
**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, 2012

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)

N/A

(Translation of Registrant's Name into English)

Israel

(Jurisdiction of Incorporation or Organization)

24 Raoul Wallenberg Street, Tel-Aviv 69719, Israel

(Address of Principal Executive Offices)

Gilad Yehudai: (+972) 77-7745-060 (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 the close of the period covered by the annual report: As of December 31, 2012, there were 6,449,780 Ordinary Shares, NIS 0.20 par value per share, outstanding.

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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

Except for the historical information contained herein, the statements contained in this annual report on Form 20-F (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.D—Key Information — Risk Factors" and elsewhere in this Annual Report.

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.

Omni-Q™, GearSet™, and Wirespeed™ are our trademarks. All other trademarks and trade names appearing in this Annual Report are owned by their respective holders.

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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, 2012, 2011 and 2010 and for each of the years ended December 31, 2012, 2011 and 2010 from our consolidated financial statements and notes included in this Annual Report. The selected consolidated financial data as of December 31, 2009 and 2008 and for the years ended December 31, 2009 and 2008 have been derived from previously published audited consolidated financial statements not included in this Annual Report. We prepare our consolidated financial statements in accordance with U.S. generally accepted accounting principles ("U.S. GAAP").

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)

	2012	2011	2010	2009	2008
--	------	------	------	------	------

Statement of Operations Data:					
Revenues:					
Products	\$ 12,480	\$ 19,199	\$ 16,770	\$ 9,190	\$ 12,480
Services	3,306	2,788	2,403	2,728	2,758
	15,786	21,987	19,173	11,918	15,238
Cost of revenues:					
Products	5,765	6,074	6,052	3,469	5,523
Services	417	606	434	590	502
	6,182	6,680	6,486	4,059	6,025
Gross profit	9,604	15,307	12,687	7,859	9,213
Operating expenses:					
Research and development	6,102	5,866	4,310	4,223	6,506
Less - royalty-bearing participation	1,567	1,235	1,424	1,633	2,113
Research and development, net	4,535	4,631	2,886	2,590	4,393
Sales and marketing	8,515	9,962	6,971	5,835	7,486
General and administrative	2,107	2,234	1,538	1,643	2,818
Total operating expenses	15,157	16,827	11,395	10,068	14,697
Operating (loss) income	(5,553)	(1,520)	1,292	(2,209)	(5,484)
Financing income (expenses), net	(314)	(384)	(722)	(440)	(309)
	(120)	---	---	---	---
Net (loss) income	(5,987)	(1,904)	570	(2,649)	(5,793)
Basic net (loss) income per ordinary share	\$ (0.93)	\$ (0.30)	\$ 0.11	\$ (0.52)	\$ (1.16)
Weighted average number of ordinary shares used to compute basic net income (loss) per ordinary share	6,442,068	6,367,560	5,373,515	5,081,986	4,995,586
Diluted net (loss) income per ordinary share	\$ (0.93)	\$ (0.30)	\$ 0.10	\$ (0.52)	\$ (1.16)
Weighted average number of ordinary shares used to compute diluted net (loss) income per ordinary share	6,442,068	6,367,560	5,947,310	5,081,986	4,995,586
Balance Sheet Data:					
Working capital	\$ 5,194	\$ 10,670	\$ 11,144	\$ 2,972	\$ 6,194
Total assets	\$ 18,997	\$ 21,345	\$ 21,386	\$ 13,440	\$ 17,841
Shareholders' equity	\$ 4,997	\$ 10,392	\$ 10,903	\$ 2,640	\$ 4,985
Share capital	\$ 251	\$ 250	\$ 234	\$ 177	\$ 176

Exchange Rate Information

The following table shows, for each of the months indicated the high and low exchange rates between the NIS and the U.S. dollar, expressed as NIS per U.S. dollar and based upon the daily representative rate of exchange as published by the Bank of Israel:

Month	High (NIS)	Low (NIS)
April 2013 (through April 19)	3.633	3.618
March 2013	3.733	3.637
February 2013	3.708	3.682
January 2013	3.791	3.714
December 2012	3.835	3.726
November 2012	3.952	3.857
October 2012	3.895	3.792

On April 19, 2013 the daily representative rate of exchange between the NIS and U.S. dollar as published by the Bank of Israel was NIS 3.629 to \$1.00.

The following table shows, for each of the periods indicated, the average exchange rate between the NIS and the U.S. dollar, expressed as NIS per U.S. dollar, calculated based on the average of the representative rate of exchange on the last day of each month during the relevant period as published by the Bank of Israel:

Year	Average (NIS)
2013 (through April 19)	3.693
2012	3.858
2011	3.582
2010	3.732
2009	3.927
2008	3.568

The effect of exchange rate fluctuations on our business and operations is discussed in "Item 5.A—Operating and Financial Review and Prospects—Operating Results—Impact of Inflation and Foreign Currency Fluctuations."

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 have a history of net losses and may not achieve or sustain profitability in the future.

Although in 2010 we generated net income, in the years 2012, 2011 and 2009 we incurred losses of \$6 million, \$1.9 million and \$2.6 million, respectively. We may not be profitable in the future, which could materially affect our cash and liquidity and could adversely affect the value and market price of our shares.

The general slowdown in the telecommunications industry, including in the sectors of the industry that we target (primarily 3G and 4G cellular and triple-play networks), materially and adversely affected our revenues and results of operations in 2012. A continued slowdown would further materially and adversely affect our revenues and results of operations.

Our future success is dependent upon the continued growth of the telecommunications industry as well as the specific sectors that we target, which currently include 3G and 4G cellular and triple-play networks. A global slowdown in the telecommunications industry had an adverse impact on our business in the first half of 2012. The global telecommunications industry, as well as the various sectors within the 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 and data 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 monitoring 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 was delayed during 2012 by a variety of factors and may further be delayed or prevented in 2013 by a variety of factors, including costs, 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.

During 2012, developments in the communications industry, such as the impact of general global economic conditions, industry consolidation, emergence of new competitors, commoditization of voice services and changes in the regulatory environment, had a material adverse effect on our existing and/or potential customers, and may continue to have such an effect in the future. In the past, these conditions reduced the high growth rates that the communications industry had previously experienced, and caused the market value, financial results, prospects and capital spending levels of many communications companies to decline. During 2012, the telecommunications industry experienced significant financial pressures that caused many in the industry to cut expenses and limit investment in capital intensive projects, and in some cases, led to restructurings. Although we are unable to determine what the full effects of the recent economic downturn will be, it has led, mainly during the first half of 2012, and may continue to lead to significant adverse consequences for our customers and our business.

During adverse conditions in the business environment for telecommunications companies, service providers often need to control operating expenses and capital investment budgets, which can affect our business. For example, the recent business climate for communication companies resulted in slowed customer buying decisions and price pressures that increased pressure on our ability to generate revenue. During 2012, these adverse market conditions had a negative impact on our business by decreasing new customer engagements, as well as by decreasing the level of discretionary spending under contracts with existing customers. In addition, the slowdown in the buying decisions of service providers has extended our sales cycle period and limited our ability to forecast our flow of new contracts. 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 increased our credit risk exposure and caused delays in our recognition of revenues on future sales to these customers. During 2012, these events harmed our business, operating results and financial condition. Further deterioration could materially and adversely affect our business, operating results and financial condition.

Recent and future economic conditions, including turmoil in the financial and credit markets, may adversely affect our business.

The recent economic and credit environment had a significant negative impact on business around the world. The impact of these conditions on the technology industry and our major customers has been quite severe. Conditions may continue to be depressed, or may be subject to further deterioration which could lead to a further reduction in consumer and customer spending overall, which could have an adverse impact on sales of our products. A disruption in the ability of our significant customers to access liquidity could cause serious disruptions or an overall deterioration of their businesses, which could lead to a significant reduction in their orders of our products and the inability or failure on their part, to meet their payment obligations to us, any of which could have a material adverse effect on our results of operations and liquidity. In addition, any disruption in the ability of customers to access liquidity could lead customers to request longer payment terms from us or long-term financing of their purchases from us. If we are unable to grant extended payment terms when requested by customers, our sales could decrease. Granting extended payment terms or a significant adverse change in a customer's financial and/or credit position, would have an immediate negative effect on our cash balance, and could require us to assume greater credit risk relating to that customer's receivables, or could limit our ability to collect receivables related to purchases by that customer. As a result, we may have to defer recognition of revenues, our reserves for doubtful accounts and write-offs of accounts receivable may increase and our losses may increase.

Our freedom to operate our business is limited as a result of certain restrictive covenants contained in our credit facility with the First International Bank of Israel, one of which we currently do not comply with.

In September 2012, we secured a short-term line of credit of \$1.5 million from the First International Bank of Israel. In order to secure our obligations to the bank, we pledged and granted to the bank a first priority floating charge on all of our assets and a first priority fixed charge on certain other assets (namely, rights for uncalled and/or unpaid share capital, including goodwill rights, and rights for insurance). We refer to the agreement relating to such charges as the Pledge. The Pledge contains a number of customary restrictive terms and covenants that limit our operating flexibility, such as (1) limitations on the creation of additional liens, and on the sale or transfer of certain of our assets, and (2) the ability of the bank to accelerate repayment in certain events, such as breach of covenants, liquidation, or a reduction in Messrs. Zohar Zisapel's and Yehuda Zisapel's joint ownership of the Company below 30%. The Pledge's restrictive terms and covenants may hinder our future operations or the manner in which we operate our business, which could have a material adverse effect on our business, financial condition or results of operations. One of the covenants we undertook was that our shareholder's equity, as reflected in our reported financial statements, would not be less than 32% of our total assets as reflected in the applicable balance sheet. As of December 31, 2012, we failed to meet the requirements of this covenant. The bank requested that we rectify the situation, and agreed to provide us with a cure period until July 15, 2013. We may fail to cure such breach and the bank may demand that we immediately repay the \$1.5 million, which will create a substantial burden on our cash balances and harm our ongoing operation.

Our projected cash flows may not be sufficient to meet our obligations.

If our cash flow does not meet or exceed our current projections, then our ability to pay our obligations could be materially impaired. We believe that our existing capital resources and cash flows from operations will be adequate to satisfy our expected liquidity requirements to meet our operating obligations, as they come due at least through the next twelve months. However, if our actual sales and spending differ materially from our projections, we may be required to raise capital, borrow additional funds or reduce discretionary spending in order to provide the required liquidity. We cannot assure you that our business will generate sufficient cash flows or that future capital raising or borrowings will be available to us in amounts and on terms sufficient to enable us to fund our liquidity needs. Our ability to continue as a going concern is substantially dependent on the successful execution of our sales and spending projections.

As noted above, although in 2010 we generated net income, in 2012, 2011 and in the years prior to 2010, we generated significant losses attributable to our operations. We have managed our liquidity during this time through a series of cost reduction initiatives, expansion of our sales into new markets, private placement transactions, a bank credit line, shareholder loans and a venture capital loan. While we believe that our existing capital resources and cash flows from operations will be adequate to satisfy our expected liquidity requirements at least through the next twelve months, there is no assurance that, if required, we will be able to raise additional capital or reduce discretionary spending to provide the required liquidity in order to continue as a going concern.

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

In 2012, we 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;
- the 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 sales cycles for our products;
- the request for longer payment terms from us or long-term financing of customers' purchases from us, as well as additional conditions tied to such payment terms;
- 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 or cancellation of projects by customers;
- changes in the mix of products sold;
- the size and timing of approval of grants from the Government of Israel; and
- foreign currency exchange rates.

Our costs of sales consist of variable costs, which include hardware production, packaging, royalties to the Chief Scientist, license fees paid to third parties and import taxes, and of fixed costs which include facilities' payments, employees' salaries and related costs and overhead expenses. The majority of our costs of sales is relatively fixed, and the costs are determined based on our anticipated revenue. We believe, therefore, that period-to-period comparisons of our operating results may not be 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, however revenue recognition is often deferred. Although we had a substantial backlog of orders at the end of 2012, this has not always been the case in the past and there is no assurance that this will continue to be the situation in future quarters.

We may experience a delay in generating or recognizing revenues for a number of reasons and based on revenue recognition accounting requirements. While we are usually able to ship orders within 15-30 days of a customer's order, in order to recognize revenue from an order, we often need to pass customer acceptance, which may take on average 6 to 12 months. Therefore, a major part of the revenue of a fiscal quarter is derived from the backlog of shipped orders and generally is not tied to the date of a customer's order or the shipment date.

Our revenues for a particular period may also be difficult to predict and may be 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. 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. These orders are booked within the quarter, but only recognized as revenue at a later stage.

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.

Since 2010, the relative portion of medium-to-large sized deals started to increase. This trend continued with greater vigor in 2011 and 2012. As a result, payment terms became longer by an average of 2 months, the deployment process became longer and more complex and our right to collect payment more often became subject to certain conditions, extending the time that elapsed between the date of an initial sale and full revenue recognition and collection.

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, as was the case in 2012.

We expect our gross margins to vary over time and our recent level of gross margins may not be sustainable or improved, which may have a material adverse effect on our future profitability.

Our recent level of gross margins may not be sustainable or improved and may be adversely affected by numerous factors, including:

- increased price competition;
- local sales taxes which may be incurred for direct sales;
- increased industry consolidation among our customers, which may lead to decreased demand for and downward pricing pressure on our products;
- changes in customer, geographic or product mix;
- our ability to reduce and control production costs;
- increases in material or labor costs;
- excess inventory and inventory holding costs;
- obsolescence charges;
- reductions in cost savings due to changes in component pricing or charges incurred due to inventory holding periods if parts ordering does not correctly anticipate product demand;
- changes in distribution channels;
- losses on customer contracts; and
- increased warranty costs.

Further deterioration in gross margins, due to these or other factors, may have a material adverse effect on our 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 LTE (Long Term Evolution) network required us to develop a new product which was launched in 2011, our Omni-Q for LTE networks, in order to keep current 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 LTE cellular and triple-play networks. If networking evolves toward greater emphasis on application providers, we believe that we have positioned ourselves well relative to our key competitors. If networking does not evolve toward greater emphasis on application providers, 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.

Our sales derived from emerging market countries may be materially adversely affected by economic, regulatory and political developments in those countries.

