (“SAB 107”) which relates to SFAS No. 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS No. 123(R). The Company adopted SFAS No. 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006. In accordance with the modified prospective transition method, the Company’s consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123(R). Share-based compensation expense recognized under SFAS No. 123(R) for fiscal 2007 and 2006 was US$564 thousand and US$558 thousand, respectively.

Note 2 - Significant Accounting Policies (cont'd)

P. Share-based compensation (cont'd)

SFAS No. 123 (R) requires companies to estimate the fair value of share-based payment awards on the grant date using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's consolidated statements of operations. Prior to the adoption of SFAS No. 123 (R), the Company accounted for share-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123).

SFAS No. 123 (R) requires forfeitures to be estimated at the time of grant in order to estimate the amount of share-based awards that will ultimately vest. The estimate is based on the Company's historical rates of forfeiture. Share-based compensation expense recognized in the Company's consolidated statement of operations for fiscal 2006 and 2007 includes (i) compensation expense for share-based payment awards granted prior to, but not yet vested as of December 31, 2005, based on the grant-date fair value estimated in accordance with the pro forma provisions of SFAS No. 123 and (ii) compensation expense for the share-based payment awards granted subsequent to December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123 (R).

Since share-based compensation expense recognized in the consolidated statements of operations for fiscal 2007 and 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures.

The following table illustrates the effect on net income and income per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to options granted under the Company's stock option plans in fiscal 2005. For purposes of this pro forma disclosure, the value of the options is estimated using a Black-Scholes option-pricing model and is amortized to expense over the options' vesting period.

	Year ended December 31 2005
	US$ thousands
	Except per share amounts
Net income as reported	1,527
Add: compensation expenses according to APB 25 included in the reported net income	12
Deduct: compensation expenses according to SFAS No. 123	(669)
Net income - pro forma	870
Basic net income per ordinary share as reported (US$)	0.42
Pro forma basic net income per ordinary share (US$)	0.24
Diluted net income per ordinary share as reported (US$)	0.39
Pro forma diluted net income per ordinary share (US$)	0.22

Note 2 - Significant Accounting Policies (cont'd)

Q. Deferred income taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". Deferred tax asset and liability account balances are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of operations in the period that includes the enactment date. The Company provides a valuation allowance to reduce deferred tax assets to the extent it believes it is more likely than not that such benefits will not be realized. Beginning with the adoption of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes *(*FIN 48) as of January 1, 2007, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Prior to the adoption of FIN 48, the Company recognized the effect of income tax positions only if such positions were probable of being sustained.

R. Income (loss) per share

Basic and diluted income (loss) per ordinary share are presented in conformity with SFAS No. 128 "Earnings Per Share", for all years presented. Basic income (loss) per ordinary share is computed by the dividing net income (loss) for each reporting period by the weighted average number of common shares outstanding during the period. Diluted income (loss) per common share is computed by dividing net income (loss) for each reporting period by the weighted average number of common shares outstanding during the period plus any additional common shares that would have been outstanding if potentially dilutive securities had been exercised during the period, calculated under the treasury stock method.

Due to the net loss incurred in fiscal 2007 and 2006, the diluted loss per share was the same as basic, because any potentially dilutive securities would have reduced the loss per share.

In 2005, the total number of shares relating to outstanding options and warrants included in the calculation of the diluted income per share was 201,358 and 15,015, respectively, using the treasury stock method.

Certain securities (as of December 31, 2007: 773,889 stock options; as of December 31, 2006: 667,455 stock options; as of December 31, 2005: 249,011 stock options and 89,724 warrants) were not included in the computation of diluted earning (loss) per share since they were anti-dilutive.

S. Treasury shares

Acquisitions of the Company's shares by the Company are deducted from the share capital and additional paid-in capital.

T. Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

Note 3 - Property and Equipment, Net

A. Composition of assets, grouped by major classification, is as follows:

	December 31	
	2007	**2006**
	US$ thousands	**US$ thousands**
Cost		
Demonstration and rental equipment	**2,067**	2,039
Research and development equipment	**3,697**	3,604
Motor vehicles	**3**	3
Manufacturing equipment	**1,438**	1,310
Office furniture and equipment	**1,051**	1,104
Leasehold improvements	**384**	338
	8,640	8,398
Accumulated depreciation		
Demonstration and rental equipment	**1,889**	1,828
Research and development equipment	**2,970**	2,921
Motor vehicles	**3**	2
Manufacturing equipment	**1,151**	1,055
Office furniture and equipment	**910**	957
Leasehold improvements	**257**	227
	7,180	6,990
	1,460	1,408

B. Depreciation expenses amounted to US$687 thousand, US$603 thousand and US$579 thousand for the years ended December 31, 2007, 2006 and 2005, respectively.

Note 4 - Liability for Employees Severance Pay Benefits

The Company's liability for severance pay for its Israeli employees is calculated pursuant to Israeli severance pay law based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date. After completing one full year of employment, the Company's Israeli employees are entitled to one month's salary for each year of employment or a portion thereof. The Company's liability is partially provided by monthly deposits with severance pay funds, insurance policies and by an accrual. The liability for employee severance pay benefits included in the balance sheet represents the total liability for such severance benefits, while the assets held for severance benefits included in the balance sheet represent the Company's contributions to severance pay funds and to insurance policies.

The Company may make withdrawals from the funds only upon complying with the Israeli severance pay law or labor agreements. Severance pay expenses for the years ended December 31, 2007, 2006 and 2005 amounted to US$766 thousand, US$725 thousand and US$434 thousand, respectively.

Note 5 - Commitments and Contingencies

A. Royalty commitments

1. The Company received research and development grants from the OCS. In consideration for the research and development grants received from the OCS, the Company has undertaken to pay royalties as a percentage on revenues from products developed from research and development projects financed. Royalty rates were 3.5% in 2004 and subsequent years. If the Company will not generate sales of products developed with funds provided by the OCS, the Company is not obligated to pay royalties or repay the grants.

   Royalties are payable from the time of commencement of sales of all of these products until the cumulative amount of the royalties paid equals 100% of the dollar-linked amounts of the grants received, without interest for projects authorized until December 31, 1998. For projects authorized since January 1, 1999, the repayment bears interest at the LIBOR rate.

   The total research and development grants that the Company has received from the OCS as of December 31, 2007 were US$27.1 million. The accumulated interest as of December 31, 2007 was US$3.3 million. As of December 31, 2007, the accumulated royalties paid to the OCS were US$7.2 million. Accordingly, the Company's total commitment with respect to royalty-bearing participation received or accrued, net of royalties paid or accrued, amounted to approximately US$23.2 million as of December 31, 2007.

   Royalties expenses relating to the OCS grants included in cost of sales for the years ended December 31, 2007, 2006 and 2005 were US$412 thousand, US$807 thousand and US$769 thousand, respectively.

2. According to the Company's agreements with the Israel - US Bi-National Industrial Research and Development Foundation ("BIRD-F"), the Company is required to pay royalties at a rate of 5% of sales of products developed with funds provided by the BIRD-F, up to an amount equal to 150% of BIRD-F's grant (linked to the United States Consumer Price Index) relating to such products. The last fund from the BIRD-F was received in 1996. In the event the Company does not generate sales of products developed with funds provided by BIRD-F, the Company is not obligated to pay royalties or repay the grants.

   The total research and development funds that the Company has received from the BIRD-F as of December 31, 2007, were US$340 thousand. Accordingly, as of December 31, 2007, the Company is required to pay royalties up to an amount of US$510 thousand, plus linkage to the United States Consumer Price Index in the amount of US$105 thousand, or a total of US$615 thousand. As of December 31, 2007, the accumulated royalties paid to the BIRD-F were US$296 thousand. Accordingly, the Company's total commitment with respect to royalty-bearing participation received or accrued, net of royalties paid or accrued, amounted to approximately US$319 thousand as of December 31, 2007.

   Royalties expenses relating to the BIRD-F grants included in cost of sales for the years ended December 31, 2007, 2006 and 2005 were less than US$1 thousand for each of these years.

Note 5 - Commitments and Contingencies (cont'd)

B. Operating leases

1. Premises occupied by the Company and the US Subsidiary are rented under various rental agreements with related parties (see Note 9).

The rental agreements for the premises in Tel Aviv, China, Korea and New Jersey, United States, expire up to January 15, 2011. Minimum future gross rental and maintenance payments due under the above agreements, at exchange rates in effect on December 31, 2007, were as follows:

Year ended December 31	US$ thousands
2008	699
2009	133
2010	96
2011	4

Rental and maintenance expenses (net of sublease income from premises under sublease agreements) amounted to US$740 thousand, US$684 thousand and US$620 thousand, for the years ended December 31, 2007, 2006 and 2005, respectively.

2. The Company leases motor vehicles under operating leases. The leases typically run for an initial period of three years with an option to renew the leases after that date.

As of December 31, 2007, non-cancelable operating rentals for motor vehicles were payable as follows:

Year ended December 31	US$ thousands
2008	444
2009	221
2010	105
2011	14

During 2007, 2006 and 2005, an amount of US$565 thousand, US$554 thousand and US$459 thousand, respectively, was recognized as an expense in the statement of operations in respect of operating leases for motor vehicles.

Note 5 - Commitments and Contingencies (cont'd)

C. Legal proceedings

In November 2005, the Company was served with a claim by Qualitest Ltd. ("Qualitest"), an Israeli company that was formerly a nonexclusive distributor for the Company's products in Israel, for the total sum of approximately US$623 thousand. Qualitest claims that the Company breached an exclusive distribution agreement. In December 2005, the Company filed a statement of defense against the claim asserting that an exclusive distribution agreement was never signed between the parties, and included a counterclaim in the amount of approximately US$131 thousand for unpaid invoices. The claims have been brought before an arbitrator. In June 2006, Qualitest paid the Company US$69 thousand in accordance with a partial verdict of the arbitrator. In June 2007, Qualitest paid the Company US$18 thousand and by that and the partial verdict, settled the Company's counterclaim. In July 2007 the arbitrator accepted Qualitest's claim against the Company and instructed the Company to pay US$310 thousand to Qualitest, in addition to US$31 thousand as expenses to Qualitest. The Company has included an expense for the full amount in "Sales and marketing expenses". In August 2007, the Company filed a request with the District Court in Tel Aviv to annul the arbitration award. In June 2008, the District Court denied the Company's request.

D. Bank guarantee

The Company has granted bank performance guarantees in favor of two of its customers in the amount of US$ 489 thousand. US$ 189 thousand of the guarantees expire in December 31, 2007 and US$ 300 thousand of the guarantees expire in December 31, 2008.

Note 6 - Shareholders' Equity

A. Share capital

1. The Company's share capital is comprised of the following:

	December 31, 2007		
	Authorized	Issued	Outstanding
	Number of shares		
Ordinary Shares of NIS 0.20 par value (i)	**9,997,670**	*** 4,091,222**	*** 4,091,222**

Note 6 - Shareholders' Equity (cont'd)

A. Share capital (cont'd)

1. The Company's share capital is comprised of the following:

	December 31, 2006		
	Authorized	Issued	Outstanding
	Number of shares		
Ordinary Shares of NIS 0.20 par value (i)	9,997,670	* 4,058,069	* 4,058,069

* This number does not include 5,189 Ordinary Shares, which are held by a subsidiary, and 30,843 Ordinary Shares which are held by the Company (see i (b) below).

(i) (a) Ordinary Shares confer all rights to their holders, e.g. voting, equity and receipt of dividend.

(b) In March and April 2001, the Company purchased 30,843 shares of the Company's Ordinary Shares in the over-the-counter market. This purchase was approved by the Tel Aviv-Jaffa District Court.

2. On March 29, 2004, the Company closed a private placement transaction (the "PIPE"). Under the PIPE investment, the Company issued 962,885 of the Company's Ordinary Shares at an aggregate purchase price of US$5,500 thousand or US$5.712 per Ordinary Share. The Company also issued to the investors warrants to purchase up to 240,722 Ordinary Shares at an exercise price of US$9.012 per share. The warrants were exercisable for two years from the closing of the PIPE. 238,533 of the warrants were exercised during 2005 and 2006 and the remaining 2,189 warrants expired during 2006.

B. Share option plans

1. The Company has granted options under option plans as follows:

a. The Radcom Ltd. 1998 Share Option Plan (the "Radcom 3(9) Plan")

Under this plan, the Company grants options to purchase Ordinary Shares. The plan is made pursuant to the provisions of section 3(9) of the Israeli Income Tax Ordinance.

Note 6 - Shareholders' Equity (cont'd)

B. Share option plans (cont'd)

1. The Company has granted options under option plans as follows: (cont'd)

b. The Radcom Ltd. 1998 Employees Bonus Plan (the "Radcom Bonus Plan")

Under this plan, the Company grants option to purchase Ordinary Shares. The options allotted under the plan are deposited with a trustee. Exercise of the options and sale of the shares issued as a result of the exercise can be implemented only through the trustee.

If on the final exercise date the market price of the Ordinary Shares is lower than 115% of the exercise price the options will lapse, will not be exercisable and will be cancelled.

Gains from the sale of the shares are taxed in accordance with Section 102 of the Income Tax Ordinance (New Version) - 1961, its related regulations and arrangements with Tax Authorities.

c. The Radcom Ltd. International Employee Stock Option Plan (the "International Plan")

The plan grants options to purchase Ordinary Shares for the purpose of providing incentives to officers, directors, employees and consultants of its non-Israeli subsidiaries.

d. The 2000 Share Option Plan

The 2000 Share Option Plan (the "2000 Share Option Plan") grants options to purchase Ordinary Shares. These options are granted pursuant to the 2000 Share Option Plan for the purpose of providing incentives to employees, directors, consultants and contractors of the Company. These options are granted pursuant to Section 3(9) of the Income Tax Ordinance (New Version) - 1961.

e. The 2001 Share Option Plan

The 2001 Share Option Plan (the "2001 Share Option Plan") grants options to purchase Ordinary Shares. These options are granted pursuant to the 2001 Share Option Plan for the purpose of providing incentives to employees, directors, consultants and contractors of the Company. These options are granted pursuant to Section 3(9) of the Income Tax Ordinance (New Version) - 1961.

Note 6 - Shareholders' Equity (cont'd)

B. Share option plans (cont'd)

1. The Company has granted options under option plans as follows: (cont'd)

f. The 2003 Share Option Plan

The 2003 Share Option Plan (the "2003 Share Option Plan") grants options to purchase Ordinary Shares. These options are granted pursuant to the 2003 Share Option Plan for the purpose of providing incentives to employees, directors, consultants and contractors of the Company.

With respect to Section 102 Options, the Company's Board of Directors (the "Board") elected the "Capital Gains Route".

2. Generally, grants in 2007, 2006 and 2005 were at exercise prices that reflect the market value of the Ordinary Shares at the date of grant.

3. Following is the stock option data as of December 31, 2007 and 2006, the Radcom 3(9) Plan, the International Plan, the 2000 Share Option Plan, the 2001 Share Option Plan and the 2003 Share Option Plan:

	December 31, 2007				
	Vested	Unvested	Exercise price	Vesting period	Expiration (from resolution date)
	No. of options		US$	Years	Years
Radcom 3(9) Plan	**86,250**	**-**	**9.5 - 23**	**3 - 6**	**10**
International Plan	**55,809**	**39,013**	**0.00 - 11.88**	**3 - 4**	**7 - 10**
2000 Share Option Plan	**55,784**	**-**	**0.00 - 24.5**	**3**	**10**
2001 Share Option Plan	**47,937**	**-**	**5.796 - 7.36**	**3 - 4**	**10**
2003 Share Option Plan	**190,922**	**298,174**	**3.96 - 18.28**	**2 - 4**	**7 - 10**
	436,702	**337,187**			

	December 31, 2006				
	Vested	Unvested	Exercise price	Vesting period	Expiration (from resolution date)
	No. of options		US$	Years	Years
Radcom 3(9) Plan	133,200	-	9.5 - 23	3-6	10
International Plan	39,851	47,129	0.00 - 11.88	3-4	10
2000 Share Option Plan	66,909	-	0.00 - 24.5	3	10
2001 Share Option Plan	68,562	-	5.796 - 7.36	3-4	10
2003 Share Option Plan	136,169	175,635	4.12 - 18.28	3-4	10
	444,691	222,764			

Note 6 - Shareholders' Equity (cont'd)

B. Share option plans (cont'd)

4. Stock options under the Radcom 3(9) Plan, the International Plan, the 2000 Share Option Plan, the 2001 Share Option Plan and the 2003 Share Option Plan are as follows for the periods indicated:

	Number of options	Weighted average exercise price
		US$
Options outstanding as at January 1, 2005	812,715	8.934
Granted	101,000	9.072
Exercised	(47,968)	3.832
Expired	(63,419)	12.124
Forfeited	(24,299)	7.084
Options outstanding as at December 31, 2005	778,029	9.064
Granted	79,549	10.792
Exercised	(161,981)	6.012
Expired	(4,234)	35.768
Forfeited	(23,908)	8.416
Options outstanding as at December 31, 2006	667,455	9.864
Granted	**248,515**	**5.50**
Exercised	**(33,153)**	**6.736**
Expired	**(58,606)**	**16.952**
Forfeited	**(50,322)**	**8.22**
Options outstanding as at December 31, 2007	**773,889**	**8.169**

	Number of options	Weighted average exercise price	Weighted average remaining contractual life	Aggregate intrinsic value
		US$	In years	US$ thousands
Vested and expected to vest at December 31, 2007	**700,040**	**8.284**	**5.576**	**70.4**

(1) At December 31, 2007, 2006 and 2005, the number of options exercisable was 436,702, 444,691 and 503,584 respectively, and the total number of authorized options was 897,930, 788,081 and 953,396, respectively.

(2) The aggregate intrinsic value of options exercised during 2007, 2006 and 2005 was approximately US$147 thousand, US$1,631 thousand and US$337 thousand, respectively.

Note 6 - Shareholders' Equity (cont'd)

B. Share option plans (cont'd)

5. Stock options under the Radcom 3(9) Plan, the Radcom Bonus Plan, the International Plan, the 2000 Share Option Plan, the 2001 Share Option Plan and the 2003 Share Option Plan are as follows for the periods indicated: (cont'd)

	Options outstanding at December 31, 2007			Options exercisable at December 31, 2007		
Exercise price (US$ per share)	Number outstanding	Weighted average Exercise Price (in US$)	Weighted average Remaining Contractual life (in years)	Number outstanding	Weighted average Exercise price (in US$)	Weighted average Remaining Contractual life (in years)
0.00	**24,497**	**-**	**2.422**	**24,497**	**-**	**2.422**
3.96 - 7.8	**448,593**	**5.718**	**6.138**	**191,766**	**5.955**	**4.447**
8.48 - 12.00	**219,392**	**9.436**	**5.611**	**146,436**	**9.154**	**4.964**
12.252 - 15.75	**17,500**	**13.751**	**1.527**	**17,500**	**13.752**	**1.527**
16.72 - 24.5	**63,907**	**22.628**	**2.841**	**56,503**	**23.275**	**2.149**
	773,889			**436,702**		

6. The weighted average fair values of options granted during the years ended December 31, 2007, 2006 and 2005 were:

	For exercise price on the grant date that:					
	Equals market price of the underlying share			Less than market price of the underlying share		
	Year ended December 31			Year ended December 31		
	2007	2006	2005	2007	2006	2005
Weighted average exercise prices	**5.508**	10.792	9.072	-	-	-
Weighted average fair values on grant date	**3.596**	7.66	5.4	-	-	-

7. The following table summarizes the departmental allocation of the Company's share-based compensation charge:

	Year ended December 31,		
	(*) 2007	(*) 2006	(**) 2005
	US$ ((in thousands)		
Cost of sales	**18**	14	-
Research and development	**123**	113	-
Selling and marketing	**203**	193	-
General and administrative	**220**	238	12
	564	558	12

(*) Calculated in accordance with SFAS No. 123R.
(**) Calculated in accordance with APB25.

Note 6 - Shareholders' Equity (cont'd)

C. Share-based compensation

The unamortized balance of the compensation expenses according to SFAS No. 123 (R) in respect of these stock options amounted to US$764 thousand as of December 31, 2007, of which US$460 thousand will be amortized in the year ended December 31, 2008 and US$304 thousand will be amortized in accordance with the vesting period of the options by the end of fiscal 2011.

The Company adopted SFAS No. 123 (R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006. The Company's consolidated financial statements as of and for the year ended December 31, 2007 and 2006 reflect the impact of SFAS No. 123 (R). In accordance with the modified prospective transition method, the Company's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123 (R). Share-based compensation expense recognized under SFAS No. 123 (R) for fiscal 2007 and 2006 were US$564 and US$558 thousand, respectively (see Note 2(P)).

The fair value of stock-based compensation awards granted were estimated using the Black-Scholes option pricing model with the following assumptions:

1. The current price of the stock on the grant date is the market value of such date;

2. The dividend yield is zero percent for all relevant years;

3. Risk free interest rates are as follows:

	%
Year ended December 31, 2005	3.8 - 4.2
Year ended December 31, 2006	4.5 - 5.0
Year ended December 31, 2007	**3.9 - 4.9**

4. Each option granted has an expected life of 4 - 5.5 years (as of the date of grant); and

5. Expected annual volatility is 73% - 85%, 74% - 100% and 89% - 100% for the years ended December 31, 2007, 2006 and 2005, respectively. This is a measure of the amount by which a price has fluctuated or is expected to fluctuate. Actual historical changes in the market value of the Company's stock were used to calculate the volatility assumption, as management believes that this is the best indicator of future volatility.

Note 7 - Taxes on Income

A. Israel Tax Reform

1. During 2003, tax reform legislation was enacted with effect from January 1, 2003, which significantly changed the taxation basis of corporate and individual taxpayers from a territorial basis to a worldwide basis. From such date, an Israeli resident taxpayer will be taxed on income produced and derived both in and out of Israel.

2. On July 25, 2005, the Israeli Parliament passed the Law for the Amendment of the Income Tax Ordinance (No. 147 and Temporary Order) - 2005 ("Amendment 147"). Amendment 147 provides for a gradual reduction in the company tax rate in the following manner: in 2006 - 31%, in 2007 - 29%, in 2008 - 27%, in 2009 - 26% and from 2010 onward the tax rate will be 25%. Furthermore, beginning in 2010, upon Israel's reduction of the company tax rate to 25%, real capital gains will be subject to a tax of 25%.

Note 7 - Taxes on Income (cont'd)

B. Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959

The Law for the Encouragement of Capital Investments, 1959, ("the Law"), provides that a capital investment in eligible facilities may, upon application to the Investment Center of the Ministry of Industry and Commerce of the State of Israel, be designated as an "Approved Enterprise".

Each certificate of approval for an Approved Enterprise relates to a specific investment program delineated both by its financial scope, including its capital sources, and by its physical characteristics (e.g., the equipment to be purchased and utilized pursuant to the program). Taxable income of a company derived from an Approved Enterprise is subject to corporate tax at the maximum rate of 25% (rather than the regular corporate tax rates) for a period of seven years commencing with the year in which the Approved Enterprise first generated taxable income (the "Benefit Period"). The Benefit Period is limited to 12 years from commencement of production or 14 years from the year of receipt of approval, whichever is earlier and, under certain circumstances, may be extended to a maximum of ten years from the commencement of the Benefit Period. Tax benefits under the Law shall also apply to income generated by a company from the grant of a usage right with respect to know-how developed by the Approved Enterprise, income generated from royalties, and income derived from a service that is auxiliary to such usage right or royalties, provided that such income is generated within the Approved Enterprise's ordinary course of business.

1. Programs

In 1994, the Company's investment program in its Tel Aviv facility was approved as an Approved Enterprise under the Law. The Company elected the alternative Path of tax benefits in respect thereof. The Company's program for expansion of its Approved Enterprise to Jerusalem was submitted to the Investment Center for approval in October 1994 and the approval thereof was received in February 1995. In December 1996, the Company's request for a second expansion of its Approved Enterprise in Jerusalem was approved by the Investment Center.

The period of benefits remaining under such approvals expired in 2006.

The Company has not utilized any of these benefits with respect to these programs.

2. Accelerated depreciation

The Company is entitled to claim accelerated depreciation for a period of five years in respect of property and equipment relating to its Approved Enterprise. The Company has not utilized this benefit.

Note 7 - Taxes on Income (cont'd)

B. Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959 (cont'd)

3. Changes to the Law

On March 30, 2005, the Israeli parliament approved a reform of the above Law. The primary changes were as follows:

- Companies that meet the criteria of the Alternate Path of tax benefits will receive those benefits without prior approval. In addition, there will be no requirement to file reports with the Investment Center. Audit will take place via the Income Tax Authorities as part of the tax audits. Request for pre-ruling is possible.

- Tax benefits of the Alternate Path include lower tax rates or no tax depending on the area and the path chosen, lower tax rates on dividends and accelerated depreciation.

- In order to receive benefits in the Grant Path or the Alternate Path, the industrial enterprise must contribute to the economic independence of Israel's economy in one of the following ways:

    1. Its primary activity is in the Biotechnology or Nanotechnology fields and, pre-approval is received from the head of research and development at the OCS;

    2. Its revenue from a specific country is not greater than 75% of its total revenues that year; or

    3. 25% or more of its revenues is derived from a specific foreign market of at least 12 million residents.

- Upon the establishment of an enterprise, an investment of at least NIS 300 thousand in production machinery and equipment within three years is required.

- For an expansion, a company is required to invest within three years in the higher of (i) NIS 300 thousand in production machinery and equipment and (ii) a certain percentage of its existing production machinery and equipment.

In December 2005, based on the Law, the Company notified the Israeli Income Tax Authorities that the Company chose the 2004 fiscal year as the elected year for an additional expansion of its Approved Enterprise.

Note 7 - Taxes on Income (cont'd)

B. Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959 (cont'd)

4. **Conditions for entitlement to the benefits**

Entitlement to the benefits of the Company's "Approved Enterprise" is dependent upon the Company fulfilling the conditions stipulated by the Law and the regulations published thereunder, as well as the criteria set forth in the approval for the specific investment in the Company's "Approved Enterprise".

In the event of failure to comply with these conditions, the tax benefits may be cancelled, and the Company may be required to refund the amount of the cancelled benefits, with the addition of linkage differences and interest.

C. Measurement of results for tax purposes under the Israeli Inflationary Adjustments Law, 1985 (the "Inflationary Adjustments Law")

Under the Inflationary Adjustments Law, the Company's results for tax purposes are measured in real terms, in accordance with the changes in the Israeli CPI.

On February 26, 2008, the Income Tax Law (Inflationary Adjustments) (Amendment No. 20) (Restriction of Period of Application) - 2008 ("the Amendment") was passed by the Knesset. According to the Amendment, the Inflationary Adjustments Law will no longer be applicable subsequent to the 2007 tax year, except for the transitional provisions whose objectives are to prevent distortion of the taxation calculations.

In addition, according to the Amendment, commencing with the 2008 tax year, the adjustment of income for the effects of inflation for tax purposes will no longer be calculated. Additionally, depreciation on protected assets and tax loss carryforwards will no longer be linked to the CPI subsequent to the 2007 tax year, and the balances that have been linked to the CPI through the end of the 2007 tax year will be used going forward.

D. Tax assessments

The Company received final tax assessments for all years up to and including the tax year ended December 31, 2003.

E. Tax loss carryforwards

The Company's tax loss carryforwards were approximately US$32,529 thousand as of December 31, 2007. Such losses can be carried forward indefinitely to offset any future taxable income of the Company.

Note 7 - Taxes on Income (cont'd)

F. US Subsidiary

1. The US subsidiary is taxed under United States federal and state tax rules.

2. The US subsidiary's tax loss carryforwards amounted to approximately US$11,177 thousand as of December 31, 2007 for federal and state tax purposes. Such losses are available to offset any future US taxable income of the US subsidiary and will expire in the years 2008 - 2026 for federal tax purpose and in the years 2008 - 2013 for state tax purpose.

3. The US subsidiary has not received final tax assessments since incorporation. In accordance with the tax laws, tax returns submitted up to and including the 2003 tax year can be regarded as final.

G. UK Subsidiary

The UK subsidiary is taxed under United Kingdom tax rules. The UK subsidiary's tax loss carryforwards amounted to approximately US$399 thousand as of December 31, 2007. Such tax losses can be carried forward indefinitely to offset any future taxable income of the UK subsidiary.

H. Deferred taxes

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31	
	2007	**2006**
	US$ thousands	**US$ thousands**
Deferred tax assets:		
Tax loss carryforwards	**12,988**	9,467
Allowance for doubtful accounts	**143**	160
Severance pay	**190**	178
Vacation pay	**317**	293
Research and development	**615**	616
Employees' stock option compensation	**13**	18
Other	**6**	60
	14,272	10,792
Less: valuation allowance	**(14,272)**	(10,792)
Net deferred tax assets	**-**	-

Note 7 - Taxes on Income (cont'd)

H. Deferred taxes (cont'd)

The valuation allowance for deferred tax assets as of January 1, 2006, and 2005, was US$10,463 thousand and US$12,054 thousand, respectively. The net change in the total valuation allowance for each of the years ended December 31, 2007, 2006 and 2005, was an increase of US$3,480 thousand, US$329 thousand and a decrease of US$1,591 thousand, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences and tax loss carryforwards are deductible. Management considers the scheduled reversal of deferred tax liabilities and projected taxable income in making this assessment. In consideration of the Company's accumulated losses and the uncertainty of its ability to utilize its deferred tax assets in the future, management believes that it is more likely than not that the Company will not realize its deferred tax assets at December 31, 2007 and accordingly recorded a valuation allowance to fully offset all the deferred tax assets.

I. Reconciliation of the theoretical tax expense and the actual tax expense

The components of income (loss) before taxes on income are as follows:

	Year ended December 31		
	2007	**2006**	**2005**
	US$ thousands	US$ thousands	US$ thousands
Israel	**(8,694)**	285	1,133
Non Israel	**111**	(339)	394
Income (loss) before taxes on income	**(8,583)**	(54)	1,527

Note 7 - Taxes on Income (cont'd)

I. Reconciliation of the theoretical tax expense and the actual tax expense (cont'd)

A reconciliation of the theoretical tax expense, assuming all income is taxed at the Israeli statutory rates of 29% for the year ended December 31, 2007, of 31% for the year ended December 31, 2006 and 34% for the year ended December 31, 2005, and the actual tax expense, is as follows:

	Year ended December 31		
	2007	**2006**	**2005**
	US$ thousands	**US$ thousands**	**US$ thousands**
Income (loss) before taxes, as reported in the statements of operations	**(8,583)**	(54)	1,527
Theoretical tax expense	**(2,489)**	(17)	519
Tax effect on non-Israeli subsidiaries	**(99)**	(40)	1
Increase (decrease) in income taxes resulting from:			
Non-deductible share-based compensation expenses	**173**	173	4
Other non-deductible operating expenses	**73**	83	45
Losses and timing differences, net in respect of which no deferred taxes were recorded	**2,966**	441	(18)
Utilization of tax losses in respect of which deferred tax assets were not recorded in prior years	**(31)**	(139)	(861)
Differences in taxes arising from differences between Israeli currency income and dollar income, net *	**(593)**	(501)	310
Taxes on income	**-**	-	-

* Resulting from the differences between the changes in the Israeli CPI (the basis for computation of taxable income of the Company) and the exchange rate of Israeli currency relative to the dollar.