We generate sales from various emerging market countries. As sales from these countries represent a significant portion of our total sales, and as these countries represent a significant portion of our expected growth, economic or political turmoil in these countries could materially adversely affect our sales and results of operations. During 2012, such regulatory limitations delayed our ability to recognize revenue from certain customers. Our investments in emerging market countries may also be subject to risks and uncertainties, including unfavorable taxation treatment, exchange controls, challenges in protecting our intellectual property rights, nationalization, inflation, currency fluctuations, or the absence of, or unexpected changes in, regulation as well as other unforeseeable operational risks.

Our growing international presence exposes us to risks associated with varied and changing political, cultural, legal and economic conditions worldwide.

We are affected by risks associated with conducting business internationally. We maintain development facilities in Israel, and have operations in North America, Europe, Latin America and Asia. We obtain significant revenues from customers in Latin America and Asia and our strategy is to continue to broaden and expand into those markets. Conducting business internationally exposes us to certain risks inherent in doing business in international markets, including:

- legal and cultural differences in the conduct of business;
- difficulties in staffing and managing foreign operations;
- longer payment cycles;
- difficulties in collecting accounts receivable and withholding taxes that limit the repatriation of earnings;
- difficulties in complying with varied legal and regulatory requirements across jurisdictions, including additional labor laws, particularly in Brazil;
- political instability;
- variations in effective income tax rates among countries where we conduct business;
- fluctuations in foreign currency exchange rates; and
- laws and business practices favoring local competitors;

One or more of these factors could have a material adverse effect on our international operations, which could harm our results of operations and financial condition.

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. In addition, a substantial portion of our inventory is located at customers as it has not yet been accepted in accordance with the terms of their orders and therefore, has not yet been recognized as revenue, making the control of such inventory more difficult.

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.

Many of our customers require a lengthy, detailed and comprehensive evaluation process before they order our products. Our sales process has been subject to delays that have significantly decreased our revenues and which could result in the eventual cancellations of some sale opportunities.

We derive substantially all of our revenues from the sale of products and related services for telecommunications service providers. The purchase of our products represents a relatively significant capital expenditure for our customers. As a result, our products generally undergo a lengthy evaluation process before we can sell them. In recent years, our customers have been conducting a more stringent and detailed evaluation of our products and decisions are subject to additional levels of internal review. This trend has intensified recently as part of the recent economic environment. As a result, the evaluation process has significantly lengthened. This evaluation process generally takes between 3 to 6 months for small transactions, and between 9 to 18 months for large transactions. The following factors, among others, affect the length of the approval process:

- the time involved for our customers to determine and announce their specifications;
- the time required for our customers to process approvals for purchasing decisions;
- the complexity of the products involved;
- the technological priorities and budgets of our customers; and
- the need for our customers to obtain or comply with any required regulatory approvals.

If customers continue to delay project approval, delays lengthen further, or such continued delays result in the eventual cancellation of any sale opportunities, it would harm our business and results of operations.

Our visibility of a portion of our future sales is limited due to the short lead time of customer orders.

As a result of the short lead time for some firm purchase orders that we receive from time to time, which usually do not require customer acceptance, we are unable to accurately forecast future revenues from these product sales. As a result, especially with respect to purchase orders of significant amounts, even dramatic fluctuations in revenue (whether increase or decrease) might not be detected until the very end of a financial quarter, which may not enable us to monitor costs in a timely manner to compensate for such fluctuations.

We may undertake further reorganizations, which may adversely impact our operations, and we may not realize all of the anticipated benefits of our prior or any future reorganizations.

We continue to reorganize and transform our business to realign resources and achieve desired cost savings in an increasingly competitive market. Although during 2010 and 2011 we increased our work force, during 2009 and 2012 we undertook a series of reorganizations of our operations involving, among other things, the reduction of our workforce. If we continue to reduce our workforce in the future, we may incur additional reorganization and related expenses, which could have a material adverse effect on our business, financial condition or results of operations.

We have based our reorganization efforts on certain assumptions regarding the cost structure of our businesses. Our assumptions may or may not be correct, and we may also determine that further reorganizations will be needed in the future. We therefore cannot assure you that we will realize all of the anticipated benefits of the reorganizations or that we will not further reduce or otherwise adjust our workforce or exit, or dispose of, certain businesses. Any decision by management to further limit investment or to exit or dispose of businesses may result in the recording of additional reorganization charges, and might also adversely affect our ability to generate revenues from our business. As a result, the costs actually incurred in connection with the reorganization efforts may be higher than originally planned and may not lead to the anticipated cost savings and/or improved results.

In addition, employees, whether or not directly affected by reorganizations, may seek future employment with our business partners, customers or competitors. We cannot assure you that the confidential nature of our proprietary information will not be compromised by any such employees who terminate their employment with us. Further, we believe that our future success will depend in large part upon our ability to attract, incentivize and retain highly skilled personnel. We may have difficulty attracting and retaining such personnel as a result of a perceived risk of future workforce reductions.

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

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

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 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 who are under no obligation to distribute our products.

We are dependent upon our distributors for their active marketing and sales efforts for the distribution of our products. Outside of North America, Brazil, Singapore, India and China, many of our distributors are the only entities engaged in the distribution of our products in their respective geographical areas. Typically, arrangements with our distributors do not prevent such distributors from distributing competing products, or require them to distribute our products in the future and, therefore, our distributors may not give a high priority to marketing and supporting our products. Additionally, 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.

Our seven largest distributors accounted for approximately 38.51% of our sales in 2012, 43.9% of our sales in 2011 and 41.8% of our sales in 2010. In 2012, no individual distributor accounted for more than 10% of the total respective consolidated revenues. 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.

Our large customers have substantial negotiating leverage, which may require that we agree to terms and conditions that may have an adverse effect on our business.

Large telecommunications providers have substantial purchasing power and leverage in negotiating contractual arrangements with us. These customers may require us to develop additional features and may impose penalties on us for failure to deliver such features on a timely basis, or failure to meet performance standards. As we seek to sell more products to large service providers, we may be required to agree to these less advantageous terms and conditions, which may decrease our revenues and/or increase the time it takes to convert orders into revenues, resulting in an adverse effect on our results of operations.

The complexity and scope of the solutions we provide to larger service providers is increasing. Larger projects entail greater operational risk and an increased chance of failure.

The complexity and scope of the solutions and services we provide to larger service providers is increasing. The larger and more complex such projects are, the greater the operational risks associated with such projects. These risks include failure to fully integrate our products into the service provider's network with third party products and complex environments, and our dependence on subcontractors and partners for the successful and timely completion of such projects. Failure to complete a larger project successfully could expose us to potential contractual penalties, claims for breach of contract and in extreme cases, to cancellation of the entire project, or increase the difficulty in collecting payment and recognizing revenues from such project.

We could be subject to claims under our warranties and extended maintenance agreements 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 returns and, potentially, product liability claims being filed against us. Our warranties permit customers to return defective products for repair. The warranty period is mostly for one year but could be extended either in the initial purchase of our product or after the initial warranty period ends ("extended maintenance agreements"). During the past few years, customer returns have not been substantial. 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. In addition, under the warranty and extended maintenance agreements we need to meet certain service levels and if we fail to meet them we may be exposed to penalties.

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. These licenses 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 manufacturers. If our access to such assembly services is reduced or interrupted, our business, financial condition and results of operations could be adversely affected until we are able to establish sufficient assembly services 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.

New regulations related to conflict minerals may force us to incur additional expenses and may damage our relationship with certain customers.

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals and derivatives referred to as “conflict minerals” which may originate from the conflict zones of the Democratic Republic of Congo (DRC) and adjoining countries. As a result, in August 2012 the SEC established new annual disclosure and reporting requirements for those companies who use “conflict” minerals in their products, whether or not the products are manufactured by third parties. These new requirements will require due diligence efforts for the 2013 calendar year, with initial disclosure requirements beginning in May 2014. We are currently examining whether we will be subject to these new disclosure requirements, as the types of minerals covered by these rules are present in electronic devices, and consequently we believe we may be subject to these new disclosure requirements.

If we are subject to these new requirements, we will incur additional costs associated with complying with the disclosure requirements, such as costs related to determining the source of any conflict minerals used in our products. As these new requirements are implemented, they could affect the pricing, sourcing and availability of minerals used in the manufacture of components in our devices, and in turn could affect the costs and availability of such components. Our supply chain is complex and we may be unable to verify the origins for all metals used in our products. We may also encounter challenges with our customers and stakeholders if we are unable to certify that our products are conflict free.

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, sales representatives 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. 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 expand our business or enhance our technology through acquisitions that could result in diversion of resources and extra expenses. This could disrupt our business and adversely affect our financial condition.

Part of our growth strategy is to selectively pursue partnerships and acquisitions that provide us access to complementary technologies and accelerate our penetration into new markets. The negotiation of acquisitions, investments or joint ventures, as well as the integration of acquired or jointly developed businesses or technologies, could divert our management's time and resources. Acquired businesses, technologies or joint ventures may not be successfully integrated with our products and operations. We may not realize the intended benefits of any acquisition, investment or joint venture and we may incur future losses from any acquisition, investment or joint venture.

In addition, acquisitions could result in, among other things:

- substantial cash expenditures;
- potentially dilutive issuances of equity securities;
- the incurrence of debt and contingent liabilities;
- a decrease in our profit margins; and
- amortization of intangibles and potential impairment of goodwill.

If we implement our growth strategy by acquiring other businesses, and this disrupts our operations, our business may suffer.

Because we received grants from the Israeli Office of the Chief Scientist, we are subject to ongoing restrictions.

We received royalty-bearing grants from the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor (the "Chief Scientist"), for research and development programs that meet specified criteria. In addition to our obligation to pay to the Chief Scientist royalties on revenues from products developed pursuant such programs or deriving therefrom (and related services), our ability to transfer such resulting know-how, especially outside of Israel, is limited, regardless of whether the royalties were fully paid. Any non-Israeli citizen, resident or entity that, among other things, (i) becomes a holder of 5% or more of our share capital or voting rights, (ii) is entitled to appoint one or more of our directors or our chief executive officer, or (iii) serves as one of our directors or as our chief executive officer (including holders of 25% or more of the voting power, equity or the right to nominate directors in such direct holder, if applicable), is required to notify the Chief Scientist of the same and to undertake to the Chief Scientist to observe the law governing the grant programs of the Chief Scientist, the principal restrictions of which are the transferability limits described above. For more information, see "Item 4.B—Information on the Company—Business Overview—Israeli Office of the Chief Scientist."

We may be subject to litigation and other claims, including, without limitation, 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 to 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.

Additionally, in May 2010, we received a notice from the Chief Scientist regarding alleged miscalculations in the amount of royalties paid by us to the Chief Scientist for the years 1992 through 2009 and the basis revenues of which the Company has to pay royalties. We believe that all royalties due to the Chief Scientist from the sale of products developed with funding provided by the Chief Scientist during such years were properly paid or were otherwise accrued as of December 31, 2012. During 2011 we reviewed with the Chief Scientist these alleged miscalculation differences and now await further instructions. Currently we are unable to assess the merits of the aforesaid arguments raised by the Chief Scientist. If such royalties were not properly paid or otherwise accrued, any such differences could result in the expenditure of significant financial resources.

Yehuda Zisapel and Zohar Zisapel beneficially own, in aggregate, approximately 41% of our ordinary shares and, therefore, have significant influence over the outcome of matters requiring shareholder approval, including the election of directors.

As of April 19, 2013, Yehuda Zisapel and Zohar Zisapel (the Chairman of our Board of Directors), who are brothers, may be deemed to beneficially own an aggregate of 2,748,213 ordinary shares, including options and warrants exercisable for 178,986 ordinary shares that are exercisable within 60 days of April 19, 2013, representing approximately 41% of our outstanding ordinary shares. As a result, despite the fact that each one of them, to our knowledge, operates independently from the other with respect to his respective shareholding of our shares, 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 or in management.

We engage in transactions, and may 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 may be pursued by one or more affiliated companies instead of with us. This could materially adversely affect our business and results of operations.

If we fail to adapt appropriately to the challenges associated with operating internationally, the expected growth of our business may be impeded and our operating results may be affected.

While we are headquartered in Israel, approximately 91% of our sales in 2012, 98% of our sales in 2011 and 95% of our sales in 2010 were generated outside of Israel, including in North America, Europe, Asia, South America and Australia. Our international sales will be limited if we cannot establish and maintain relationships with international distributors, set up additional foreign operations, expand international sales channel management, hire additional personnel, develop relationships with international service providers and operate adequate after-sales support internationally.

Even if we are able to successfully expand our international operations, we may not be able to maintain or increase international market demand for our products. Our international operations are subject to a number of risks, including:

- challenges in staffing and managing foreign operations due to the limited number of qualified candidates, employment laws and business practices in foreign countries, any of which could increase the cost and reduce the efficiency of operating in foreign countries;
- our inability to comply with import/export, environmental and other trade compliance and other regulations of the countries in which we do business, together with unexpected changes in such regulations;
- insufficient measures to ensure that we design, implement and maintain adequate controls over our financial processes and reporting in the future;
- our failure to adhere to laws, regulations and contractual obligations relating to customer contracts in various countries;
- our inability to maintain a competitive list of distributors for indirect sales;
- tariffs and other trade barriers;
- economic instability in foreign markets;
- wars, acts of terrorism and political unrest;
- language and cultural barriers;
- lack of integration of foreign operations;
- currency fluctuations;
- potential foreign and domestic tax consequences;
- technology standards that differ from those on which our products are based, which could require expensive redesign and retention of personnel familiar with those standards;
- longer accounts receivable payment cycles and possible difficulties in collecting payments, which may increase our operating costs and hurt our financial performance; and
- failure to meet certification requirements.

Any of these factors could harm our international operations and negatively affect our business, results of operations and financial condition. The continuing weakness in these economies or other foreign economies could have a significant negative effect on our future operating results.

Because most of our revenues are generated in U.S. dollars but a significant portion of our expenses are incurred in New Israeli Shekels, our results of operations may be seriously harmed by currency fluctuations and inflation.

Although we sell in markets throughout the world, most of our revenues are generated in U.S. dollars, and the majority of our cost of revenues is incurred in transactions denominated in dollars. Accordingly, we consider the U.S. dollar to be our functional currency. However, a significant portion of our expenses is in NIS, mainly related to employee expenses. Therefore, fluctuations in exchange rates between the NIS and the U.S. dollar may have an adverse effect on our results of operations and financial condition. As of today we have not entered into any hedging transactions in order to mitigate these risks. We may also be exposed to this risk to the extent that the rate of inflation in Israel exceeds the rate of potential devaluation of the NIS in relation to the dollar or if the timing of such devaluation lags behind inflation in Israel. In either event, the dollar cost of our operations in Israel will increase and our dollar-measured results of operations will be adversely affected.

Moreover, as our revenues are currently denominated primarily in U.S. dollars, devaluation in the local currencies of our customers relative to the U.S. dollar could cause customers to default on payment. An increasing portion of our revenues is now denominated in Brazilian Real, and in the future additional revenues may be denominated in currencies other than U.S. dollars, thereby exposing us to gains and losses on non-U.S. currency transactions.

Any inability to comply with Section 404 of the Sarbanes-Oxley Act of 2002 regarding having effective internal control procedures 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 ("Section 404") of the 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, if the public float of our shares were to exceed \$75 million, the Company's independent registered public accountants would be required to attest to and report on 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. 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. Further, we may identify material weaknesses or significant deficiencies in our assessments of our internal controls over financial reporting. Failure to maintain effective internal controls over financial reporting could result in investigation or sanctions by regulatory authorities and could have a material adverse effect on our operating results, investor confidence in our reported financial information and the market price of our ordinary shares.

If we determine that we are not in compliance with Section 404, we may be required to implement new internal controls procedures and re-evaluate our financial reporting. We may experience higher than anticipated operating expenses as well as third party advisors 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.

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.E—Additional Information—Taxation—United States Federal Income Tax Considerations—Taxation of U.S. Holders of Ordinary Shares—Passive Foreign Investment Company Status," if for any taxable year, after taking into account certain look-through rules, 75% or more of our gross income is passive income, or at least 50% of the fair market value of our assets, averaged quarterly over our taxable year, that produce (or are held for the production of) passive income, we may be characterized as a passive foreign investment company ("PFIC") for U.S. federal income tax purposes. The market capitalization approach has generally been used to determine the fair market value of the assets of a publicly traded corporation, although the U.S. Internal Revenue Service and the courts have accepted other valuation methods in certain valuation contexts. If we are classified as a PFIC, our U.S. shareholders could suffer adverse United States tax consequences, 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. For our 2012 taxable year, we believe that we should not be classified as a PFIC. However, there are no assurances that the IRS will agree with our conclusion or that we will not become a PFIC in 2013 or 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.

The market price of our ordinary shares has and may continue to fluctuate widely, which has adversely affected and could adversely affect us and our shareholders.

From January 1, 2012 to April 19, 2013, our ordinary shares have traded on the NASDAQ Capital Market ("NASDAQ") as high as \$5.72 and as low as 2.08 per share. As of April 19, 2013, the closing price of our ordinary shares on NASDAQ was \$3.06 per share. 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:

- our results of operations;
- market conditions or trends in our industry and the economy as a whole;
- 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;
- introductions of new products or new pricing policies by us or our competitors;
- trends in the communications or software industries, including industry consolidation;
- acquisitions or strategic alliances by us or others in our industry;
- changes in estimates of our performance or recommendations by financial analysts;
- changes in our shareholder base; 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, which would adversely affect our financial condition and our ability to maintain or expand our operations.

From time to time we may need to raise financing, and specifically in year 2013, the Company may consider raising additional funds. 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. This may prove even more challenging due to the recent global economic downturn. 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 may not satisfy NASDAQ's requirements for continued listing. If we cannot satisfy these requirements, NASDAQ could delist our ordinary shares.

Our ordinary shares are listed on NASDAQ under the symbol "RDCM". To continue to be listed on NASDAQ, we need to satisfy a number of conditions, including a minimum of \$2.5 million in shareholders' equity and a minimum bid price of at least \$1.00 per share. On November 9, 2009, we received a NASDAQ Staff deficiency letter informing us that, as of September 30, 2009, our shareholders' equity was \$63,000 below the NASDAQ minimum requirement for continued listing. On November 17, 2009, Mr. Zohar Zisapel, our Chairman of the Board and largest shareholder, exercised warrants to purchase 20,313 ordinary shares at an exercise price of \$3.20 per share for an aggregate purchase price of \$65,000. Following Mr. Zisapel's warrant exercise, our shareholders' equity was above the \$2.5 million minimum requirement. NASDAQ Staff informed us that it will continue to monitor our ongoing compliance with the minimum shareholders' equity requirement. Our shareholders' equity as of December 31, 2012 was \$5 million, and we believe that, as of the date of this Annual Report, our shareholders' equity remains above the \$2.5 million minimum requirement for continued listing.

In addition, beginning on November 17, 2008 our share price decreased below the \$1.00 minimum bid price per share. However, due to the extraordinary market conditions, NASDAQ implemented a temporary suspension on the enforcement of the minimum \$1.00 bid price listing requirement for continued listing until July 20, 2009. Our share price continued to be below the \$1.00 minimum bid price per share until September 9, 2009. Since September 9, 2009, and as of the date of this Annual Report, our share price has continued to be above the minimum \$1.00 bid price. As of April 19, 2013, the closing price of our ordinary shares on NASDAQ was \$3.06 per share.

We cannot assure you that we will be able to maintain compliance with the minimum shareholders' equity requirement or the minimum bid requirement, or that we will be able to continue to meet the other continued listing requirements of NASDAQ in the future. If we fail to comply with any of the continued listing requirements, we could be delisted from NASDAQ. If we are delisted from the NASDAQ, trading in our ordinary shares may be conducted, if available, on the Over the Counter Bulletin Board Service or another medium. In the event of such delisting, an investor would likely find it significantly more difficult to dispose of, or to obtain accurate quotations as to the value of our ordinary shares, and our ability to raise future capital through the sale of our ordinary shares could be severely limited. In addition, in the event of such delisting, we may be required to comply with reporting obligations under the Israeli securities laws, in addition to the reporting obligations under the SEC rules, which could distract our management and employees and increase our expenses.

The trading volume of our shares has been low in the past and may be low in the future, resulting in lower than expected market prices for our shares.

Our shares have been traded at low volumes in the past and may be traded at low volumes in the future for reasons related or unrelated to our performance. This low trading volume may result in lesser liquidity and lower than expected market prices for our ordinary shares, and our shareholders may not be able to resell their shares for more than they paid for them.

Risks Related 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 Israel. Accordingly, our operations and financial results could be adversely affected if political, economic and military events curtailed or interrupted trade between Israel and its present trading partners or if major hostilities involving Israel should occur in the Middle East.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Since October 2000, there has been a high level of violence between the Palestinians and Israelis, which has strained Israel's relationship with its Arab citizens, Arab countries and, to some extent, other countries around the world. In addition, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. In 2011 and 2012, riots and popular uprisings in several countries in the Middle East have led to severe political instability in those countries. This instability may lead to deterioration of the political and trade relationships that exist between Israel and some of these countries. In addition, this instability may affect the global economy and marketplace. We do not believe that the political and security situation has had a material impact on our business to date; however, there can be no assurance that this will be the case for future operations. We could be adversely affected by any major hostilities, including acts of terrorism or any other hostilities involving or threatening Israel, the interruption or curtailment of trade between Israel and its trading partners, a significant downturn in the economic or financial condition of Israel or a significant increase in the rate of inflation. Furthermore, several countries restrict business with Israel and Israeli companies, and additional countries or companies may restrict doing business with Israel and Israeli companies as the result of the aforementioned hostilities. No predictions can be made as to whether or when a final resolution of the area's problems will be achieved or the nature thereof and to what extent the situation will impact Israel's economic development or our operations.

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

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. Some of our officers and employees are currently obligated to perform military reserve duty from time to time. In the event of a military conflict, including the ongoing conflict with the Palestinians, these persons could be required to serve in the military for extended periods of time and on very short notice. The absence of a number of our officers and employees for significant periods could disrupt our operations and harm our business. Given these requirements, we believe that we have operated relatively efficiently since beginning our operations. However, we cannot assess what the full impact of these requirements on our workforce or business would be if the situation with the Palestinians or any other adversaries changes, and we cannot predict the effect on our business operations of any expansion or reduction of these military reserve requirements.

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

We currently receive grants under Government of Israel programs. As of December 31, 2012, our contingent liability to the Chief Scientist in respect of research grants received was approximately \$33.5 million. In order to maintain our eligibility for these programs, we must continue to meet specific conditions and pay 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. These programs 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. If the Government of Israel discontinues or curtails these programs, our business, financial condition and results of operations could be materially adversely affected. For more information, see "Item 4.B—Information on the Company—Business Overview—Israeli Office of the Chief Scientist."

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, 5759-1999 (the "Israeli 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, 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 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.

Also, in certain circumstances an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% or greater or 45% or greater shareholder of the company (unless there is already a 25% or greater or a 45% or greater shareholder of the company, respectively). If, as a result of an acquisition, the acquirer would hold more than 90% of a company's shares, the acquisition must be made by means of a tender offer for all of the shares.

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 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. None of our executive officers or directors named in this Annual Report is a resident of the United States. A substantial portion of our assets and the assets of such persons are located outside of 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.

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 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"), a New Jersey corporation, which serves as our agent for sales and service of our products in North America. 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 (96) Ltd. ("RADCOM Investments"), an Israeli company, 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. This company was dissolved on December 2, 2008. In 2010, we established a wholly-owned subsidiary in Brazil, RADCOM do Brasil Comercio, Importacao E Exportacao Ltda., ("RADCOM Brazil"). RADCOM Brazil is located at 46 Rua Calçada Antares, Alphaville, Santana de Parnaíba, São Paulo, and its telephone number is 55(11) 41537430. In 2012, we incorporated a wholly-owned subsidiary in India, RADCOM Trading India Private Limited. ("RADCOM India"), an Indian company, located at Level 4, Rectangle 1, Commercial Complex D-4, Saket, New Delhi – 110017, and its telephone number is +91-11-4051-4079.

For a discussion of our capital expenditures, see "Item 5—Operating and Financial Review and Prospects."

B. BUSINESS OVERVIEW

Below are the definitions of certain technical terms that are used throughout this Annual Report that are important for understanding our business.

GLOSSARY

3G	Third-generation digital cellular networks.
3.5G	3.5 generation digital cellular networks.
4G	Fourth-generation digital cellular networks.
BSS	Business Support System. the components that a telephone operator uses to run its business operations that relate to the customer/subscriber usage; handles taking orders, processing bills, and collecting payments.
CDMA	Code Division Multiple Access. A digital wireless technology that uses a modulation technique in which many channels are independently coded for transmission over a single wideband channel.
CODEC	CODer/DECoder. Converts and compresses voice signals from their analog form to digital signals acceptable to modern digital PBXs and digital transmission systems. It then converts and decompresses those digital signals back to analog signals so that they can be heard and understood.

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.
CEM	Customer Experience Management. A solution to support the strategy that focuses the operations and processes of a business around the needs of the individual customer.
GSM	Global System for Mobile Communications. A digital wireless technology that is widely deployed in Europe and, increasingly, in other parts of the world.
GPRS	General Packet Radio Service. A packet-based digital intermediate speed wireless technology based on GSM (2.5 generation)
IMS	IP Multimedia Subsystem. An internationally recognized standard defining a generic architecture for offering Voice over IP and multimedia services to multiple-access technologies.
IPTV	Internet Protocol TV. 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).
LTE	Long Term Evolution. LTE is a set of enhancements to the Universal Mobile Telecommunications System (UMTS) which was introduced in 3rd Generation Partnership Project (3GPP) Release 8. Much of 3GPP Release 8 focuses on adopting 4G mobile communications technology, including an all-IP flat networking architecture.
	Network-Attached Storage. File-level computer data storage connected to a computer network providing data access to heterogeneous network clients. NAS systems contain one or more hard disks, often arranged into logical, redundant storage containers or RAID arrays (redundant arrays of inexpensive/independent disks).
NAS	
NGN	Next Generation Network. General term for packet-based networks, whether wireline (Voice Over IP, Video Over IP, etc.) or 3G networks.
OSS	Operational Support System. A suite of programs that enables the enterprise to monitor, analyze and manage a network system. Used in general to mean a system that supports an organization's network operations.
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.
RAN	Radio Access Network. A part of a mobile telecommunication system. It implements a radio access technology. Conceptually, it sits between the mobile phone, and the core network.

SBC	Single Board Computer. A complete computer built on a single circuit board. The design is centered on a single or dual microprocessor with RAM, I/O and all other features needed to be a functional computer on the one board. The term "Single Board Computer" now generally applies to an architecture where the Single Board Computer is plugged into a backplane to provide for I/O cards. SBCs are most commonly used in industrial situations in rack mount format for process control or embedded within other devices to provide control and interfacing.
SIGTRAN	The name, derived from signaling transport, of a defunct Internet Engineering Task Force (IETF) working group that produced specifications for a family of protocols that provide reliable datagram service and user layer adaptations for Signaling System 7 (SS7) and ISDN communications protocols. The SIGTRAN protocols are an extension of the SS7 protocol family and are used today together with IMS.
SIP	Session Initiation Protocol. A simple application layer signaling protocol for VoIP implementations. It is a textual client server based protocol and provides the necessary mechanisms so that end user systems and proxy servers can provide various different services.
TCP	Transmission Control Protocol is defined in IETF RFC793. TCP provides a reliable stream delivery and virtual connection service to applications through the use of sequenced acknowledgment with retransmission of packets when necessary. It is one of the core protocols of the Internet Protocol Suite. TCP is one of the two original components of the suite (the other being Internet Protocol, or IP), so the entire suite is commonly referred to as TCP/IP. Whereas IP handles lower-level transmissions from computer to computer as a message makes its way across the Internet, TCP operates at a higher level, concerned only with the two end systems, for example a Web browser and a Web server.
TD-SCDMA	Time Division Synchronous Code Division Multiple Access. A 3G mobile telecommunications standard, being pursued in the People's Republic of China by the Chinese Academy of Telecommunications Technology (CATT).
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.
UMTS	Universal Mobile Telecommunications Service. 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.
VoIP	Voice Over IP. A telephone service that uses the Internet as a global telephone network.
WAP	Wireless Application Protocol. Aims to provide Internet content and advanced telephony services to digital mobile phones, pagers and other wireless terminals. The protocol family works across different wireless network environments and makes web pages visible on low-resolution and low-bandwidth devices. WAP phones are "smart phones" allowing their users to respond to e-mail, access computer databases and to empower the phone to interact with Internet-based content and e-mail.