Note 7 - Taxes on Income (cont'd)

J. Accounting for uncertainty in income taxes

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FAS 109. This interpretation prescribes a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition of tax positions, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 requires significant judgment in determining what constitutes an individual tax position as well as assessing the outcome of each tax position.

The Company adopted the provisions of FIN 48 on January 1, 2007 and there was no material effect on the financial statements. As a result, the Company did not record any cumulative effect adjustment related to adopting FIN 48.

As of January 1, 2007 and for the twelve-month period ended December 31, 2007, the Company did not have any unrecognized tax benefits. The Company does not expect that the amount of unrecognized tax benefits will change significantly within the next 12 months.

The Company accounts for interest and penalties related to unrecognized tax benefits as a component of income tax expense. As of January 1, 2007 and for the twelve-month period ended December 31, 2007, no interest and penalties related to unrecognized tax benefits had been accrued.

The Company and its subsidiaries file income tax returns in Israel and in the U.S. The Israeli tax returns of the Company are open to examination by the Israeli Tax Authorities for the tax years beginning in 2004. The U.S. tax returns of the U.S. subsidiary remain subject to examination by the U.S. tax authorities for the tax years beginning in 2004.

Note 8 - Supplementary Financial Statement Information

A. Balance Sheet

1. Cash and cash equivalents

Cash and cash equivalents include short-term deposits denominated in US dollars of approximately US$1,661 thousand as of December 31, 2007, bearing an average annual interest of 4.241% (December 31, 2006 - US$1,573 thousand, bearing an average annual interest of 4.65%).

2. Short-term bank deposits

As of December 31, 2006, the short-term bank deposits denominated in U.S. dollars with original maturities of more than three months and less than one year were bearing an average annual interest of 5.30%.

Note 8 - Supplementary Financial Statement Information (cont'd)

A. Balance Sheet (cont'd)

3. Trade receivables, net

As of December 31, 2007 and 2006, trade receivables were presented net of an allowance for doubtful accounts of US$688 thousand and US$690 thousand, respectively.

The following table reflects the changes in allowance for doubtful accounts:

	US$ (in thousands)
Balance at December 31, 2005	133
Additions during 2006	585
Deductions during 2006	(28)
Balance at December 31, 2006	690
Additions during 2007	**2**
Deductions during 2007	**(4)**
Balance at December 31, 2007	**688**

4. Inventories

	December 31	
	2007	2006
	US$ thousands	US$ thousands
Raw materials	**859**	678
Work in process	**761**	856
Finished products	**1,834**	1,141
	3,454	2,675

5. Other current assets

	December 31	
	2007	2006
	US$ thousands	US$ thousands
Value Added Tax authorities	**93**	358
Government of Israel - OCS receivable	**268**	54
Prepaid expenses	**373**	343
Subcontractors	**125**	-
Others	**291**	200
	1,150	955

Note 8 - Supplementary Financial Statement Information (cont'd)

A. Balance Sheet (cont'd)

6. Other payables and accrued expenses

	December 31	
	2007	2006
	US$ thousands	US$ thousands
Employees and employee institutions	**2,425**	2,356
Royalties - OCS payable	**338**	558
Commissions payable	**276**	308
Other royalties payables	**41**	55
Allowance for product warranty	**220**	355
Advances from customers	**279**	18
Government of Israel tax authorities	**50**	128
Others	**1,039**	512
	4,668	4,290

7. Monetary balances in non-dollar currencies

	December 31, 2007		
	Israeli currency		Other
	Not linked to the dollar	Linked to the dollar	non-dollar currency
	US$ thousands	US$ thousands	US$ thousands
Current assets	**520**	**-**	**2,228**
Current liabilities	**2,568**	**350**	**10**

	December 31, 2006		
	Israeli currency		Other
	Not linked to the dollar	Linked to the dollar	non-dollar currency
	US$ thousands	US$ thousands	US$ thousands
Current assets	1,228	-	2
Current liabilities	2,677	558	9

The tables above reflect, at the balance sheet dates indicated, the exposure of the Company's monetary balances in non-dollar currencies to the effect of changes in the rate of exchange of the NIS or other non-dollar currencies, to the dollar.

Note 8 - Supplementary Financial Statement Information (cont'd)

8. Fair value of financial instruments

The financial instruments of the Company consist mainly of cash and cash equivalents, short-term deposits, trade receivables, trade and other accounts payable and accrued expenses. Due to the short-term nature of such financial instruments, their fair value approximates their carrying value.

B. Statement of operations

1. Sales

(a) Sales - classified by geographical destination:

	Year ended December 31		
	2007	**2006**	**2005**
	US$ thousands	**US$ thousands**	**US$ thousands**
North America	**4,315**	7,611	8,793
Europe	**5,685**	9,443	8,641
Far East	**1,541**	2,590	3,313
South America	**1,248**	2,622	712
Other	**708**	1,275	881
	13,497	23,541	22,340

(b) Principal customers

In North America, the Company sells its products directly to end-users or through independent manufacturers' representatives. Outside North America the Company sells its products primarily through a global network of independent distributors for resale to end-users.

In 2006 and 2005, the Company had one customer in North America whose purchases contributed to more than 10% of the total consolidated sales in the amount of US$2,837 thousand and US$4,322 thousand, respectively. In addition in 2005, the Company had one distributor in Europe whose purchases were US$2,196 thousand.

2. Financing income, net

Comprised of:

	Year ended December 31		
	2007	**2006**	**2005**
	US$ thousands	**US$ thousands**	**US$ thousands**
Financing income:			
Interest from banks	**280**	497	270
	280	497	270
Financing expenses:			
Interest and bank charges on short- term bank credit	**15**	19	15
Exchange translation loss, net	**-**	6	20
	15	25	35
Financing income, net	**265**	472	235

Note 9 - Related Party Balances and Transactions

The Company carries out transactions with related parties as detailed below. Certain principal shareholders of the Company are also principal shareholders of affiliates known as the RAD-BYNET Group. The Company's transactions with related parties are carried out on an arm's-length basis.

1. Certain premises occupied by the Company and the US subsidiary are rented from related parties (see Note 5B).

2. Certain entities within the RAD-BYNET Group provide the Company with administrative services. Such amounts expensed by the Company are disclosed in Note 9(B) below as "Cost of sales, sales and marketing, general and administrative expenses". Additionally, certain entities within the RAD-BYNET Group perform research and development on behalf of the Company. Such amounts expensed by the Company are disclosed in Note 9(B) below as "Research and development, gross".

3. The Company purchases from certain entities within the RAD-BYNET Group software packages included in the Company's products and is thus incorporated into its product line.

   Such purchases by the Company are disclosed in Note 9(B) as "Cost of Sales" and as "Research and development, gross".

4. The Company is party to a distribution agreement with Bynet Electronics Ltd. ("BYNET"), a related party, giving Bynet the exclusive right to distribute the Company's products in Israel and in certain parts of the West Bank and Gaza Strip.

   Revenues related to this distribution agreement are included in Note 9(B) below as "Sales". The remainder of the amount of "Sales" included in Note 9(B) below comprised of sales of the Company's products to entities within RAD-BYNET Group.

A. Balances with related parties

	December 31	
	2007	**2006**
	US$ thousands	**US$ thousands**
Receivables:		
Trade	**289**	294
Other current assets	**235**	163
Accounts payable:		
Trade	**119**	236
Other payables and accrued expenses	**6**	6

Note 9 - Related Party Balances and Transactions (cont'd)

B. Expenses to or income from related parties

	Year ended December 31		
	2007	**2006**	**2005**
	US$ thousands	**US$ thousands**	**US$ thousands**
Income:			
Sales	**407**	335	773
Expenses:			
Cost of sales	**104**	98	108
Operating expenses:			
Research and development, gross	**222**	196	201
Sales and marketing*	**196**	192	226
General and administrative	**88**	90	91

* Sales and marketing includes US$5 thousand rental revenue from a sublease agreement with an affiliate of the Company's principal shareholders.

C. Acquisition of fixed assets from related parties amounted to US$24 thousand, US$6 thousand and US$23 thousand in the years ended December 31, 2007, 2006 and 2005, respectively.

Note 10 - Financial Instruments and Risk Management

A. Concentration of credit risk

Financial instruments that may subject the Company to significant concentrations of credit risk consist mainly of cash, assets held for severance benefit and trade receivables.

Cash and cash equivalents are maintained with major financial institutions in Israel and in the United States. Assets held for severance benefits are maintained with major insurance companies and financial institutions in Israel.

The Company grants credit to customers without generally requiring collateral or security. The Company performs ongoing credit evaluations of the financial condition of its customers. The risk of collection associated with trade receivables is reduced by the large number and geographical dispersion of the Company's customer base.

B. Concentrations of business risk

Although the Company generally uses standard parts and components for products, certain key components used in the products are currently available from only one source, and others are available from a limited number of sources. The Company believes that it will not experience delays in the supply of critical components in the future. If the Company experiences such delays and there is an insufficient inventory of critical components at that time, the Company's operations and financial results would be adversely affected.

Note 10 - Financial Instruments and Risk Management (cont'd)

B. Concentrations of business risk (cont'd)

The Company's revenues in any period generally have been, and may continue to be, derived from relatively small numbers of sales with relatively high average revenues per order. Therefore, the loss of any orders or delays in closing such transactions could have an adverse effect on the Company's operations and financial results.

Note 11 - Recently Issued Accounting Pronouncements

1. In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, Fair Value Measurement. SFAS No. 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. The Statement does not require any new fair value measures. The SFAS is effective for fair value measures already required or permitted by other standards for fiscal years beginning after November 15, 2007. The Company is required to adopt SFAS No. 157 beginning on January 1, 2008. SFAS No. 157 is required to be applied prospectively, except for certain financial instruments. Any transition adjustment will be recognized as an adjustment to opening retained earnings in the year of adoption. In February 2008, the FASB issued SFAS No. 157-2, which grants a one-year deferral of SFAS No. 157's fair-value measurement requirements for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company is currently evaluating the impact of adopting SFAS No. 157 on its results of operations and financial position.

2. In February 2007, the FASB issued "SFAS No. 159", The Fair Value Option for Financial Assets and Financial Liabilities— including an amendment of FASB Statement No. 115, which permits entities to irrevocably choose to measure many financial assets and liabilities at fair value that are not currently required to be measured at fair value. If the fair value option is elected, changes in fair value would be recorded in results of operations at each subsequent reporting date. The Statement allows entities to achieve an offset accounting effect for certain changes in fair value of certain related assets and liabilities without having to apply complex hedge accounting provisions. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is currently evaluating the effect, if any, that the adoption of SFAS No. 159 will have on its future consolidated results of operations and financial condition.

3. In December 2007, the FASB issued SFAS No. 141R, Business Combinations (Statement 141R) and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements- an amendment to ARB No. 51 (Statement 160). Statements 141R and 160 require most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at "full fair value" and require noncontrolling interests (previously referred to as minority interests) to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. Both Statements are effective for periods beginning on or after December 15, 2008, and earlier adoption is prohibited. Statement 141R will be applied to business combinations occurring after the effective date. Statement 160 will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. The Company is currently evaluating the effect, if any, of the adoption of SFAS No. 141R and SFAS 160 on its future consolidated results of operations and financial condition.

Note 11 - Recently Issued Accounting Pronouncements (cont'd)

4. In December 2007, the FASB issued FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements - an amendment to ARB No. 51 ("SFAS 160"). SFAS 160 requires noncontrolling interests (previously referred to as minority interests) to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. SFAS 160 is effective for periods beginning on or after December 15, 2008, and earlier adoption is prohibited. SFAS 160 will be applied prospectively to all non-controlling interests, including any that arose before the effective date.

   The Company is currently evaluating the effect, if any, that the adoption of SFAS 160 will have on its future consolidated results of operations and financial condition.

5. In March 2008, the FASB issued FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities ("SFAS 161"). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand the effects of the derivative instruments on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning on or after November 15, 2008, with early adoption encouraged.

   The Company is currently evaluating the effect, if any, that the adoption of SFAS 161 will have on its future consolidated results of operations and financial condition.

6. In December 2007 the SEC staff issued Staff Accounting Bulletin No. 110 ("SAB 110"), which, effective January 1, 2008, amends and replaces SAB 107, Share-Based Payment. SAB 110 expresses the views of the SEC staff regarding the use of a "simplified" method in developing the expected life assumption in accordance with FASB Statement No. 123(R), Share-Based Payment. The use of the "simplified" method, was scheduled to expire on December 31, 2007. SAB 110 extends the use of the "simplified" method in certain situations. The SEC staff does not expect the "simplified" method to be used when sufficient information regarding exercise behavior, such as historical exercise data or exercise information from external sources, becomes available. The Company currently uses simplified estimates and expects to continue using such method until historical exercise data will provide useful information to develop expected life assumption.

7. On May 9, 2008, the FASB issued FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)." FSP APB 14-1 requires issuers of convertible debt that may be settled wholly or partly in cash when converted to account for the debt and equity components separately. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 and must be applied retrospectively to all periods presented.

   The Company is currently evaluating the effect, if any, that the adoption of FSP APB 14-1 will have on its consolidated results of operations and financial condition.

Note 12 - Subsequent Events

1. On December 19, 2007, the Company signed a definitive agreement with investors regarding a private placement transaction (the "PIPE"), at an aggregate investment amount of $2.5 million. The agreement was subject to, among other conditions, the approval of the Company's meeting of shareholders which approved the PIPE at their meeting held on January 30, 2008. On February 3, 2008, the Company closed the private placement transaction. According to the terms of the agreement, the Company issued 976,563 ordinary shares to the investors at a purchase price per ordinary share of $2.56 representing the average closing market price of the Company's shares on the ten trading days prior to the shareholders meeting minus a discount of 10%. Each investor was also granted warrants to purchase one ordinary share for every three ordinary shares purchased by each investor in the PIPE for an exercise price of $3.20.

2. In April 2008, the Company closed a US$2.5 million venture loan from Plenus, a leading Israeli venture-lending firm. The loan is for a period of three years, and bears interest at the rate of 10% per annum. In addition, the Company granted Plenus a warrant to purchase ordinary shares of the Company for a total amount of US$450 thousand with an exercise price of US$2.56 per share. The warrant is exercisable for a period of five years. The Company also granted Plenus registration rights in respect of the shares underlying the warrant. As part of the loan agreement, the Company granted Plenus a fixed charge over its' intellectual property assets and a floating charge over its' assets and the US subsidiary granted Plenus a security interest over its assets, and provided Plenus with guaranties with respect to the loan. The loan also includes financial covenants which relate to the level of revenues, operating income and cash balances of the Company.

3. In May 2008, the Company's shareholders approved a one-to-four reverse share split. The purpose of the reverse share split was to enable the Company to continue to comply with the minimum $1.00 bid price of the Nasdaq Capital Market. The reverse share split became effective in June 2008. Immediately after the reverse share split, the total number of ordinary shares was reduced from 20,303,638 to approximately 5,075,910. Figures for all periods have been restated in order to reflect the impact of such reverse share split.

SHARE AND WARRANT PURCHASE AGREEMENT

SHARE AND WARRANT PURCHASE AGREEMENT (this "**Agreement**"), dated as of December 19, 2007, by and between RADCOM LTD., an Israeli company listed on the Nasdaq Capital Market and on the Tel Aviv Stock Exchange (the "**Company**"), and the purchasers listed on Schedule I hereto (each a "**Purchaser**" and collectively, the "**Purchasers**").

W I T N E S S E T H:

WHEREAS, subject to the terms and conditions set forth in this Agreement, the Company desires to sell to the Purchasers and the Purchasers, severally and not jointly, desire to purchase from the Company Ordinary Shares, par value of NIS 0.05 each ("**Ordinary Shares**"), of the Company pursuant to the terms and conditions of this Agreement; and

WHEREAS, concurrently with the sale of the Ordinary Shares and subject to the terms and conditions set forth in this Agreement and in the Warrants, the Company desires to grant the Purchasers, and the Purchasers, severally and not jointly, desire to receive from the Company Warrants to purchase one Ordinary Share per three Ordinary Shares issued pursuant to this Agreement (the "**Warrants**"); and

WHEREAS, concurrently with the sale of the Ordinary Shares and the grant of the Warrants, the Company desires to grant the Purchasers registration rights with respect to the Ordinary Shares and the shares underlying the Warrants, and the Purchasers, severally and not jointly, desire to receive such registration rights;

NOW, THEREFORE, in consideration of the mutual covenants contained in this Agreement, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company and the Purchasers agree as follows:

SECTION 1: DEFINITIONS

As used in this Agreement, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

"**Affiliate**" of a specified Person shall mean a Person that directly or indirectly controls or is controlled by, or is under common control with, such specified Person. For this purpose, "control" shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"**Business Day**" means any day other than a Friday, Saturday, Sunday or such other day on which banks in the State of Israel or the State of New York are required or authorized to close.

"Escrow Account" means the account to which each Purchaser will deposit, at the date of this Agreement, its respective aggregate purchase price.

"Escrow Agent" means the agent for the Escrow Account.

"**Exchange Act**" means the Securities Exchange Act of 1934, as amended.

"**Filing Date**" means the 120th day following the Closing.

"**ISA**" means the Israel Securities Authority

"**Losses**" shall have the meaning set forth in Section 6.4(a).

"Material Adverse Effect" means, any of the following: (a) an effect which would adversely affect the performance, legality, validity or enforceability of this Agreement or (b) an effect which has or results in a material adverse effect on the results of operations, assets, business or condition (financial or otherwise) of the Company and its subsidiaries, taken as a whole, provided, however, that any adverse change or development attributable to any one or more of the following shall not, by itself, be deemed to constitute a Material Adverse Effect on the Company: (i) changes in general economic or political conditions or financial credit or securities markets in general (including changes in interest or exchange rates) in any country or region in which the Company conducts a material portion of its business, (ii) any events, circumstances, changes or effects that affect the industries in which the Company operates, (iii) any changes in laws applicable to the Company or of its properties or assets or changes in GAAP, in each case, occurring after the date of this Agreement, (iv) the negotiation, announcement or performance of this Agreement, and (v) any failure to meet internal or published projections, forecasts, or revenue or earning predictions for any period.

"**Person**": shall mean an individual, partnership, joint-stock company, corporation, limited liability company, trust or unincorporated organization, and a government or agency or political subdivision thereof.

"**Proceeding**" means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

"**Prospectus**" means the prospectus included in a Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by the Registration Statement, and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

"**Registrable Securities**" means (i) the Ordinary Shares purchased and sold pursuant to this Agreement, as well as the Warrant Shares and (ii) any shares issued as (or issuable upon the conversion or exercise of any warrant, right or other security which is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of, the Ordinary Shares and the Warrants Shares described in clause (i) above; excluding in all cases, however, any Registrable Securities transferred in a transaction in which registration rights under this Agreement are not assigned in accordance with this Agreement, provided, however, that Ordinary Shares or other securities shall only be treated as Registrable Securities if and so long as they have not been sold to or through a broker or dealer or underwriter in a public distribution or a public securities transaction.

"**Registration Statement**" means the initial registration statement regarding which the Company shall use its commercially reasonable efforts to file, including the Prospectus, amendments and supplements to such registration statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

"Regulation S" means Regulation S under the Securities Act, as the same may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC.

"**Rule 144**" means Rule 144 promulgated by the SEC pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC having substantially the same effect as such Rule.

"**Rule 415**" means Rule 415 promulgated by the SEC pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC having substantially the same effect as such Rule.

"**Rule 424**" means Rule 424 promulgated by the SEC pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC having substantially the same effect as such Rule.

"**SEC**" means the Securities and Exchange Commission.

"**Securities Act**" means the Securities Act of 1933, as amended.

"**TASE**" means the Tel Aviv Stock Exchange

"**Trading Day**" means any day on which the Nasdaq Stock Market and the TASE are open for trading.

"Warrant Shares" means the Ordinary Shares that may be purchased upon exercise of the Warrants.

SECTION 2: PURCHASE AND SALE OF SECURITIES

2.1 Purchase and Sale of the Shares.

(a) Subject to the terms and conditions set forth in this Agreement, including, without limitation, Section 8.5 hereto, and in reliance upon each party's representations set forth below, on the Closing Date, the Company shall sell to the Purchasers, and the Purchasers shall, severally and not jointly, purchase from the Company the number of Shares as is set forth opposite their respective names on Schedule I hereto (collectively, the "**Shares**"), at a purchase price per Ordinary Share equal to (x) the average closing market price of the Ordinary Shares of the Company on the Nasdaq Capital Market on the ten (10) Trading Days ending on the Trading Day prior to the Company's shareholders' meeting approving the transactions described in this Agreement ("**Average Share Price**"), minus (y) a discount of 10% of the Average Share Price (the "**Purchase Price**"). Except as otherwise indicated, all references in this Agreement to "$" or "dollars" shall be to United States dollars (US$).

(b) Subject to the terms and conditions set forth in this Agreement and in further detail in the Warrant, the form of which is attached hereto as **ANNEX A**, and in reliance upon each party's representations set forth below, on the Closing Date the Company shall grant each Purchaser a Warrant to purchase one Ordinary Share for each three Ordinary Shares purchased by such Purchaser pursuant to Section 2.1(a) hereof. The Warrants will be exercisable until the third anniversary of the Closing for an exercise price per Ordinary Share equal to the Purchase Price plus 25%.

(c) The closing of such sale and purchase (the "**Closing**") shall take place at 1:00 P.M., Israel time, on February 3, 2008, or such other date as the parties agree to in writing (the "**Closing Date**"), at the offices of Goldfarb, Levy, Eran, Meiri & Co., 2, Weitzman Street, Tel Aviv, Israel, or such other location as the parties shall mutually select.

(d) At the Closing, and as a condition thereto, the following transactions shall occur, which transactions shall be deemed to take place simultaneously and no transaction shall be deemed to have been completed or any document delivered until all such transactions have been completed and all required documents delivered: (A) The Company shall deliver to each Purchaser all appropriate documents demonstrating the satisfaction of the closing conditions set forth in Sections 7.3, 7.5 and 7.6 hereof; (B) the Escrow Agent shall release, upon receipt of a written notice from the Company that all closing conditions set forth in Section 7 have been satisfied (the "**Notice**"), the full amount of the funds deposited by the Purchasers reflecting the aggregate purchase price, to the Company in cash in United States Dollars by wire transfer of immediately available funds to the account of the Company set forth below; (C) the Company shall instruct its transfer agent to deliver to each Purchaser a stock certificate in the name of such Purchaser evidencing the number of Shares to be transferred to such Purchaser, and (D) the Company shall deliver a signed Warrant to each Purchaser. The wire instructions for the Company's account are as follows:

Bank Name:	Hapoalim Bank, New York Branch
Address:	1177 Avenue of the Americas, New York, NY 10036
ABA No.:	026 008 866
Account Name:	Radcom Ltd.
Account No.:	010105303201

SECTION 3: REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to the Purchasers, as of the date hereof and the Closing Date, as follows:

(a) Organization and Qualification. The Company is a company duly organized and validly existing under the laws of the State of Israel. The Company has the requisite corporate power and authority to own and use its properties and assets and to carry on its business as currently conducted. The Company is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(b) Authorization; Enforcement. The Company has, subject to the Company Required Approval, the requisite corporate power and authority to enter into and to consummate the transactions contemplated by this Agreement and otherwise to carry out its obligations hereunder, and the execution and delivery by the Company of this Agreement and the consummation by it of the transactions contemplated hereby have been duly authorized by all necessary action on the part of the Company. This Agreement has been duly executed by the Company and, when delivered in accordance with the terms hereof, will constitute the valid and binding obligation of the Company enforceable against them in accordance with its terms, subject to laws of general application relating to bankruptcy, insolvency and the relief of debtors, and to general equity principles.

(c) Capitalization. The authorized share capital of the Company consists of 40,000,000 Ordinary Shares, of which 16,364,888 Ordinary Shares were issued and outstanding as of November 30, 2007. No securities of the Company are entitled to preemptive or similar rights, nor is any holder of the securities of the Company entitled to preemptive or similar rights arising out of any agreement or understanding with the Company by virtue of this Agreement.

(d) Shares. Upon delivery to the Purchasers, the Shares will be duly and validly issued, fully paid and nonassessable, free and clear of all liens, encumbrances, rights of first refusal of any kind and any adverse claims of any third parties. Upon exercise of the Warrant in accordance with its terms, the Warrant Shares will be duly and validly issued, fully paid and non-assessable, free and clear of all liens, encumbrances, rights of first refusal of any kind and any adverse claims of any third parties.

(e) No Conflicts. The execution, delivery and performance of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby do not and will not (i) conflict with or violate any provision of the Company's memorandum or articles of association, or (ii) conflict with, or constitute a material default (or an event which with notice or lapse of time or both would become a material default) under, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, instrument (evidencing a Company debt) or other understanding to which the Company is a party or by which any property or asset of the Company is bound or affected, or (iii) subject to obtaining the Company Required Approvals, result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company or a subsidiary is subject; except in the case of each of clauses (ii) and (iii), as would not reasonably be expected, individually or in the aggregate, to have or result in a Material Adverse Effect.

(f) Filings, Consents and Approvals. Except for the approval to be obtained by the Company from its shareholders in their January 2008 extraordinary meeting (the "**Company Required Approval"**), the Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of this Agreement, other than those whose failure to be obtained shall not be reasonably expected to have a Material Adverse Effect.

(g) SEC Documents; Financial Statements. The Company has filed all reports required to be filed by it under the Exchange Act with the SEC, including pursuant to Section 13(a) or 15(d) thereof, for the one year preceding the date hereof (the foregoing materials being collectively referred to herein as the "**SEC Documents**") on a timely basis or has received a valid extension of such time of filing and has filed any such SEC Documents prior to the expiration of any such extension. As of their respective dates, the SEC Documents complied in all material respects with the requirements of the Exchange Act and the rules and regulations of the SEC promulgated thereunder (collectively, the "**Securities Laws**"), and none of the SEC Documents, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The Company has not received any material correspondence from the SEC or the Nasdaq Capital Market concerning the SEC Documents. The financial statements of the Company included in the SEC Documents comply in all material respects with applicable accounting requirements and the Securities Laws with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with U.S. generally accepted accounting principles applied on a consistent basis during the periods covered therein ("**GAAP**"), except as may be otherwise specified in such financial statements or the notes thereto, and fairly and accurately present in all material respects the financial position of the Company and its consolidated subsidiaries as of and for the respective dates thereof and the results of operations and cash flows for the respective periods then ended, subject, in the case of unaudited statements, to normal, year-end audit adjustments.

(h) Material Changes. From December 31, 2006 to the date of this Agreement, except as specifically disclosed in the SEC Documents, (a) there has been no event, occurrence or development that has or that would reasonably be expected to result in a Material Adverse Effect, (b) the Company has not altered its method of accounting or the identity of its auditors and (c) the Company has not declared or made any payment or distribution of cash or other property to its shareholders.

(i) Certain Fees. No fees or commissions will be payable by the Company to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by this Agreement. The Company shall indemnify and hold harmless the Purchasers from and against all fees, commissions or other payments owing by the Company to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person acting on behalf of the Company in connection with the transactions contemplated by this Agreement.

(j) No Public Offer. Assuming the accuracy of the Purchaser's representations and warranties in Section 4 hereof (solely to the extent any breach thereof entails a breach of the following representation), neither the Company nor anyone acting on its behalf has offered securities of the Company or any part thereof or any similar securities for issuance or sale to, or solicited any offer to acquire any of the same from, anyone so as to make issuance and sale of the Shares, the Warrants and/or the Warrant Shares hereunder not exempt from the registration requirements of Section 5 of the Securities Act or the Israeli Securities Law, 1968. The Shares and Warrants, when issued and allotted hereunder, and the Warrant Shares, when issued upon exercise of the Warrants, will be offered and sold in compliance with all applicable U.S. federal and state and Israeli securities laws.

Each of the Purchasers acknowledges and agrees that the Company does not make nor has made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in this Section 3.

SECTION 4. REPRESENTATIONS AND WARRANTIES OF THE PURCHASERS

Each Purchaser hereby, for itself and for no other Purchaser, represents and warrants to the Company, as of the date hereof and the Closing Date, as follows:

(a) Organization; Authority. Such Purchaser, if an entity, is an entity duly organized or formed, validly existing and in good standing under the laws of the jurisdiction of its organization or formation, and has the requisite personal, corporate or partnership power and authority to enter into and to consummate the transactions contemplated by this Agreement and otherwise to carry out its obligations hereunder. The purchase by such Purchaser of the Shares to be acquired by it hereunder has been duly authorized by all necessary action on the part of such Purchaser. This Agreement has been duly executed by such Purchaser, and when delivered by such Purchaser in accordance with the terms hereof, will constitute the valid and legally binding obligation of such Purchaser, enforceable against it in accordance with its terms, subject to laws of general application relating to bankruptcy, insolvency and the relief of debtors, and to general equity principles.

(b) Investment Intent. Such Purchaser is, and will be, acquiring the Shares, the Warrants and, if applicable, the Warrant Shares as principal for its own account for investment purposes only and not with a view to or for distributing or reselling such Shares, the Warrants and, if applicable, the Warrant Shares or any part thereof, without prejudice, however, to such Purchaser's right, subject to the provisions of this Agreement, at all times to sell or otherwise dispose of all or any part of such Shares, the Warrants or the Warrant Shares in compliance with applicable securities laws. Such Purchaser does not have any agreement or understanding, directly or indirectly, with any Person to distribute the Shares, the Warrants or the Warrant Shares.

(c) Purchaser Status. At the time such Purchaser was offered the Shares and the Warrants, he, she or it was, and at the date hereof he, she or it is, and on the Closing Date he, she or it will be either (a) an "accredited investor" as defined in Rule 501(a) under the Securities Act or (b) not a "U.S. Person" within the meaning of Regulation S promulgated under the Securities Act and is not acquiring the Shares or Warrants for the account of a U.S. Person, each as set forth opposite such Purchaser's name on Schedule I hereto, as applicable. Unless otherwise set forth in Schedule I hereto, if such Purchaser is located in, or organized under the laws of, the State of Israel, such Purchaser was, at the time it was offered the Shares, and is, at the date hereof, and will be on the Closing Date, an exempted investor of a type listed in the Addendum to Section 15A(b)(1) of the Israeli Securities Law, 5728-1968 as set forth opposite such Purchaser's name on Schedule I hereto. Such Purchaser is not registered as a broker-dealer under the Exchange Act.

(d) Experience of such Purchaser. Such Purchaser, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Shares, and has so evaluated the merits and risks of such investment.