Overview

We provide innovative service assurance and customer experience monitoring solutions for communications service providers and equipment vendors. We specialize in solutions for next-generation networks, both wireless and wireline. Our comprehensive, carrier strength solutions are used to prevent service provider revenue leakage and enable management of customer quality of experience. Our products facilitate network and service performance analysis, troubleshooting calls and sessions and pre-mediation with an OSS/BSS.

We believe that we can be differentiated from our competitors in three main areas: (1) the advanced technology that underlies our solutions, especially the multi-technology correlation capabilities of our Omni-Q solution and our R70S probe, each described below; and (2) our proven ability to be flexible and responsive in an environment of rapidly changing technology and customer requirements, evolving industry standards and frequent new product introductions; and (3) our determination to become an industry leader for next generation technologies.

During 2012 we continued a trend from 2010 of an increase in the relative portion of medium-to-large sized deals, reflecting our success in creating business relations with more Tier-I and Tier-II operators.

We currently offer the following solutions:

Service Assurance: Our Omni-Q is a unique, next-generation network service assurance solution. Going beyond traditional monitoring solutions, the Omni-Q offers users a full array of drilldown and troubleshooting tools, delivering a comprehensive, integrated network service view that facilitates performance monitoring, fault detection and network and service troubleshooting.

Our Omni-Q is a monitoring solution for multiple services such as voice, video and data, employing a comprehensive array of service and network performance and measurement methodologies to continuously analyze service performance and quality. With its enhanced correlation capabilities, the Omni-Q offers the service provider full end-to-end visibility of the network across technologies. The Omni-Q solution displays performance and quality measurements from both the signaling and the user planes, based on a broad range of active and non-intrusive hardware and software probes.

Our unique service assurance solution presents a seamless integration between traditional network monitoring and troubleshooting solutions, and an advanced set of service assurance monitoring applications. This set of powerful and intuitive applications added to our proven Omni-Q service assurance solution provides solutions for every aspect of the network. This scalable solution for service assurance supports a wide range of applications: network troubleshooting, network quality monitoring, service quality monitoring, customer experience management, customer quality of service monitoring and customer service level agreements monitoring.

The Omni-Q system consists of a powerful and user-friendly central management module and a broad range of intrusive and non-intrusive probes used to gather transmission quality data from various types of networks and services, including VoIP, UMTS, LTE, CDMA, IPTV, IMS data and others. Signaling and media attributes and quality measurement enhanced detail records ("eDRs") collected from the probes in the QManager (the central site-management software) are stored in the solution's embedded database. These can then be used by either the QExpert (the Web-based analysis and reporting module) or the Dashboard (the Web-based user interface) to perform service performance analysis, drilldown and troubleshooting on key performance indicators ("KPIs") and key quality indicators ("KQIs").

Network analyzers: Our legacy network protocol analyzer product lines offer cellular, VoIP and data communications operators with standalone solutions for network testing, troubleshooting and analysis. Our network analyzers support over 700 protocols with multiple interfaces, allowing users to quickly and simply troubleshoot and analyze complex networks.

Industry Background

Service providers deploy unified, packet-based platforms with broadband 3G and 4G 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 and mobile broadband, video streaming, 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 (both equipment vendors and service providers) need sophisticated monitoring solutions.

Service providers need these solutions to reduce the time-to-market of new services while assuring the highest quality of experience to their customers. In today's market it is no longer enough to maintain the network performance and handle infrastructure faults, but it is essential to understand the real customer experience for the new services, to assure customer adoption of new services and avoid customer churn. For these reasons, the demand for next-generation probe-based service assurance and monitoring systems is growing.

Our Customers and the Markets for Our Solutions

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

For Service Providers:

- improved quality, availability and network utilization and lower churn rates;
- improved efficiency of human resources allocation due to the utilization of a unified monitoring solution, ensuring ease of use and reduced learning curves; and
- decreased support costs through centralized management, ability to offer premium service level agreements ("SLAs") and level of experience ("LOE") results based on measurable parameters and all-inclusive, probe-based solutions.

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

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

Telecommunications Service Providers (wireless and wireline) are organizations responsible for providing telecommunications services. Our products are used by this group of end-users for three main categories: engineering and operation, marketing and management and customer support.

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 the 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 continue expanding our sales by offering tailored solutions to service providers in targeted geographical regions, by continuing to pursue our goal of establishing RADCOM as an industry leader, and by extending our partnering and channeling activities. Key elements of our strategy include:

- **In emerging regions, targeting UMTS and VoIP operators.** In many regions of Latin America, Eastern Europe, Africa and Asia, service providers continue to roll out UMTS and VoIP networks. We believe this represents a significant opportunity for RADCOM. In 2012, approximately 52% of our sales were derived from these regions, compared to approximately 69% of our sales in 2011, and we expect these regions to continue to make significant contributions to our revenues in the future. To improve our ability to reach and support customers in emerging markets, we continue to expand our distributor network and to provide comprehensive support and also formed a new subsidiary in Brazil in 2010 and a new subsidiary in India in 2012.
- **In developed regions, targeting service providers migrating to LTE and IMS.** In Europe and North America, we have begun to benefit from the migration of top-tier service providers to LTE and IMS activities and deployments, despite the fact that this market has been developing more slowly than initially expected. We are seeing the growing deployment of hybrid IMS/NGN networks, whose greater complexity dictates a need for more sophisticated monitoring solutions. We believe that our ability to secure initial customers with deployments of our solution in live LTE and IMS operational networks positions us to benefit from this trend in the future.
- **Investment in the RADCOM brand “Radically Better” approach and technological excellence of our solutions.** In September 2012, we initiated a re-branding process both internally and towards third parties, including our customers and suppliers. The brand is known as the “Radically Better” brand. The philosophy behind this new brand is that the Company aims to be the best company for its subscribers, customers, distributors, employees and investors in the service assurance market segment. The brand also encompasses the view that RADCOM’s uniqueness is in delivering superior service assurance products to the market, and supporting them with the finest deployment and service execution. The brand’s marketing message is one of promising to be significantly better in the Company’s values: Radically better products, radically better service, radically better people, radically better performance. RADCOM’s products have always been differentiated by their advanced technology and their ability to offer comprehensive solutions in response to the industry’s most difficult problems. We intend to continue a high level of investment to maintain our technological edge in a dynamic environment. This includes hiring of skilled personnel and investing significant resources in training, retention and motivation of high quality personnel. Training programs cover areas such as technology, applications, development methodology and programming standards.

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-based service assurance solution, designed to enable telecommunications carriers to carry out end-to-end voice and data quality monitoring and to manage their networks and services.

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 IMS, VoIP, UMTS, CDMA, LTE and data. These probes are based on our R70S probe, 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 Omni-Q is designed to enable service providers and vendors to succeed in their efforts to address significant technology challenges, including:

- deployment of next-generation networks such as LTE, high-speed downlink packet access and Triple Play;
- integration of new architectures such as high-speed downlink packet access (“HSDPA”), high-speed uplink packet access (“HSUPA”), LTE, IMS, UMTS Release 6 and CDMA Rev’ A or evolution data voice (“EVDV”);
- migration of the network core to IP technology using IMS or SIGTRAN;
- successful delivery of advanced, complex 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.

In general, telecommunications service providers (wireless and wireline) use Omni-Q for the following tasks:

Service Assurance:

- Troubleshooting – the Omni-Q enables service providers to "drill down" to identify the source of specific problems, using tools ranging from call or session tracing to a full decoding of the call flow.
- Performance monitoring – service providers use Omni-Q to analyze the behavior of network components and customer network usage to understand trends, performance level and optimization, with the goal of identifying faults before they compromise the end-user experience
- Fault detection – service providers use Omni-Q's automatic fault detection and service KPIs to alert them to network problems as they arise.
- Pre-Mediation – Omni-Q generates CDRs needed to feed third-party OSSs or other solutions.

Roaming and Interconnect Analysis:

The Omni-Q can be used by service providers to monitor their roaming and interconnect traffic. By identifying problematic links, service providers are able to avoid revenue loss, to detect problems with specific roaming partners and to manage interconnection KPIs.

Customer Experience Management:

Customer Experience Management (CEM) gives insight into customer experience for mobile broadband and smartphones. Revenue-generating services require a well-managed network and mature service-delivery processes. Customers have high expectations of their communications services. Service providers need to know what customers are experiencing, even before the customers do, in order to retain their subscribers and maintain their profitability.

Omni-Q provides the visibility and invaluable data that the service provider needs in order to manage both network and service performance and to ensure quality of service for subscribers. Omni-Q monitors a wide range of measurement sessions that are meaningful to the end user, to provide this CEM. By analyzing these measurements in real time and applying business intelligence, Omni-Q provides realistic insight not only into the end user quality of experience but also into the corresponding quality of the service provider's TCP/IP network.

The CEM solution includes:

- Customer Care Application, or QiCare, helps service providers to reduce churn by monitoring and maintaining a high level of satisfaction for the individual subscriber, group of subscribers and entire subscriber base. QiCare enables service providers to view subscriber reports for individual subscribers and helps them to understand the subscribers behavior and the quality of the different services being used online.

- (QVIP) – Reports SLA for defined subscriber groups. In today's saturated telecom markets, subscribers often abandon their service provider due to frustration over quality of service, with customer churn contributing to significant loss of revenue. RADCOR's QVIP application helps service providers to monitor and maintain a high level of satisfaction for the individual subscriber, a group of subscribers and an entire network.
- (QMyHandset) enables identification of problematic handsets, and provides analysis of the cause of the problem. By identifying problematic handsets, operators can quickly make the required adjustments to their network to provide support for more handset models, thus improving the customer experience and hopefully preventing customer churn.

The Performer Family

The Performer family is an open platform that supports a wide range of test applications over a variety of technologies. We believe it is unique in the industry for its combination of strong hardware performance and flexible user-oriented software. With simplified control from a central console, the Performer hardware and software suite tests the quality and grade of service of real-world network environments.

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. It 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 the Network Consultant, customers can zoom in and view the signaling and procedures on each interface separately, whether from an online or offline vantage point. Both RANalysis and eDiamond are different tools within the Cellular Performer applications family, each being deployed for different purposes.

The eDiamond is a new LTE smart analyzer providing a troubleshooting solution for LTE. Our eDiamond is a tool to use for LTE integration, beginning from a protocol analyzer for an entry level LTE lab and up until troubleshooting LTE network deployments. Our eDiamond LTE smart analyzer provides an end-to-end view of network performance and correlates information detected in the different interfaces in one display, as well as drilling down to root cause analysis. Its wide range of features provides both online and offline working modes, end-to-end access, core interfaces troubleshooting and service level overviews.

The RANalysis is a solution that changes the way deep UMTS radio analysis is done, resulting in fast and easy RAN analysis in UMTS networks. With the number of services, mobile devices, and customers using wireless networks expected to grow every year, radio-optimization engineers need a long-term solution that can provide a quick and easy view of problems in wireless cells. RANalysis is an easy-to-use application that offers engineers rich functionality and focused reports. 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 following table shows the breakdown of our consolidated sales for the fiscal years 2012, 2011 and 2010 by product line:

	Year ended December 31,		
	2012	2011	2010
	(in thousands of U.S. dollars)		
The Omni-Q family	\$ 15,205	\$ 20,949	\$ 17,489
The Performer family and others	\$ 581	\$ 1,038	\$ 1,684
Total	\$ 15,786	\$ 21,987	\$ 19,173

Sales and Marketing Organization

We sell to customers throughout the world via both direct and indirect channels.

Indirect channels: In several markets we sell our products through a network of independent distributors who market data communications-related hardware and software products. We currently have more than 30 independent distributors, some of whom have exclusive rights to sell our products in their respective geographical areas. We have regional sales support offices in China, Singapore and Spain. These offices support our distributors and direct sales 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 are in charge of selling, deploying and servicing the system. In addition 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 substantially standard contract with our distributors. Based on this agreement, sales to distributors are generally 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 its customers. This is a final sale, and there are no rights of return. The distributor cannot sell this demo 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.

Direct channels: In North America we operate through our wholly-owned U.S. subsidiary, RADCOM Equipment, which primarily sells our products to end-users directly or, in certain instances, through independent representatives. Although our Omni-Q network monitoring solution is also sold on a non-exclusive basis by sales representatives, for the most part it is sold directly by RADCOM Equipment. The independent representatives 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 provide training to the end-users. The customers submit orders directly to RADCOM Equipment, which invoices the end-user customers and collects payment directly, and then pays commissions to the representatives for the sales in their territories. The commission ranges between 5% and 17%, depending on the agreement RADCOM Equipment has with the individual representative.

In 2010, we established a wholly owned Brazilian subsidiary, RADCOM Brazil, which primarily sells our products to end-users in the Brazilian market directly. Our products may also be sold to the end-users directly by RADCOM LTD or through independent representatives in a manner similar to the one deployed in North America. RADCOM Brazil's employees engage primarily in the sales, marketing and customer support activities of our customers in Brazil.

In 2012, we established a wholly owned Indian subsidiary, RADCOM India, which primarily provides marketing services and customer support in the Indian market. Our products are sold to the end-users directly by RADCOM LTD. RADCOM India's employees engage primarily in marketing activities and customer support of our customers in India.

Since 2008, we have been increasing our sales through a direct channel, whereby our customers (the end-users) can enter into an agreement directly with us. In these situations, we sell directly to customers and collect payment directly from them. If a distributor is engaged in the sale, we pay the distributor a commission, which is normally calculated as a percentage of the sale price. During 2012, this direct channel was used in certain markets, mainly in North America, South America, Central America and Asia. In North America and Brazil this activity was performed by our wholly owned subsidiaries. We expect its use to continue to grow in future years, as direct agreements are increasingly required by our customers.

Geographic Markets: The table below indicates the approximate breakdown of our revenue by territory:

	Year ended December 31, (in millions of U.S. dollars)			Year ended December 31, (in percentages)		
	2012	2011	2010	2012	2011	2010
Europe	3.0	6.4	4.8	19.0	29.1	25.0
North America	3.9	3.2	3.0	24.7	14.5	15.6
Asia	2.8	4.3	3.6	17.7	19.6	18.8
South America (Excluding Brazil)	2.8	2.3	2.1	17.7	10.5	10.9
Brazil	1.9	5.2	4.1	12.0	23.6	21.3
Others	1.4	0.6	1.6	8.9	2.7	8.4
Total revenues	15.8	22.0	19.2	100%	100.0%	100.0%

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. Our principal competitors include JDSU (Agilent), Danaher (Tektronix), Tekelec, Astelia, Anritsu (Nettest), Commprove, Netscout, Osix, Exfo and Empirix. In addition to these competitors, we expect substantial competition from established and emerging communications, network management and test equipment companies. Many of these competitors have substantially greater resources than we have, including financial, technological, engineering, manufacturing, marketing and distribution capabilities, and some of them may enjoy greater market recognition than we do.

We believe that our competitive edge derives primarily from the advanced technology which underlies our probe-based solutions, and from our ongoing efforts to achieve superior customer satisfaction. Differentiated by the integration of high-performance active and non-intrusive probes with a relatively small footprint, our solution provides cost-effective, unified monitoring and analysis of high-capacity converged networks.

Customer Service and Support

We believe that providing a high level of customer service and support to end-users is essential to our success, and we have established a strategic goal of establishing RADCOM as an industry leader in customer satisfaction. Investments that we are making to achieve this goal include:

- **Enhancement of support:** We are dedicated to the provision of timely, effective and professional support for all our customers. On-call support is provided by our direct sales/support force as well as by our representatives, distributors and OEM partners. In addition, we routinely contact our customers to solicit feedback and promote full usage of our solutions. We provide all customers with a free one-year warranty, which includes bug-fixing solutions and a hardware warranty on our products. After the initial warranty period, we offer extended warranties which can be purchased for one, two or three-year periods. Generally the cost of the extended warranty is based on a percentage of the overall cost of the product as an annual maintenance fee.

- **Customer-oriented product development:** with the goal of continuously enhancing our customer relationships, we meet regularly with customers, and use the feedback from these discussions to improve our products and guide our R&D roadmap.
- **Regional technical support:** As selling a system and solutions requires a high level of technical skill, we decided to enhance our support with local experts located in our regional offices. For example, in our Brazil office we established a local support team responsible for first level engagements with customers, which is advantageous in terms of the time zone, culture and language.

Support of our representatives and distributors: we provide a high level of pre- and post-sale technical support to our distributors and representatives in the field. We use a broad range of channels to deliver this support, including help desks, websites, newsletters, technical briefs, E-Learning systems, technical seminars, and others.

Seasonality of Our Business

In addition to general market and economic conditions, such as overall industry consolidation, the pace of adoption of new technologies, and the general state of the economy, our orders are affected by our customers' capital spending plans and patterns. Our orders, and to a lesser degree revenues, are typically highest in our fourth fiscal quarter when our customers have historically increased their spending to fully utilize their annual capital budgets. Consequently, our first quarter orders are usually lower compared to the last quarter of the previous year, and often are the lowest of the year.

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 prices of the supplies we purchase from our vendors are relatively steady and not volatile. The manufacturing processes and procedures are generally ISO 9001: 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 manufacturers' 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 \$6.1 million in 2012, \$5.9 million in 2011 and \$4.3 million in 2010, representing 38.7%, 26.7% and 22.5% of our sales, respectively. Aggregate research and development expenses funded by the Office of the Chief Scientist were approximately \$1.6 million in 2012, \$1.2 million in 2011 and \$1.4 million in 2010. For more information on 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, 2012, our research and development staff consisted of 53 employees, a decrease of 3 employees compared to December 31, 2011. 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 of the Israeli Ministry of Industry, Trade and Labor (the "Chief Scientist"). Grants received under such programs are repaid through a mandatory royalty based on revenues from products developed pursuant to such programs or deriving therefrom (and related services). This government support is contingent upon our ability to comply with certain applicable requirements and conditions specified in the Chief Scientist's programs, 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 the Research Committee.

In exchange, the recipient of such grants is required to pay the Chief Scientist royalties from the revenues derived from products developed pursuant such programs or deriving therefrom (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 December 31, 2012, our royalty rate was 3.5%.

The R&D Law generally requires that the product developed under a program be manufactured in Israel. However, following notification to the Chief Scientist (provided that the Research Committee did not provide its objection), 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, in both cases 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 of 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 as part of its approval of the program 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 is 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. An 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 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 Research Committee, under special circumstances, may approve the transfer of Chief Scientist-funded know-how outside of Israel, in the following cases: (a) if the grant recipient pays to the Chief Scientist a portion of the sale price paid in consideration of such funded know-how or in consideration for the sale of the grant recipient itself, as the case may be, which portion will not exceed six times the amount of the grants received by the grant recipient plus interest (or three times the amount of the grants received plus interest, in the event that the recipient of the know-how has committed to retain the R&D activities of the grant recipient in Israel after the transfer); (b) if the grant recipient receives know-how from a third party in exchange for its funded know-how; (c) if such transfer of funded know-how arises in connection with certain types of cooperation in research and development activities; or (d) if such transfer of know-how arises in connection with a liquidation by reason of insolvency or receivership of the grant recipient.

The R&D Law imposes reporting requirements with respect to certain changes in the ownership of a grant recipient. The R&D 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 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 Chief Scientist that it has become an interested party and to sign an undertaking to comply with the R&D Law. Furthermore, the R&D Law imposes reporting requirements in the event that proceedings commence against the grant recipient, including under certain applicable liquidation, receivership or debtor's relief law or in the event that special officers, such as a receiver or liquidator, are appointed to the grant recipient.

Failure to meet the R&D Law's requirements may subject us to mandatory repayment of grants received by us (together with interest and penalties), as well as expose us to criminal proceedings. In addition, the Government of Israel may from time to time audit sales of products which it claims incorporates technology funded through Chief Scientist programs which may lead to additional royalties being payable on additional products.

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, 2012, our contingent liability to the Chief Scientist in respect of grants received was approximately \$33.5 million.

In May 2010, we received a notice from the Chief Scientist regarding alleged miscalculations in the amount of royalties paid by us to the Chief Scientist for the years 1992 through 2009. We believe that all royalties due to the Chief Scientist from the sale of products developed with funding provided by the Chief Scientist during such years were properly paid or were otherwise accrued as of December 31, 2012. During 2011, we reviewed with the Chief Scientist these alleged miscalculation differences and now await further instructions. At this preliminary stage we are unable to assess the merits of the aforesaid arguments raised by the Chief Scientist.

Binational Industrial Research and Development Foundation

We received from the Israel-U.S. Binational Industrial Research and Development Foundation (the "BIRD Foundation") funding for the research and development of products. We are 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 of such products, up to 150% of the grant received, linked to the United States Consumer Price Index. As of December 31, 2012, our contingent liability to the BIRD Foundation for funding received was approximately \$348,000. We have not received grants from the BIRD Foundation since 1995. Since 2003, we have not generated sales of products developed with the funds provided by the BIRD Foundation, and we have therefore not been required to pay royalties since such time.

Israeli Ministry of Industry, Trade and Labor

The Government of Israel, through the Israeli Ministry of Industry, Trade and Labor (the "MITL"), encourages Israeli companies to broaden their business and exports to India. In April 2012 the MITL approved our application for funding to help set up our Indian subsidiary as part of a designated grant plan for the purpose of setting up and establishing a marketing agency in India. The grant is intended to cover up to 50% of the costs of the office establishment, logistics, expenses and hiring employees and consultants in India based on the approved budget for the plan for a period of 3 years.

We are obligated to pay to the MITL royalties of 3% from the revenues derived in India up to an aggregate of 100% of the dollar-linked value of the total grant for a period of up to 7 years from the last year of the plan. As of December 31, 2012, we have received a total of \$55,000 in grants from the MITL.

Proprietary Rights

To protect our rights to our intellectual property, we rely upon a combination of trademarks, contractual rights, trade secret law, copyrights, non-disclosure agreements and technical measures to establish and protect our proprietary rights in our products and technologies. We own registered trademarks for the names Omni-Q™, GearSet™, and Wirespeed™. In addition, we sometimes enter into non-disclosure and confidentiality agreements with our employees, distributors, sales representatives 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).

Employees

As of December 31, 2012, we had 101 employees located in Israel, 8 employees of RADCOM Equipment located in the United States, 9 employees of RADCOM Brazil located in Brazil, 4 employees of RADCOM India located in India and 10 employees in total located in Spain, Singapore, Guatemala, China, Honduras and Paraguay collectively. Of the 101 employees located in Israel, 57 were employed in research and development, 7 in operations (including manufacturing and production), 27 in sales and marketing and customer support, and 10 in administration and management. Of the 8 employees located in the United States, 7 were employed in sales, marketing and customer support and 1 was employed in administration and management. Of the 9 employees located in the Brazil, 8 were employed in sales, marketing and customer support and 1 was employed in administration and management. Of the 14 employees located in Spain, Singapore, Guatemala, Honduras, Paraguay, India and China, 11 were employed in sales, marketing and customer support and 3 were employed in administration and management. We consider our relations with our employees to be good and we have never experienced a strike or work stoppage. As of December 31, 2012, all of our 132 employees located worldwide were permanent employees. All of our permanent employees have employment agreements and, with the exception of Brazil, none of them are represented by labor unions.

Although we are not a party to a collective bargaining agreement in Israel, we are subject to the provisions of the extension orders applicable to all employees in the Israeli market, including transportation allowance, annual recreation allowance, the lengths of the workday and workweek and mandatory general insurance pension. In addition, we may be subject to the provisions of the extension order applicable to the Metal, Electricity, Electronics and Software Industry. 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 wages for workers, procedures for dismissing employees, determination of severance pay, leaves of absence (such as annual vacation or maternity leave), sick pay and other conditions of employment.

In Israel, a general practice we follow is the contribution of funds on behalf of most of our permanent employees to an individual insurance policy known as "Managers' Insurance" or a pension fund. The contribution rates towards such Managers' Insurance are above and beyond the legal requirement. This policy provides a combination of savings plan, disability 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 up to 7% of such employee's base salary, and we contribute between 13.3% and 15.8% of the employee's base salary. Full-time employees who are not insured in this way, if any, 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, and on top of such contributions we are required to contribute additional contributions for severance liability as provided by law (4.18% during 2012 and 5.00% for 2013).

Effective January 1, 2012, our employment agreements with new employees in Israel are in accordance with Section 14 of the Israeli Severance Pay Law – 1963, which provide that our contributions to severance pay fund shall cover our entire severance obligation. Upon termination, the release of the contributed amounts from the fund to the employee shall relieve us from any further severance obligation and no additional payments shall be made by us to the employee. As a result, the related obligation and amounts deposited on behalf of such obligation are not stated on the balance sheet, as we are legally released from severance obligation to employees once the amounts have been deposited, and we have no further legal ownership on the amounts deposited. Consequently, effective from January 1, 2012, we increased our contribution to the deposited funds to cover the full amount of the employees' salaries.

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 (generally up to a certain ceiling provided in the Israeli Income Tax Regulations). 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 Israeli Consumer Price Index ("CPI"). 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.

In Brazil, we provide benefits in the form of health coverage, including health, vision and dental coverage, in an amount equal to up to 20% of the employee's base salary.

C. ORGANIZATIONAL STRUCTURE

In January 1993, we established our wholly-owned subsidiary in the United States, RADCOM Equipment, which conducts the sales, marketing and customer support of our products in North America. In July 1996, we incorporated a wholly-owned subsidiary in Israel, RADCOM Investments, for the purpose of making various investments, including the purchase of securities. In 2002, we established a wholly-owned Representative Office in China, which conducts the marketing for our products in China. In 2010, we established RADCOM Brazil, our wholly-owned subsidiary in Brazil, which conducts the sales, marketing and customer support of our products in Brazil. In 2012, we established RADCOM India, our wholly-owned subsidiary in India, which conducts the sales, marketing and customer support of our products in India. The following is a list of our subsidiaries, each of which is wholly-owned:

<u>Name of Subsidiary</u>	<u>Jurisdiction of Incorporation</u>
RADCOM Equipment	New Jersey
RADCOM Investments	Israel
RADCOM Brazil	Brazil
RADCOM India	India

Yehuda Zisapel and Zohar Zisapel are co-founders and principal shareholders of the 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, who 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. 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. For more information, see "Item 7.B—Major Shareholders and Related Party Transactions—Related Party Transactions" below.

D. PROPERTY, PLANTS AND EQUIPMENT

We do not own any real property. We currently lease an aggregate of approximately 17,481 square feet of office space in Tel Aviv, Israel, which includes approximately 16,630 square feet leased from affiliates of our principal shareholders. This space includes our manufacturing facilities, which consist primarily of final assembly, testing and quality control of materials, wiring, subassemblies and systems. In 2012, the aggregate annual lease and maintenance payments for the Tel Aviv premises were approximately \$500,000, of which approximately \$375,000 was paid to affiliates of our principal shareholders. We may, in the future, lease additional space from affiliated parties.

We also lease an aggregate of approximately 4,600 square feet of office space in Paramus, New Jersey, from an affiliate of our principal shareholders, and subleased approximately 500 square feet of such space to a related party. In 2012, our aggregate annual lease payments for such premises were approximately \$87,570, and we received \$10,080 from the related party for the sub-lease.

We believe that our offices and facilities are adequate for our current needs and that suitable additional or substitute space will be available when needed.

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.D—Key Information—Risk Factors" – are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Although we believe the expectations reflected in the forward-looking statements contained in this Annual Report are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We assume no duty to update any of these forward-looking statements after the date of this Annual Report to conform our prior statements to actual results or revised expectations, except as otherwise required by law.

Overview

We provide innovative service assurance solutions for communications services providers and equipment vendors. We specialize in solutions for next-generation networks, both wireless and wireline. Our comprehensive, carrier strength solutions are used to prevent service provider revenue leakage and enable management of customer care. Our products facilitate fault management, network service performance analysis, troubleshooting and pre-mediation with an OSS/BSS.

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 U.S.GAAP. 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 and the majority of our cost of revenues is incurred in transactions denominated in dollars. Accordingly, we consider the U.S. dollar to be our functional currency and our consolidated financial statements are prepared in dollars.

Our business improved from the middle of 2009 until the end of 2011, following the recovery after the severe impact of the global economic slowdown. During 2012, especially during the first half of the year, the telecommunications market experienced a slowdown which affected the spending budget of telecommunications carriers. 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 and LTE cellular, Voice over IP and Triple Play networks. Since 2010, we have focused our sales efforts on targeted emerging markets, in which operators are rolling out 3G and LTE cellular and Voice over IP networks, and on developed markets currently introducing Triple Play services based on the IMS platform and mobile broadband services. These market segments continued to grow in 2011, after the global economic slowdown, but experienced a slowdown in 2012, especially during the first half of the year, which slowed down the capital spending of our customers. We observed an improvement in the telecommunications market during the second half of 2012 and are expecting the market to continue to grow in 2013 and beyond, helping us to continue to improve our business.