(e) Ability of such Purchaser to Bear Risk of Investment. Such Purchaser is able to bear the economic risk of an investment in the Shares and Warrants and, at the present time, is able to afford a complete loss of such investment.

(f) Reliance. Such Purchaser understands and acknowledges that (i) the Shares and Warrants are being offered and sold to it without registration under the Securities Act in a private placement that is intended to be exempt from the registration provisions of the Securities Act and (ii) the availability of such exemption, depends in part on, and the Company will rely upon the accuracy and truthfulness of, the foregoing representations and such Purchaser hereby consents to such reliance.

(g) No Conflicts. The execution, delivery and performance of this Agreement by such Purchaser and the consummation by the Purchaser of the transactions contemplated hereby do not and will not (i) conflict with or violate any provision of such Purchaser's memorandum or articles of association or similar formation documents, or (ii) conflict with, or constitute a material default (or an event which with notice or lapse of time or both would become a material default) under, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, instrument or other understanding to which such Purchaser is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which such Purchaser is subject; except, with respect to clauses (ii) or (iii) (other than with respect to federal and state securities laws) for such conflicts, defaults, terminations, amendments, acceleration, cancellations and violations as would not, individually or in the aggregate, materially and adversely affect such Purchaser's ability to perform its obligations under this Agreement.

(h) Certain Fees. No fees or commissions will be payable by such Purchaser to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by this Agreement. The Purchasers shall indemnify and hold harmless the Company from and against all fees, commissions or other payments owing by the Purchasers to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person acting on behalf of the Purchasers in connection with the transactions contemplated by this Agreement.

SECTION 5. ADDITIONAL COVENANTS OF THE PARTIES

5.1 Resale of Securities.

(a) Each Purchaser, severally and not jointly, covenants that (i) it will observe all applicable securities law, (ii) it will not sell or otherwise transfer the Shares, the Warrants or the Warrant Shares except pursuant to an effective registration statement under the Securities Act or in a transaction which, in the opinion of counsel reasonably satisfactory to the Company, qualifies as an exempt transaction under the Securities Act and the rules and regulations promulgated thereunder and, if such sale is made in Israel, under the Israeli Securities Law, 5728-1968 and the rules and regulations promulgated thereunder.

(b) The certificates evidencing the Shares, the Warrants and the Warrant Shares will bear the following legend reflecting the foregoing restrictions on the transfer of such securities:

> THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY STATE SECURITIES LAWS AND NEITHER SUCH SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, PLEDGED, ASSIGNED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH THE PROVISIONS OF REGULATION S PROMULGATED UNDER THE SECURITIES ACT, AND BASED ON AN OPINION OF COUNSEL, WHICH COUNSEL AND OPINION ARE REASONABLY SATISFACTORY TO THE COMPANY, THAT THE PROVISIONS OF REGULATION S HAVE BEEN SATISFIED, (2) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS OR (3) PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS, IN WHICH CASE THE HOLDER MUST, PRIOR TO SUCH TRANSFER, FURNISH TO THE COMPANY AN OPINION OF COUNSEL, WHICH COUNSEL AND OPINION ARE REASONABLY SATISFACTORY TO THE COMPANY, THAT SUCH SECURITIES MAY BE OFFERED, SOLD, PLEDGED, ASSIGNED OR OTHERWISE TRANSFERRED IN THE MANNER CONTEMPLATED PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. HEDGING TRANSACTIONS INVOLVING THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE SECURITIES ACT.

5.2 Further Assurance. Each of the parties shall execute such documents and other papers and take such further actions as may be reasonably required or desirable to carry out the provisions hereof and the transactions contemplated hereby. Each such party shall use its reasonable efforts to fulfill or obtain the fulfillment of the conditions to the Closing as promptly as practicable.

5.3 Publicity and Reports. Each of the parties hereto shall cooperate and shall use their reasonable efforts to agree on the form and substance of any press releases to be issued relating to the transactions contemplated by this Agreement, provided that no party shall be precluded from making such filings or giving such notices as may be required by law or the applicable rules of any stock market.

5.4 Restrictions on Short Sales. Each Purchaser represents, warrants and covenants that neither such Purchaser nor any Affiliate of such Purchaser which (x) had knowledge of the transactions contemplated hereby, (y) has or shares discretion relating to such Purchaser's investments or trading or information concerning such Purchaser's investments, including in respect of the Shares, the Warrants and the Warrant Shares, or (z) is subject to such Purchaser's review or input concerning such Affiliate's investments or trading, has or will, directly or indirectly, during the period beginning on the date on which the Company first contacted such Purchaser regarding the transactions contemplated by this Agreement (and involving the Company) and ending on the Closing Date, engaged in (i) any "short sales" (as such term is defined in Rule 3b-3 promulgated under the Exchange Act) of the Ordinary Shares, including, without limitation, the maintaining of any short position with respect to, establishing or maintaining a "put equivalent position" (within the meaning of Rule 16a-1(h) under the Exchange Act) with respect to, entering into any swap, derivative transaction or other arrangement (whether any such transaction is to be settled by delivery of Ordinary Shares, other securities, cash or other consideration) that transfers to another, in whole or in part, any economic consequences or ownership, or otherwise dispose of, any of the Shares or Warrant Shares by the Purchaser or (ii) any hedging transaction which establishes a net short position with respect to the Shares or Warrant Shares (clauses (i) and (ii) together, a "***Short Sale***"); except for (A) Short Sales by the Purchaser or Affiliate of such Purchaser which was, prior to the date on which such Purchaser was first contacted by the Company regarding the transactions contemplated by this Agreement, a market maker for the Ordinary Shares, provided that such Short Sales are in the ordinary course of business of such Purchaser or Affiliate of such Purchaser and are in compliance with the Securities Act, the rules and regulations of the Securities Act and such other securities laws as may be applicable, (B) Short Sales by the Purchaser or an Affiliate of such Purchaser which by virtue of the procedures of such Purchaser are made without knowledge of the transactions contemplated by this Agreement or (C) Short Sales by the Purchaser or an Affiliate of such Purchaser to the extent that such Purchaser or Affiliate of such Purchaser is acting in the capacity of a broker-dealer executing unsolicited third-party transactions.

5.5 Office of Chief Scientist' Undertaking. Each Purchaser hereby covenants to execute and deliver concurrently with the signing of this Agreement, an undertaking to the Office of Chief Scientist in the form of Exhibit 5.5 hereto, to the extent required pursuant to applicable law.

5.6 Escrow Account. Concurrently with the signing of this Agreement, the Company, the Purchasers and the Escrow Agent shall execute and deliver the Escrow Agreement attached hereto as Exhibit 5.6, and each Purchaser shall transfer its respective full purchase price to the Escrow Account.

5.7 Use of Proceeds. The proceeds from the investment hereunder shall be used by the Company in accordance with the Company's budget, as such budget is approved by the Company's Board of Directors from time to time.

SECTION 6. REGISTRATION RIGHTS

6.1. The Registration. On or prior to the Filing Date, the Company shall use its commercially reasonable efforts to prepare and file with the SEC a Registration Statement covering the resale of all Registrable Securities (other than Registrable Securities held by a Purchaser who waived his right to have the Registrable Shares purchased by him hereunder to be registered pursuant to this Section 6) for an offering to be made on a continuous basis pursuant to Rule 415. Such Registration Statement shall be on Form F-3 (except if the Company is not then eligible to register for resale the Registrable Securities on Form F-3, in which case such registration shall be on another appropriate form in accordance herewith) and shall contain (except if otherwise directed by the Purchasers and agreed by the Company) the "**Plan of Distribution**" attached hereto as **ANNEX B.** The Company shall take all reasonable steps required to cause such Registration Statement to become effective and remain effective as provided herein. The Company shall use its commercially reasonable efforts to cause such Registration Statement to be declared effective under the Securities Act as promptly as possible after the filing thereof, and shall use, subject to applicable law, its commercially reasonable efforts to keep such Registration Statement continuously effective under the Securities Act until the date which is two (2) years after the date that such Registration Statement is declared effective by the SEC or such earlier date when all Registrable Securities covered by such Registration Statement have been sold or all such Registrable Securities may be sold without volume or other restrictions pursuant to Rule 144, as determined by the counsel to the Company pursuant to a written opinion letter to such effect, addressed and acceptable to the Company's transfer agent and the affected Purchasers (the "**Effectiveness Period**").

6.2 Registration Procedures**.** In connection with the Company's registration obligations hereunder, the Company shall:

(a) Not less than four Trading Days prior to the filing of the Registration Statement or any related Prospectus or any amendment or supplement thereto, (i) furnish to the Purchasers copies of all such documents proposed to be filed (including documents incorporated or deemed incorporated by reference, unless such documents are already publicly available) which documents will be subject to the reasonable review of such Purchasers, and (ii) cause its officers and directors, counsel and independent certified public accountants to respond to such inquiries as shall be necessary, in the reasonable opinion of respective counsel to conduct a reasonable investigation within the meaning of the Securities Act. The Company shall not file the Registration Statement or any such Prospectus or any amendments or supplements thereto to which the Purchasers of a majority of the Registrable Securities shall reasonably object in good faith in writing within such four Trading Day period.

(b) (i) Prepare and file with the SEC such amendments, including post-effective amendments, to the Registration Statement and the Prospectus used in connection therewith as may be necessary to keep the Registration Statement continuously effective as to the Registrable Securities for the Effectiveness Period; (ii) cause the related Prospectus to be amended or supplemented by any required Prospectus supplement, and as so supplemented or amended to be filed pursuant to Rule 424; (iii) respond as promptly as reasonably possible to any comments received from the SEC with respect to the Registration Statement or any amendment thereto and, as promptly as reasonably possible, upon request, provide the Purchasers true and complete copies of all correspondence from and to the SEC relating to the Registration Statement; and (iv) comply in all material respects with the provisions of the Securities Act and the Exchange Act in order to facilitate the disposition of all Registrable Securities covered by the Registration Statement during the applicable period in accordance with the intended methods of disposition by the Purchasers thereof set forth in the Registration Statement as so amended or in such Prospectus as so supplemented.

(c) Notify the Purchasers of Registrable Securities to be sold as promptly as reasonably possible (and, in the case of (i)(A) below, not less than four Trading Days prior to such filing) and (if requested by any such Person) confirm such notice in writing no later than one Trading Day following the day (i)(A) when a Prospectus or any Prospectus supplement or post-effective amendment to the Registration Statement is proposed to be filed; (B) when the SEC notifies the Company whether there will be a "review" of such Registration Statement and whenever the SEC comments in writing on such Registration Statement (the Company shall provide true and complete copies thereof and all written responses thereto to each of the Purchasers); and (C) with respect to the Registration Statement or any post-effective amendment, when the same has become effective; (ii) of any request by the SEC or any other Federal or state governmental authority for amendments or supplements to the Registration Statement or Prospectus or for additional information; (iii) of the issuance by the SEC of any stop order suspending the effectiveness of the Registration Statement covering any or all of the Registrable Securities or the initiation of any Proceedings for that purpose; (iv) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any Proceeding for such purpose; and (v) of the occurrence of any event or passage of time that makes the financial statements included in the Registration Statement ineligible for inclusion therein or any statement made in the Registration Statement or Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires any revisions to the Registration Statement, Prospectus or other documents so that, in the case of the Registration Statement or the Prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(d) Use its commercially reasonable efforts to avoid the issuance of, or, if issued, obtain the withdrawal of (i) any order suspending the effectiveness of the Registration Statement, or (ii) any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction, at the earliest practicable moment.

(e) Furnish to each Purchaser, without charge, at least one conformed copy of each Registration Statement and each amendment thereto, including financial statements and schedules, all documents incorporated or deemed to be incorporated therein by reference unless such documents are already publicly available, and all exhibits to the extent requested by such Person (including those previously furnished or incorporated by reference) promptly after the filing of such documents with the SEC.

(f) Promptly deliver to each Purchaser, without charge, as many copies of the Prospectus or Prospectuses (including each form of prospectus) and each amendment or supplement thereto as such Persons may reasonably request.

(g) Prior to any public offering of Registrable Securities, use its commercially reasonable efforts to register or qualify or cooperate with the selling Purchasers in connection with the registration or qualification (or exemption from such registration or qualification) of such Registrable Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions within the United States and for listing on the TASE as any Purchaser requests in writing, to keep each such registration or qualification (or exemption therefrom) effective during the Effectiveness Period and to do any and all other acts or things necessary or advisable to enable the disposition in such jurisdictions of the Registrable Securities covered by a Registration Statement; provided, that the Company shall not be required to (i) qualify generally to do business in any jurisdiction where it is not then so qualified, (ii) subject the Company to any material tax or similar liability in any such jurisdiction where it is not then so subject or (iii) execute a general consent to service of process in any jurisdiction where it is not then so subject.

(h) Cooperate with the Purchasers to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be delivered to a transferee pursuant to a Registration Statement, which certificates shall be free, to the extent permitted by the securities laws, of all restrictive legends, and to enable such Registrable Securities to be in such denominations and registered in such names as any such Purchasers may request.

(i) Upon the occurrence of any event contemplated by Section 6.2(c)(v), as promptly as reasonably possible, prepare a supplement or amendment, including a post-effective amendment, to the Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, and file any other required document so that, as thereafter delivered, neither the Registration Statement nor such Prospectus will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(j) Comply with all applicable rules and regulations of the SEC and the ISA.

(k) The Company may require each selling Purchaser to furnish to the Company a certified statement as to the number of Ordinary Shares beneficially owned by such Purchaser and, if requested by the SEC, the controlling person thereof.

It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Agreement with respect to the Registrable Securities of any selling Purchaser that such Purchaser shall furnish to the Company such information regarding itself, the Registrable Securities held by it and the intended method of disposition of such Registrable Securities as shall be required pursuant to the terms of the Selling Purchaser Questionnaire attached hereto as ANNEX C. Each Purchaser who desires that all or a portion of its Registrable Securities be included in the Registration Statement is hereby requested to send the Company a completed Selling Stockholder Questionnaire within ten (10) Trading Days of the date hereof.

6.3 Registration Expenses. All fees and expenses relating to the registration of the Registrable Securities shall be borne by the Company other than fees and expenses, if any, of legal counsel or other advisers to the Purchasers or underwriting discounts, brokerage fees and commissions incurred by the Purchasers, if any.

6.4 Indemnification With Respect to the Registration Rights

(a) Indemnification by the Company. The Company shall, notwithstanding any termination of this Agreement, indemnify and hold harmless each Purchaser, the officers, directors, agents and employees of each Purchaser from and against any and all losses, claims, damages, liabilities, costs (including, without limitation, reasonable costs of preparation and reasonable attorneys' fees) and expenses (collectively, "**Losses**"), as incurred, arising out of or relating to any untrue or alleged untrue statement of a material fact contained in the Registration Statement, any Prospectus or any form of prospectus or in any amendment or supplement thereto, or arising out of or relating to any omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or form of prospectus or supplement thereto, in light of the circumstances under which they were made) not misleading, except to the extent, that (1) such untrue statements or omissions are based upon information regarding such Purchaser furnished in writing to the Company by such Purchaser expressly for use therein, or to the extent that such information relates to such Purchaser or such Purchaser's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Purchaser expressly for use in the Registration Statement, such Prospectus or such form of Prospectus or in any amendment or supplement thereto (it being understood that the Purchaser has approved Annex B hereto for this purpose) or (2) in the case of an occurrence of an event of the type specified in Section 6.2(c)(ii)-(v)**,** the use by such Purchaser of an outdated or defective Prospectus after the Company has notified such Purchaser in writing that the Prospectus is outdated. The Company shall notify the Purchasers promptly of the institution, overt threat or assertion of any Proceeding of which the Company is aware in connection with the transactions contemplated by this Agreement.

(b) Indemnification by Purchasers. Each Purchaser shall, severally and not jointly, indemnify and hold harmless the Company, its directors, officers, agents and employees, each Person who controls the Company (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, agents or employees of such controlling Persons, to the fullest extent permitted by applicable law, from and against all Losses, as incurred, arising out of or based upon: (x) such Purchaser's failure to comply with the prospectus delivery or any other requirements of the Securities Act or (y) any untrue statement of a material fact contained in any Registration Statement, any Prospectus, or any form of prospectus, or in any amendment or supplement thereto, or arising out of or based upon any omission of a material fact required to be stated therein or necessary to make the statements therein not misleading to the extent that such untrue statement or omission is contained in any information so furnished in writing by such Purchaser to the Company specifically for inclusion in such Registration Statement or such Prospectus or to the extent that (1) such untrue statements or omissions are based upon information regarding such Purchaser furnished in writing to the Company by such Purchaser expressly for use therein, or to the extent that such information relates to such Purchaser or such Purchaser's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Purchaser expressly for use in the Registration Statement (it being understood that the Purchaser has approved Annex B hereto for this purpose), such Prospectus or such form of Prospectus or in any amendment or supplement thereto or (2) in the case of an occurrence of an event of the type specified in Section 6.2(c)(ii)-(v), the use by such Purchaser of an outdated or defective Prospectus after the Company has notified such Purchaser in writing that the Prospectus is outdated or defective; in each case up to the amount of net proceeds received by such Purchaser for the sale of Registrable Securities

(c) Conduct of Indemnification Proceedings. If any Proceeding shall be brought or asserted against any Person entitled to indemnity hereunder (an "**Indemnified Party**"), such Indemnified Party shall promptly notify the Person from whom indemnity is sought (the "**Indemnifying Party**") in writing, and the Indemnifying Party shall assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Party (to the extent permitted by law, one counsel shall be employed for all indemnified parties) and the payment of all fees and expenses incurred in connection with defense thereof; provided, that the failure of any Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations or liabilities pursuant to this Agreement, except to the extent that such failure shall have proximately prejudiced the Indemnifying Party.

An Indemnified Party shall have the right to employ separate counsel in any such Proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Parties unless: (1) the Indemnifying Party has agreed in writing to pay such fees and expenses; (2) the Indemnifying Party shall have failed promptly to assume the defense of such Proceeding and to employ counsel reasonably satisfactory to such Indemnified Party in any such Proceeding; or (3) the named parties to any such Proceeding (including any impleaded parties) include both such Indemnified Party and the Indemnifying Party, and such Indemnified Party shall have been advised by counsel that a conflict of interest is likely to exist if the same counsel were to represent such Indemnified Party and the Indemnifying Party (in which case, if such Indemnified Party notifies the Indemnifying Party in writing that it elects to employ one separate counsel at the expense of the Indemnifying Party, the Indemnifying Party shall not have the right to assume the defense thereof and the reasonable expenses of such counsel shall be at the expense of the Indemnifying Party). The Indemnifying Party shall not be liable for any settlement of any such Proceeding effected without its written consent, which consent shall not be unreasonably withheld. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending Proceeding in respect of which any Indemnified Party is a party, unless such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such Proceeding.

All fees and expenses of the Indemnified Party (including reasonable fees and expenses to the extent incurred in connection with investigating or preparing to defend such Proceeding in a manner consistent with this Section, but only to the extent covered within the definition of "Losses" above) shall be paid to the Indemnified Party, as incurred, within twenty Trading Days of written notice thereof to the Indemnifying Party (regardless of whether it is ultimately determined that an Indemnified Party is not entitled to indemnification hereunder; provided, that the Indemnifying Party may require such Indemnified Party to undertake to reimburse all such fees and expenses to the extent it is finally judicially determined that such Indemnified Party is not entitled to indemnification hereunder).

(d) Contribution. If a claim for indemnification under Section 6.4(a) or 6.4(b) is unavailable to an Indemnified Party (by reason of public policy or otherwise), then each Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such Losses, in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and Indemnified Party in connection with the actions, statements or omissions that resulted in such Losses as well as any other relevant equitable considerations. The relative fault of such Indemnifying Party and Indemnified Party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission of a material fact, has been taken or made by, or relates to information supplied by, such Indemnifying Party or Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action, statement or omission. The amount paid or payable by a party as a result of any Losses shall be deemed to include, subject to the limitations set forth in Section 6.4(c), any reasonable attorneys' or other reasonable fees or expenses incurred by such party in connection with any Proceeding to the extent such party would have been indemnified for such fees or expenses if the indemnification provided for in this Section was available to such party in accordance with its terms. The maximum contribution by a Purchaser shall be an amount equal to the net proceeds received by such Purchaser for the sale of Registrable Securities.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 6.4(d) were determined by pro rata allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the immediately preceding paragraph.

SECTION 7. PURCHASERS' CLOSING CONDITIONS

The obligation of each Purchaser to purchase the Shares on the Closing Date shall be subject, in the absence of a written waiver by or on behalf of such Purchaser, to the satisfaction, prior thereto or concurrently therewith, of the following further conditions:

7.1 Representations and Warranties. The representations and warranties of the Company contained in this Agreement shall be true in all material respects on and as of the Closing Date as though such warranties and representations were made at and as of such date.

7.2 Compliance with Agreement. The Company shall have performed and complied in all material respects with all agreements, covenants and conditions contained in this Agreement which are required to be performed or complied with by the Company prior to or on the Closing Date.

7.3 Company Officer's Certificate. Such Purchaser shall have received a certificate of the Company, dated the Closing Date, signed by the Chief Executive Officer, the President or the Chief Financial Officer of the Company, certifying that the conditions applicable to the Company, as specified in the foregoing Sections 7.1 and 7.2 hereof have been fulfilled.

7.4 Injunction. There shall be no effective injunction, writ, preliminary restraining order or any order of any nature issued by a court of competent jurisdiction directing that the transactions provided for herein or any of them not be consummated as herein provided.

7.5 Required Approvals. The Company Required Approvals shall have been obtained.

7.6 Stock Certificates. A copy of the instruction letter from the Company to its transfer agent regarding issuance of stock certificates evidencing the Shares shall be delivered to such Purchaser.

SECTION 8. COMPANY'S CLOSING CONDITIONS

The obligation of the Company to sell the Shares on the Closing Date shall be subject, in the absence of a written waiver by the Company, to the satisfaction, prior thereto or concurrently therewith, of the following further conditions:

8.1 Representations and Warranties. The representations and warranties of each of the Purchasers contained in this Agreement shall be true on and as of the Closing Date in all material respects as though such warranties and representations were made at and as of such date.

8.2 Compliance with Agreement. Each Purchaser shall have performed and complied in all material respects with all agreements, covenants and conditions contained in this Agreement which are required to be performed or complied with by it prior to or on the Closing Date.

8.3 Injunction. There shall be no effective injunction, writ, preliminary restraining order or any order of any nature issued by a court of competent jurisdiction directing that the transactions provided for herein or any of them not be consummated as herein provided.

8.4 Required Approvals. The Company Required Approvals shall have been obtained.

8.5 Minimum Average Share Price. In the event that the Average Share Price, as determined pursuant to Section 2.1(a), is lower than $0.50, then the Company shall have the right to terminate this Agreement by a written termination notice to the Purchasers prior to the Closing Date.

SECTION 9. INTERPRETATION OF THIS AGREEMENT

9.1 Survival. The representations and warranties of the parties hereto contained in this Agreement shall survive the Closing until the 90th day following the filing of the Company's annual report on Form 20-F for the year 2007 with the SEC.

9.2 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Israel as applicable to contracts between two residents of the State of Israel entered into and to be performed entirely within the State of Israel. Any dispute arising under or in relation to this Agreement shall be resolved exclusively in the competent court for Tel Aviv-Jaffa district, and each of the parties hereby submits irrevocably to the exclusive jurisdiction of such court.

9.3 Paragraph and Section Headings. The headings of the sections and subsections of this Agreement are inserted for convenience only and shall not be deemed to constitute a part thereof.

SECTION 10. TERMINATION

In the event that the Closing does not occur within one hundred and twenty (120) days after the date of this Agreement, then this Agreement shall be terminated and the rights and obligations of the parties hereto shall become null and void.

SECTION 11. MISCELLANEOUS

11.1 Notices

(a) All communications under this Agreement shall be in writing and shall be delivered by hand, electronic transmission or facsimile or mailed by overnight courier or by registered mail or certified mail, postage prepaid:

if to the Company:

Radcom Ltd.
24 Raoul Wallenberg Street
Tel Aviv 69719, Israel
Fax: +972-3-6474681
Email: jonathanb@radcom.com
Attention: Chief Financial Officer

each notice to the Company, with a copy to (which shall not constitute notice):

Goldfarb, Levy, Eran, Meiri & Co.
Europe Israel Building
2, Weizman Street 64239
Tel-Aviv, Israel
Facsimile: +972-3-608-9808
Attention: Ashok J. Chandrasekhar, Adv.

if to the Purchasers: to the addresses set forth in Schedule I.

(b) Any notice so addressed shall be deemed to be given: if delivered by hand, electronic mail or facsimile, on the date of such delivery (provided that any delivery of a notice by electronic mail is accompanied by a contemporaneous delivery of said notice by facsimile); if mailed by courier, on the third Business Day following the date of such mailing; and if mailed by registered or certified mail, on the seventh Business Day after the date of such mailing.

11.2 Expenses. Each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement.

11.3 Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties. No party shall be entitled to assign this Agreement without the prior written consent of the other parties. Notwithstanding the foregoing, subject to the applicable securities law, any Purchaser shall be entitled to assign this Agreement to any Affiliates of such Purchaser without such consent, provided that at the time of such assignment, (i) the Company is given written notice by such Purchaser at the time of such assignment stating the name and address of such assignee, and the number of Shares and/or Warrants with respect to which such assignment is being made, and that any such assignee shall receive such assigned rights subject to all the terms and conditions of this Agreement, including without limitation, the provisions of this Section 11.3 and (ii) each assignee shall furnish the Company and the Company with the assignee's written agreement to be bound by this Agreement and confirming the accuracy of the representations and warranties set forth in Section 4 with respect to such assignee.

11.4 Entire Agreement; Amendment and Waiver. This Agreement constitutes the entire understanding of the parties hereto and supersedes all prior agreements or understandings with respect to the subject matter hereof among such parties. This Agreement may be amended, and the observance of any term of this Agreement may be waived, with the written consent of the Company and each of the Purchasers.

11.5 Severability. In the event that any part or parts of this Agreement shall be held illegal or unenforceable by any court or administrative body of competent jurisdiction, such determination shall not effect the remaining provisions of this Agreement which shall remain in full force and effect.

11.6 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall be considered one and the same agreement.

11.7 Remedies. In addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, each of the Purchasers and the Company will be entitled to specific performance under this Agreement. The parties agree that monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations described in the foregoing sentence and hereby agrees to waive in any action for specific performance of any such obligation the defense that a remedy at law would be adequate.

11.8 Independent Nature of Purchasers' Obligations and Rights. The obligations of each Purchaser under this Agreement are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser. Nothing contained herein or in this Agreement, and no action taken by any Purchaser pursuant thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by this Agreement.

[Signature Pages Immediately Follow]

IN WITNESS WHEREOF the parties have signed this Share Purchase Agreement as of the date first hereinabove set forth.

THE COMPANY:

RADCOM LTD.

By: _____

Name:

Title:

THE PURCHASERS:	SUBSRIPTION AMOUNT:
[_____]	US$

By: _____

Name:

Title:

[_____]	US$

By: _____

Name:

Title:

[*SIGNATURE PAGE TO SHARE PURCHASE AGREEMENT*]

Schedule I

Purchasers

* Pursuant to Section 4(c) of this Agreement, indicate whether or not Purchaser is an “accredited investor” and/or a “US person” and, if Purchaser is Israeli, which type of “institutional investor” under the Addendum, if any.

ANNEX B

Plan of Distribution

The selling shareholders and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their ordinary shares on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling shareholders may use any one or more of the following methods when selling shares:

ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

an exchange distribution in accordance with the rules of the applicable exchange;

privately negotiated transactions;

short sales

broker-dealers may agree with the selling shareholders to sell a specified number of such shares at a stipulated price per share;

a combination of any such methods of sale; and

any other method permitted pursuant to applicable law.

The selling shareholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

Broker-dealers engaged by the selling shareholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling shareholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling shareholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

The selling shareholders may from time to time pledge or grant a security interest in some or all of the ordinary shares owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the ordinary shares from time to time under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933 amending the list of selling shareholders to include the pledgee, transferee or other successors in interest as selling shareholders under this prospectus.

The selling shareholders also may transfer the ordinary shares in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling shareholders and any broker-dealers or agents that are involved in selling the ordinary shares may be deemed to be "underwriters" within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the ordinary shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. The selling shareholders have informed us that they do not have any agreement or understanding, directly or indirectly, with any person to distribute the ordinary shares.

ANNEX A

THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR QUALIFIED UNDER ANY STATE OR FOREIGN SECURITIES LAW, AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED OR HYPOTHECATED UNLESS THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT COVERING THIS WARRANT AND/OR SUCH SECURITIES, OR THE HOLDER RECEIVES AN OPINION OF COUNSEL FOR THE HOLDER OF THE WARRANT AND/OR SUCH SECURITIES SATISFACTORY TO THE COMPANY STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF THE SECURITIES ACT AND THE QUALIFICATION REQUIREMENTS UNDER APPLICABLE STATE OR FOREIGN LAW.

WARRANT TO PURCHASE ORDINARY SHARES

Radcom Ltd., an Israeli Company (the **"Company"**), hereby grants to [_____] (the **"Holder"**), the right to purchase from the Company the number of Ordinary Shares of the Company, nominal value NIS 0.05 (the **"Ordinary Shares"**) specified below, subject to the terms and conditions set forth below, effective as of the date hereof (the "**Effective Date**").

1. **Number of Ordinary Shares Available for Purchase**

This Warrant may be exercised to purchase [_____] of the Company's Ordinary Shares having an aggregate exercise price in the amount of US$ [_____] ("**Exercise Amount**"), at an exercise price per each Ordinary Share as provided in Section 2 below, subject to adjustments under Section 8 of this Warrant (the "**Warrant Shares"**);

2. **Exercise Price**

The exercise price for each Warrant Share purchasable hereunder shall be [_____] subject to adjustments under Section 8 of this Warrant (the "**Warrant Price**"):

3. **Term**

This Warrant may be exercised, in whole or in part, during the period beginning on the Effective Date and ending on the date which is 3 years following the Effective Date.

4. **Exercise of Warrant for Cash Only**

This Warrant may be exercised in whole or in part on one or more occasions during its term. The Warrant may be exercised by the surrender of the Warrant to the Company at its principal office together with the Notice of Exercise annexed hereto duly completed and executed on behalf of the Holder. The Notice of Exercise must be accompanied by payment in full of the amount of the aggregate Exercise Amount of the Warrant Shares being purchased upon such exercise in immediately available funds.

5. **Issuance of Shares on Exercise**

The Company agrees that the Warrant Shares so purchased shall be issued against receipt of the Notice of Exercise and payment (as provided in Section 4 herein) and the Holder shall be deemed the record owner of such Warrant Shares as of and from the close of business on the date on which this Warrant shall be surrendered, together with payment in full as required above. In the event of a partial exercise, the Company shall concurrently issue to the Holder a replacement Warrant on the same terms and conditions as this Warrant, but representing the number of Warrant Shares remaining after such partial exercise.