Since 2010, we followed a three-pronged sales strategy designed to expand our sales pipeline and revenues:

- In emerging markets, including South America, Central America, Eastern Europe, Africa and Asia, our strategy has been to target customers rolling out 3G Cellular and Voice Over IP services.
- In developed markets, including Europe and North America, we have been targeting the IMS activities and deployments of top-tier wireline service providers, and the LTE & mobile broadband networks of wireless operators.
- To improve our ability to penetrate targeted customers in all regions, we have pursued strategic partnering relationships, including OEM partnerships and teaming agreements and distribution agreements.

During 2012 we continued a trend, which started in 2008, of an increase in the relative portion of medium-to-large sized deals, reflecting our success in creating business relations with more Tier-I and Tier-II operators. As a result, the average deal size increased, payment terms became longer and our right to collect payment became subject to certain conditions, extending the time that elapsed between the date of an initial sale and full revenue recognition. These changes created fluctuations in our quarterly results and decreased the correlation between our bookings and revenues within any given quarter.

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

Cost of sales. Cost of sales consists primarily of our manufacturing costs, deployment costs, warranty expenses, packaging, import taxes, allocation of overhead expenses, license fees paid to third parties and royalties to the Chief Scientist. As part of our plan to reduce product cost and improve manufacturing flexibility, we shifted several years ago 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 most of the component parts, assemble the product and test it. These functions can be divided as follows:

<u>RADCOM</u>	<u>Subcontractor</u>
Planning	Purchasing component parts
Integration	Assembly
	Testing

We provide certain of our subcontractors 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 expenses 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.

Our gross profit is affected by several factors, including the introduction of new products, price erosion due to increasing competition, the number of people that we have in operations, deployment and in customer support, the bargaining power of larger clients, 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. In addition, we attempt to implement engineering and other improvements to our solutions to reduce their cost. 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. Our strategy is to continue to increase our percentage of direct sales, such as in Brazil and India, as mentioned above.

Research and Development. Research and development costs consist primarily of salaries and, to a lesser extent, payments to subcontractors and for raw materials and overhead expenses. We use raw materials to build prototypes of our 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 and office expenses (including telecommunications expenses). 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. There has been no change in methodology from year to year. The R&D 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, other general corporate expenses and overhead expenses.

Financial Expenses, Net. Financial expenses, net, in 2012, consisted primarily of interest earned on bank deposits, interest paid on bank loans and gains and losses from the exchange rate differences of monetary balance sheet items denominated in non-U.S. dollar currencies. In 2011, financial expenses, net, consisted primarily of interest earned on bank deposits and gains and losses from the exchange rate differences of monetary balance sheet items denominated in non-U.S. dollar currencies.

Summary of Our Financial Performance for the Fiscal Year Ended 2012 Compared to the Fiscal Year Ended 2011

For the year ended December 31, 2012 our revenues were \$15.8 million compared with \$22.0 million in 2011, a decrease of 28%. On an operating basis, the Company burned \$2.4 million of cash from operating activities during 2012, compared to a burn of \$3.4 million during 2011. The Company's net loss for the year ended December 31, 2012 was \$6.0 million compared with a \$1.9 million net loss for 2011. The lower decrease in operating cash during 2012 compared to 2011, even though there was a substantial increase in the net loss, is primarily as a result of improved collection from customers and a lower increase in inventories.

As of December 31, 2012, our cash and cash equivalents totaled \$1.5 million, compared with \$2.9 million as of December 31, 2011. The decrease was primarily as a result of our operating loss during 2012, which was a result of a decrease in our revenues while maintaining a relatively high level of expenses which reflected our strategic investment in expanding our direct sales capabilities by developing our offices in Singapore, India and Brazil, our investment in sales and R&D activities. In addition, our cash decreased as a result of short term deposits provided to secure bonds to certain customers. This was offset by an increase in cash due to the credit facilities and loans received.

During 2011 and 2012 we continued a trend of an increase in the relative portion of medium-to-large sized deals, reflecting our success in creating business relations with more Tier-I and Tier-II operators. This was especially true in 2011 where we received in parallel a substantial amount of large sized deals, causing a delay in revenue recognition. In parallel, we executed during 2012 several cost reduction processes, resulting in a decrease by 10% of our operating expenses. As a result our net losses during 2012 increased to \$6.0 million compared with \$1.9 million net losses for 2011.

Reportable Segments

Management receives sales information by product groups and by geographical regions. 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 management due to shared resources 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,		
	2012	2011	2010
Sales	100%	100.0%	100.0%
Cost of sales	39.2	30.4	33.8
Gross profit	60.8	69.6	66.2
Operating expenses:			
Research and development	38.7	26.7	22.5
Less royalty-bearing participation	9.9	5.6	7.4
Research and development, net	28.7	21.1	15.1
Sales and marketing	53.9	45.4	36.3
General and administrative	13.3	10.1	8.0
Total operating expenses	96.0	76.6	59.4
Operating income (loss)	(35.2)	(7.0)	6.8
Financial loss, net	(2.0)	(1.7)	(3.8)
Net income (loss)	(37.9)	(8.7)	3.0

Financial Data for Year Ended December 31, 2012 Compared with Year Ended December 31, 2011

Revenues

	Year Ended December 31, (in millions of U.S. dollars)			% Change 2012 vs. 2011	% Change 2011 vs. 2010
	2012	2011	2010		
The Omni-Q family	15.2	20.9	17.5	(27)	19
The Performer family and others	0.6	1.1	1.7	(45)	(35)
Total revenues	15.8	22.0	19.2	(28)	15

Revenues. In 2012, our revenues decreased by 28% compared to 2011, as a result of two main factors. First reason is the slowdown in the telecommunications market that we encountered in 2012, especially during the first half of the year. The operating margins of the telecommunications operators were lower in 2012 due to increasing competition, which resulted in delays in their capital spending. Second reason is the trend of increasing our average deal size from small deals to medium and large-sized deals, which was especially strong during 2011 and continued in 2012. The increased complexity that characterizes larger deals led to longer sales cycles and an increase in conditional payment terms and acceptance criteria, which in turn led to longer time delays between the date of receiving orders and full revenue recognition, which is for such deals is an average of 9 to 18 months. As a result, during 2012 we were unable to recognize several large deals received in 2011 and 2012 that were not fully delivered, causing a decrease in revenues by 28% compared to 2011.

In 2012, our revenues from warranty services increased by 19% compared to 2011. This increase is attributed mainly to the ongoing increases in our customer base over the last few years, while maintaining a high rate of customer warranty renewals.

Our sales network includes RADCOM Equipment, our wholly-owned subsidiary in the United States, RADCOM Brazil, our wholly-owned subsidiary in Brazil, RADCOM India, our wholly-owned subsidiary in India, as well as independent representatives, and more than 30 independent distributors in over 30 other countries. During 2012 we experienced a decrease in sales in Europe, mainly as a result of the economic slowdown in that region which caused a reduction in capital spending. In addition, our sales in Brazil decreased mainly as a result of large-sized deals with longer execution cycles that led to delay in revenue recognition. 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)		
	2012	2011	2010	2012	2011	2010
Europe	3.0	6.4	4.8	19.0%	29.1%	25.0%
North America	3.9	3.2	3.0	24.7	14.5	15.6
Asia	2.8	4.3	3.6	17.7	19.6	18.8
South America (Excluding Brazil)	2.8	2.3	2.1	17.7	10.5	10.9
Brazil	1.9	5.2	4.1	12.0	23.6	21.3
Other	1.4	0.6	1.6	8.9	2.7	8.4
Total revenues	15.8	22.0	19.2	100%	100.0%	100.0%

During 2012 and 2011, no single customer accounted for more than 10% of our sales. In 2010, one customer in Brazil accounted for approximately 13% of our sales.

Cost of Sales and Gross Profit

	Year ended December 31, (in millions of U.S. dollars)		
	2012	2011	2010
Cost of sales - Product	5.8	6.1	6.1
Cost of sales - Services	0.4	0.6	0.4
Total Cost of sales	6.2	6.7	6.5
Gross profit	9.6	15.3	12.7

Cost of sales. During 2012, profitability on our variable costs, which include hardware production, packaging, royalties to the Chief Scientist, license fees paid to third parties and import taxes was 75% compared to 75% in 2011.

Since our cost of sales consists of both variable costs and fixed costs, our gross profits in 2012 decreased, and were 61%, compared to 70% in 2011, which reflected the decrease in our revenues for the year.

Our cost of sales consisted of fixed costs, which include employees' salaries and related costs and overhead expenses, of approximately \$2.2 million for 2012 compared to \$2.0 million in 2011. This increase is due to the increase in the number of employees that provide deployment services and customer support, which are allocated to the cost of sales. Our cost of sales included an expense of \$14,000 for share-based compensation in 2012 and \$27,000 for share-based compensation in 2011.

Operating Costs and Expenses

The following table provides the operating costs and expenses of the Company in 2012, 2011 and 2010, as well as the percentage change of such expenses in 2012 compared to 2011 and in 2011 compared to 2010:

	Year ended December 31, (in millions of U.S. dollars)			% Change 2012 vs. 2011	% Change 2011 vs. 2010
	2012	2011	2010		
Research and development	6.1	5.8	4.3	4	34.9
Less royalty-bearing participation	1.6	1.2	1.4	26.9	(14.3)
Research and development, net	4.5	4.6	2.9	(2.1)	58.6
Sales and marketing	8.5	10.0	7.0	(14.5)	42.9
General and administrative	2.1	2.2	1.5	(5.7)	46.7
Total operating expenses	15.1	16.8	11.4	(9.9)	47.3

Research and Development. Research and development expenses, gross, increased from \$5.8 million in 2011 to \$6.1 million in 2012. As a percentage of total revenues, research and development expenses, gross, increased from 26.7% in 2011 to 38.7% in 2012. The increase in our gross research and development expenses from 2011 to 2012 is attributable to an increase in the average number of employees and related expenses by the amount of \$0.3 million. As of December 31, 2012, we employed 53 research and development engineers, compared to 56 as of December 31, 2011, however the average number of employees was higher in 2012 compared to 2011. We believe that our research and development efforts are a key element of our strategy and are essential to our success. An increase or a decrease in our total revenue would not necessarily result in a proportional increase or decrease in the levels of our research and development expenditures, which could affect our operating margin. Our research and development costs included an expense of \$205,000 for share-based compensation in 2012 and \$218,000 for share-based compensation in 2011.

Sales and Marketing. Sales and marketing expenses decreased from approximately \$10.0 million in 2011 to approximately \$8.5 million in 2012. The decrease in our sales and marketing expenses from 2011 to 2012 is mainly attributable to a decrease in the number of employees and related expenses by the amount of \$0.8 million, mainly for employees in Israel, as a result of our decision to perform certain cost cutting measures. The decrease in our sales and marketing expenses is also attributable to decrease in commissions in amount of \$0.2 million due to the decrease in revenues, decrease in travel abroad and conferences in amount of \$0.4 million and decrease in office expenses in an amount of \$0.1 million. As a percentage of total revenues, sales and marketing expenses in 2012 and 2011 were 53.9% and 45.3%, respectively. Our sales and marketing expenses included an expense of \$167,000 for share-based compensation in 2012 and \$231,000 for share-based compensation in 2011.

General and Administrative. General and administrative expenses decreased from approximately \$2.2 million in 2011 to approximately \$2.1 million in 2012. As a percentage of total revenues, general and administrative expenses in 2012 and 2011 were 13.3% and 10.2%, respectively. Besides the share-based compensation related to the grant to directors, our general and administrative expenses included \$218,000 for share-based compensation in 2012 and \$249,000 for share-based compensation in 2011.

Financial Expenses, Net. In 2012, we recorded financial expenses, net, of approximately \$314,000 compared to \$384,000 in 2011. This decrease mainly relates to a decrease in exchange rate translation adjustments.

Taxes on Income. During 2012 we recorded tax expenses of \$120,000, reflecting withholding taxes that were due on payments from certain customers in Central America.

Financial Data for the Year Ended December 31, 2011 Compared with the Year Ended December 31, 2010

Revenues. In 2011, our revenues increased by 14.6% compared to 2010, reflecting the recovery from the global economic slowdown and the increased pressure on the telecom networks felt by telecom companies in response to the increasing usage of mobile data applications. The trend, which started in 2008, of increasing our average deal size from small deals to medium and large-sized deals continued in 2011. However, the increased complexity that characterizes larger deals led to longer sales cycles and an increase in conditional payment terms, which in turn led to longer time delays between the date of receiving orders and full revenue recognition, currently on an average of 9 to 18 months.

One customer in Brazil accounted for approximately 13% of our sales in 2010. During 2011 no single customer accounted for more than 10% of our sales. During 2011 the relative increase of sales in South America was larger than other geographical areas reflecting the high level of marketing efforts together with the market need in this region which led to a significant increase in sales.

Cost of sales. During 2011, profitability on our variable costs, which include hardware production, packaging, royalties to the Chief Scientist, license fees paid to third parties and import taxes were 75% compared to 74% in 2010. This slight improvement was mainly due to the reduction of our manufacturing costs of our hardware, mainly by introducing during 2010 our new R70S probe platform.

In 2011, our gross margins were 70%, the same as our target, compared to 66% in 2010, which reflected the increase in our revenues for the year.

Our cost of sales consisted of fixed costs, which include employees' salaries and related costs and overhead expenses, of approximately \$2.0 million for 2011 compared to \$1.6 million in 2010. This increase is due to the increase of post-sale support that we provided, which is allocated to the cost of sales. Our cost of sales included an expense of \$27,000 for share-based compensation in 2011 and \$5,000 for share-based compensation in 2010

Research and Development. Research and development expenses, gross, increased from \$4.3 million in 2010 to \$5.8 million in 2011. As a percentage of total revenues, research and development expenses, gross, increased from 22.5% in 2010 to 26.7% in 2011. The increase in our gross research and development expenses from 2010 to 2011 is mainly attributable to an increase in the number of employees and related expenses by the amount of \$1.2 million offset by a decrease of \$0.1 million in materials and sub-contractors and a decrease of \$0.2 million in office expenses. As of December 31, 2011, we employed 56 research and development engineers, compared to 44 as of December 31, 2010. We believe that our research and development efforts are a key element of our strategy and are essential to our success and we intend to further increase our commitment to research and development. An increase or a decrease in our total revenue would not necessarily result in a proportional increase or decrease in the levels of our research and development expenditures, which could affect our operating margin. Our research and development costs included an expense of \$218,000 for share-based compensation in 2011 and \$10,000 for share-based compensation in 2010. This increase was mainly a result of the change in the Company's vesting period in most of the options granted during 2011 from four years to one year, which accelerated the share-based compensation cost and a higher weighted average exercise price of options granted during 2011 compared to options granted during 2010.

Sales and Marketing. Sales and marketing expenses increased from approximately \$7.0 million in 2010 to approximately \$10.0 million in 2011. The increase in our sales and marketing expenses from 2010 to 2011 is mainly attributable to an increase in the number of employees and related expenses by the amount of \$2.6 million, of which \$1.4 million relates to employees in offices outside of Israel mainly in Brazil and \$0.8 million relates to employees in Israel. As a percentage of total revenues, sales and marketing expenses in 2011 and 2010 were 45.3% and 36.4%, respectively. Our sales and marketing expenses included an expense of \$231,000 for share-based compensation in 2011 and \$36,000 for share-based compensation in 2010. This increase was mainly a result of the change in the Company's vesting period in most of the options granted during 2011 from four years to one year which accelerated the share-based compensation cost and a higher weighted average exercise price of options granted during 2011 compared to options granted during 2010.

General and Administrative. General and administrative expenses increased from approximately \$1.5 million in 2010 to approximately \$2.2 million in 2011. This increase is mainly attributed to the decrease in provision for bad debts done in 2010 totaling approximately \$595,000. As a percentage of total revenues, general and administrative expenses in 2011 and 2010 were 10% and 8%, respectively. Besides the share-based compensation related to the grant to directors, our general and administrative expenses included \$249,000 for share-based compensation in 2011 and \$103,000 for share-based compensation in 2010. This increase was mainly a result of the change in the Company's vesting period in most of the options granted during 2011 from four years to one year which accelerated the share-based compensation cost and a higher weighted average exercise price of options granted during 2011 compared to options granted during 2010.

Financial Expenses, Net. In 2011, we recorded financial expenses, net, of approximately \$384,000 compared to \$722,000 in 2010. The decrease in financial expenses is attributable mainly to the loan from Plenus, which was re-paid in 2010 and change in the fair value of warrant and interest and accretion of discount on the loan, all of which don't exist in 2011. This decrease is offset in part by an increase in exchange translation by foreign currency fluctuations of \$322,000.

Impact of Inflation and Foreign Currency Fluctuations

Most of our revenues are generated in U.S. dollars and the majority of our cost of revenues is incurred in transactions denominated in dollars. Accordingly, we consider the U.S. dollar to be 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 effect 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. For our Brazilian subsidiary, the functional currency has been determined to be their local currency. Assets and liabilities are translated at year-end exchange rates and statements of income items are translated at average exchange rates prevailing during the year. Such translation adjustments are recorded as a separate component of accumulated other comprehensive loss in shareholders' equity.

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 half of 2011, the value of the NIS expressed in dollar terms increased, 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. This trend was reversed during the second half of 2011 and during the first 3 Quarters of 2012. During the last Quarter last Quarter of 2012 the trend returned. Based on our budget for 2013, we expect that an increase of NIS 0.1 to the exchange rate of the NIS to U.S. dollar will decrease our expenses expressed in dollar terms by \$40,000 per quarter and vice versa.

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 are generally subject to corporate tax at the rate of 24% for the 2011 tax year and 25% for the 2012 tax year. Following an amendment to the Israeli Income Tax Ordinance New Version, 1961 (the "Tax Ordinance"), which came into effect on January 1, 2012, the Corporate Tax rate is scheduled to remain at a rate of 25% for future tax years. Israeli companies are generally subject to capital gains tax at the corporate tax rate.

Our effective corporate tax rate may exceed the Israeli tax rate. Our U.S. and Brazilian subsidiaries will generally be subject to applicable 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.

We recorded a valuation allowance at December 31, 2012 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.

B. LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations through cash generated from operations, the proceeds of our 1997 initial public offering, our 2004, 2008 and 2010 private placement transactions, a venture lending loan secured in 2008, a bank credit facility received in 2012 and a loan from our major shareholder which was received in November, 2012. Cash and cash equivalents at December 31, 2012, 2011, 2010 were approximately \$1.5 million, \$2.9 million, and \$5.7 million, respectively.

We generated significant losses attributable to our operations. We have managed our liquidity during this time through a series of cost reduction initiatives, expansion of our sales into new markets, private placement transactions, a venture capital loan, a bank credit facility and a loan from our major shareholder. We believe that our existing capital resources and cash flows from operations will be adequate to satisfy our expected liquidity requirements through the next twelve months. Our foregoing estimate is based on, among other things, our current backlog and on the pipeline for 2013. Without derogating from the foregoing estimate regarding our existing capital resources and cash flows from operations being adequate to satisfy our expected liquidity requirements through the next twelve months, we may decide to raise additional funds in 2013. There is no assurance that, if required, we will be able to raise additional capital or reduce discretionary spending to provide the required liquidity in order to continue as a going concern.

Net Cash Used in Operating Activities. Net cash used in operating activities was approximately \$(2.5) million in 2012, \$(3.3) million in 2011 and \$(2.5) million in 2010. The negative net cash flow in 2012 was primarily due to a net loss of approximately \$6.0 million and deferred revenues and decrease of approximately \$0.8 million in trade payables. This was partially offset by the following: increase of \$1 million in advances from customers, decrease of \$0.8 million in other current assets, decrease of approximately \$2.0 million in trade receivables and non-cash share options compensation of \$0.7 million. The negative net cash flow in 2011 was primarily due to a net loss of approximately \$1.9 million, an increase of \$1.8 million in other current assets, increase of \$2.7 million in inventories and a decrease of approximately \$0.5 million in other payables and accrued expenses. This was partially offset by the following: decrease of approximately \$1.4 million in trade receivables, and non-cash share options compensation of \$0.8 million. The negative net cash flow in 2010 was primarily due to an increase of \$2.6 million in trade receivables, an increase of \$1.1 million in other current assets and an increase of \$1.1 million in inventories. This was partially offset by the following: net income of approximately \$0.6 million, an increase of approximately \$1.6 million in trade payables, an increase in share options compensation of \$0.6 million and an increase in value of warrants granted to Plenus of \$0.5 million.

The trade receivables and days of sales outstanding ("DSO") are primarily impacted by payment terms, shipment linearity in the quarter and collections performance. Trade receivables for 2012 decreased to \$3.3 million from \$5.4 million for 2011, reflecting the lower sales and the shortening of our DSOs due to our ability to collect certain long overdue amounts. However, we believe that continued expansion of our business, particularly in emerging markets, may require continued investments in working capital as many customers require commercial terms which result in longer payment terms.

The decrease in other current assets in 2012 was primarily a result of a decrease in indirect tax advances paid in Brazil in amount of \$0.7 million and decrease in prepaid expenses in the amount of \$0.1 million, mainly related to deferred revenues.

Net Cash Used in Investing Activities. Our investing activities generally consist of the purchase of equipment, however in 2012 we invested in short term deposits in the amount of \$1.4 million, which was required in order to secure bonds provided to certain customers, and only \$66,000 for the purchase of equipment. In 2011 and 2010, our investing activities only consisted of the purchase of equipment. Net cash used in investing activities in 2012, 2011 and 2010 totaled approximately \$1.5 million \$103,000 and \$56,000, respectively.

Net Cash Provided by / (Used in) Financing Activities. In 2012, net cash provided by financing activities totaled approximately \$2.6 million, including \$1 million short term credit from a bank, \$1.5 million short terms loans from a bank and from Mr. Zohar Zisapel and exercise of options of \$45,000. In 2011, net cash provided by financing activities totaled approximately \$0.8 million, including the exercise of options of \$144,000 and warrants of \$623,000. In 2010, net cash provided in financing activities totaled approximately \$5.0 million, including the \$5.4 million from the private placement as described below under "Private Placement - 2010", and exercise of options of \$643,000 and warrants of \$353,000 which was offset by approximately \$(1.3 million) repayment of the venture loan.

Private Placements

Private Placement - 2010

During October and November 2010, we raised \$5.5 million in a private placement, or the 2010 PIPE, of ordinary shares and warrants. Under the 2010 PIPE transaction, we issued 643,277 ordinary shares for an aggregate purchase price of \$5.5 million, or \$8.55 per ordinary share (this price per share was based on the average closing price of our ordinary shares on the thirty trading days prior to the execution date of the definitive agreement, minus a discount of 12%). The investors in the 2010 PIPE also included Zohar Zisapel, our Chairman. We also issued to the investors warrants to purchase up to 214,426 ordinary shares at an exercise price of \$10.69 per share (the price per share paid in the transaction plus 25%). The warrants are exercisable for three years from the closing date of the 2010 PIPE. As part of the 2010 PIPE, we filed with the SEC a resale registration statement covering the shares purchased in the 2010 PIPE (including the shares underlying the warrants). Our net proceeds from the offering were approximately \$5.4 million. If the warrants are exercised in full for cash, we would realize proceeds before expenses, in the amount of \$2.3 million. As of December 31, 2012, no warrants were exercised.

Loans

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 was for a period of three years, and with a 10% rate of interest per annum. In addition, we granted Plenus a warrant to purchase our ordinary shares in the amount of \$450,000. The warrant was exercisable for a period of five years, and its exercise price is \$2.56 per share (this price per share reflects a four-for-one reverse share split which we affected in June 2008). The exercise price (and consequently the number of shares to be issued) is subject to certain adjustments should we issue additional shares or convertible securities at an effective price per share which is lower than the exercise price. Other adjustments to the exercise price include M&A transactions, payment or distribution of certain dividends, subdivision or combination of outstanding shares. The warrant was fully exercised in September 2010. 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 guarantees with respect to the loan. On September 7, 2010 we repaid the remainder of the loan amount to Plenus, seven months in advance of the scheduled maturity date and all floating charges were removed.

Credit Facility from First International Bank of Israel

In September 2012, we secured a short-term line of credit of \$1.5 million from the First International Bank of Israel. In order to secure our obligations to the bank, we pledged and granted to the bank a first priority floating charge on all of our assets and a first priority fixed charge on certain other assets (namely, rights for uncalled and/or unpaid share capital, including goodwill rights, and rights for insurance). We refer to the agreement relating to such charges as the Pledge. The Pledge contains a number of customary restrictive terms and covenants that limit our operating flexibility, such as (1) limitations on the creation of additional liens, and on the sale or transfer of certain of our assets, and (2) the ability of the bank to accelerate repayment in certain events, such as breach of covenants, liquidation, or a reduction in Messrs. Zohar Zisapel's and Yehuda Zisapel's joint ownership of the Company below 30%. The Pledge's restrictive terms and covenants may hinder our future operations or the manner in which we operate our business, which could have a material adverse effect on our business, financial condition or results of operations. One of the covenants we undertook was that our shareholder's equity, as reflected in our reported financial statements, would not be less than 32% of our total assets as reflected in the applicable balance sheet. As of December 31, 2012, we failed to meet the requirements of this covenant. The bank requested that we rectify the situation, and agreed to provide us with a cure period until July 15, 2013. We may fail to cure such breach and the bank may demand that we immediately repay the \$1.5 million, which will create a substantial burden on our cash balances and harm our ongoing operation. We anticipate that we will be profitable in 2013, thereby increasing our shareholder's equity, which should enable us to meet the terms of the covenant. In addition, we believe that, if needed, the bank will provide us with an additional extension in order to meet the terms of our covenants to the bank. We are also in advanced negotiations to raise additional funds in a private placement, which should help us to improve our shareholder's equity in order to satisfy the terms of our covenants to the bank. There is no assurance that we will be successful in raising such funds.

Loan Agreement with Mr. Zohar Zisapel

In November 2012, we secured a loan of up to NIS 3 million from Mr. Zohar Zisapel, our Chairman of the Board and our largest shareholder to finance our operations. The term of the loan was until March 31, 2013, and Mr. Zisapel has informed us that he has agreed to waive his right to claim the repayment of the loan until June 30, 2013. The loan is interest-free, but the amount of principal required to be repaid is linked to the Israeli CPI. The average Israeli CPI has increased each year from 2010 through 2012 by 3.34%, 1.96% and 1.63% respectively. As of April 19, 2013, we owe Mr. Zisapel NIS 2,893,000 pursuant to the terms of the loan.

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 risks such as foreign currency and interest rate fluctuations.

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 with affiliates of the RAD-BYNET Group are material to our operations. The distribution agreement with BYNET ELECTRONICS Ltd., which was material to our business, was terminated during 2012. The pricing of the transactions was determined based on negotiations between the parties. Members of our Board of Directors and management reviewed the pricing of the leases and the distribution agreement 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. For more information, see "Item 7.B—Major Shareholders and Related Party Transactions—Related Party Transactions" below.

In October and November 2010, we completed a PIPE in which we raised \$5.5 million from certain investors, including our Chairman, Mr. Zohar Zisapel (who invested \$1.0 million). For more information, see "— Private Placements" above.

Please see "— Loans — Loan Agreement with Mr. Zohar Zisapel" above, for information relating to the loan from Mr. Zohar Zisapel.

Please see "Item 5.F—Operating and Financial Review and Prospects—Tabular Disclosure of Contractual Obligations" below for a discussion of our material commitments for capital expenditures.

Government Grants and Related Royalties

The Government of Israel, through the Chief Scientist, encourages research and development projects pursuant to the R&D Law and the regulations promulgated thereunder. We may receive from the Chief Scientist up to 50% of certain approved research and development expenditures for particular projects. We recorded grants from the Chief Scientist totaling approximately \$1.6 million in 2012, \$1.2 million in 2011, and \$1.4 million in 2010. 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 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 Chief Scientist grants included in the cost of sales for years ended December 31, 2012, 2011 and 2010 were \$562,000, \$759,000 and \$793,000, respectively. The total research and development grants that we have received from the Chief Scientist as of December 31, 2012 were \$33.4 million. For projects authorized since January 1, 1999, the repayment interest rate is LIBOR. As of December 31, 2012, the accumulated interest was \$9.8 million, the accumulated royalties paid to the Chief Scientist were \$9.7 million and our contingent liability to the Chief Scientist in respect of grants received was according to our records approximately \$33.5 million. For additional information, see "Item 4.B—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 of such products, up to 150% of the grant received, linked to the United States Consumer Price Index. As of December 31, 2012, we had a contingent obligation to pay the BIRD Foundation aggregate royalties in the amount of approximately \$348,000. For additional information, see "Item 4.B—Information on the Company—Business Overview—Binational Industrial Research and Development Foundation."