6. **Warrant Confers No Rights of Shareholder**

Except as otherwise set forth in this Warrant, the Holder shall not have any rights as a shareholder of the Company with regard to the Warrant Shares prior to actual exercise resulting in the purchase of any Warrant Shares.

7. **Investment Representation**

Neither this Warrant nor the Warrant Shares issuable upon the exercise of this Warrant have been registered under the Securities Act, or any other securities laws. The Holder acknowledges by acceptance of the Warrant that (a) it has acquired this Warrant for investment and not with a view to distribution; (b) it has either a pre-existing personal or business relationship with the Company, or its executive officers, or by reason of its business or financial experience, it has the capacity to protect its own interests in connection with the transaction; and (c) it is an "accredited investor" as that term is defined in Regulation D promulgated under the Securities Act, or he or she has the knowledge and experience in business and financial matters to evaluate the risks and merits of his or her investment, or it is not a "U.S. Peron" within the meaning of Regulation S promulgated under the Securities Act and is not acquiring the Warrants for the account of a U.S. Person. The Holder agrees that any Warrant Shares issuable upon exercise of this Warrant will be acquired for investment and not with a view to distribution, and that such Warrant Shares may have to be held indefinitely unless they are subsequently registered or qualified under the Securities Act and applicable state securities laws, or based on an opinion of counsel reasonably satisfactory to the Company, an exemption from such registration and qualification is available. The Holder, by acceptance hereof, consents to the placement of legend(s) on all securities hereunder as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act, unless in the opinion of counsel for the Company such legend is not required in order to ensure compliance with the Securities Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

8. **Adjustment of Warrant Price and Number of Shares**

The number and kind of securities purchasable initially upon the exercise of this Warrant and the Warrant Price shall be subject to adjustment from time to time upon the occurrence of certain events, as follows:

a. **Adjustment for Shares Splits and Combinations.** If the Company at any time or from time to time effects a subdivision of the outstanding Ordinary Shares, the number of Ordinary Shares issuable upon exercise of this Warrant immediately before the subdivision shall be proportionately increased, and conversely, if the Company at any time or from time to time combines the outstanding Ordinary Shares, the number of Ordinary Shares issuable upon exercise of this Warrant immediately before the combination shall be proportionately decreased. Any adjustment under this Section 8(a) shall become effective at the close of business on the date the subdivision or combination becomes effective.

b. **Adjustment for Certain Dividends and Distributions.** In the event the Company at any time, or from time to time makes, or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in additional shares of Ordinary Shares, then and in each such event the number of Ordinary Shares issuable upon exercise of this Warrant shall be increased as of the time of such issuance or, in the event such a record date is fixed, as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon exercise of this Warrant by a fraction: (i) the numerator of which shall be the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of Ordinary Shares issuable in payment of such dividend or distribution, and (ii) the denominator of which is the total number of shares of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date; provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed thereof, the number of Ordinary Shares issuable upon exercise of this Warrant shall be recomputed accordingly as of the close of business on such record date and thereafter the number of shares of Ordinary Shares issuable upon exercise of this Warrant shall be adjusted pursuant to this Section 8(b) as of the time of actual payment of such dividends or distributions.

c. **Adjustments for Other Dividends and Distributions.** In the event the Company at any time or from time to time makes, or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in securities of the Company other than Ordinary Shares, then in each such event provision shall be made so that the Holder shall receive upon exercise of this Warrant, in addition to the number of Ordinary Shares receivable thereupon, the amount of securities of the Company that the Holder would have received had this Warrant been exercised for Ordinary Shares immediately prior to such event (or the record date for such event) and had the Holder thereafter, during the period from the date of such event to and including the date of exercise, retained such securities receivable by it as aforesaid during such period, subject to all other adjustments called for during such period under this Section and the Company's Articles of Association with respect to the rights of the Holder.

d. **Adjustment for Reclassification, Exchange and Substitution.** If the Ordinary Shares issuable upon the exercise of this Warrant are changed into the same or a different number of shares of any class or classes of shares, whether by recapitalization, reclassification or otherwise (other than a subdivision or combination of shares or shares dividend or a reorganization, merger, consolidation or sale of assets, provided for elsewhere in this Section), then and in any such event the Holder shall have the right thereafter to exercise this Warrant into the kind and amount of shares and other securities receivable upon such recapitalization, reclassification or other change, by holders of the number of shares of Ordinary Shares for which this Warrant might have been exercised immediately prior to such recapitalization, reclassification or change, all subject to further adjustment as provided herein and under the Company's Articles of Association.

e. **Reorganization, Mergers, Consolidations or Sales of Assets.** If at any time from time to time there is a capital reorganization of the Ordinary Shares (other than a recapitalization, subdivision, combination, reclassification or exchange of shares provided for elsewhere in this Subsection) or a merger or consolidation of the Company with or into another corporation, or the sale of all or substantially all of the Company's properties and assets to any other person, then, as a part of such reorganization, merger, consolidation or sale, provision shall be made so that the Holder shall thereafter be entitled to receive upon exercise of this Warrant, the number of shares or other securities or property of the Company, or of the successor corporation resulting from such merger or consolidation or sale, to which a holder of Ordinary Shares deliverable upon conversion would have been entitled on such capital reorganization, merger, consolidation or sale. In any such case (except to the extent any cash or property is received in such transaction), appropriate adjustment shall be made in the application of the provisions of this Subsection and the Company's Articles of Association with respect to the rights of the Holder after the reorganization, merger, consolidation or sale to the end that the provisions of this Subsection and the Company's Articles of Association (including adjustment of the number of shares of Ordinary Shares issuable upon exercise of this Warrant) shall be applicable after that event and be as nearly equivalent to the provisions hereof as may be practicable.

f. **Adjustment of Warrant Price**. Upon each adjustment in the number of Ordinary Shares purchasable hereunder, the Warrant Price shall be proportionately increased or decreased, as the case may be, in a manner that is the inverse of the manner in which the number of Ordinary Shares purchasable hereunder shall be adjusted.

g. **Notice of Adjustments**. Whenever the Warrant Price or the number of Ordinary Shares purchasable hereunder shall be adjusted pursuant to Section 8 hereof, the Company shall prepare a certificate signed by the chief financial officer of the Company setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the Warrant Price and the number of Ordinary Shares purchasable hereunder after giving effect to such adjustment, and shall cause copies of such certificate to be mailed (by first class mail, postage prepaid) to the Holder.

9. **Transfer of This Warrant or Securities Issuable on Exercise Hereof**

With respect to any offer, sale or other disposition of this Warrant or securities into which such Warrant may be exercised, the Holder will give written notice to the Company prior thereto, describing briefly the manner thereof, together with, if requested by the Company, a written opinion of such Holder's counsel, to the effect that such offer, sale or other distribution may be effected without registration or qualification (under any federal or state law then in effect). Such opinion letter and all such transferees must warrant and represent that they are an "accredited" investor as that term is defined under Regulation D of the Securities Act. Upon receiving such written notice and opinion and warranties and representations, if so requested, the Company, as promptly as practicable, shall deliver to the Holder one or more replacement Warrant certificates on the same terms and conditions as this Warrant for delivery to the transferees. Each Warrant thus transferred and each certificate representing the securities thus transferred shall bear legend(s) as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act, unless in the opinion of counsel for the Company such legend is not required in order to ensure compliance with the Securities Act.

10. **Representations and Warranties.**

The Company represents and warrants to the Holder as follows:

a. This Warrant has been duly authorized and executed by the Company and is a valid and binding obligation of the Company enforceable in accordance with its terms, subject to laws of general application relating to bankruptcy, insolvency and the relief of debtors, and to general equity principles.

b. The Warrant Shares are duly authorized and reserved for issuance by the Company and, when issued in accordance with the terms hereof, will be validly issued, fully paid and nonassessable and not subject to any preemptive rights.

c. The execution and delivery of this Warrant are not, and the issuance of the Warrant Shares upon exercise of this Warrant in accordance with the terms hereof will not be, inconsistent with the Company’s Articles of Association, do not and will not contravene any law, governmental rule or regulation, judgment or order applicable to the Company, and, except for consents that have already been obtained by the Company, do not and will not conflict with or contravene any provision of, or constitute a default under, any indenture, mortgage, contract or other instrument of which the Company is a party or by which it is bound or require the consent or approval of, the giving of notice to, the registration with or the taking of any action in respect of or by, any Federal, state or local government authority or agency or other person.

11. **Loss, Theft, Destruction or Mutilation of Warrant**

Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of any Warrant or Shares certificate, and in case of loss, theft or destruction, of indemnity, or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of such Warrant or Shares certificate, if mutilated, the Company will make and deliver a new Warrant or Shares certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or Shares certificate.

12. **Notices**

Any notice or other communication hereunder shall be in writing and shall be deemed to have been given upon delivery, if personally delivered or three business days after deposit if deposited in the mail for mailing by certified mail, postage prepaid, and addressed as follows:

If to Holder: [_____]
[_____]
[_____]
[_____]
Fax: [_____]

If to Company: Radcom Ltd.

24 Raoul Wallenberg Street
Tel Aviv 69719, Israel
Fax: +972-3-6474681
Attention: Chief Financial Officer

Each of the above addressees may change its address for purposes of this paragraph by giving to the other addressees notice of such new address in conformance with this paragraph.

13. **Applicable Law; Jurisdiction**

This Warrant shall be governed by and construed in accordance with the laws of the State of Israel as applicable to contracts between two residents of the State of Israel entered into and to be performed entirely within the State of Israel. Any dispute arising under or in relation to this Warrant shall be resolved exclusively in the competent court for Tel Aviv-Jaffa district, and each of the parties hereby submits irrevocably to the exclusive jurisdiction of such court.

14. **Entire Agreement**

This Warrant constitutes the entire agreement between the parties hereto with regard to the subject matters hereof, and supercedes any prior communications, agreements and/or understandings between the parties hereto with regard to the subject matters hereof.

Dated: [_____] [__], 2008

RADCOM LTD.

By: Jonathan Burgin
Title: Chief Financial Officer

NOTICE OF EXERCISE

To:

1. The undersigned hereby elects to purchase _____ shares of Ordinary Shares of _____, pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price for such shares in full.

2. In exercising this Warrant, the undersigned hereby confirms and acknowledges that the shares of Ordinary Shares are being acquired solely for the account of the undersigned and not as a nominee for any other party, or for investment, and that the undersigned will not offer, sell or otherwise dispose of any such shares of Ordinary Shares except under circumstances that will not result in a violation of the Securities Act of 1933, as amended, or any state securities laws.

3. Please issue a certificate representing said shares of Ordinary Shares in the name of the undersigned.

4. Please issue a new Warrant for the unexercised portion of the attached Warrant in the name of the undersigned.

(Date)

(Print Name)

(Signature)

LOAN AGREEMENT

THIS LOAN AGREEMENT (this "**Agreement**") is made as of the 1st day of April, 2008, by and among (i) RADCOM LTD. (the "**Company**"), Company No. 52004356, a company duly incorporated under the laws of the State of Israel, whose shares are traded on NASDAQ and TASE, having its principal place of business at 24 Roul Wallenberg Street Tel Aviv 69719, Israel, and (ii) the entities listed in **Schedule I** hereto (collectively, the "**Lenders**"), all of which shall be represented exclusively hereunder by Plenus Management (2004) Ltd. and Plenus Management III 2007 Ltd. (collectively, "**Plenus Management**"), private companies organized under the laws of the State of Israel, with offices located at 16 Abba Eben Blvd., Herzliya Pituach, Israel.

WITNESSETH:

WHEREAS, the Company wishes to borrow money from the Lenders on the terms and conditions set forth in this Agreement; and

WHEREAS, the Lenders are willing to lend money to the Company on the terms and conditions set forth in this Agreement.

NOW THEREFORE, the parties hereto hereby agree as follows:

1. Loan, Warrant and Security.

1.1 The Loan. Subject to the terms and conditions and on the basis of the representations and warranties set forth herein, the Lenders will lend to the Company, and the Company will borrow from the Lenders, an aggregate amount of two million, five hundred thousand dollars ($2,500,000) (the "**Loan**") against the receipt of a U.S. dollar denominated note (the "**Note**"), substantially in the form attached hereto as **Exhibit A**.

1.2 Closing; Loan Disbursement. Subject to the terms and conditions contained herein, the Lenders shall provide the Company with the Loan, and the Company shall deliver the Note and grant and deliver the Warrants (as defined below) to the Lenders, at the closing of the transactions contemplated hereby (the "**Closing**") which shall take place at the offices of Yossi Avraham, Arad & Co., Advocates, on the date on which all closing conditions set forth herein have been met or, to the extent possible, waived by the applicable party, but in any event not prior to the date which is at least two (2) Business Days (as defined below) following the date hereof and, unless agreed to otherwise in writing by the parties, not later than forty five (45) days following the date hereof (the "**Closing Date**"). For the avoidance of doubt, in the event that in spite of the Company's best commercially reasonable efforts to meet the closing conditions, forty five (45) days following the date hereof the Closing Date has not transpired and there has been no agreement by the parties to extend the Closing Date, then this Agreement shall be terminated.

The Loan shall be extended to the Company by means of wire transfer in accordance with wire instructions to be provided in writing to Plenus Management by the Company or, if no other instructions are given, to:

RADCOM LTD.
Account no. 610384317
Branch no. 610
Swift Code: POALILIT
Radcom LTD
Bank Hapoalim,
Hadar Yosef
28 Rozen Pinchas
Tel-Aviv 69512
Israel

The Company acknowledges that the Loan to be provided to the Company hereunder will be divided among the Lenders in accordance with their pro rata participation amounts in the Loan as set forth in **Schedule I** or as may otherwise be agreed among the Lenders.

1.3 Delivery of Documents.

1.3.1 On or prior to the Closing, the Company shall deliver to Plenus Management the following documents:

the duly executed Note;

(**ii**) a duly executed warrant, in the form of **Exhibit B** (the "**Warrant**"), in the name of the Lenders, for the purchase of Warrant Shares (as defined in the Warrant) in accordance with the terms of the Warrant;

(**iii**) (**a**) a Fixed Charge Agreement, in the form of **Exhibit C1**, and a Floating Charge Agreement, in the form of **Exhibit C2** (the "**Pledge Agreements**"), duly signed by the Company, and (**b)** certificates issued by the applicable governmental agencies, reasonably satisfactory to Plenus Management, that the charges, liens, pledges and/or security interests pursuant to the Pledge Agreements have been perfected;

(**iv**) a true and correct copy of resolutions of the Company's Board of Directors, dated as of the date hereof, authorizing: (**a**) the Company to enter into this Agreement, the Warrant and the Pledge Agreements and all other agreements and documents attached or ancillary hereto or thereto (collectively, the "**Company Transaction Documents**"), (**b**) the consummation by the Company of the transactions contemplated in the Company Transaction Documents, including, inter alia, the issuance and delivery of the Warrant to the Lenders at the Closing, the reservation of a sufficient number of Warrant Shares to be issued upon exercise of the Warrant and, subject to the approval of the SEC (as defined below), the registration of the Warrant Shares for trading on NASDAQ and TASE (as more fully set forth below), and (**c**) an officer of the Company to execute and deliver on behalf of the Company the Company Transaction Documents;

(**v**) (**a**) a Subsidiary Guaranty (the "**Subsidiary Guaranty**"), in the form of **Exhibit D1** executed by each of Radcom Investments (1996) Ltd. and Radcom (UK) Ltd. and in the form of **Exhibit D2** executed by Radcom Equipment, Inc. (each - a "**Subsidiary**", and collectively – the "**Subsidiaries**") (**b)** a Security Agreement, in the form of **Exhibit D3** (the "**Subsidiary Security Agreement**"), duly signed by Radcom Equipment, Inc., (**c**) a Deposit Account Control Agreement, substantially in the form of **Exhibit D4**, duly signed by Radcom Equipment, Inc. and the bank(s) with which Radcom Equipment, Inc. maintains deposit accounts (the "**Control Agreement**, and together with the Subsidiary Guaranty, the Subsidiary Security Agreement and all other documents pertaining to the transactions contemplated hereby and thereby - the "**Subsidiaries Transaction Documents**" and, collectively with the Company Transaction Documents, the "**Transaction Documents**") and (**d**) an evidence reasonably satisfactory to Plenus Management that the charges pursuant to the Subsidiary Security Agreement have been perfected;

(**vi**) a true and correct copy of resolutions of the Board of Directors of each Subsidiary authorizing: (**a**) such Subsidiary to execute and deliver the respective Subsidiary Transaction Documents, and (**b**) an officer of such Subsidiary to execute and deliver such respective Subsidiary Transaction Documents;

(**vii**) copies of all waivers, notifications, consents and approvals required for the consummation of the transactions contemplated by the Transaction Documents;

(**viii**) a Management Rights Letter, in the form of **Exhibit E**, duly signed by the Company;

(**ix**) a legal opinion by counsel to the Company, in the form of **Exhibit F**;

(**x**) a joinder (the "**Joinder**"), in the form of **Exhibit G**, to that certain Share Purchase Agreement, dated December 19, 2007, duly executed by the Company and the other parties thereto solely with respect to the registration rights provided to the "Purchasers" thereunder;

(**xi**) a compliance certificate (the "**Closing Compliance Certificate**"), in the form of **Exhibit H**, duly executed by the Company's Chief Financial Officer (without any personal liability).

1.3.2. Closing Condition. Without derogating from the Company's obligation to timely furnish the Lenders with all of the documents set forth in Section 1.3.1, the obligations of the Lenders pursuant hereto shall be subject to receipt of all of such documents on or prior to the Closing Date, and the Lenders shall have the right to terminate this Agreement, without liability, by written notice to the Company should it transpire that the Company would fail to furnish all of the said documents by the date which is forty five (45) days following the date hereof.

1.4 Security. The Company agrees to secure the repayment of the principal amount of the Loan (the "**Principal Amount**") outstanding from time to time, any accrued and unpaid Interest (as defined below) and any other amount due to the Lenders hereunder or in connection herewith by (a) creating for the benefit of the Lenders, a first ranking fixed charge (as such term is defined in the Companies Ordinance [New-Version]-1983) on the Intellectual Property (as defined below) of the Company owned on the date hereof and/or throughout the term of this Agreement, and a first ranking floating charge (as such term is defined in the Companies Ordinance [New-Version]-1983) on the Company's tangible and intangible assets and rights of any kind, whether contingent or absolute, including, but not limited to, the Company's technology and other Intellectual Property, as more fully set forth in the Pledge Agreements, (b) causing each Subsidiary to guarantee the fulfillment of the Company's obligations hereunder, as more fully set forth in the Subsidiary Guaranty, and (c) causing Radcom Equipment, Inc. to secure the Company's obligations hereunder, as more fully set as more in the Subsidiary Security Agreement and the Control Agreement. The Company shall inform Plenus Management in writing of any additional registration of Intellectual Property, or application for such registration or renewal thereof, and shall take all such steps as shall be reasonably required in order to extend the charges created hereunder to such additional registration. From time to time Plenus Management may demand the execution and delivery of, and the Company shall execute and deliver, or cause the execution and delivery of, such additional documents as may be reasonably necessary to maintain or extend the charges created pursuant to the Pledge Agreements and the Subsidiary Security Agreement, including, without limitation, by creating additional security in favor of the Lenders on the assets of any Subsidiary or new subsidiary. For the avoidance of doubt, Plenus Management and the Lenders acknowledge that the right to realize the above charges and pledges is subject to the rights and privileges of the Office of the Chief Scientist of the Ministry of Industry and Trade (the "**OCS**").

1.5 Termination of Security Interests. Upon repayment in full of the Principal Amount together with any accrued Interest thereon and any other amount due the Lenders under the Transaction Documents or in connection therewith, the Security Interests (as defined in Section 1.6) granted pursuant hereto shall terminate and be of no further force and effect. In such event, the Lenders shall, at the Company's expense, promptly execute and deliver to Company such documents as the Company shall reasonably request to evidence or effect the termination of the Lenders' Security Interests.

1.6 Seniority. Other than with respect to fixed charges on assets of the Company or any subsidiary of the Company acquired by the Company or such subsidiary following the Closing Date, which charges are made in favor of the actual sellers or lessors of such assets, or in connection with purchase loans (including bank guarantees and letters of credit) made by the actual seller of such assets or a financial institution specifically financing such an acquisition or lease of assets (שסל"ן) or as otherwise provided by law, the Loan and all amounts accrued thereon, as well as all other amounts due to the Lenders pursuant to the Transaction Documents, shall rank senior to any other Security Interest on the assets and rights of the Company and the Company's subsidiaries, to any other indebtedness to banks, financial and lending institutions, creditors, shareholders and other parties, all to the extent permitted by applicable law.

For purposes of this Agreement, the term "**Security Interest"** shall mean any Lien (as defined below), assignment or other encumbrance over or in any person's or entity's property, and the term "**Lien**" shall mean any lien, pledge, encumbrance, security interests, charge, option, preemptive right or transfer or other similar restriction.

2. Payments.

2.1 Repayment of Principal Amount. Subject to the provisions of Section 2.5 below, the Principal Amount shall be due and payable in twenty four (24) consecutive, equal monthly installments of $104,166.66, commencing thirteen (13) months after the Closing Date and continuing on the same day of each of the following twenty three (23) months (and if such day is not a Business Day, then on the first Business Day thereafter), with the last installment becoming due and payable on the third (3rd) anniversary of the Closing Date.

For the purposes of this Agreement, "**Business Day**" shall mean each day on which at least two of the three biggest banking institutions in Israel are open for business.

2.2 Interest on Principal Amount. The Principal Amount outstanding from time to time shall bear interest (denominated in United States dollars and calculated on a 360 day year for the actual number of days elapsed and compounded annually) at an annual rate of ten percent (10%), until the date of repayment, plus value added tax ("**VAT**"), if applicable (together, the "**Interest**"). The accrued Interest shall be payable on the first Business Day of each calendar quarter, with respect to the preceding quarter (or part thereof), except in the case of early prepayment, in which case accrued Interest shall be due and payable on such date of early repayment, or for the Interest accrued during the quarter (or part thereof) in which the last installment of the Principal Amount is due and payable, which Interest shall be due and payable concurrently with such last repayment of the Principal Amount.

2.3 Interest on Late Payments. Without derogating from any rights or remedies afforded by law, any portion of the Principal Amount and/or Interest which is not paid by the Company on its due date as set forth above, shall bear an additional interest of 5% per annum from the due date and until actual payment, plus VAT, if applicable (together, the "**Additional Interest")**. The Additional Interest shall be compounded daily, except for Additional Interest charged as a result of the first two incidents of late payment, which shall be compounded daily only if such failures to timely pay are not remedied within the five (5) Business Days after the due date.

2.4 Bank Information. Unless and until otherwise notified by Plenus Management to the Company in writing, all payments payable by the Company to the Lenders hereunder shall be divided among the Lenders in the manner described below (and in Schedule I) and shall be made to the following accounts:

(i) 17% of each payment shall be made to the following bank account (Plenus II): Bank Leumi, 11 Galgaley Haplada st. Herzelia, Business Herzelia Branch 864 Plenus II, L.P. 233400/61 Swift code: LUMIILITTLV; and

(ii) the remaining 83% of each such payment shall be made to the following bank account (Plenus III): Bank Leumi, 11 Galgaley Haplada St. Herzelia, Business Herzelia Branch 864 Plenus II, L.P. 259400/19 Swift code: LUMIILITTLV

2.5 Prepayment**.** Notwithstanding anything to the contrary herein contained, the Company may prepay the Loan and any amounts owed to the Lenders under the Transaction Documents, at any time, without penalty or premium, provided that the Company gives Plenus Management at least ten (10) days prior written notice of its intention to prepay and specifying therein the date and the amount of such prepayment, and further provided that each such prepayment is in an amount of not less than the lesser of (a) $200,000, or (b) the sum of the outstanding Principal Amount plus any accrued and unpaid Interest and all other amounts due the Lenders under the Transaction Documents. Any prepaid amount of part of the outstanding Principal Amount shall also reduce proportionately the repayment amount of each future installment of the Principal Amount.

2.6 Set-off. The Lenders may set-off any obligation owed to them by the Company under the Transaction Documents against any obligation (whether or not due and payable) owed by the Lenders to the Company, regardless of the place of payment or currency of either obligation, upon giving the Company a written notice to this effect. If an obligation is not liquidated or is unascertained, the Lenders may set-off in an amount estimated by them in good faith to be the amount of that obligation, provided, however, that in case the actual amount owed by the Company transpires to be lower than the amount estimated by the Lenders, the Lenders shall refund the difference to the Company. If obligations are in different currencies, the Lenders may convert either obligation at a market rate of exchange in their usual course of business for the purpose of the set-off. The Lenders shall not be obliged to exercise any right given to them under this Section 2.6. The Company may **not** set-off any obligation owed to it by the Lenders against any obligation it owes to the Lenders under the Transaction Documents.

2.7 Lenders' Books as Evidence. The Lenders' books and accounts shall serve as *prima facie* evidence in all their particulars, including all references to the computation of the Principal Amount, Interest, Additional Interest, payments made and any other financial matter related hereto.

3. Acceleration.

For purposes of this Agreement, each of the following events shall be deemed an "**Event of Acceleration**":

(i) the Company fails to pay any sum due from it under any of the Transaction Documents at the time, in the currency and in the manner specified therein, or is otherwise in breach of any of the Transaction Documents, including, without limitation, the financial covenants referred to in Section 7.4 hereof, and, where such breach can be cured by the Company, such breach is not remedied within five (5) Business Days in case of non-payment, within ten (10) Business Days in case of another fundamental breach, or twenty one (21) Business Days in case of a non-fundamental breach; or

(ii) the Company admits or indicates its inability to pay its debts as they become due, consistently fails to pay its undisputed debts as they fall due, commences negotiations with its creditors with a view to a general readjustment or rescheduling or another arrangement regarding its indebtedness in general or makes a general assignment for the benefit of, or a composition with, its creditors; or

(iii) any indebtedness of the Company to a third party for borrowed money in the amount of more than $200,000 is not paid when due (or the Company is otherwise in default under any agreement with banks or financial institutions), other than as a result of legitimate disputes, "grace periods" provided by such lender or trade liabilities incurred in the ordinary course of business and payable in accordance with customary practices; or

(iv) the adoption of a resolution by the Company to voluntarily liquidate; the filing by or against the Company of any petition in liquidation or any petition for relief under the provisions of applicable law for the relief of debtors; or the appointment of a special manager, liquidator or temporary liquidator, receiver or temporary receiver or trustee to take possession of any material assets of the Company; provided, however, that if such filing, or appointment were instigated without the Company's consent, it shall be deemed an Event of Acceleration only if not cancelled, removed or stayed within sixty (60) days; or

(v) any representation or statement made by the Company in any of the Transaction Documents, or in any other document, certificate or written statement delivered by it as part of the Transaction Documents, proves to have been incorrect or misleading in any material respect when made; provided, however, that with respect to (a) the representations contained in clauses (ii), (iv), (v), (ix), (x), (xi), (xiii) and (xiv) – (xvii) of Section 4 hereof this Event of Acceleration may only apply until the Company provides Plenus Management with audited, consolidated financial statements as at, and for the year ended on, December 31, 2007, including its balance sheet, statements of income, cash-flow and changes in shareholder equity for the period ended thereon, and (b) the representations contained in clauses (i), (iii), (vi) - (viii) and (xii) of Section 4 hereof this Event of Acceleration may only apply until the earlier of repayment in full of all amounts due the Lenders pursuant to the Transaction Documents or the third (3rd) anniversary of the Closing Date; or

(vi) any event or series of events occur(s) which, in the reasonable opinion of Plenus Management, may have a material adverse effect on the business, condition (financial or otherwise), or results of operations of the Company and the Subsidiaries (taken as a whole) or on the ability of the Company or the Subsidiaries to comply with any of their material obligations under any of the Transaction Documents ("**Material Adverse Effect**"). Provided, however, that none of the following shall be deemed a Material Adverse Effect: (a) changes in general economic or political conditions or financial credit or securities markets in general (including changes in interest or exchange rates) in any country or region in which any of the Company or the Subsidiaries conducts a material portion of its business, except to the extent such changes affect the Company and the Subsidiaries in a disproportionate manner as compared to other companies that compete with the Company or the Subsidiaries operating in any such country or region in industries in which the Company or the Subsidiaries operate or do business; (b) any events, circumstances, changes or effects that affect the industries in which the Company or the Subsidiaries operate, except to the extent such events, circumstances, changes or effects affect the Company and the Subsidiaries in a disproportionate manner as compared to other participants in the industry; (c) any changes in GAAP occurring after the date of this Agreement; (d) acts of war, armed hostilities or terrorism, or escalation or worsening thereof, that cause any damage or destruction to, or render physically unusable, any facility or property of the Company or any of the Subsidiaries or otherwise disrupt the business or operations of the Company or any of the Subsidiaries; (e) any action taken by the Company at the written request or with the written consent of Plenus Management; (f) any decline in the market price or decrease or increase in the trading volume of Company shares after the date of this Agreement; and (g) any failure to meet internal or published projections, forecasts, or revenue or earning predictions for any period after the date of this Agreement; and further provided that prior to declaring an Event of Acceleration under this clause (vi), if such Event of Acceleration can be cured, Plenus Management shall give the Company at least 5 Business Days prior written notice in which the Company may cure such Event of Acceleration; or

(vii) a breach by any Subsidiary of any of its respective Subsidiary Transaction Documents which, where the breach can be cured by such Subsidiary, is not remedied within (5) Business Days, in case of non-payment, ten (10) Business Days, in case of another fundamental breach, or twenty one (21) Business Days, in case of a non-fundamental breach.

Without derogating from the provisions contained herein, the Company shall promptly inform Plenus Management in writing of the occurrence of any Event of Acceleration as soon as it becomes aware of it. In addition, upon receipt of a written request to that effect from Plenus Management, the Company shall confirm to Plenus Management that, except as previously notified to Plenus Management, if notified, or as notified in such confirmation, if notified, no Event of Acceleration has occurred.

In the event that an Event of Acceleration described in paragraphs 3(i), 3(v), 3(vi) or 3(vii) has happened and is continuing following any cure period set forth in such provisions (if any), the Lenders may, by notice in writing sent to the Company, declare all amounts due to the Lenders on account of the Loan due and payable. In the event that an Event of Acceleration described in paragraphs 3(ii), 3(iii) or 3(iv) has happened and is continuing following any cure period set forth in such provisions (if any), all amounts due to the Lenders on account of the Loan shall become due and payable without notice.

Notwithstanding anything to the contrary contained herein, upon such amounts becoming due and payable as a result of any Event of Acceleration as aforesaid, the Company will forthwith pay to the Lenders all amounts due to the Lenders on account of the Loan, including VAT if applicable. Additional Interest shall accrue on any delinquent payment, in accordance with the provisions of Section 2.3 above.

4. Representations and Warranties of the Company.

The Company, being aware that the Lenders have agreed to enter into the Transaction Documents in reliance upon the representations and warranties contained in this Section 4, hereby represents and warrants to the Lenders (on its behalf and on behalf of the Subsidiaries) that, except as set forth on a Disclosure Schedule (the "**Disclosure Schedule**") attached hereto as **Schedule 4** or in the Company's SEC Reports (as defined below), as of the date hereof:

(i) The Company is a company duly formed and validly existing under the laws of the State of Israel. The Subsidiaries are duly formed, validly existing and, where applicable, in good standing, under the laws of the states in which they were incorporated and the Company has no other subsidiaries. The Company's current Memorandum of Association and Articles and Radcom Equipment Inc.'s Certificate of Incorporation and Bylaws are attached to the Disclosure Schedule as **Annex 4(i)**. The Company and the Subsidiaries have full corporate power and authority to enter into and perform their obligations under the respective Transaction Documents, and all of such documents, upon their execution and delivery, constitute legally binding obligations of the Company or the Subsidiaries (as the case may be), enforceable against the Company and the Subsidiaries in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization moratorium, and other laws of general application affecting enforcement of creditors rights generally.

(ii) The (i) Company's audited, consolidated financial statements as at, and for the year ended on, December 31, 2006, including its balance sheet, statements of income, cash-flow and changes in shareholder equity for the period ended thereon, and (ii) Company's unaudited, consolidated financial statements for the year ended on December 31, 2007, and its statements of income and cash-flow for such 12 month period, are attached to the Disclosure Schedule as **Annex 4(ii)** (the "**Financial Statements**"). The Financial Statements are true and correct in all material respects, were audited in the case of item (i) above by a recognized firm of independent certified public accountants, are in accordance with the books and records of the Company, have been prepared in accordance with U.S. generally accepted accounting principles consistently applied ("**GAAP**"), and accurately present in all material respects the consolidated financial position of the Company as of such dates and the results of its operations for the periods then ended. Since December 31, 2007, there has not been any material adverse change in the assets, liabilities, condition (financial or otherwise) or business of the Company, including, without limitation:

(a) any damage, destruction or loss, whether or not covered by insurance, materially and adversely affecting the assets, properties, conditions (financial or otherwise), operating results or business of the Company;

(b) any waiver by the Company of a valuable right or of a material debt owed to it;

(c) any satisfaction or discharge of any material Lien, material claim or material encumbrance or payment of any material obligation by the Company, except in the ordinary course of business;

(d) any material change or amendment to a material contract or material arrangement by which the Company is bound or to which any of its assets or properties subject;

(e) any loans made by the Company to its employees, officers or directors, other than travel advances and the like made in the ordinary course of business;

(f) any sale, transfer or lease of, except in the ordinary course of business, or mortgage or pledge or imposition of Lien on, any of the Company's material assets; or

(g) any change in the accounting methods or accounting principles or practices employed by the Company.

(iii) The execution and delivery of the respective Transaction Documents by the Company and the Subsidiaries and performance of the Company's and the Subsidiaries' obligations thereunder have been duly and validly authorized by all necessary corporate action.

(iv) The Company has filed all forms, reports, statements and other documents required to be filed with the Securities and Exchange Commission ("**SEC**") for the three years preceding the date hereof and, to the extent not available on the SEC's EDGAR system, has heretofore delivered to Plenus Management, in the form filed with the SEC during such period, together with any amendments thereto, all Annual Reports on Form 20-F (collectively, the "**Company SEC Reports**"). As of their respective filing or publication dates, the Company SEC Reports complied in all material respects with the requirements of the United States Securities Exchange Act of 1934 and the United States Securities Act of 1933, as amended, applicable to the Company. The Company SEC Reports did not, at the time they were filed, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(v) (**a**) The Financial Statements reflect, in accordance with GAAP, all material taxation for which the Company was then liable or accountable in respect of or by reference to any income, sales, value added, profit, receipt, gain, transaction, agreement, distribution or event which was earned, accrued, received, or realized, entered into, paid or made on or before December 31, 2004, and the Company has promptly paid or provided in its books of account for all taxation for which it has become liable or accountable in the period from the date of its incorporation to the Closing Date, except for such omissions which would not reasonably be likely to have a Material Adverse Effect.

(**b**) The Company has at all times and within the requisite time limits promptly, fully and accurately observed, performed and complied with all material obligations or conditions imposed on it under any legislation relating to taxation, except for such non compliance that, both individually and in the aggregate, would not have a Material Adverse Effect.

(**c**) The Company is not aware of any circumstances which will or may, whether by lapse of time or the issue of any notice of assessment or otherwise, give rise to any dispute with any relevant taxation authority in relation to its liability or accountability for taxation, any claim made by it, any relief, deduction, or allowance afforded to it, or in relation to the status or character of the Company or any of its enterprises under or for the purpose of any provision of any legislation relating to taxation, except for such dispute or claim that, both individually and in the aggregate, are not likely to have a Material Adverse Effect.

(vi) The Company has taken all corporate actions, and has procured all consents and approvals, necessary for the issuance of the Warrant; and the Warrant and the Warrant Shares when issued (provided that, with respect to the Warrant Shares, the Warrant was properly exercised in accordance with its terms), shall be duly authorized, validly issued, fully paid, nonassessable and shall not trigger any preemptive rights which have not been waived.

(vii) Neither the execution nor the delivery of any of the Transaction Documents, nor the consummation of the transactions contemplated thereby, will contravene any agreement or negative pledge, or any law, rule, restriction or decree to which the Company or any Subsidiary is subject, and will not result in any such violation or be in conflict with or constitute, with or without the passage of time and giving of notice, either a default under any such provision, instrument, judgment, order, writ, decree or contract or an event that results in the creation of any Lien upon any assets of the Company or any Subsidiary or the suspension, revocation, impairment, forfeiture, or non-renewal of any material permit, license, authorization, or approval applicable to the Company or any Subsidiary, its respective business or operations or any of its respective assets or properties except for, in each case, such contraventions, conflicts, defaults and the like that both individually and in the aggregate, are not likely to have a Material Adverse Effect.

(viii) There is no order, writ, injunction or decree of any court, government or governmental agency that, if occurred after the Closing, would constitute an Event of Acceleration pursuant to clause (vi) of Section 3; nor is there any action, suit, proceeding or investigation pending or threatened against the Company or any Subsidiary that questions the validity of any of the Transaction Documents, or the right of the Company or any Subsidiary to execute and deliver any such document or to consummate the transactions contemplated thereby, or that may have, either individually or in the aggregate, a Material Adverse Effect; nor is the Company aware that there is any basis for the foregoing.

(ix) There are no material claims, guarantees, royalty payments, payments to government entities or regulatory bodies, Security Interests, options or other rights outstanding with respect to any assets or securities of the Company or any Subsidiary, and neither the Company nor any Subsidiary has any outstanding loans or financial obligations to any third parties, including, but not limited to, any banking obligations, and any Liens, whether registered or not, on the Company’s or any Subsidiary's bank accounts or other assets of the Company or any Subsidiary.

(x) (**a**) To the Company's best knowledge, the Company and the Subsidiaries own, free and clear of claims or rights of any other person, with full right to use, sell, license, sublicense, dispose of, and bring actions for infringement of, or have acquired or have licenses or other rights to use, all Intellectual Property (as defined below) used by them in the conduct of their business as presently conducted. A complete list of all patents, trademarks and key domain names registered by the Company or any Subsidiary in any jurisdiction as of the date hereof, and all applications for registration or renewal of such patents, trademarks and key domain names in any jurisdiction as of the date hereof, is set forth in the Disclosure Schedule.

(**b**) To the Company's knowledge, the business of the Company and the Subsidiaries as presently conducted and the production, marketing, licensing, use and servicing of any products or services of the Company and the Subsidiaries do not infringe or conflict with any Intellectual Property. The Company and the Subsidiaries have not received written notice from any third party asserting that any Intellectual Property owned or licensed by the Company or the Subsidiaries, or which the Company or the Subsidiaries otherwise have the right to use, is invalid or unenforceable by the Company and the Subsidiaries and there is no reasonable basis for any such claim (whether or not pending or threatened).

(**c**) The Company and the Subsidiaries have taken all steps determined by them to be reasonably required in order to establish and preserve their ownership in their owned Intellectual Property and to keep confidential all material technical information developed by, or belonging to, the Company and the Subsidiaries which has not been patented or copyrighted. To the Company's best knowledge, the Company and the Subsidiaries are not making any material unlawful use of any Intellectual Property of any other person, including, without limitation, any former employer of any past or present employees of the Company and the Subsidiaries. To the Company's best knowledge, neither the Company or the Subsidiaries nor any of their employees have any agreements or arrangements with former employers of such employees relating to any Intellectual Property of such employers, which materially interfere or conflict with the performance of such employee’s duties for the Company or the Subsidiaries or result in any former employers of such employees having any rights in, or claims on, the Intellectual Property of the Company or the Subsidiaries. Each current and former employee of the Company or the Subsidiaries has executed agreements regarding confidentiality, proprietary information and assignment of inventions and copyrights to the Company or the Subsidiaries, respectively, each independent contractor or consultant of the Company or the Subsidiaries having access to confidential information of the Company or the Subsidiaries has executed agreements regarding confidentiality and proprietary information, and the Company and the Subsidiaries have not received written notice that any employee, consultant or independent contractor is in violation of any agreement or in breach of any agreement or arrangement relating to proprietary information or assignment of inventions.

For purposes of this Agreement, "**Intellectual Property**" means patents, patent rights, patent applications, trademarks, trade names, service marks, brand names, logos and other trade designations (including unregistered names and marks), trademark and service mark registrations and applications, copyrights and copyright registrations and applications, inventions, protected formulae, formulations, processes, methods, trade secrets, computer software, computer programs and source codes, and similar technical information, engineering know-how, assembly number and test data drawings.

(xi) The Company's capitalization on a fully diluted basis as of the date hereof is as set forth in the Disclosure Schedule. The outstanding shares of any class of the Company are duly and validly authorized and issued, fully paid and nonassessable, and were issued in accordance with applicable securities laws or pursuant to valid exemptions therefrom. There are no outstanding options, warrants, rights or agreements for the purchase or acquisition from the Company of any shares of its share capital. The Company is not a party or subject to any agreement or understanding and, to the Company's knowledge, there is no agreement or understanding between any persons and/or entities, which affects or relates to the voting rights or to the giving of written consents with respect to (1) any of the Company's securities, or (2) appointment or removal of a director of the Company.

(xii) No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any governmental authority on the part of the Company or any Subsidiary is required in connection with the consummation of the transactions contemplated by the Transaction Documents, except as set forth in the Transaction Documents and compliance with applicable securities laws.

(xiii) Each Material Agreement (as defined below) is in full force and effect, is not subject to rescission and, to the Company's knowledge, there are no existing circumstances which would reasonably be expected to materially modify the terms thereof. To the Company's knowledge, no third party is in default under any Material Agreement. A list of the Material Agreements is set forth in the Disclosure Schedule. Neither the Company not any of the Subsidiaries is in breach of any obligation under any Material Agreement.

For the purposes of this Agreement, the term "**Material Agreement**" shall mean any agreement to which the Company or any Subsidiary is a party and which (i) was filed as an exhibit to the Company's SEC Reports or (ii) is material to the Company's business taken as a whole, including instruments, leases, licenses, arrangements or undertakings of any nature, written or oral.

(xiv) (**a**) The Company has delivered to Plenus Management full and complete copies of all employment agreements or management and consulting agreements currently in force for each of the three most highly paid individuals employed or hired by the Company.

(**b**) The form(s) of contracts under which substantially all the officers, employees and consultants of the Company and the Subsidiaries at the date hereof, who have access to confidential information of the Company or the Subsidiaries, are engaged, include customary provisions relating to non-disclosure and non-competition.

(**c**) There is not now or has been threatened any material labor dispute, strike, slow-down, picketing, work stoppage or other similar labor activity with respect to the employees of the Company and the Subsidiaries, taken as a group.

(xv)(a) No Interested Party (as such term in Hebrew ("בעל ענין") is defined in the Companies Law, 5759-1999) has any direct or indirect interest in any material asset used in or otherwise relating to the business of the Company or the Subsidiaries; (b) no Interested Party is indebted to the Company or any Subsidiary; (c) no Interested Party has entered into, or has had any direct or indirect financial interest in, any Material Agreement, material transaction or material business dealing with or involving the Company or any Subsidiary; (d) no Interested Party is competing, directly or indirectly, with the Company or any Subsidiary; and (e) no Interested Party has any material claim or right against the Company or any Subsidiary (other than rights to receive amounts not yet due with respect to compensation for services performed as an employee or director of the Company or any Subsidiary).

(xvi) No person has, or will have, as a result of any act or omission by the Company, or anyone acting on behalf of the Company, any right, interest or valid claim against the Company or the Lenders for any commission, fee or other compensation as a finder or broker or in any similar capacity in connection with the transactions contemplated by this Agreement. The Company will indemnify and hold the Lenders harmless from and against any claim or liability resulting from any party claiming any such commission or fee, if such claims shall be contrary to the foregoing statement.

(xvii) The representations and warranties made by the Company in this Section 4 do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

4A. Representations and Warranties of the Lenders.

Each of the Lenders, being aware that the Company has entered into the Transaction Documents in reliance upon the representations and warranties contained in this Section 4A, hereby represents and warrants to the Company as follows:

4A.1 The Transaction Documents to be executed by such Lender, when executed and delivered by such Lender on the date hereof or on the Closing Date, shall constitute the valid, binding and enforceable obligations of such Lender. The execution, delivery and performance of the Transaction Documents and the consummation of the transactions contemplated thereby by such Lender will not conflict with, or result in a violation of, any of the terms, conditions and provisions of such Lender's governing instruments.

4A.2 The execution, delivery and performance of the obligations of such Lender hereunder have been duly authorized by all necessary corporate action, if such Lender is a corporate entity, and will not violate, together with the consummation of the transactions contemplated thereby, any provision of any instrument, judgment, order, writ, decree or contract to which it is party or by which it is bound, or any provision of law, rule or regulation applicable to such Lender which would prevent the execution by such Lender of the Transaction Documents or the performance of its obligations hereunder and the consummation of the transactions contemplated thereby.

4A.3 No agent, broker, investment banker, person or firm acting in a similar capacity on behalf of or under the authority of such Lender is or will be entitled to any broker's or finder's fee or any other commission or similar fee, directly or indirectly, on account of any action taken by such Lender in connection with any of the transactions contemplated under the Transaction Documents. Such Lender will indemnify and hold the Company harmless from and against any claim or liability resulting from any party claiming any such commission or fee, if such claims shall be contrary to the foregoing statement.

4A.4 All Lenders are exclusively and irrevocably represented by Plenus Management for all intents and purposes under this Agreement and the other Transaction Documents, and the actions of Plenus Management shall be binding upon the Lenders**,** as confirmed in the Side Letter attached hereto as **Exhibit I**. The Company shall be entitled to fully rely on any instructions and actions by Plenus Management as if they were instructions of the Lenders.

4A.5 It is an experienced and knowledgeable lender and investor and is capable of evaluating the risks of its loan to the Company and of its investment in the Warrants. Such Lender is an “accredited investor” within the meaning of Rule 501 propagated under the Securities Act of 1933, as amended.

Nothing set forth in this Section 4A shall be deemed to detract from or otherwise prejudice the Lenders' reliance on the Company's representations and warranties set forth in Section 4 above.

5. **Reporting and Notice Rights**; **Confidentiality**.

5.1 Reporting and Notice Rights. Without derogating from the management rights contained in the Management Rights Letter, but subject to limitations, if any, under applicable law, the Company shall provide the Lenders (including by filing of such information on EDGAR) with all of the following information commencing from the Closing Date until the full repayment of the Loan and all amounts related thereto, and with the information set forth in clauses (i), (ii) and (v) below following such repayment and so long as the Lenders and/or their Permitted Transferees (as defined below) hold the Warrant or shares of the Company constituting at least 20% of the the Warrant Shares: (i) audited financial statements, within one-hundred and eighty (180) days after the end of each fiscal year (including an audited annual balance sheet of the Company as of the end of the fiscal year and the statement of income and cash flow of the Company for the fiscal year then ended), (ii) unaudited quarterly financial statements, within forty-five (45) days after the end of each of the first, second and third quarter, (iii) all board materials, at the same time that members of the Board of Directors of the Company receive them, (iv) such other data and information as the Lenders may reasonably request, provided such data and information are reasonably available, (v) in the event of a merger or consolidation of the Company, a sale of all or substantially all of the assets or shares of the Company or any other reorganization or restructuring of the Company having similar effects or a distribution of dividends, advanced written notice of at least seven (7) Business Days prior to the anticipated closing of such transaction or distribution, and (vi) advanced written notice of at least seven (7) Business Days prior to the anticipated date of any public offering of the Company's securities pursuant to a registration statement filed with the Securities and Exchange Commission under the U.S. securities laws or pursuant to a registration statement filed with a similar authority under the securities laws of any other jurisdiction.

Furthermore, as long as the Company owes the Lenders any amount hereunder, the Lenders shall have, at reasonable times and upon reasonable notice, full access to all books and records of the Company and shall be entitled to inspect the properties of the Company and consult with management of the Company regarding the same, to the extent reasonably required or advisable for the purpose of monitoring compliance by the Company with its obligations under the Transaction Documents.

5.2 Confidentiality. The Lenders acknowledge that the data and the information obtained pursuant to the Transaction Documents or by the operation of any applicable law are confidential, and also acknowledge the prohibition on the use of material non-public information pursuant to applicable securities law, and agree that such data and information will not be disclosed, used or otherwise exploited for any other purpose, without the prior written consent of the Company; provided, however, that the Lenders may disclose any data and information: (i) in connection with reports to their shareholders, partners, and investors, but only to the extent so required and (ii) to their directors, officers and employees on a need to know basis; on the condition, in each such case, that the recipient of data or information shall be subject to the same obligations to which the Lenders are subject to with respect to such data and information pursuant hereto.

6. Deleted.

7. Covenants.

7.1 Authorizations, Approvals, Licenses and Consents. The Company shall comply with the terms of, and do all that is commercially reasonably necessary to maintain in full force and effect, all authorizations, approvals, licenses and consents required in, or by the laws and regulations of, the State of Israel or any other applicable jurisdiction to enable it and the Subsidiaries to lawfully enter into, and perform their obligations under, the Transaction Documents, and to ensure the legality, validity, enforceability or admissibility in evidence of all such documents.

7.2 Registration Rights.

(i) The Company shall prepare and file with the SEC as soon as commercially reasonable, but in any event not later than May 30, 2008 (the "**Filing Deadline**"), a registration statement (the "**Registration Statement**") on Form F-3 (or, if Form F-3 is not then available to the Company, on such form of registration statement as is then available to effect a registration for resale of the Warrant Shares and any other securities issued or issuable with respect to any of the Warrant Shares) (collectively, the "**Registrable Securities**") covering the resale of the Registrable Securities. Subject to any SEC comments, such Registration Statement shall include the plan of distribution attached hereto as **Exhibit J**. Such Registration Statement also shall cover, to the extent allowable under the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder (including Rule 416), such indeterminate number of additional Ordinary Shares resulting from share splits, bonus shares (stock dividends) or similar transactions with respect to the Registrable Securities. The Registration Statement (and each amendment or supplement thereto, and each request for acceleration of effectiveness thereof) shall be provided to Plenus Management and its counsel prior to its filing or other submission.

(ii) The Company shall use commercially reasonable efforts to have the Registration Statement declared effective as soon as practicable. The Company shall notify Plenus Management by facsimile or e-mail as promptly as practicable, and in any event, within twenty-four (24) hours, after any Registration Statement is declared effective and shall simultaneously provide Plenus Management with copies of any related Prospectus to be used in connection with the sale or other disposition of the securities covered thereby. The Company shall maintain the effectiveness of the Registration Statement until the earlier of (i) the sale of all of the Registrable Securities by the Lenders; (ii) such time as all of the Registrable Securities may be sold by the Lenders pursuant to Rule 144(k); or (iii) the fifth (5^{th}) anniversary of the Closing Date.

(iii) If (A) a Registration Statement covering the Registrable Securities is not filed by the Filing Deadline, (B) such Registration Statement is not declared effective by the SEC prior to the later of (i) five (5) Business Days after the SEC shall have informed the Company that no review of the Registration Statement will be made or that the SEC has no further comments on the Registration Statement or (ii) the 180th day after the Closing Date or (C) after a Registration Statement has been declared effective by the SEC, sales cannot be made pursuant to such Registration Statement for any reason within the Company's control (including, without limitation, by reason of a stop order, or the Company's failure to update the Registration Statement) (each, an "**Event**" and the date on which such Event occurs, the "**Event Date**"), then without diminishing the Company's obligation to cause the registration of the Registrable Securities as soon as practicable or the Lenders' right to seek injunctive relief, the Lenders shall be entitled to a payment in ordinary shares of the Company, based on the then Warrant Exercise Price (as therein defined), in the amount of $20,000 payable on the applicable Event Date and an additional payment of $7,000 for any additional month of delay.

7.3 Negative Covenants.

The Company will not, without prior written consent of Plenus Management:

(a) materially change the general nature of its business;

(b) make or maintain any loan, except for loans and other advances in the aggregate amount of up to $250,000 at any given time that are granted in the ordinary course of business. For the avoidance of doubt, the foregoing limitation shall not apply to loans and other advances between the Company and any of its subsidiaries which entered into a security agreement with the Lenders and to payment terms negotiated with customers in arm's length transactions;

(c) receive financial loans or similar extensions of credit from a bank, another financial institution or other similar third party exceeding (together with the amounts set forth in clause (d) below), other than short term loans, or similar extensions of credit, of up to thirty (30) days received in the ordinary course of business which do not exceed an aggregate amount of $200,000;

(d) provide any guarantee or otherwise incur any contingent liability in connection with any financial loan or similar extension of credit from a bank or another financial institution or other similar third party, other than in the ordinary course of business and in an aggregate amount which may not exceed in the aggregate (together with the amounts set forth in clause (c) above) an amount of $200,000. For the avoidance of doubt, nothing herein shall prevent the Company from granting in the ordinary course of business a performance bond, performance guarantee or any other similar guarantees in connection with performance of the Company's obligations and/or the obligations of a subsidiary which entered into a security agreement with the Lenders, pursuant to a contract to which it and/or such subsidiary is a party;

For the purpose of clarity, the restrictions contained in clauses (c) and (d) of this Section 7.3 shall not apply to any commercial debts (e.g., payments due to suppliers or guarantees in respect thereof) incurred by the Company in the ordinary course of its business;

(e) repay any loans (including, without limitation, shareholders' loans), debts or other financial obligations, excluding, however (i) normal operating expenses of the Company which are incurred in the ordinary course of business, and (ii) repayment of loans or debts the assumption of which is not forbidden pursuant to this Agreement;

(f) sell, transfer, assign, pledge, or grant a Security Interest over any of the material assets of the Company (except for sales or transfers of assets of the Company in the Company's ordinary course of business), all except as expressly permitted herein;

(g) make any Distribution (as such term in Hebrew ("חלוקה") is defined in the Companies Law, 5759-1999); and

(h) enter into, or be a party to, any transaction, arrangement or agreement with any Affiliate (as defined below) other than (i) investments in the Company or grant of options pursuant to the Company's employee stock option plan then in effect, (ii) transactions involving insignificant amounts (provided that such transactions are limited in number), (iii) the transactions currently in place or extensions thereof, which are listed in **Exhibit K**, or (iv) arm's length transactions in the ordinary course of business. For the avoidance of doubt, material amendments of the terms of the transactions listed in said **Exhibit K** shall also require Plenus Management's prior written consent. For purposes of this Agreement, the term "**Affiliate**" shall mean, any individual or any type of entity, whether incorporated or not, which, directly or indirectly through one or more intermediaries, controls or is under common control with the Company.

The above covenants shall also apply to each and every subsidiary of the Company, including subsidiaries formed following the Closing Date. This Section shall not apply to any transaction conducted solely between the Company and Radcom Equipment, Inc. or such other subsidiaries (subject to such other subsidiaries executing security agreements similar to the Subsidiary Security Agreement) in the ordinary course of business.

7.4. Financial Covenants. The Company shall comply with the financial covenants set forth in **Exhibit L**.

7.5. Merger; Consolidation; Acquisition; Investments. For so long as any amounts payable to the Lenders pursuant to the provisions of the Transaction Documents have not been repaid in full, the Company will have such amounts repaid, if the Lenders so desire, (i) immediately upon the consolidation of the Company with, or a merger with or into, or a sale of Company securities (by the Company or by the Company's shareholders) to any third party, pursuant to which the Company's shareholders immediately prior to such transaction will own less than 51% of the surviving entity immediately following such transaction, (ii) an acquisition or other transfer of all or substantially all of the Company's assets, other than to an entity in which at least 51% of the outstanding share capital is beneficially owned by the Company and/or its shareholders (clauses (i) and (ii) above shall each be referred to herein as an "**M&A Transaction**"), or (iii) the consummation of any secondary public offering of the Company's securities with net proceeds to the Company in excess of $5,000,000 (which, for the avoidance of doubt, will not include the PIPE transaction approved by the Company's shareholders on January 30, 2008.

8. Miscellaneous.

8.1 Further Action. At any time and from time to time, each of the parties agrees, without further consideration, to take such actions and to execute and deliver such documents as, in the other party's opinion, may be reasonably necessary to carry out and give full effect to the provisions of the Transaction Documents and the intentions of the parties as reflected hereby and thereby. Without derogating from the generality of the foregoing, the Company shall use its best commercial efforts to maintain in full force and effect all authorizations, approvals, licenses and consents required by or under applicable laws and regulations in order to enter into the Transaction Documents and perform all of its obligations under the Transaction Documents.

8.2 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Israel, without regard to the conflict of laws provisions thereof. The parties hereby irrevocably submit to the exclusive jurisdiction of the competent courts sitting in Tel Aviv, Israel.

8.3 Joint and Several. The rights and obligations of the entities comprising the Lenders hereunder are joint and several.

8.4 Successors and Assigns. Except as otherwise expressly limited herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors, and administrators of the parties hereto.

8.5 Non-assignability. None of the rights or obligations set forth in, arising under, or created by, this Agreement may be assigned or transferred by the Company or a Lender without the prior consent in writing of the other party, which consent shall not be unreasonably withheld. Anything in this Section 8.5 to the contrary notwithstanding, each Lender shall have the right to assign or transfer its rights and obligations under this Agreement, as long as such assignment or transfer is not to a competitor of the Company, to any of the following (each a "**Permitted Transferee**"): (i) any other entity which controls, is controlled by, or is under common control with, such Lender, (ii) to any the other Lender, (iii) if the Lender is a trustee or is appointed to act on behalf of others - to its beneficiaries, or (iv) if the Lender is a general or limited partnership - to its partners and to affiliated partnerships managed by the same management company or managing general partner or to an entity which controls, is controlled by, or is under common control with, such management company or managing general partner. The limited right of a Lender to assign and transfer pursuant to this Section 8.5 shall also apply, *mutatis mutandis,* to each Permitted Transferee.

8.6 Entire Agreement. The Transaction Documents and their exhibits and schedules constitute the full and entire understanding and agreement among the parties with regard to the subject matters thereof and supersede and terminate all prior discussions, commitments, understandings or agreements heretofore. The preamble, exhibits and schedules to the Transaction Documents constitute integral parts thereof.

8.7 Transaction Expenses. The Company will participate in the payment of the legal fees and other expenses incurred by the Lenders in connection with the transactions contemplated by the Transaction Documents by paying, on or before the Closing Date, a one-time transaction fee of $25,000, plus applicable VAT. The Company shall also be responsible for all taxes and other compulsory payments to which the Lenders are, or shall be, subject under the Transaction Documents (other than taxes on the income of the Lenders imposed in any applicable jurisdiction). For the avoidance of doubt, Plenus Management and the Lenders declare that they are not aware of the existence of such taxes on the date hereof.

8.8 Amendments and Waivers. Any term of this Agreement may be amended and the observance of any term hereof may be waived (either prospectively or retroactively and either generally or in a particular instance) only with the written consent of the Company and Plenus Management. No delay or omission to exercise any right, power or remedy accruing to any party upon any breach or default under this Agreement, shall be deemed a waiver of any other breach or default theretofore or thereafter occurring. All remedies, either under this Agreement or by law or otherwise afforded to any of the parties, shall be cumulative and not alternative, except as specifically set forth in this Agreement.

8.9 Notices. All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be faxed (with electronic and telephone confirmation of receipt) emailed or mailed by registered or certified mail (return receipt required), postage prepaid, or by electronic mail (with electronic and telephone confirmation of receipt), or delivered by hand or by messenger, if to the Company - to the Company's address set forth above, to the attention of the Company’s Chief Financial Officer, and if to a Lender - to the Lenders' addresses set forth in Schedule I, to the attention of Mr. Shlomo Karako, or to such other address or to attention of such other person with respect to a party as such party shall notify the other party in writing as above provided. Any notice sent in accordance with this Section 8.9 shall be effective (i) if mailed, three (3) Business Days after mailing, (ii) if sent by messenger, upon delivery, and (iii) if sent via fax or electronic mail, upon transmission and electronic confirmation of receipt or (if transmitted and received on a non-Business Day) on the first Business Day following transmission and electronic confirmation of receipt.

8.10 Currency; Manner of Payment. The term "dollars" or the symbol "$" appearing in this Agreement shall mean the legal currency of the United States of America, and all payments hereunder shall be made in such currency, unless otherwise agreed in writing by Plenus Management and the Company.

Payments due to the Lenders shall be made to their respective bank accounts set forth above or as shall otherwise be designated by the Lenders from time to time by written notice. The Company shall make such payments to such bank account by initiating such payments on a banking day, before 12.00 a.m., Israel time, by bank wire transfer of immediately available funds.

8.11 Survival. All covenants made in this Agreement shall remain in full force and effect for as long as this Agreement is still in effect pursuant to its terms. Section 5.2 above (*Confidentiality*) shall survive the termination of this Agreement. The Warrant, or the Warrant Shares if issued, shall not be returned to the Company even if this Agreement is terminated early for whatever reason.

8.12 Partial Invalidity. If any provision of this Agreement is held by a court of competent jurisdiction to be invalid or unenforceable under applicable law, then such provision shall be excluded from this Agreement and the remainder of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms; provided, however, that in such event this Agreement shall be interpreted so as to give effect, to the greatest extent consistent with and permitted by applicable law, to the meaning and intention of the excluded provision as determined by such court of competent jurisdiction.

8.13. Limitations on Rights of Third Parties. Nothing expressed or implied in this Agreement is intended or shall be construed to confer upon or give any person, other than the Company, the Lenders and Plenus Management, any rights or remedies under this Agreement.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF the parties have signed this Loan Agreement in one or more counterparts as of the date first appearing above set forth.

RADCOM LTD.

By: _____

Its: _____

_____

PLENUS II, LIMITED PARTNERSHIP

By: PLENUS MANAGEMENT (2004) LTD.

Its. Management Company

By: _____

Its: _____

_____

PLENUS II (D.C.M.), LIMITED PARTNERSHIP

By: PLENUS MANAGEMENT (2004) LTD.

Its. Management Company

By: _____

Its: _____

_____

PLENUS III, LIMITED PARTNERSHIP

By: PLENUS MANAGEMENT III 2007 LTD.

Its. Management Company

By: _____

Its: _____

_____

PLENUS III (D.C.M.), LIMITED PARTNERSHIP

By: PLENUS MANAGEMENT III 2007 LTD.

Its. Management Company

By: _____

Its: _____

PLENUS III (2), LIMITED PARTNERSHIP.

By: PLENUS MANAGEMENT III 2007 LTD.

Its. General Partner

By: Management Company

Its:

PLENUS III (C.I.), L.P.

By: PLENUS MANAGEMENT III 2007 LTD.

Its: Management Company

By:

Its:

Exhibit L
Financial Covenants

Subject to the provisions of the last (bolded) paragraph of this financial covenants exhibit, below are the following two financial covenants applicable to the Company, which are cumulative (i.e., the Company shall be required to comply with both (i) the Revenues/Bookings financial covenant and the Operating Loss financial covenant).

1. Revenues/Bookings Financial Covenant

For purposes of this financial covenant, the term "**Revenues**" means the Company's consolidated revenues for the applicable quarter, as reflected in the Company's financial statements published in accordance with applicable laws and regulations, and (ii) the term "**Bookings**" means all binding and legally enforceable agreements and purchase orders that were received by the Company and/or any of its Subsidiaries in the applicable quarter (as confirmed in writing by the Company's Chief Financial Officer and Chief Executive Officer by no later than 45 days following the end of such quarter).

Revenuers/Bookings Test

The Company's consolidated Revenues or Bookings for each of the following quarters should not be less than the corresponding amount:

Q2-08 - $2.5 million
Q3-08 - $2.5 million
Q4-08 - $2.5 million
Q1-09 - $3.0 million
Q2-09 - $3.0 million
Q3-09 - $3.0 million
Q4-09 - $3.0 million

It being clarified that:

(i) the Company shall be deemed to have complied with this financial covenant if it meets either the Revenues test or the Bookings test;

(ii) with respect to the Revenues and the Booking tests – should the Revenues or Booking in any given quarter be lower than the corresponding amount set forth above, the determination as to whether the Company has met the Revenues or Booking test for such quarter shall be postponed to the immediately following quarter and if the combined Revenues or Booking in such quarter and the immediately preceding quarter shall be at least equal to the aggregated minimum Revenues or Booking for such quarters as set forth above, the Company shall be deemed to have met the Revenues or Booking test for the applicable quarter. For example, should the Company fail to meet the Q2-08 Revenues test, it will need to have not less than $5 million worth of Revenues by the end of Q3-08 (the combined Revenues for Q2-08 and Q3-08) or else it shall be deemed to have failed to meet the Revenues test; and

(iii) notwithstanding the foregoing, even if the Company fails to comply with the Revenues test and the Bookings test during any of the first 3 quarters of 2009 but the accumulated Revenues of the Company for such quarter and the 3 quarters immediately preceding such quarter are equal to or higher than US$18 million, the Company shall be deemed to have met this Revenues test for such quarter. The foregoing shall apply also to Q4-09, provided that the accumulated Revenues must be US$20 million or higher. For example, should the Company fail to meet the Q1-09 Revenues test, but the accumulated Revenues of the Company for Q2-08, Q3-08, Q4-8 and Q1-09 shall be equal to or exceed US$18 million, then the Company shall be deemed to have complied with the Revenues test for such quarter.

2. ***Operating Loss Financial Covenant***

The Company's Operating Loss (as reflected in the Company's financial statements published in accordance with applicable laws and regulations) for each of the quarters commencing on Q2-08 and ending on Q4-09 (inclusive) shall not exceed US$1 million.

Notwithstanding the foregoing, the Company shall not be deemed to be in breach of this Operating Loss financial covenant even if during any of the aforesaid quarters the Company's Operating Loss exceeds US$1 million, if the cumulative Operating Loss of such quarter and the immediately preceding and immediately ensuing financial quarter are less than US$3 million. For example, even if the Operating Loss of the Company for Q4-08 exceeded US$1 million, the determination as to whether the Company has met the Operating Loss financial covenant shall be postponed until the end of Q1-09 and if the combined Operating Loss of the Company for Q1-09 together with the Operating Loss for Q3-08 and Q4-08 shall be equal to or lower than US$3 million, the Company shall be deemed to have met the Operating Loss financial covenant during such quarter.

Notwithstanding anything to the contrary contained in this exhibit, if and for so long as the Company's available cash deposited in its bank account(s), as confirmed in writing by a bank statement issued by the applicable bank(s), shall be equal to or exceed an amount which is twice the outstanding amounts due the Lenders pursuant to the Agreement at such time, the Company shall not be required to meet any of the foregoing financial covenants.

EXHIBIT C1

FIXED CHARGE AGREEMENT

THIS FIXED CHARGE AGREEMENT (the "**Agreement**") is made and executed on the the 1st day of April, 2008, by and among RADCOM LTD., an Israeli company, of 24 Roul Wallenberg Street, Tel Aviv 69719, Israel (the "**Pledgor**"), and the entities identified in the signature page below (collectively, the "**Lenders**"), with offices located at 16 Abba Eben Blvd., Herzliya Pituach, Israel all of which shall be represented exclusively hereunder by Plenus Management (2004) Ltd. and Plenus Management III 2007 Ltd. (collectively, "**Plenus Management**").

WHEREAS, the Lenders and the Pledgor have entered into that certain Loan Agreement (the "**Loan Agreement"**) dated as of April 1, 2008; and

WHEREAS, the Pledgor has agreed to enter into this Agreement in order to secure the payment of all amounts due or which may become due to the Lenders pursuant to the Loan Agreement and other agreements ancillary thereto;

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

1. Interpretation. The Preamble to this Agreement constitutes a part hereof. All capitalized terms used and not otherwise defined herein shall have the meaning assigned to such terms in the Loan Agreement.

2. Security. To secure the timely payment of all amounts due or which may become due to the Lenders from the Pledgor pursuant to the Transaction Documents (collectively, the "**Secured Obligations**"), the Pledgor hereby unconditionally pledges and grants the Lenders a first priority fixed charge (the "**Fixed Charge**") on all the Intellectual Property (as defined below) currently owned by the Pledgor or which shall be owned during the term of the Loan Agreement by the Pledgor, including, but not limited to, any registered Intellectual Property and applications for the registration of Intellectual Property, worldwide (collectively, the "**Collateral**"). The Collateral shall include, but shall not be limited to, the Intellectual Property and other assets described in **Annex A** attached hereto**.** The registered Intellectual Property currently owned by the Pledgor and the current applications for the registration of Intellectual Property filed by the Pledgor, are described in **Annex B** attached hereto.

The Pledgor undertakes, so long as the Secured Obligations are not fully paid:

(i) to inform Plenus Management in writing of any additional registration of Intellectual Property and to promptly take all such steps as shall be required in order to amend Annex A to reflect such new registrations; and

(ii) without derogating from the foregoing, to prepare and file the applicable documents with the U.S Patent and Trademark Office (the "**USPTO**") as required in order to perfect a security interest (the "**Lien**") over the Collateral in order to protect the Lenders' rights pursuant to this Agreement and to cause the Fixed Charge created pursuant to this Agreement to be registered also in each and every country in which Intellectual Property of the Pledgor is registered. Without derogating from the foregoing, the Pledgor will update such filings following the registration of such Intellectual Property.

The Pledgor represents that as of the date hereof it has three Subsidiaries, Radcom Equipment, Inc, Radcom (UK) Ltd. and Radcom Investments (1996) Ltd., and except for Radcom Equipment, Inc., none of them owns any registered Intellectual Property. The Pledgor undertakes to inform Plenus Management in writing of any registration of Intellectual Property under the name of any Subsidiary or any future subsidiary and will promptly take all such steps as shall be required in order to cause such subsidiaries to execute an agreement substantially similar to this Agreement and make the applicable filings. Furthermore, should the Pledgor file for the registration of any Intellectual Property in the United States or elsewhere, it shall promptly inform Plenus Management in writing and, if requested by Plenus Management will execute an appropriate Intellectual Property security agreement and shall make the applicable filings.

For purposes of this Agreement, the term "**Intellectual Property"** or "**Intellectual Property Rights**" shall be deemed to refer to (i) copyright; (ii) patents and any rights thereunder and all registrations, and renewals in connection therewith; (iii) trademarks, service marks, together with all translations, adaptations, derivations, and combinations thereof, and all registrations and renewals in connection therewith; and (iv) all copyrighted computer software, in each case on a worldwide basis, and all copies and tangible embodiments thereof, or any part thereof, in whatever form or medium.

3. Incorporation by Reference. The acceleration provisions set forth in Section 3 of the Loan Agreement, as amended from time to time, are incorporated herein by this reference.

4. Encouragement of Research and Development in the Industry Law. The Lenders hereby acknowledge that the security interests granted hereunder with respect to the Intellectual Property of the Pledgor is hereby made subject to the provisions of the Encouragement of Research and Development in the Industry Law, 5744-1984 (the '**R&D Law'**) (such Intellectual Property, "**Funded IP**") and is subject to the Chief Scientist's Rights (as hereinafter defined). In addition, the Lenders hereby acknowledge that any realization of any charge, lien or encumbrance, fixed or floating, of the Funded IP, including the sale of the Funded IP and its transfer within the framework of realization procedures, will require the approval of the Research Committee (as hereinafter defined). Likewise, any realization or transfer of said Funded IP will also be conditional upon the potential buyer or transferee undertaking to assume obligations in accordance with the R&D Law (including without limitation, Sections 18, 19 and 19A thereof and the obligation not to transfer the Funded IP to another entity unless the Research Committee approves the transaction) and in accordance with the terms of the program pursuant with which funds were provided to the Pledgor.

In this Agreement, the '**Chief Scientist's Rights'** shall mean all the rights, powers and privileges of the Israeli Office of the Chief Scientist under the Ministry of Industry and Trade (the "**OCS**"), including without limitation, all the rights, powers and privileges of the Industrial Research and Development Committee (the "**Research Committee**"), by virtue of an instrument of approval granted pursuant with the R&D Law and the OCS rules and regulations.

5. Covenants.

(a) The Pledgor will take all action deemed by the Pledgor, in its reasonable commercial judgment, to be necessary to maintain all of the registered Intellectual Property Rights in full force and effect, including, without limitation, using the proper statutory notices and markings, and subject to its reasonable commercial discretion the Pledgor will not take any action or knowingly refrain from taking any action whereby any registered Intellectual Property may become invalidated; provided, however, that so long as no Event of Acceleration has occurred and is continuing, the Pledgor shall not have an obligation to use or to maintain any registered Intellectual Property Rights of the Pledgor (A) that relates solely to any product or work, that has been, or is in the process of being, discontinued, abandoned or terminated, (B) that is being replaced with Intellectual Property substantially similar to the registered Intellectual Property that may be abandoned or otherwise become invalid, so long as the failure to use or maintain such registered Intellectual Property does not materially adversely affect the validity of such replacement Intellectual Property and so long as such replacement Intellectual Property is subject to the Fixed Charge and Lien created by this Agreement; (C) that is substantially the same as another registered Intellectual Property that is in full force, so long as the failure to use or maintain such registered Intellectual Property does not materially adversely affect the validity of such replacement Intellectual Property and so long as such other Intellectual Property is subject to the Fixed Charge and Lien created by this Agreement; or (D) that is not deemed by the Pledgor, in its sole discretion, to be required for the purpose of conducting its business as currently conducted or as proposed to be conducted.

(b) The Pledgor shall use reasonable commercial efforts to detect infringements of the registered Intellectual Property and protect the registered Intellectual Property from any infringements. If any registered Intellectual Property of the Pledgor is infringed, misappropriated or otherwise violated in any material respect by a third party, the Pledgor shall upon learning of such infringement, misappropriation or other violation, to the extent the Pledgor shall deem appropriate under the circumstances, sue for infringement, misappropriation or other violation, seek injunctive relief where appropriate and recover any and all damages for such infringement, misappropriation or other violation, or take such other actions as the Pledgor shall deem appropriate under the circumstances to protect such registered Intellectual Property.

(c) The Pledgor shall furnish to Plenus Management from time to time upon its request statements and schedules further identifying and describing the registered Intellectual Property in reasonable detail upon reasonable request of Plenus Management.

(d) The Pledgor shall at all times maintain insurance covering the Pledgor, which is customary for a company of the size, the stage of development and the industry in which the Pledgor operates.

(e) Subject to the provisions contained herein but without derogating from the covenants referred to in Section 7.3 of the Loan Agreement, the Pledgor shall not without the previous written consent of Plenus Management: (A) sell (or grant an exclusive license to) any item of the registered Intellectual Property or any part of the Collateral other than in the Pledgor's ordinary course of business; or (B) assign or transfer or otherwise encumber any item of the registered Intellectual Property or any part of the Collateral in a way that is not in the Pledgor's normal course of business.

6. Representations.

6.1 Representations. The Pledgor hereby represents that:

(i) the Collateral is not charged, pledged or attached to or in favor of any other person or entity;

(ii) to the Pledgor's knowledge, all of the registered Intellectual Property Rights and confidential information connected or related to any registered Intellectual Property created by or for the Pledgor or created by its employees, consultants or contractors is owned solely and exclusively by the Pledgor, except only for non-exclusive licenses granted by the Pledgor to its customers in the ordinary and normal course of its business as now conducted;

(iii) to the Pledgor's knowledge, there is no limitation in any provision of agreement which the Pledgor is a party to, which restricts the creation of a pledge and charge over the Collateral or, subject to Section 4 herein, the Pledgor is unaware of anything which may prevent or adversely affect Plenus Management's ability to freely sell, transfer and/or dispose of the Collateral, pursuant to the provisions of this Agreement, without the consent or approval of any third party or governmental authority. For the avoidance of doubt, the Pledgor shall have no liability or responsibility for the failure to exercise any charge or lien granted hereunder in the event that consent from the OCS and/or the Research Committee, as applicable, was denied;

(iv) the Pledgor has the complete power and authority to create the Fixed Charge and the Lien over the Collateral, in accordance with the provisions hereof;

(v) to the Pledgor's knowledge, no assignment or other disposition is currently affecting the Collateral which may derogate from the value of the Collateral, subject to customary assignment provisions in commercial agreements; and

(vi) to the Pledgor's knowledge, there are no powers of attorney, proxies or assignments or delegations thereof authorizing any action to be taken on behalf of the Pledgor in connection with the Collateral, except as required pursuant to the provisions of this Agreement.

6.2. Notification Requirement. Without derogating from the provisions of the Loan Agreement or any other notification requirement set forth herein, the Pledgor shall promptly notify Plenus Management, in writing, of (i) any Material Adverse Effect, or (ii) any steps taken or threatened for the appointment of a special manager, temporary liquidator, temporary receiver or trustee for or over all or any part of the Collateral and, if any such official is appointed, of his appointment; or (iii) the placement of an attachment on the Collateral or any portion thereof, or (iv) the filing against the Pledgor of any petition in liquidation or any petition under the provisions of applicable law for the relief of creditors.

7. Realization of the Fixed Charge; Authorization; Independence of Fixed Charge. The Lenders and Plenus Management shall be entitled to realize the Fixed Charge (in accordance with the provisions contained herein) as of the time that all amounts due to the Lenders from the Pledgor pursuant to the Loan Agreement shall become due and payable as a result of the occurrence of an Event of Acceleration.

The Lenders undertake and confirm that: (a) the creation and realization of the Fixed Charge must be in accordance with the applicable Israeli laws and regulations and such governmental consents as may be necessary, and (b) in the event of the realization of the Fixed Charge with respect to the Funded IP then the sale, assignment and/or transfer of the Funded IP shall be subject to the provisions of applicable Israeli laws and regulations and the Pledgor's undertakings towards the OCS.

The Fixed Charge created for the benefit of the Lenders herein shall be independent of any and all other charges created or which may be created in the future for the benefit of the Lenders by the Pledgor or any other affiliated entity, subject to Section 1.6 of the Loan Agreement, shall not affect or be affected by such other charges and shall serve as a continuing security which shall remain in full force until removed in accordance with the provisions contained herein and in the Loan Agreement.

8. Power of Attorney; Receiver; Additional Costs.

8.1 Power of Attorney. The Pledgor acknowledges and agrees that Plenus Management will represent the Lenders in all matters pertaining to this Agreement, and hence, shall have the right and power to take any and all actions on behalf of the Lenders in connection herewith, including, without limitation, with respect to realization of the Fixed Charge. No Lender shall have any claim whatsoever against the Pledgor in respect of any actions taken by the Pledgor in compliance with instructions or demands given to it by Plenus Management. Without derogating from the obligations of the Pledgor under the Loan Agreement or this Agreement, the Pledgor hereby irrevocably appoints Plenus Management as its true and lawful attorney, with full power of substitution, to act in the name of and at the expense of the Pledgor, effective upon such time as all amounts due to the Lenders from the Pledgor pursuant to the Transaction Documents shall become due and payable as a result of the occurrence of an Event of Acceleration, in order to do any act, including, without limitation, to sign in the name of the Pledgor any and all documents as may, in the reasonable opinion of Plenus Management, be necessary, in order to secure the rights of the Lenders against third parties. Plenus Management shall notify the Pledgor in writing of any action taken by it in accordance with this Section 8.1.

8.2 Receiver. Subject to the provisions of applicable laws, upon such time as all amounts due to the Lenders from the Pledgor pursuant to the Transaction Documents shall become due and payable as a result of the occurrence of an Event of Acceleration, Plenus Management shall be entitled to take all such steps as it sees fit to collect the Secured Obligations including, without limitation, the appointment of a receiver or manager (the "**Receiver**"). The Receiver shall not be deemed the agent of Plenus Management or the Lenders and shall have all powers conferred upon it by law. The Receiver shall be empowered, inter alia, to do the following:

8.2.1 to take possession of the Collateral and for that purpose to take any proceedings in the Pledgor's name or otherwise as the Receiver shall see fit;

8.2.2 to sell, or agree to the sale of, the Collateral, in whole or in part, or to transfer the same in any other manner upon such conditions as the Receiver may see fit;

8.2.3 to make any other arrangement with respect to the Collateral or any part thereof as the Receiver may reasonably see fit;

8.2.4 to carry on, or concur in carrying on, the Pledgor's business and raise money on the security of all or any part of the Pledgor's assets;

8.2.5 to take, continue or defend any proceedings and make any arrangement or compromise which the Receiver may see fit;

8.2.6 to make and effect all repairs, improvements and insurance;

8.2.7 to appoint managers, officers and agents for any of the above purposes, at such reasonable salaries as the Receiver may see fit;

8.2.8 to call up any of the uncalled capital of the Pledgor;

8.2.9 to do all other acts and things which the Receiver may consider to be incidental or conducive to any of the above powers.

8.3 Additional Costs Relating to the Realization of the Floating Charge. Without derogating from the above, the Pledgor shall pay, upon demand, all reasonable actual costs, charges and expenses (including reasonable attorney's fees), incurred by the Lenders or Plenus Management in enforcing their rights and remedies hereunder. Such costs, charges and expenses shall be recoverable from the Pledgor as part of the Secured Obligations.

9. Registration of Fixed Charge; Removal of the Fixed Charge. The Pledgor shall arrange for the prompt and timely registration of (i) this Fixed Charge with the Israeli Registrar of Companies and, if and when applicable, in the Patent and Trademarks Register maintained by the Israeli Patents and Trademarks Registrar and any other governmental or other agency in the world where Intellectual Property of the Pledgor is registered, and (ii) the Lien with the USPTO, if and when applicable, and shall bear all costs and expenses with respect to such registrations. The Fixed Charge and Lien shall be removed upon the final payment in full of all the Secured Obligations, and for such purpose, Plenus Management shall promptly execute and provide the Pledgor with all documents necessary in order to remove the Fixed Charge and Lien upon final payment in full of all the Secured Obligations.

10. Secured Obligations Unlimited. The amount being secured under the Fixed Charge and Lien created pursuant to this Agreement shall be determined in accordance with the provisions of the Loan Agreement and other agreements ancillary thereto. Upon the realization of the Fixed Charge and Lien, payment to the Lenders shall be made in the following order: (i) costs and expenses, (ii) Interest and Additional Interest, (iii) any other payments (other than payment of the Principal Amount) and then (iv) payment of Principal Amount.

11. Miscellaneous.

11.1 Governing Law; Forum for Dispute Resolution. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Israel, without regard to the conflict of laws provisions thereof. Any dispute arising under or with respect to this Agreement shall be resolved exclusively in the appropriate court in Tel-Aviv, Israel. Each of the parties hereby irrevocably consents to the exclusive jurisdiction of such courts and waives and agrees not to assert any objection to the jurisdiction or convenience thereof.

11.2 Successors and Assigns. Except as otherwise expressly limited herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors and assigns of the parties hereto.

11.3 Assignment. Except as otherwise expressly stated to the contrary herein, each of the parties hereto shall not assign or transfer any of its rights or obligations hereunder absent the prior written consent of the other party, which consent shall not be unreasonably withheld. Anything herein to the contrary notwithstanding but subject to the following sentence, each of the Lenders may assign or transfer its rights and obligations under this Agreement to any of the Permitted Transferees without having to obtain the Pledgor's consent. The transfer of rights and obligations by a Lender to a Permitted Transferee shall be contingent upon the Permitted Transferee (i) undertaking in writing to assume all obligations of the assignor Lender under the Transaction Documents and this Agreement and (ii) irrevocably appointing Plenus Management as the representative of such Permitted Transferee. The foregoing provisions shall apply, *mutatis mutandis,* to the transfer of rights and obligations by a Permitted Transferee.

11.4 Notices. All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be sent by facsimile or mailed by registered or certified mail, postage prepaid, or by electronic mail, or otherwise delivered personally or by courier, to the following addresses:

if to the Pledgor - to the address set forth above – to the attention of the Chief Financial Officer;

if to the Lenders or to Plenus Management - to the address set forth above - to the attention of Mr. Shlomo Karako;

or to such other address, or to the attention of such other person, as either party shall notify the other party in writing as above provided. Any notice sent in accordance with this Section 10.4 shall be effective (i) if mailed within Israel, three (3) Business Days after mailing, and in other cases, within seven (7) Business Days after mailing, (ii) if sent by messenger, upon delivery, and (iii) if sent via fax or electronic mail, upon transmission and electronic confirmation of receipt or (if transmitted and received on a non-Business Day) on the first Business Day following transmission and electronic confirmation of receipt.

11.5 Amendment; Waiver. Any term of this Agreement may be amended and the observance of any term hereof may be waived (either prospectively or retroactively and either generally or in a particular instance) only with the written consent of the Pledgor and Plenus Management. No delay or omission to exercise any right, power, or remedy accruing to any party upon any breach or default under this Agreement, shall be deemed a waiver of any other breach or default theretofore or thereafter occurring. All remedies, either under this Agreement or by law or otherwise afforded to any of the parties, shall be cumulative and not alternative.

11.6 Entire Agreement. This Agreement and the other Transaction Documents constitute the full and entire understanding and agreement among the parties with regard to the subject matters hereof and thereof. The preamble, annexes and schedules hereto are part of this Agreement. In the event of contradiction between the provisions of this Agreement and the provisions of the Loan Agreement, the provisions of the Loan Agreement shall prevail.

11.7 Counterparts.This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed original, but all such counterparts together shall constitute but one and the same instrument.

11.8 Headings.Section headings herein are included for convenience of reference only and shall not constitute a part hereof for any other purpose or be given any substantive effect.

11.9 Partial Invalidity. If any provision of this Agreement is held by a court of competent jurisdiction to be invalid or unenforceable under applicable law, then such provision shall be excluded from this Agreement and the remainder of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms; provided, however, that in such event this Agreement shall be interpreted so as to give effect, to the greatest extent consistent with and permitted by applicable law, to the meaning and intention of the excluded provision as determined by such court of competent jurisdiction.

11.10 Expenses. Without derogating from the provisions contained herein, the Pledgor shall pay for the expenses incurred in connection with the preparation, filing, perfection and removal of the Floating Charge pursuant to this Agreement.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, this Agreement has been executed by the parties hereto as of the date first above written.

RADCOM LTD.

By: _____

Its: _____

PLENUS II, LIMITED PARTNERSHIP

By: PLENUS MANAGEMENT (2004) LTD.

Its. Management Company

By: _____

Its: _____

PLENUS II (D.C.M.), LIMITED PARTNERSHIP

By: PLENUS MANAGEMENT (2004) LTD.

Its. Management Company

By: _____

Its: _____

PLENUS III L.P., LIMITED PARTNERSHIP

By: PLENUS MANAGEMENT III 2007 LTD.

Its. Management Company

By: _____

Its: _____

PLENUS III (D.C.M.), LIMITED PARTNERSHIP

By: PLENUS MANAGEMENT III 2007 LTD.

Its. Management Company

By: _____

Its: _____

PLENUS III (2) LIMITED PARTNERSHIP.

By: PLENUS MANAGEMENT III 2007 LTD.

Its. General Partner

By: Management Company

Its:

PLENUS III (C.I.), L.P.

By: PLENUS MANAGEMENT III 2007 LTD.

Its: Management Company

[SIGNATURE PAGES TO FIXED CHARGE AGREEMENT]

ANNEX A

The Pledgor's Intellectual Property (including registered Intellectual Property) shall include, without limitations, the following:

1. Table of current registered Intellectual Property Rights and all applications for the registration of Intellectual Property Rights listed as set forth in **Annex B** to the Agreement, as amended from time to time.

2. All claims for damages by way of any past, present and future infringement of any of the Pledgor's Intellectual Property and all rights to compensation or indemnity which may accrue to the Pledgor by reason of damage to, or theft or infringement of, the Collateral.

3 All insurance policies or the proceeds thereof in respect of the foregoing Intellectual Property.

4. Any and all Intellectual Property registered following the Closing Date and prior to the termination of the Loan Agreement and owned by the Pledgor or any Subsidiary.

ANNEX B

Registered Intellectual Property and Application for the Registration of Intellectual Property

Trademark Applications:

1. PrismLite – Registration Number: 2,217,592; Expiration Date: January 12, 2009
2. Wirespeed - Registration Number: 2,527,875; Expiration Date: January 8, 2012
3. Gearset – Trademark Application: Application Filing Date: July 21, 2006; Serial Number: 78941114

EXHIBIT C2

FLOATING CHARGE AGREEMENT

THIS FLOATING CHARGE AGREEMENT (the "**Agreement**") is made and executed on the the 1st day of April, 2008, by and among RADCOM LTD., an Israeli company, of 24 Roul Wallenberg Street, Tel Aviv 69719, Israel (the "**Pledgor**"), and the entities identified in the signature page below (collectively, the "**Lenders**"), with offices located at 16 Abba Eben Blvd., Herzliya Pituach, Israel, all of which shall be represented exclusively hereunder by Plenus Management (2004) Ltd. and Plenus Management III 2007 Ltd. (collectively, "**Plenus Management**").

WHEREAS, the Lenders and the Pledgor have entered into that certain Loan Agreement (the "**Loan Agreement"**) dated as of April 1, 2008; and

WHEREAS, the Pledgor has agreed to enter into this Agreement in order to secure the payment of all amounts due or which may become due to the Lenders pursuant to the Loan Agreement and other agreements ancillary thereto;

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

1. Interpretation. The Preamble to this Agreement constitutes a part hereof. All capitalized terms used and not otherwise defined herein shall have the meaning assigned to such terms in the Loan Agreement.

2. Security. To secure the due and punctual payment of all amounts which may become due to the Lenders from the Pledgor pursuant to the Transaction Documents (collectively, the "**Secured Obligations**"), the Pledgor hereby unconditionally pledges and grants the Lenders a first priority floating charge (as such term is defined in the Companies Ordinance [New Version], 5743-1983) (the "**Floating Charge**") on all of its rights, title and interests in and to all its present and future tangible and intangible assets and rights of any kind, whether contingent or absolute, including, but not limited to, the assets more fully described in **Annex A** attached hereto (the "**Collateral**"). Without derogating from the foregoing, the pledge and charge created by operation of this Agreement shall apply to any and all rights to compensation or indemnity which may accrue to the Pledgor by reason of the loss or expropriation of, or damage to, the Collateral.

3. Incorporation by Reference. The acceleration provisions set forth in Section 3 of the Loan Agreement, as amended from time to time, are incorporated herein by this reference.

4. Encouragement of Research and Development in the Industry Law. The Lenders hereby acknowledge that the security interests granted hereunder with respect to the Intellectual Property of the Pledgor is hereby made subject to the provisions of the Encouragement of Research and Development in the Industry Law, 5744-1984 (the '**R&D Law'**) (such Intellectual Property, "**Funded IP**") and is subject to the Chief Scientist's Rights (as hereinafter defined). In addition, the Lenders hereby acknowledge that any realization of any charge, lien or encumbrance, fixed or floating, of the Funded IP, including the sale of the Funded IP and its transfer within the framework of realization procedures, will require the approval of the Research Committee (as hereinafter defined). Likewise, any realization or transfer of said Funded IP will also be conditional upon the potential buyer or transferee undertaking to assume obligations in accordance with the R&D Law (including without limitation, Sections 18, 19 and 19A thereof and the obligation not to transfer the Funded IP to another entity unless the Research Committee approves the transaction) and in accordance with the terms of the program pursuant with which funds were provided to the Pledgor.

In this Agreement, the '**Chief Scientist's Rights'** shall mean all the rights, powers and privileges of the Israeli Office of the Chief Scientist under the Ministry of Industry and Trade (the "**OCS**"), including without limitation, all the rights, powers and privileges of the Industrial Research and Development Committee (the "**Research Committee**"), by virtue of an instrument of approval granted pursuant with the R&D Law and the OCS rules and regulations.

5. Insurance; Inspection. The Pledgor shall at all times maintain insurance in coverage (if any) which is customary for a company of the size, the stage of development and the industry in which the Pledgor operates. The Pledgor shall permit Plenus Management to inspect the Collateral and the Pledgor's records at reasonable times and upon reasonable notice.

6. Representations.

6.1 Representations. The Pledgor hereby represents and warrants that:

(i) the Collateral or any part thereof is not charged, pledged or attached to, or in favor of, any other person or entity, other than limitations and encumbrances relating to the OCS and the Chief Scientist's Rights and other than pursuant to applicable law;

(ii) to the Pledgor's knowledge, the Collateral is, in its entirety, in the exclusive possession and ownership of the Pledgor;

(iii) to the Pledgor's knowledge, other than as set forth herein, there is no limitation in any provision of agreement which the Pledgor is a party to, which restricts the creation of a pledge and charge over the Collateral or the transfer or sale thereof in accordance with the provisions contained herein and, accordingly, the Pledgor is unaware of anything which may prevent or adversely affect the Lenders' or Plenus Management's ability to freely sell, transfer or otherwise dispose of the Collateral, pursuant to the provisions of this Agreement, without the consent or approval of any third party or governmental authority, subject to Section 4 herein. For the avoidance of doubt, the Pledgor shall have no liability or responsibility for the failure to exercise any charge or lien granted hereunder in the event that consent from the OCS and/or the Research Committee, as applicable, was denied;

(iv) the Pledgor has the complete power and authority to create the charge over the Collateral, in accordance with the provisions hereof;

(v) to the Pledgor's knowledge, no assignment or other disposition is currently affecting the Collateral which may materially derogate from the value of the Collateral, subject to customary assignment provisions in commercial agreements; and

(vi) to the Pledgor's knowledge there are no powers of attorney, proxies or assignments or delegations thereof authorizing any action to be taken on behalf of the Pledgor in connection with the Collateral, except as required pursuant to the provisions of this Agreement.

6.2 Notification Requirement. Without derogating from the provisions of the Loan Agreement or any other notification requirement set forth herein, the Pledgor shall promptly notify Plenus Management, in writing, of (i) any Material Adverse Effect, or (ii) any steps taken or threatened for the appointment of a special manager, temporary liquidator, temporary receiver or trustee for or over all or any part of the Collateral and, if any such official is appointed, of his appointment; or (iii) the placement of an attachment on the Collateral or any portion thereof, or (iv) the filing against the Pledgor of any petition in liquidation or any petition under the provisions of applicable law for the relief of creditors.

7. Realization of the Floating Charge; Authorization; Independence of Floating Charge. The Lenders and Plenus Management shall be entitled to realize the Floating Charge (in accordance with the provisions contained herein) as of the time that all amounts due to the Lenders from the Pledgor pursuant to the Loan Agreement shall become due and payable as a result of the occurrence of an Event of Acceleration subject to all conditions, limitations and grace periods provided therein.

The Lenders undertake and confirm that: (a) the creation and realization of the Floating Charge must be in accordance with the applicable Israeli laws and regulations and such governmental consents as may be necessary, and (b) in the event of the realization of the Floating Charge with respect to the Funded IP then the sale, assignment and/or transfer of the Funded IP shall be subject to the provisions of applicable Israeli laws and regulations and the Pledgor's undertakings towards the OCS.

The Floating Charge created for the benefit of the Lenders herein shall be independent of any and all other charges created or which may be created in the future for the benefit of the Lenders by the Pledgor or any other affiliated entity, subject to Section 1.6 of the Loan Agreement, shall not affect or be affected by such other charges, and shall serve as a continuing security which shall remain in full force until removed in accordance with the provisions contained herein and in the Loan Agreement.

8. Power of Attorney; Receiver; Additional Costs.

8.1 Power of Attorney. The Pledgor acknowledges and agrees that Plenus Management will represent the Lenders in all matters pertaining to this Agreement, and hence, shall have the right and power to take any and all actions on behalf of the Lenders in connection herewith, including, without limitation, with respect to realization of the Floating Charge. No Lender shall have any claim whatsoever against the Pledgor in respect of any actions taken by the Pledgor in compliance with instructions or demands given to it by Plenus Management. Without derogating from the obligations of the Pledgor under the Loan Agreement or this Agreement, the Pledgor hereby irrevocably appoints Plenus Management as its true and lawful attorney, with full power of substitution, to act in the name of and at the expense of the Pledgor, effective upon such time as all amounts due to the Lenders from the Pledgor pursuant to the Transaction Documents shall become due and payable as a result of the occurrence of an Event of Acceleration, in order to do any act, including, without limitation, to sign in the name of the Pledgor any and all documents as may, in the reasonable opinion of Plenus Management, be necessary, in order to secure the rights of the Lenders against third parties. Plenus Management shall notify the Pledgor in writing of any action taken by it in accordance with this Section 8.1.

8.2 Receiver. Subject to the provisions of applicable laws, upon such time as all amounts due to the Lenders from the Pledgor pursuant to the Transaction Documents shall become due and payable as a result of the occurrence of an Event of Acceleration, Plenus Management shall be entitled to take all such steps as it sees fit to collect the Secured Obligations including, without limitation, the appointment of a receiver or manager (the "**Receiver**"). The Receiver shall not be deemed the agent of Plenus Management or the Lenders and shall have all powers conferred upon it by law. The Receiver shall be empowered, inter alia, to do the following:

8.2.1 to take possession of the Collateral and for that purpose to take any proceedings in the Pledgor's name or otherwise as the Receiver shall see fit;

8.2.2 to sell, or agree to the sale of, the Collateral, in whole or in part, or to transfer the same in any other manner upon such conditions as the Receiver may see fit;

8.2.3 to make any other arrangement with respect to the Collateral or any part thereof as the Receiver may reasonably see fit;

8.2.4 to carry on, or concur in carrying on, the Pledgor's business and raise money on the security of all or any part of the Pledgor's assets;

8.2.5 to take, continue or defend any proceedings and make any arrangement or compromise which the Receiver may see fit;

8.2.6 to make and effect all repairs, improvements and insurance;

8.2.7 to appoint managers, officers and agents for any of the above purposes, at such reasonable salaries as the Receiver may see fit;

8.2.8 to call up any of the uncalled capital of the Pledgor;

8.2.9 to do all other acts and things which the Receiver may consider to be incidental or conducive to any of the above powers.

8.3 Additional Costs Relating to the Realization of the Floating Charge. Without derogating from the above, the Pledgor shall pay, upon demand, all reasonable actual costs, charges and expenses (including reasonable attorney's fees), incurred by the Lenders or Plenus Management in enforcing their rights and remedies hereunder. Such costs, charges and expenses shall be recoverable from the Pledgor as part of the Secured Obligations.

9. Registration of Floating Charge; Removal of the Floating Charge. The Pledgor shall arrange for the prompt and timely registration of the Floating Charge with the Israeli Registrar of Companies, Israeli Patents and Trademarks Registrar (if and when applicable), the applicable US authorities (if and when applicable), and any other governmental or other agency in the world where the Collateral of the Pledgor is registered, and shall bear all other costs and expenses with respect to such registration. The Floating Charge shall be removed upon the final payment in full of all the Secured Obligations, and for such purpose, Plenus Management shall promptly execute and provide the Pledgor with all documents necessary in order to remove the Floating Charge upon final payment in full of the Secured Obligations.

10. Secured Obligations Unlimited. The amount being secured under the Floating Charge created pursuant to this Agreement shall be determined in accordance with the provisions of the Loan Agreement and other agreements ancillary thereto. Upon the realization of the Floating Charge, payment to the Lenders shall be made in the following order: (i) costs and expenses (ii) Interest and Additional Interest, (iii) any other payments (other than payment of the Principal Amount), and then (iv) payment of Principal Amount.

11. Miscellaneous.

11.1 Governing Law; Forum for Dispute Resolution. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Israel, without regard to the conflict of laws provisions thereof. Any dispute arising under or with respect to this Agreement shall be resolved exclusively in the appropriate court in Tel-Aviv, Israel. Each of the parties hereby irrevocably consents to the exclusive jurisdiction of such courts and waives and agrees not to assert any objection to the jurisdiction or convenience thereof.

11.2 Successors and Assigns. Except as otherwise expressly limited herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors and assigns of the parties hereto.

11.3 Assignment. Except as otherwise expressly stated to the contrary herein, each of the parties hereto shall not assign or transfer any of its rights or obligations hereunder absent the prior written consent of the other party, which consent shall not be unreasonably withheld. Anything herein to the contrary notwithstanding but subject to the following sentence, each of the Lenders may assign or transfer its rights and obligations under this Agreement to any of the Permitted Transferees without having to obtain the Pledgor's consent. The transfer of rights and obligations by a Lender to a Permitted Transferee shall be contingent upon the Permitted Transferee (i) undertaking in writing to assume all obligations of the assignor Lender under the Transaction Documents and this Agreement and (ii) irrevocably appointing Plenus Management as the representative of such Permitted Transferee. The foregoing provisions shall apply, *mutatis mutandis,* to the transfer of rights and obligations by a Permitted Transferee.

11.4 Notices. All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be sent by facsimile or mailed by registered or certified mail, postage prepaid, or by electronic mail, or otherwise delivered personally or by courier, to the following addresses:

if to the Pledgor - to the address set forth above – to the attention of the Chief Financial Officer;

if to the Lenders or to Plenus Management - to the address set forth above - to the attention of Mr. Shlomo Karako;

or to such other address, or to the attention of such other person, as either party shall notify the other party in writing as above provided. Any notice sent in accordance with this Section 10.4 shall be effective (i) if mailed within Israel, three (3) Business Days after mailing, and in other cases, seven (7) business Days after mailing, (ii) if sent by messenger, upon delivery, and (iii) if sent via fax or electronic mail, upon transmission and electronic confirmation of receipt or (if transmitted and received on a non-Business Day) on the first Business Day following transmission and electronic confirmation of receipt.

11.5 Amendment; Waiver. Any term of this Agreement may be amended and the observance of any term hereof may be waived (either prospectively or retroactively and either generally or in a particular instance) only with the written consent of the Pledgor and Plenus Management. No delay or omission to exercise any right, power, or remedy accruing to any party upon any breach or default under this Agreement, shall be deemed a waiver of any other breach or default theretofore or thereafter occurring. All remedies, either under this Agreement or by law or otherwise afforded to any of the parties, shall be cumulative and not alternative.

11.6 Entire Agreement. This Agreement and the other Transaction Documents constitute the full and entire understanding and agreement among the parties with regard to the subject matters hereof and thereof. The preamble, annexes and schedules hereto are part of this Agreement. In the event of contradiction between the provisions of this Agreement and the provisions of the Loan Agreement, the provisions of the Loan Agreement shall prevail.

11.7 Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed original, but all such counterparts together shall constitute but one and the same instrument.

11.8 Headings. Section headings herein are included for convenience of reference only and shall not constitute a part hereof for any other purpose or be given any substantive effect.

11.9 Partial Invalidity. If any provision of this Agreement is held by a court of competent jurisdiction to be invalid or unenforceable under applicable law, then such provision shall be excluded from this Agreement and the remainder of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms; provided, however, that in such event this Agreement shall be interpreted so as to give effect, to the greatest extent consistent with and permitted by applicable law, to the meaning and intention of the excluded provision as determined by such court of competent jurisdiction.

11.10 Expenses. Without derogating from the provisions contained herein, the Pledgor shall pay for the expenses incurred in connection with the preparation, filing, perfection and removal of the Floating Charge pursuant to this Agreement.

[Remainder of the Page Intentionally left Blank]

IN WITNESS WHEREOF, this Agreement has been executed by the parties hereto as of the date first above written.

RADCOM LTD.

By: _____

Its: _____

PLENUS II L.P., LIMITED PARTNERSHIP

By: PLENUS MANAGEMENT (2004) LTD.

Its. Management Company

By: _____

Its: _____

PLENUS II (D.C.M.), LIMITED PARTNERSHIP

By: PLENUS MANAGEMENT (2004) LTD.

Its. Management Company

By: _____

Its: _____

PLENUS III L.P., LIMITED PARTNERSHIP

By: PLENUS MANAGEMENT III 2007 LTD.

Its. Management Company

By: _____

Its: _____

PLENUS III (D.C.M.), LIMITED PARTNERSHIP

By: PLENUS MANAGEMENT III 2007 LTD.

Its. Management Company

By: _____

Its: _____

PLENUS III (2) LIMITED PARTNERSHIP.

By: PLENUS MANAGEMENT III 2007 LTD.

Its. General Partner

By: Management Company

Its:

PLENUS III (C.I.), L.P.

By: PLENUS MANAGEMENT III 2007 LTD.

Its: Management Company

[SIGNATURE PAGES TO FLOATING CHARGE AGREEMENT]

ANNEX A

Subject to the provisions more fully set forth in the Agreement and the Loan Agreement, the Collateral consists of all of Pledgor's rights, title and interest in and to all assets of the Pledgor, including, but not limited to, the following:

1. All goods and equipment now owned or hereafter acquired, including, without limitation, all machinery, fixtures, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing, wherever located;

2. All inventory, now owned or hereafter acquired, including, without limitation, all merchandise, raw materials, parts, supplies, packaging and shipping materials, work in process and finished products including such inventory as is temporarily out of Pledgor's custody or possession or in transit and including any returns upon any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above;

3. All contract rights and general intangibles and all of Pledgor's IP (as defined below), now owned or hereafter acquired, including, without limitation, goodwill, trademarks, service marks, Internet domain names, trade dress, trade styles, trade names, patents, patent applications, leases, license agreements, franchise agreements, blueprints, drawings, purchase orders, customer lists, route lists, infringements, claims, computer programs, computer discs, computer tapes, literature, reports, catalogs, design rights, income tax refunds, payments of insurance; all claims for damages by way of any past, present and future infringement of any of the foregoing and rights to payment of any kind;

4. All now existing and hereafter arising accounts, contract rights, royalties, licensed rights and all other forms of obligations owing to Pledgor arising out of the sale or lease of goods, the licensing of technology or the rendering of services by Pledgor, whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Pledgor;

5. All cash, deposit accounts, securities, securities entitlements, securities accounts, investment property, financial assets, letters of credit, certificates of deposit, instruments and chattel paper now owned or hereafter acquired and Pledgor's books relating to the foregoing;

6. All claims for damages by way of any past, present and future infringement of any of the Pledgor’s IP;

7. All Pledgor's Books (as defined below) relating to the foregoing and any and all claims, rights and interests in any of the above and all substitutions for, additions and accessions to and proceeds thereof.

For purposes of this annex,

(a) the term "**Pledgor's Books**" shall mean all Pledgor's books and records, including records relating to the Pledgor's assets or liabilities, the Collateral, business operations or financial condition, and all computer programs or discs or any equipment containing such information; and

(b) the term “**IP**” shall mean, all intangible legal rights, title and interest evidenced by or embodied in or connected or related to (i) copyright; (ii) patents and any rights thereunder, and all applications, registrations, and renewals in connection therewith; (iii) trademarks, service marks, trade names, together with all translations, adaptations, derivations, and combinations thereof, and all applications, registrations, and renewals in connection therewith; (iv) all mask works, rights in original topographies and all applications, registrations, and renewals in connection therewith; (v) all trade secrets, rights to unpatented inventions, know-how and confidential information; and (vi) all computer software (including data and related documentation), in each case on a worldwide basis, and all copies and tangible embodiments thereof, or any part thereof, in whatever form or medium. The Pledgor’s IP existing on the date hereof are more fully set forth in the Disclosure Schedule attached to the Loan Agreement.

8. All insurance policies or the proceeds thereof in respect of the above described assets.

EXHIBIT D3

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this **"Agreement"**), ") is made and executed on the 1st day of April, 2008, by and among Radcom Equipment, Inc. (the **"Grantor"**), a company organized under the laws of the State of New Jersey with offices located at 6 Forest Avenue, Paramus, New Jersey 07652, a wholly owned subsidiary of Radcom Ltd., a company organized under the laws of the State of Israeli (Company No. 52-004356) (**"Radcom"**), and the entities identified on Schedule A attached hereto (collectively, the **"Lender"**), each with offices located at 16 Abba Eben Blvd., Herzliya Pituach, Israel.

On April 1, 2008, Radcom and the Lender entered into that certain Loan Agreement (the "**Loan Agreement"**) to which the form of this Agreement is attached as Exhibit D3, pursuant to which Lender will make a loan to Radcom (the "**Loan**").

On the date hereof, the Grantor executed a Subsidiary Guaranty pursuant to which the Grantor guarantees the obligations of Radcom under the Loan Agreement and the other documents evidencing and securing the Loan (the "**Guaranty**").

As an inducement to the Lender's agreement to enter into the Loan Agreement with Radcom and to make the Loan under the terms thereof, the Lender desires to obtain, and the Grantor desires to grant the Lender, security for all of the Obligations (as hereinafter defined).

NOW, THEREFORE, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Definitions.

(a) **"Collateral"** shall include all personal property of the Grantor, including the following, all whether now owned or hereafter acquired or arising and wherever located: (i) accounts; (ii) securities entitlements, securities accounts, commodity accounts, commodity contracts and investment property; (iii) deposit accounts; (iv) instruments (including promissory notes); (v) documents; (vi) chattel paper; (vii) inventory, including raw materials, work in process, or materials used or consumed in Grantor's business, items held for sale or lease or furnished or to be furnished under contracts of service, sale or lease, goods that are returned, reclaimed or repossessed; (viii) goods of every nature; (ix) equipment, including machinery, vehicles and furniture; (x) fixtures; (xi) commercial tort claims, if any; (xii) letter of credit rights; (xiii) general intangibles of every kind and description, including payment intangibles, software, computer information, source codes, object codes, records and data, all existing and future customer lists, choses in action, claims (including claims for indemnification or breach of warranty), books, records, patents and patent applications, copyrights, trademarks, tradenames, tradestyles, trademark applications, goodwill, blueprints, drawings, designs and plans, trade secrets, contracts, licenses, license agreements, formulae, tax and any other types of refunds, returned and unearned insurance premiums, rights and claims under insurance policies; (xiv) all property of the Grantor now or hereafter in the Lender's possession or in transit to or from, or under the custody or control of, the Lender or any affiliate thereof; (xv) all cash and cash equivalents thereof; and (xvi) all cash and noncash proceeds (including insurance proceeds) of all of the foregoing property, all products thereof and all additions and accessions thereto, substitutions therefor and replacements thereof. The Collateral shall also include any and all other tangible or intangible property that is described as being part of the Collateral pursuant to one or more Riders to Security Agreement that may be delivered in connection herewith after the date hereof, including the Rider to Security Agreement - Copyrights, the Rider to Security Agreement - Patents, the Rider to Security Agreement - Trademarks and the Rider to Security Agreement - Cash Collateral Account.

(b) "**Customary Permitted Liens**" means any of the following liens: (i) liens with respect to the payment of taxes, assessments, or governmental charges in each case that are not yet due or that are being contested in good faith by appropriate proceedings and with respect to which adequate reserves or other appropriate provisions are being maintained to the extent required by GAAP; (ii) liens of landlords arising by statute and liens of suppliers, mechanics, carriers, materialmen, warehousemen or workmen and other liens imposed by law or arising in the ordinary course of business for amounts not yet due or that are being contested in good faith by appropriate proceedings and with respect to which adequate reserves or other appropriate provisions are being maintained to the extent required by GAAP; (iii) deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance or other types of social security benefits or to secure the performance of bids, tenders, sales contracts (other than for repayment of borrowed money) and surety, appeal, customs or performance bonds; (iv) encumbrances arising by reason of zoning restrictions, easements, licenses, reservations, covenants, rights-of-way, utility easements, building restrictions and other similar encumbrances on the use of real property not materially detracting from the value of such real property or not materially interfering with the ordinary conduct of the business conducted and proposed to be conducted at such real property; (v) encumbrances arising under leases or subleases of real property that do not, in the aggregate, materially detract from the value of such real property or interfere with the ordinary conduct of the business conducted and proposed to be conducted at such real property; and (vi) financing statements with respect to a lessor's rights in and to personal property leased in the ordinary course of business.

(c) **"Obligations"** shall include all loans, advances, debts, liabilities, obligations, covenants and duties owing to the Lender pursuant to the Subsidiary Guaranty, of any kind or nature, present or future (including any interest accruing thereon after maturity, or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to Radcom or the Grantor, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), whether direct or indirect (including those acquired by assignment or participation), absolute or contingent, joint or several, due or to become due, now existing or hereafter arising, whether or not (i) evidenced by any note, guaranty or other instrument, (ii) arising under any agreement, instrument or document, (iii) for the payment of money and (iv) arising by reason of an extension of credit, opening of a letter of credit, loan, equipment lease or guarantee; and any amendments, extensions, renewals and increases of or to any of the foregoing, and all costs and expenses of the Lender incurred in the documentation, negotiation, modification, enforcement, collection and otherwise in connection with any of the foregoing, including reasonable attorneys' fees and expenses.

(d)**"UCC"** means the Uniform Commercial Code, as adopted and enacted and as in effect from time to time in the State whose law governs pursuant to the Section of this Agreement entitled "Governing Law and Jurisdiction." Terms used herein which are defined in the UCC and not otherwise defined herein shall have the respective meanings ascribed to such terms in the UCC. To the extent the definition of any category or type of collateral is modified by any amendment, modification or revision to the UCC, such modified definition will apply automatically as of the date of such amendment, modification or revision.

2. Grant of Security Interest. To secure the Obligations, the Grantor (inter alia, as debtor), hereby assigns and grants to the Lender, as secured party, a continuing lien on and security interest in the Collateral.

3. Change in Name or Locations. The Grantor hereby agrees that if it changes its name, its type of organization, its state of organization or establishes a name in which it may do business that is not listed as a tradename on **Exhibit A** hereto, the Grantor will immediately notify the Lender in writing of the additions or changes.

4. Representations and Warranties. Without violating the provisions of the Loan Agreement, the Grantor represents, warrants and covenants to the Lender that: (a) all information, including its type of organization, jurisdiction of organization and chief executive office are as set forth on **Exhibit A** hereto and are true and correct on the date hereof; (b) the Grantor has good, marketable and indefeasible title to the Collateral, has not made any prior sale, pledge, encumbrance, assignment or other disposition of any of the Collateral, and the Collateral is free from all encumbrances and rights of setoff of any kind except the lien in favor of the Lender created by this Agreement and Customary Permitted Liens; (c) except as herein provided, the Grantor will not hereafter without the Lender's prior written consent sell, pledge, encumber, assign or otherwise dispose of any of the Collateral or permit any right of setoff, lien or security interest to exist thereon except to the Lender and except in the ordinary course of business, all subject to the provisions of the Loan Agreement; (d) the Grantor will take such actions deemed by it to be reasonably required in order to defend the Collateral against all claims and demands of all persons at any time claiming the same or any interest therein, as it deems appropriate in its reasonable judgment; and (e) each account and general intangible, if included in the definition of Collateral, is genuine and enforceable in accordance with its terms and the Grantor will defend the same against all claims, demands and counterclaims at any time asserted.

Grantor represents that as of the date hereof (i) it has no subsidiaries; and (ii) other than as set forth in **Exhibit B** hereto, no intellectual property is registered under its name or applications for the registration of intellectual property under its name, and (iii) there are no agreements deemed by Grantor to which Grantor is a party to be material to the business of Radcom, its parent or any subsidiary, taken as a whole (a "**Material Agreement**"), other than those that are listed in **Exhibit C** attached hereto.

5. Grantor's Covenants. The Grantor covenants that without violating and subject to the provisions of the Loan Agreement, it shall:

(a) from time to time and at all reasonable times allow the Lender, by or through any of its officers, agents, attorneys, or accountants, to examine or inspect the Collateral. The Grantor shall do, obtain, make, execute and deliver all such additional and further acts, things, deeds, assurances and instruments as the Lender may require to vest in and assure to the Lender its rights hereunder and in or to the Collateral, and the proceeds thereof. At any time upon an Event of Acceleration (as defined in Section 3 of the Loan Agreement), the Grantor agrees to notify (on invoices or otherwise) account debtors and other obligors or payors on any Collateral of its assignment to the Lender, and that all payments thereon should be made directly to the Lender, and that the Lender has full power and authority to collect, compromise, endorse, sell or otherwise deal with the Collateral in its own name or that of the Grantor at any time upon an Event of Acceleration;

(b) keep the Collateral in good order and repair at all times, subject to normal wear and tear, and promptly notify the Lender of any event causing a material loss or decline in value of the Collateral, whether or not covered by insurance, and the amount of such loss or depreciation;

(c) only use or permit the Collateral to be used in accordance with all applicable federal, state, county and municipal laws and regulations; and

(d) have and maintain at all times insurance policies with reputable insurance companies, which are customary for a company of the size, the stage of development and the industry in which the Grantor operates.

(e) not, through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Grantor.

6. Negative Pledge; No Transfer. The Grantor hereby agrees that the covenants as set forth in Section 7.3 of the Loan Agreement will apply (other than with respect to distributions to Borrower), mutatis mutandis, to the Grantor, and such provisions are, by this reference, incorporated into this Agreement.Without derogating from such provisions and unless expressly permitted thereunder, the Grantor will not sell or offer to sell or otherwise transfer or grant or allow the imposition of a lien or security interest upon the Collateral, will not allow any third party to gain control of all or any part of the Collateral, and will not use any portion thereof in any manner inconsistent with this Agreement or with the terms and conditions of any policy of insurance thereon.

7. Covenants for Accounts. Without violating, and subject to, the provisions of the Loan Agreement:

(a) The Grantor will, on the Lender's reasonable demand, make notations on its books and records showing the Lender's security interest.

(b) From time to time with such frequency as the Lender may reasonably request, the Grantor will report to the Lender all credits given to account debtors on all accounts.

(c) At any time after the occurrence of an Event of Acceleration, and without notice to the Grantor, the Lender may direct any persons who are indebted to the Grantor on any Collateral consisting of accounts or general intangibles to make payment directly to the Lender of the amounts due. The Lender is authorized to collect, compromise, endorse and sell any such Collateral in its own name or in the Grantor's name and to give receipts to such account debtors for any such payments and the account debtors will be protected in making such payments to the Lender.

8. Further Assurances.

8.1. The Grantor hereby irrevocably authorizes the Lender to execute (on behalf of the Grantor), as applicable, and file against the Grantor one or more financing, continuation or amendment statements pursuant to the UCC in form satisfactory to the Lender, and the Grantor will pay the cost of preparing and filing the same in all jurisdictions in which such filing is deemed by the Lender to be necessary or desirable in order to perfect, preserve and protect its security interests. If required by the Lender, (i) the Grantor will execute all documentation necessary for the Lender to obtain and maintain perfection of its security interests in the Collateral and (ii) will file and pay the cost of all financing, continuation or amendment statements pursuant to the UCC in form satisfactory to the Lender.

8.2. The Grantor shall promptly inform the Lender in writing of any filings made by it for the purpose of registration of intellectual property rights and will promptly make such filings, if required, in order to ensure that the security interest created pursuant to this Agreement covers such issued intellectual property rights.

8.3. The Grantor will (and, to the extent applicable, will cause its subsidiaries to) execute, in form satisfactory to the Lender, a Rider to Security Agreement - Copyrights (if any Collateral consists of registered or unregistered material copyrights), update the Rider to Security Agreement - Patents (to include additional Collateral consisting of material patents registered or patent applications filed following the date hereof), a Rider to Security Agreement - Trademarks (if any Collateral consists of material trademarks, tradenames, tradestyles or trademark applications) for recording with the U.S. Patent and Trademark Office, the U.S. Copyright Office and other governmental authorities. All such filings and recordings shall be made by the Grantor prior to the registration of any intellectual property right and all expenses related thereto shall be borne by the Grantor.

8.4. If any Collateral consists of letter of credit rights, electronic chattel paper, deposit accounts or supporting obligations not maintained with the Lender or one of its affiliates, or any securities entitlement, securities account, commodities account, commodities contract or other investment property, then at the Lender's request the Grantor will execute, and will use reasonable commercial efforts to cause the depository institution or securities intermediary upon whose books and records the ownership interest of the Grantor in such Collateral appears, to execute such Pledge Agreements, Notification and Control Agreements or other agreements as the Lender reasonably deems necessary in order to perfect, prioritize and protect its security interest in such Collateral, in each case in a form reasonably satisfactory to the Lender.

9. Events of Acceleration. The Grantor hereby agrees that the provisions contained in Section 3 of the Loan Agreement (Events of Acceleration) will apply, mutatis mutandis, to the Grantor, and such provisions are, by this reference, incorporated into this Agreement. The occurrence of an Event of Acceleration under Section 3 of the Loan Agreement shall constitute a default under this Agreement.

10. Remedies. Upon the occurrence of any Event of Acceleration described in paragraphs 3(i), 3(v), 3(vi) or 3(vii) of the Loan Agreement that is continuing following any cure period set forth in such provisions (if any), the Lender may, by notice in writing sent to the Grantor, declare all amounts due to the Lender on account of the Loan due and payable and in the event that an Event of Acceleration described in paragraphs 3(ii), 3(iii) or 3(iv) of the Loan Agreement has happened and is continuing following any cure period set forth in such provisions (if any), all amounts due to the Lenders on account of the Loan shall become due and payable without notice. In such events, the Lender shall have, in addition to any remedies provided herein or by any applicable law or in equity, all the remedies of a secured party under the UCC. The Lender's remedies include, but are not limited to, the right to (a) peaceably by its own means or with judicial assistance enter the Grantor's premises and take possession of the Collateral without prior notice to the Grantor or the opportunity for a hearing, (b) render the Collateral unusable, and (c) dispose of the Collateral on the Grantor's premises, (d) require the Grantor to assemble the Collateral and make it available to the Lender at a place designated by the Lender, and Unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, the Lender will give the Grantor reasonable notice of the time and place of any public sale thereof or of the time after which any private sale or any other intended disposition thereof is to be made. The requirements of commercially reasonable notice shall be met if such notice is sent to the Grantor at least seven (7) days before the time of the intended sale or disposition. Expenses of retaking, holding, preparing for disposition, disposing or the like shall include the Lender's reasonable attorneys' fees and legal expenses, incurred or expended by the Lender to enforce any payment due it under this Agreement either as against the Grantor, or in the prosecution or defense of any action, or concerning any matter growing out of or connection with the subject matter of this Agreement and the Collateral pledged hereunder. The Grantor waives all relief from all appraisement or exemption laws now in force or hereafter enacted.

11. Power of Attorney. The Grantor does hereby make, constitute and appoint any officer or agent of the Lender, as of the date on which an Event of Acceleration had taken palce, as the Grantor's true and lawful attorney-in-fact, with power to (a) endorse the name of the Grantor or any of the Grantor's officers or agents upon any notes, checks, drafts, money orders, or other instruments of payment or Collateral that may come into the Lender's possession in full or part payment of any Obligations; (b) sue for, compromise, settle and release all claims and disputes with respect to, the Collateral; and (c) sign, for the Grantor, such documentation required by the UCC, or supplemental intellectual property security agreements; granting to the Grantor's said attorney full power to do any and all things necessary to be done in and about the premises as fully and effectually as the Grantor might or could do; provided, however, that such appointment shall only be effective after and during the continuation of an Event of Acceleration. The Grantor hereby ratifies all that said attorney shall lawfully do or cause to be done by virtue hereof. This power of attorney is coupled with an interest, and is irrevocable. The Lender shall notify the Grantor in writing of any action taken by it in accordance with this Section 11.

12. Payment of Expenses. The Grantor shall pay, upon demand, all reasonable costs, charges and expenses (including reasonable attorney's fees), incurred by the Lender in enforcing its rights and remedies hereunder.

13. Notices. All notices, demands, requests, consents, approvals and other communications required or permitted hereunder (**"Notices"**) must be in writing and will be effective upon receipt. Notices may be given in any manner to which the parties may separately agree, including electronic mail. Without limiting the foregoing, first-class mail, facsimile transmission and commercial courier service are hereby agreed to as acceptable methods for giving Notices. Regardless of the manner in which provided, Notices may be sent to a party's address as set forth above or to such other address as any party may give to the other for such purpose in accordance with this section.

14. Preservation of Rights. No delay or omission on the Lender's part to exercise any right or power arising hereunder will impair any such right or power or be considered a waiver of any such right or power, nor will the Lender's action or inaction impair any such right or power. The Lender's rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Lender may have under other agreements, at law or in equity.

15. Illegality. If any provision contained in this Agreement should be invalid, illegal or unenforceable in any respect, it shall not affect or impair the validity, legality and enforceability of the remaining provisions of this Agreement.

16. Changes in Writing. No modification, amendment or waiver of, or consent to any departure by the Grantor from, any provision of this Agreement will be effective unless made in a writing signed by the Lender, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the Grantor will entitle the Grantor to any other or further notice or demand in the same, similar or other circumstance.

17. Entire Agreement. This Agreement (including the documents and instruments referred to herein) and the Guaranty constitute the entire agreement and supersedes all other prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

18. Counterparts. This Agreement may be signed in any number of counterpart copies and by the parties hereto on separate counterparts, but all such copies shall constitute one and the same instrument. Delivery of an executed counterpart of signature page to this Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart. Any party so executing this Agreement by facsimile transmission shall promptly deliver a manually executed counterpart, provided that any failure to do so shall not affect the validity of the counterpart executed by facsimile transmission.

19. Successors and Assigns. This Agreement will be binding upon and inure to the benefit of the Grantor and the Lender and their respective heirs, executors, administrators, successors and assigns; provided, however, that the Grantor may not assign this Agreement in whole or in part without the Lender's prior written consent and the Lender at any time may assign this Agreement in whole or in part in accordance with the Loan Agreement.

20. Interpretation. In this Agreement, unless the Lender and the Grantor otherwise agree in writing, the singular includes the plural and the plural the singular; words importing any gender include the other genders; references to statutes are to be construed as including all statutory provisions consolidating, amending or replacing the statute referred to; the word "or" shall be deemed to include "and/or", the words "including", "includes" and "include" shall be deemed to be followed by the words "without limitation"; references to articles, sections (or subdivisions of sections) or exhibits are to those of this Agreement; and references to agreements and other contractual instruments shall be deemed to include all subsequent amendments and other modifications to such instruments, but only to the extent such amendments and other modifications are not prohibited by the terms of this Agreement. Section headings in this Agreement are included for convenience of reference only and shall not constitute a part of this Agreement for any other purpose. Unless otherwise specified in this Agreement, all accounting terms shall be interpreted and all accounting determinations shall be made in accordance with US GAAP. If this Agreement is executed by more than one Grantor, the obligations of such persons or entities will be joint and several.

21. Indemnity. The Grantor agrees to indemnify each of the Lender, each legal entity, if any, who controls the Lender and each of their respective directors, officers and employees (the **"Indemnified Parties"**) and to hold each Indemnified Party harmless from and against any and all claims, damages, losses, liabilities and expenses (including all fees and charges of internal or external counsel with whom any Indemnified Party may consult and all expenses of litigation and preparation therefor) which any Indemnified Party may incur or which may be asserted against any Indemnified Party by any person, entity or governmental authority (including any person or entity claiming derivatively on behalf of the Grantor), in connection with or arising out of or relating to the matters referred to in this Agreement or the Obligations, whether (a) arising from or incurred in connection with any breach of a representation, warranty or covenant by the Grantor, or (b) arising out of or resulting from any suit, action, claim, proceeding or governmental investigation, pending or threatened, whether based on statute, regulation or order, or tort, or contract or otherwise, before any court or governmental authority; provided, however, that the foregoing indemnity agreement shall not apply to any claims, damages, losses, liabilities and expenses solely attributable to an Indemnified Party's gross negligence or willful misconduct. The Grantor may participate at its expense in the defense of any such claim**.**

22. Governing Law and Jurisdiction. This Agreement has been delivered to and accepted by the Lender and will be deemed to be made in the State of New York. **This Agreement will be interpreted and the rights and liabilities of the parties hereto determined in accordance with the laws of the State of New York, except that the laws of the State where any Collateral is located (if different from the State of New Jersey) shall govern the creation, perfection and foreclosure of the liens created hereunder on such property or any interest therein.** The Grantor hereby irrevocably consents to the exclusive jurisdiction of any state or federal court in any county or judicial district in the State of New Jersey; provided that nothing contained in this Agreement will prevent the Lender from bringing any action, enforcing any award or judgment or exercising any rights against the Grantor individually, against any security or against any property of the Grantor within any other county, state or other foreign or domestic jurisdiction. The Lender and the Grantor agree that the venue provided above is the most convenient forum for both the Lender and the Grantor. The Grantor waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Agreement.

23. Deleted.

24. Authority to Act. The parties hereto acknowledge that Plenus Management (2004) Ltd. and Plenus Management III (2007), each an Israeli corporation, have the authority to take any and all actions on behalf of the Lender in connection with this Agreement and the Collateral, including, but not limited to, exercising all rights and remedies of the Lender hereunder. No Lender shall have any claim whatsoever against the Grantor in respect of any actions taken by the Grantor in compliance with instructions or demands given to it by Plenus Management (2004) Ltd. and/or Plenus Management III (2007).

25. **Termination of Security Interests**. Upon the indefeasible payment in full of the obligations under the Loan Agreement, and if the Grantor has no further obligations under the Guaranty, the security interests granted hereby shall terminate and all rights to the Collateral shall revert to the Grantor. Upon any such termination, the Lender shall, at the Grantor's expense, promptly execute and deliver to Grantor such documents as Grantor shall reasonably request to evidence such termination.

{remainder of page intentionally left blank}

The Grantor acknowledges that it has read and understood all the provisions of this Agreement, including the waiver of jury trial, and has been advised by counsel as necessary or appropriate.

WITNESS the due execution hereof, with the intent to be legally bound, as of the date first written above.

Radcom Equipment, Inc.

By: _____

Name: _____

Title: _____

Attest

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

Attest

By: _____

Name: _____

Title: _____

Plenus II, Limited Partnership
By: PLENUS MANAGEMENT (2004) LTD.

By: _____

Name: _____

Title: _____

Plenus II (D.C.M), Limited Partnership
By: PLENUS MANAGEMENT (2004) LTD.

By: _____

Name: _____

Title: _____

Plenus III, Limited Partnership
By: PLENUS MANAGEMENT III 2007 LTD.

By:

Name: _____

Title: _____

Plenus III (D.C.M), Limited Partnership
By: PLENUS MANAGEMENT III 2007 LTD.

By:

Name: _____

Title: _____

Plenus III (2), Limited Partnership
By: PLENUS MANAGEMENT III 2007 LTD.

By:

Name:

Title:

Plenus III (C.I), L.P.
By: PLENUS MANAGEMENT III 2007 LTD.

By

Name:

Title:

SCHEDULE A
TO SECURITY AGREEMENT

Lenders

Plenus II, Limited Partnership
Plenus II (D.C.M), Limited Partnership
Plenus III, Limited Partnership
Plenus III (D.C.M), Limited Partnership
Plenus III(2), Limited Partnership
Plenus III (C.I.), L.P.

THIS WARRANT HAS BEEN, AND THE WARRANT SHARES (AS DEFINED HEREIN) WHICH MAY BE PURCHASED UPON THE EXERCISE OF THIS WARRANT MAY BE, ACQUIRED SOLELY FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), THE ISRAELI SECURITIES LAW, 5728-1968 (THE "LAW") OR ANY APPLICABLE STATE OR COMPARABLE SECURITIES LAW OF A U.S. OR NON-U.S. JURISDICTION. SUCH SECURITIES MAY NOT BE SOLD, ASSIGNED, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT COVERING THIS WARRANT AND/OR THE WARRANT SHARES OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY AND ITS COUNSEL THAT SUCH SALE, ASSIGNMENT, OFFER, PLEDGE OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF THE ACT, AND THE QUALIFICATION REQUIREMENTS UNDER THE LAW AND/OR OF ANY APPLICABLE STATE OR COMPARABLE SECURITIES LAW OF A U.S. OR NON-U.S. JURISDICTION.

WARRANT

TO PURCHASE SHARES

OF

RADCOM LTD.

(the "Company")

DATE OF GRANT: April 14, 2008

VOID AFTER: April 14, 2013

THIS CERTIFIES THAT, for value received, the Holder (as defined herein) is entitled to purchase from the Company Warrant Shares (as defined herein), at the Exercise Price (as defined herein) per Warrant Share, and at an aggregate amount of up to the Exercise Amount (as defined herein), at any time and from time to time until the Termination Date, subject to the provisions and upon the terms and conditions hereinafter set forth in this Warrant.

1. **Definitions**.

As used herein the following defined terms shall have the meaning ascribed to them in this Section as follows:

"**Business Day**" shall mean each day on which at least two of the three biggest banking institutions in Israel are open for business.

"**Convertible Securities**" shall mean options or warrants to purchase, or rights to subscribe for, shares of the Company, or securities that by their terms are convertible into or exchangeable for equity securities of the Company, or options or warrants to purchase, or rights to subscribe for, such convertible or exchangeable securities**.**

"**Encumbrance**" means and includes any interest or equity of any person (including any right to acquire, option, or right of preemption) or any mortgage, charge, pledge, lien, or assignment, or any other encumbrance or security interest or arrangement of whatsoever nature over or in the relevant property.

"**Exercise Amount**" shall mean four hundred fifty thousand dollars ($450,000).

"**Holder**" shall mean Plenus and/or any other third party to whom this Warrant is assigned or transferred in accordance with the terms hereof.

"**Issuance of Additional Shares**" shall mean the issuance of shares or Convertible Securities of the Company, other than:

shares of the Company issued upon conversion or exchange of Convertible Securities existing on the date hereof;

up to 4,411,910 Ordinary Shares reserved for issuance to, and/or options thereto granted to, employees, directors or consultants of the Company pursuant to the Company's option plan existing on the date hereof.

"Last Round of Financing" shall mean the private investment in the Company's equity (PIPE) consummated in accordance with the Share Purchase and Warrant Agreement, dated December 19, 2007, by and among the Company and certain investors named therein.

"**Loan Agreement**" means that certain loan agreement between the Company and Plenus dated April 1, 2008.

"M&A Transaction" shall mean (i) the consolidation of the Company with, or a merger with or into, or a sale of Company securities (by the Company or by the Company's shareholders) to any third party, pursuant to which the Company's shareholders immediately prior to such transaction will own less than 51% of the surviving entity immediately following such transaction, or (ii) an acquisition or other transfer of all or substantially all of the Company's assets other than to an entity at least 51% of the outstanding share capital of which is beneficially owned by the Company.

"**Plenus**" means Plenus II, Limited Partnership, Plenus II (D.C.M.), Limited Partnership**,** Plenus III, Limited Partnership, Plenus III (D.C.M.), Limited Partnership**,** Plenus III (2), Limited Partnership and Plenus III (C.I.), L.P.

"**Realization Event**" shall mean an SPO or M&A Transaction.

"SPO" shall mean the consummation of a secondary public offering by the Company of the Company's securities.

"**Termination Date**" shall mean April 14, 2013.

"**Warrant Shares"** shall mean fully paid-up ordinary shares of the Company, par value NIS 0.05 each ("**Ordinary Shares**"), having all rights, privileges and preferences (contractual, economic or otherwise), attached to such class of shares or otherwise granted to any holder of such class of shares.

Capitalized terms not otherwise defined herein, shall have the meaning ascribed to them in the Loan Agreement.

2. **Number and Class of Warrant Shares; Exercise Price**.

(a) Number of Warrant Shares. The Holder shall be entitled to purchase such number of Warrant Shares that is equal to the quotient obtained by dividing the Exercise Amount by the Exercise Price.

(b) Exercise Period. The Holder may exercise the Warrant, in whole or in part, at any time and from time to time, on any Business Day, until the Termination Date (the "**Exercise Period**").

(c) Exercise Price. Subject to the adjustments more fully set forth in this Warrant, the exercise price for each Warrant Share, shall be $0.64 (the "**Initial Exercise Price"**). The Initial Exercise Price as adjusted pursuant to the provisions contained herein is herein referred to as the "**Exercise Price".**

3. **Method of Exercise; Payment.**

(a) Cash Exercise. The Warrant may be exercised by the Holder by the surrender of this Warrant (with duly executed Notice of Exercise in the form attached hereto as **Exhibit A**) at the principal office of the Company, and by the payment to the Company, concurrently with the delivery of the Notice of Exercise, of the Exercise Price for each Warrant Share underlying the exercised portion of the Warrant, in cash, in immediately available funds, or in another method acceptable to the Company.

(b) Net Exercise. In lieu of the payment method set forth in Section 3(a) above, the Holder may, in its sole discretion, elect to exchange the Warrant for a number of Warrant Shares computed by using the following formula:

$$X = \frac{Y (A-B)}{A}$$

Where **X** = the number of Warrant Shares to be issued to the Holder
Y = the number of Warrant Shares underlying the portion of the Warrant being exercised

A = the average closing price of an Ordinary Share on NASDAQ for the thirty (30) consecutive trading days immediately preceding the date of exercise

B = Exercise Price

(c) Conditional Exercise. In the event that the Holder intends to exercise this Warrant upon a Realization Event, the Holder shall be entitled to condition such exercise on the consummation of a Realization Event and shall indicate same on the Notice of Exercise and, having done so, the Holder will only be required to pay the applicable aggregate Exercise Price if, and at such time as, the Realization Event is consummated.

(d) Share Certificates; Partial Exercise. As soon as practicable but in any event not later than seven (7) Business Days following the delivery of the Notice of Exercise and the Warrant (and, unless the Holder elects to exercise the Warrant on a net-exercise basis, subject to the payment of the Exercise Price per each Warrant Share underlying the exercised portion of the Warrant) the Company shall issue and cause the delivery to the Holder (or, upon the Holder's written order, to any third party as such Holder may designate) certificates representing the applicable class and number of Warrant Shares so purchased and, unless this Warrant has been fully exercised, a new Warrant representing the balance of the Warrant Shares with respect to which this Warrant shall not have been exercised shall also be issued to the Holder at such time, provided, however, that no partial exercise shall be permitted hereunder: (i) if the Warrant has already been partially exercised at least two (2) times during the 12-month period preceding such exercise, or (ii) said partial exercise is in an amount lower than $75,000. Such Warrant shall be deemed to have been issued and any person so designated to be named therein shall be deemed to have become a holder of record of such securities as of the date of surrender of the Notice of Exercise, the Warrants being exercised and payment of the Exercise Price (unless exercised on a net-exercise basis), to the extent applicable, notwithstanding that the certificate representing the Warrant Shares shall not actually have been delivered or that the stock transfer books of the Company shall then be closed.

4. **Shares Fully Paid, Etc**. All of the Warrant Shares issuable upon the exercise of the rights represented by this Warrant will, upon issuance and receipt of the Exercise Price therefor, be fully paid and non-assessable, and free from all taxes, liens and charges. The Company will pay all taxes, if any, attributable solely to the issuance of the Warrant and/or the Warrant Shares; provided, for the avoidance of doubt, that the Company shall not be required to pay any tax which may be payable in respect of any secondary transfer of the Warrants or the Warrant Shares.

5. **Adjustments**. The number and kind of securities purchasable upon the exercise of this Warrant and the Exercise Price therefor shall be subject to adjustment from time to time upon the occurrence of certain events, as follows:

(a) Notwithstanding anything herein to the contrary, upon each Issuance of Additional Shares at an effective price per share which is lower than the Exercise Price, the Exercise Price will be automatically reduced to such lower price. For the removal of doubts - no adjustment of an Exercise Price shall be made if it has the effect of increasing the Exercise Price beyond the Exercise Price in effect immediately prior to such Issuance of Additional Shares.

(b) If the Company shall subdivide or combine its outstanding shares, each Exercise Price shall be proportionately reduced, in case of subdivision of shares, as at the effective date of such subdivision, or shall be proportionately increased, in the case of combination of shares, as at the effective date of such combination.

(c) In the event that the Company shall consummate an M&A Transaction, then provided further the Warrant shall have not been exercised by such time, the Holder shall, upon any exercise of this Warrant, at any time after the consummation of such M&A Transaction, be entitled to receive, in lieu of the Warrant Shares, the shares or other securities or property to which such Holder would have been entitled upon the consummation of such consolidation, merger or conveyance if the Holder had exercised the Warrants immediately prior thereto and received the Warrant Shares, all subject to further adjustment as provided in this Section; and the terms of the Warrant (including exercisability, transfer and adjustment provisions of the Warrant) shall be applicable to the shares or other securities or property receivable upon the exercise of the Warrant after the consummation of such consolidation, merger or conveyance.

(d) If at any time prior to the exercise of the Warrant in full the Company shall pay a dividend to the holders of Ordinary Shares, payable in additional securities or rights convertible into, or entitling the holder thereof to receive directly or indirectly, additional securities (hereinafter referred to as "**Securities Equivalents**"), then the Holder, upon any exercise of the Warrant, at any time after the date the Company shall fix as the record date for the purpose of receiving such Securities Equivalents, shall be entitled to receive, in addition to the applicable Warrant Shares, the Securities Equivalents to which the Holder would have been entitled upon the distribution of such Securities Equivalents if the Holder had exercised the Warrants immediately prior to the date that the Company had fixed as the record date for the purpose of receiving such Securities Equivalents and had held such Warrant Shares as of such date, all subject to further adjustments as provided in this Section.

(e) If at any time prior to the exercise of the Warrant in full the Company shall distribute to the holders of Ordinary Shares a dividend, whether payable out of earnings or surplus legally available for dividends or as a dividend in liquidation or partial liquidation or by way of return of capital, each Exercise Price shall be reduced by an amount equal to the Dollar amount of the per-share distribution on the record date fixed for the purpose of such distribution (or if no such record date is fixed then on the date of such payment).

(f) The Company will not by amendment of its organizational documents or through any reorganization, transfer of assets, consolidation, merger, dissolution, issuance or sale of its securities or any other voluntary action, avoid, or seek to avoid, the observance or performance of any of the terms to be observed or performed hereunder, but will at all times in good faith assist in the carrying out of all provisions hereof and in taking of all such actions and making all such adjustments as may be necessary or appropriate in order to protect the rights of the Holder against any impairment.

6. **Notice of Adjustments; Notice of Record Date**. Whenever the number of shares of the applicable class of Warrant Shares purchasable hereunder or the Exercise Price thereof shall be adjusted pursuant to Section 5 hereof, the Company shall provide written notice to the Holder setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the number and class of shares of the applicable class of Warrant Shares which may be purchased and the Exercise Price therefor after giving effect to such adjustment. Furthermore, in the event of any taking by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend (including a cash dividend) or other distribution, any right to subscribe for, purchase or otherwise acquire any shares of any class or any other securities or property, or to receive any other right, the Company shall mail to the Holder written notice, which shall be sent simultaneously with the notice sent to other shareholders of the Company, specifying the date on which any such record and/or scheduled date of actual payment, if determined, is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right.

7. **Fractional Shares**. This Warrant may not be exercised for fractional shares. In the event of fractional shares, the Company shall round the number of Warrant Shares issuable upon such exercise down to the nearest whole share and shall pay an amount in cash to the Holder equal to any such fractional share.

8. **Investment Representation** Neither this Warrant nor the Warrant Shares issuable upon the exercise of this Warrant have been registered under the Securities Act, or any other securities laws. The Holder acknowledges by acceptance of the Warrant that (a) it has acquired this Warrant for investment and not with a view to distribution; (b) it has either a pre-existing personal or business relationship with the Company, or its executive officers, or by reason of its business or financial experience, it has the capacity to protect its own interests in connection with the transaction; and (c) it is an "accredited investor" as that term is defined in Regulation D promulgated under the Securities Act, or he or she has the knowledge and experience in business and financial matters to evaluate the risks and merits of his or her investment, or it is not a "U.S. Peron" within the meaning of Regulation S promulgated under the Securities Act and is not acquiring the Warrants for the account of a U.S. Person. The Holder agrees that any Warrant Shares issuable upon exercise of this Warrant will be acquired for investment and not with a view to distribution, and that such Warrant Shares may have to be held indefinitely unless they are subsequently registered or qualified under the Securities Act and applicable state securities laws, or based on an opinion of counsel reasonably satisfactory to the Company, an exemption from such registration and qualification is available. The Holder, by acceptance hereof, consents to the placement of legend(s) on all securities hereunder as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act, unless such or similar legend is not placed on all other unregistered securities of the Company or unless in the opinion of counsel for the Company such legend is not required in order to ensure compliance with the Securities Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

9. **Representations and Covenants of the Company**. The Company represents and covenants to the Holder as follows:

(a) All corporate actions on the part of the Company, its officers, directors and shareholders necessary for the sale and issuance of the Warrant and the Warrant Shares and the performance of the Company's obligations hereunder have been taken and are effective as of the date hereof. The Company undertakes that all additional corporate actions on the part of the Company, as may be required in connection with an adjustment pursuant hereto will be taken as promptly as practicable.

(b) As of the date of exercise of this Warrant, the Company shall record the Holder in the Company's internal share register as required in accordance with the applicable law and practice, as the owners, direct or beneficial, of the Warrant Shares pursuant to the names provided by the Holder in the Notice of Exercise.

(c) At all times when this Warrant may be exercised, the Company shall have authorized and reserved for issuance sufficient Warrant Shares, free from pre-emptive rights or other Encumbrance so that this Warrant may be exercised without additional authorization of share capital after giving effect to all other Convertible Securities or the need to receive any other consents of third parties.

10. **Restrictions Upon Transfer**.

(a) With respect to any offer, sale or other disposition of this Warrant or securities into which such Warrant may be exercised, the Holder will give written notice to the Company prior thereto, describing briefly the manner thereof, together with, if requested by the Company, a written opinion of such Holder's counsel, to the effect that such offer, sale or other distribution may be effected without registration or qualification (under any federal or state law then in effect). Such opinion letter and all such transferees must warrant and represent that they are an "accredited" investor as that term is defined under Regulation D of the Securities Act. Upon receiving such written notice and opinion and warranties and representations, if so requested, the Company, as promptly as practicable, shall deliver to the Holder one or more replacement Warrant certificates on the same terms and conditions as this Warrant for delivery to the transferees. Each Warrant thus transferred and each certificate representing the securities thus transferred shall bear legend(s) as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act, unless such or similar legend is not placed on all other unregistered securities of the Company or unless in the opinion of counsel for the Company such legend is not required in order to ensure compliance with the Securities Act.

For the sake of clarity – the foregoing provisions of this Section 10(a) shall not apply to the Warrant or to securities into which such Warrant may be exercised, after a registration statement with respect to such securities was filed with the SEC and became effective, and for as long as such registration statement is effective.

(b) All transfers of this Warrant shall be accompanied by an executed warrant transfer deed, under which the transferee undertakes to be bound by all obligations of the Holder under this Warrant. The form of the deed of transfer is attached hereto as **Exhibit B**.

(c) Subject to the foregoing and to applicable law, the Holder shall have the right to transfer this Warrant and the Warrant Shares to any person it wishes.

11. **No Rights of Shareholders**. Except for the rights granted pursuant to the Joinder, the Holder shall not be entitled, as a Warrant holder, to vote or receive dividends or be deemed the holder of the Warrant Shares or any other securities of the Company which may at any time be issuable on the exercise of this Warrant for any purpose, nor shall anything contained herein be construed to confer upon the Holder, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action (whether upon any recapitalization, issuance of shares, reclassification of shares, change of par value, consolidation, merger, conveyance, or otherwise) or to receive notice of meetings, or to receive dividends or subscription rights or otherwise until the Warrant shall have been exercised and the Warrant Shares purchasable upon the exercise hereof shall have become deliverable, as provided herein.

12. **Notices**. All notices and other communications required or permitted hereunder shall be in writing and shall be mailed by registered mail, postage prepaid, faxed or electronically mailed or delivered by hand to the following addresses:

If to the Company: **RADCOM LTD.**
24 Roul Wallenberg Street
Tel Aviv 69719, Israel
Attention: Chief Financial Officer
Faximile: + 972-3-647-4681
E-mail: jonathanb@radcom.com

If to the Plenus: Plenus Management (2004) Ltd.
- and -
Plenus Management III 2007 Ltd.
16 Abba Eben Avenues
Herzliya Pituach
Israel
Attention: Shlomo Karako
Facsimile: 972-9-957-8770
E-mail: momik@plenus.co.il

or to such other address with respect to a party as such party shall notify the other party in writing as above provided. Any notice sent in accordance with this Section 11 shall be effective (i) if mailed within Israel, three (3) Business Days after mailing, and in other cases within seven (7) Business Days after mailing, (ii) if sent by messenger, upon delivery, and (iii) if sent via fax or electronic mail, upon transmission and electronic confirmation of receipt or (if transmitted and received on a non-Business Day) on the first Business Day following transmission and electronic confirmation of receipt.

13. **Governing Law**. This Warrant and all actions arising out of, or in connection with, this Warrant shall be exclusively governed by, and construed in accordance with, the laws of the State of Israel. The parties hereto irrevocably submit to the exclusive jurisdiction of the courts of Tel-Aviv in any action connected with this Agreement.

14. **Partial Invalidity**. If any provision of this Warrant is held by a court of competent jurisdiction to be invalid or unenforceable under applicable law, then such provision shall be excluded from this Warrant and the remainder of this Warrant shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms; provided, however, that in such event this Warrant shall be interpreted so as to give effect, to the greatest extent consistent with and permitted by applicable law, to the meaning and intention of the excluded provision.

15. **Currency**. The term "dollars" or the symbol "$" appearing in this Warrant shall mean the legal currency of the United States of America, and all payments hereunder shall be made in such currency, unless otherwise agreed in writing by the Holder and the Company.

16. **Entire Agreement; Amendment and Waiver**. This Agreement and the Exhibits and Schedules hereto and thereto constitute the full and entire understanding and agreement between the parties with regard to the subject matters hereof. All prior understandings and agreements among the parties are void and of no further effect. Any term of this Agreement may be amended, waived, or discharged (either prospectively or retroactively, and either generally or in a particular instance), by a written instrument signed by all the parties to this Agreement.

RADCOM LTD.

By: _____

Title: _____

Agreed and accepted:

_____

By: _____

Title: _____

EXHIBIT A
NOTICE OF EXERCISE

RADCOM LTD.

_____

_____

Attn: _____,

1. **[ ] [____]** (*Check and initial here if the undersigned elects this alternative*) The undersigned hereby elects to purchase [*FILL IN NUMBER OF SHARES*] _____ shares of _____ of the share capital of RADCOM Ltd. pursuant to the terms of the attached Warrant (the "**Warrant**"), and tenders herewith payment in full for the purchase price of the shares being purchased. [Such purchase is contingent upon _____ in accordance with Section 3(c) of the Warrant.]

1. **[ ] [____]** (*Check and initial here if the undersigned elects this alternative*) In lieu of exercising the Warrant for cash or a check, the undersigned hereby elects to effect the net exercise provision of Section 3(b) of the Warrant and receive [*FILL IN NUMBER OF SHARES*] _____ shares of the share capital of RADCOM Ltd. pursuant to the terms of the Warrant according to the formula set forth in said section, to wit:

$$X = \frac{Y\,(A-B)}{A} \qquad (\quad) = \frac{(\_\_\_\_)\,[(\_\_\_\_\_) - (\_\_\_\_\_)]}{(\_\_\_\_\_)}$$

2. Please issue a certificate or certificates representing said Warrant Shares in the name of the below list of entities, and record same in the Company's internal share registry, as follows:

Very truly yours,

_____

By: _____
Title: _____
Date: _____

EXHIBIT B
FORM OF TRANSFER

(To be signed only upon transfer of Warrant)

FOR VALUE RECEIVED, the undersigned (the "**Transferor**") hereby assigns and transfers unto _____ (the "**Transferee**") the right represented by the attached Warrant (the "**Warrant**") to purchase Warrant Shares of the share capital of RADCOM Ltd., in an amount of $ _____ out of the total Exercise Amount to which the Warrant relates. The Transferor represents that the transfer is made in accordance with the terms of the Warrant.

Dated: _____

By: _____
Name: _____

Signed in the presence of:

By: _____
Name: _____

And the undersigned Transferee hereby agrees to the transfer of said rights to which the Warrant relates, and agrees to be bound by the terms and conditions of the Warrant. The undersigned represents that the transfer is made in accordance with the terms of the Warrant.

Dated: _____

By: _____
Name: _____

Signed in the presence of:

By: _____
Name: _____

EXHIBIT 8.1

LIST OF SUBSIDIARIES

Name	Jurisdiction of Incorporation
RADCOM Equipment, Inc.	New Jersey
RADCOM Investments (1996) Ltd.	Israel
RADCOM (UK) Ltd.	United Kingdom

EXHIBIT 12.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David Ripstein, certify that:

1. I have reviewed this Annual Report on Form 20-F of RADCOM Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 30, 2008

/s/ David Ripstein
David Ripstein
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 12.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jonathan Burgin, certify that:

1. I have reviewed this Annual Report on Form 20-F of RADCOM Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

(a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 30, 2008

/s/ Jonathan Burgin
Jonathan Burgin
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 13.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 20-F of RADCOM Ltd. (the "Company") for the fiscal year ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Ripstein, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 30, 2008

/s/ David Ripstein
David Ripstein
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 13.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 20-F of RADCOM Ltd. (the "Company") for the fiscal year ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jonathan Burgin, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 30, 2008

/s/ Jonathan Burgin
Jonathan Burgin
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 14.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
RADCOM Ltd.
Tel Aviv
Israel

We consent to the incorporation by reference in the Registration Statement (File No. 333-07964, No. 333-13244, No. 333-13246, No. 333-13248, No. 333-13250, No. 333-13252, No. 333-13254, No. 333-14236, No. 333-111931 and No.333-123981) on Form S-8 and in the Registration Statement on Form F-3 (File No. 333-115475) of RADCOM Ltd. of our report dated June 30, 2008, with respect to the consolidated balance sheets of RADCOM Ltd. as of December 31, 2007 and 2006 and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss) and cash flows for each of the years in the three-year period ended December 31, 2007, which report appears in the December 31, 2007 Annual Report on Form 20-F of RADCOM Ltd.

Our report on the consolidated financial statements refers to the adoption by RADCOM Ltd. of Statement of Financial Accounting Standard No. 123R "Share-Based Payment," effective January 1, 2006.

/s/Somekh Chaikin
Somekh Chaikin
Certified Public Accountants (Isr.)
Member Firm of KPMG International

Tel-Aviv, Israel
June 30, 2008