In April 2012, the MITL approved our application for funding to help set up our Indian subsidiary as part of a designated grant plan for the purpose of setting up and establishing a marketing agency in India. The grant is intended to cover up to 50% of the costs of the office establishment, logistics, expenses and hiring of employees and consultants in India, based on the approved budget for the plan for a period of 3 years. We are obligated to pay to the MITL royalties of 3% from the revenues derived in India up to an aggregate of 100% of the dollar-linked value of the total grant for a period of up to 7 years from the last year of the plan. As of December 31, 2012, we had a contingent obligation to pay the MITL aggregate royalties in the amount of approximately \$55,000. For additional information, see "Item 4.B—Information on the Company—Business Overview—Israeli Ministry of Industry, Trade and Labor."

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires us to make judgments, assumptions, and estimates that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Note 2 to the Consolidated Financial Statements describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. The accounting policies described below are significantly affected by critical accounting estimates. Such accounting policies require significant judgments, assumptions, and estimates used in the preparation of the Consolidated Financial Statements, and actual results could differ materially from the amounts reported based on these policies.

Revenue recognition. Revenues from sales of products are recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable and collectability is probable.

Products are typically considered delivered upon shipment. In instances where final acceptance of the product is specified by the customer, and the acceptance is deemed substantive, revenue is deferred until all acceptance criteria have been met. Our arrangements generally do not include any provisions for cancellation, termination or refunds that would significantly impact recognized revenue. Large-size deals usually include acceptance criteria and since the delivery of such projects can take on average between 9-18 months, revenue recognition for such projects is delayed.

Our revenues are generated from sales to independent distributors and direct customers. We have a contract that is standard in substance with our distributors. Based on this contract, 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, however we recognize our revenue on a "sale through" basis and therefore, revenues from these distributors are deferred until all revenue recognition criteria of the sale to the end customer are met.

We also generate sales through independent representatives. These representatives do not hold any of the Company's 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 their territory.

We account for revenue recognition under the guidance of ASU No. 2009-13, "Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements". ASU No. 2009-13 establishes a selling price hierarchy for determining the selling price of a deliverable in a sale arrangement. The selling price for each deliverable is based on vendor-specific objective evidence ("VSOE") if available, third-party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE or TPE is available. ASU No. 2009-13 requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. The relative selling price method allocates any discount in the arrangement proportionately to each deliverable on the basis of the deliverable's selling price.

Under our selling arrangements, we provide a one-year warranty, which includes bug fixing and a hardware warranty ("Warranty") for all of our products. Accordingly, we record an appropriate provision for Warranty in accordance with ASC 450 "Contingencies" (see Note 2j). After the Warranty period initially provided with our products, we may sell extended warranty contracts on a standalone basis, which include bug fixing and a hardware warranty. Revenue related to extended warranty contracts is recognized pursuant to ASC 605-20-25, "Separately Priced Extended Warranty and Product Maintenance Contracts." Pursuant to this provision, revenue related to separately priced product maintenance contracts is deferred and recognized over the term of the maintenance period.

The customer may purchase an extended warranty with the initial sale. 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.

Deferred revenues and advances from customers. Represent mainly the unrecognized fees collected for extended warranty services or fees collected for products for which revenue has not yet been recognized.

Allowance for doubtful accounts. We maintain an allowance for doubtful accounts for losses that may result from the failure of our customers to make required payments. We estimate this allowance based on our judgment as to our ability to collect outstanding receivables. We form this judgment based on an analysis of significant outstanding invoices, the age of the receivables, our historical collection experience and current economic trends. If the financial condition of our customers were to deteriorate, resulting in their inability to make payments, we would need to increase the allowance for doubtful accounts.

Inventories. Inventory is written down based on excess and obsolete inventories determined primarily by future demand forecasts. Inventory write-downs are measured as the difference between the cost of the inventory and market, based upon assumptions about future demand and are charged to the provision for inventory, which is a component of our cost of sales. At the point of the loss recognition, a new, lower cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

If there were to be a sudden and significant decrease in demand for our products, or if there were a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements, we could be required to increase our inventory write-downs and gross margin could be adversely affected. Inventory and supply chain management remain areas of focus as we balance the need to maintain supply chain flexibility, to help ensure competitive lead times with the risk of inventory obsolescence.

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.

Inventory also includes amounts with respect to inventory delivered to customers but for which revenue criteria have not been met yet.

Share option plans. Share-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the requisite service periods. We estimate the fair value of employee stock options using a Black-Scholes valuation model. We recognize compensation costs using the graded vesting attribution method that results in an accelerated recognition of compensation costs, in comparison to the straight line method.

The fair value of an award is affected by our stock price on the date of grant and other assumptions, including the estimated volatility of our stock price over the term of the awards and the estimated period of time that we expect employees to hold their stock options. Actual historical changes in the market value of the Company's shares were used to calculate the volatility assumption, as management believes that this is the best indicator of future volatility.

Determining the fair value of share-based awards at the grant date requires the exercise of judgment. In addition, the exercise of judgment is also required in estimating the amount of share-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, share-based compensation expense and our results of operations could be materially affected.

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 the simplified method and expect to continue using such method until historical exercise data will provide sufficient information to develop expected life assumption.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

See "Item 4.B—Information on the Company—Business Overview—Research and Development," "Item 4.B—Information on the Company—Business Overview—Proprietary Rights", and "Item 5—Operating and Financial Review and Prospects—Research and Development" and "Item 5.A—Operating and Financial Review and Prospects—Operating Results".

D. TREND INFORMATION

During 2012 we saw a growing demand for service assurance solutions; however the slowdown in the telecommunications industry caused longer decision processes and put a hold on certain budgets. Our brand became more appreciated in our market segment which led us to be exposed to more business opportunities, upon some of which we were able to capitalize, mainly during the second half of 2012. This is not reflected in our 2012 financial reports due to the long delivery cycle of large-size projects, leading to a delay in revenue recognition.

The rollout of data services over 3G and 3.5G cellular networks also reached developing countries. In developed countries, a majority of networks started LTE pilots while many leading service providers have commercial LTE offerings. Mobile data cards and other mobile data services are becoming a significant revenue source for cellular operators and we see an increased demand for our solutions for this segment.

There is a clear global trend of government regulations that are opening communication markets to competition. In each major deregulated market, generally at least three service providers compete in each service segment. This competition drives increased spending on the marketing of next-generation services, and therefore increased usage, which itself increases the potential need for service assurance solutions. As services become more technologically complex and their volumes increase, service quality becomes an issue that must be addressed.

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 traffic. This move helps service providers justify the move to NGN solutions and increases our addressable market.

The growing demand for service assurance solutions in emerging markets which was attributable, among other things, to recent rollouts of NGN networks, VoIP-based voice services, 3G & LTE mobile networks and other advanced technologies, generated a significant demand for RADCOM's products in Latin America and Asia.

E. OFF-BALANCE SHEET ARRANGEMENTS

None.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table of our material contractual obligations as of December 31, 2012, summarizes the aggregate effect that these obligations are expected to have on our cash flows in the periods indicated:

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in thousands of U.S. dollars)				
Property Leases	\$ 2,213	\$ 641	\$ 1,572	--	--
Open Purchase Orders (1)	346	346	--	--	--
Operating Leases	74	74	--	--	--
Severance Pay (2)	3,518	--	--	--	--
Total	\$ 6,581	\$ 1,91	\$ 1,572	--	--

(1) *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 already purchased 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 are included in the table above.

(2) In addition to the obligations noted above, we have potential liability for severance pay for Israeli employees, which is calculated pursuant to Israeli severance pay law, based on the most recent monthly 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 contingent liability at December 31, 2012 was \$3,518,000. Of this amount, \$428,000 is unfunded. The timing of payment of this liability is dependent on timing of the departure of the employees and whether they leave of their own will, or are dismissed.

In addition, we are required to pay royalties of 3.5% of the revenues derived from products incorporating know-how developed from research and development grants from the Chief Scientist. As of December 31, 2012, our contingent liability to the Chief Scientist in respect of grants received was according to our records approximately \$33.5 million, and our contingent liability to the BIRD Foundation in respect of funding received was approximately \$348,000. 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 under these programs.

We are also obligated to pay to the MITL royalties of 3% from the revenue growth derived in India up to an aggregate of 100% of the dollar-linked value in respect of the actual funding received by us. As of December 31, 2012 no liability was accrued.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

The following table lists our current directors and executive officers:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Zohar Zisapel (5)	64	Chairman of our Board of Directors
David Ripstein	46	President, Chief Executive Officer
Gilad Yehudai	44	Chief Financial Officer
Eyal Harari	37	Vice President, Products and Marketing
Yuval Porat	54	Vice President, Research and Development
Miki Shilinger	58	Vice President, Operations
Uri Har (1)(2)(3)(4)(5)(6)	76	Director
Irit Hillel (1)(2)(4)(5)(6)	50	Director
Matty Karp (2)(4)(6)	64	Director
Rachel (Heli) Bennun	59	Director

- (1) External Director, pursuant to the Companies Law
- (2) Independent Director, pursuant to the NASDAQ Listing Rules
- (3) Chairman of Audit Committee
- (4) Audit Committee Member
- (5) Nominating Committee Member
- (6) Compensation Committee Member

Mr. Zohar Zisapel, a co-founder of our Company, has served as our Chairman of the Board since our inception in 1985. Mr. Zisapel is also the Chairman of Ceragon Networks Ltd. (NASDAQ: CRNT), and a director of two other public companies, Amdocs Ltd. (NYSE: DOX) and Silicom Ltd. (NASDAQ and TASE: SILC), as well as a director or Chairman of several private companies. Mr. Zisapel has a B.Sc. degree and an M.Sc. degree in electrical engineering from the Technion - Israel Institute of Technology 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 - Israel Institute of Technology.

Mr. Gilad Yehudai, our Chief Financial Officer, joined us in May 2011. Prior to joining us, Mr. Yehudai was the VP Finance of DSP Group Inc. (NASDAQ: DSPG) from November 2007 to April 2011. Previously, Mr. Yehudai served as CFO of CogniTens Ltd., where he managed five rounds of fundraising and an acquisition process, and as Controller of Cimatron Ltd. (NASDAQ: CIMT). Mr. Yehudai holds a B.A. in Accounting and Economics and an M.B.A. in Finance and Information Systems from the Tel-Aviv University, and is certified in Israel as a CPA.

Mr. Eyal Harari, our Vice President of Products and Marketing, has been with us 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 us, 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.

Mr. Yuval Porat, our Vice President of Research and Development, joined us in July 2008. Prior to joining RADCOM, he was the founder, board member and Vice President of Research and Development of PacketLight Networks for 10 years. Prior to his tenure at PacketLight, Mr. Porat led the Research and Development at HyNEX that was acquired by Cisco. Mr. Porat holds both a B.Sc. and an M.Sc. in Electrical Engineering from Tel Aviv 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. Uri Har has served as a director since October 2007. He was the Director General of the Electronics and Software Industries Association 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. He holds a B.Sc. degree and a M.Sc. degree in Mechanical Engineering from the Technion - Israel Institute of Technology.

Ms. Irit Hillel has served as a director since October 2007. She has spent the last 18 years as an entrepreneur and senior executive in digital media, technology and financial services firms. She currently operates as an early investor and co-founder of two internet and mobile startups, and is on the advisory board of BioGaming. From 2005 until 2010 she was Partner at Magnolia Capital Partners, providing investment banking services to Israeli high tech and healthcare companies. In 2008 to 2009 she served as Head of Interactive at Animation Lab, a JVP 3D feature animation company. Ms. Hillel served as Head of Mattel Interactive Europe, bringing to market some of Europe's best-selling computer game titles. Previously, Ms. Hillel founded and served as EVP business development and board director for PrintPaks, acquired by Mattel Inc. (NYSE: MAT) in 1997. Prior experience also includes VP at Power Paper Ltd., Advisor to Hewlett Packard Co. (NYSE: HPQ), and Investment Manager at Columbia Savings in Beverly Hills, California. Ms. Hillel has an M.B.A. degree from the Anderson Graduate School of Business at UCLA, and a B.Sc. in Mathematics and Computer Science from Tel Aviv University.

Mr. Matty Karp has served as a director since December 2009. He is the managing partner of Concord Ventures, an Israeli venture capital fund focused on Israeli early stage technology companies, which he co-founded in 1997. From 2007 to 2008 he served as the Chairman of Israel Growth Partners Acquisition Corp. From 1994 to 1999, he served as the Chief Executive Officer of Kardan Technologies, a technology investment company, and continued to serve as a director until October 2001. From 1994 to 1997, he served as the President of Nitzanim Venture Fund, an Israeli venture capital fund focused on early-stage high technology companies. From 1987 to 1994, he served in numerous positions at Elbit Systems Ltd. (NASDAQ and TASE: ESLT). Mr. Karp has served as a director of a number of companies, including: Galileo Technology, which was acquired by Marvell Technology Group (NASDAQ: MRVL); Accord Networks which was acquired by Polycom (NASDAQ: PLCM); Saifun Semiconductors, which merged with Spansion and El Al Israel Airlines (TASE: ELAL). Mr. Karp received a B.S., cum laude, in Electrical Engineering from the Technion - Israel Institute of Technology and is a graduate of the Harvard Business School Advanced Management Program.

Ms. Rachel (Heli) Bennun has served as a director since December 2012. Ms. Bennun has over 25 years of professional experience in hi-tech companies. In 1988, Ms. Bennun co-founded Arel Communications & Software Ltd. (formerly NASDAQ:ARLC) ("Arel"), a company focused on offering integrated video, audio and data-enabled conferencing solutions, including real time Interactive Distance Learning. Ms. Bennun served as Arel's CEO and CFO from 1988 until 1998, during which time Arel went public on the NASDAQ (1994). In addition, Ms. Bennun served as a director of Arel from 1988 until 1998 and as the vice-chairman of Arel's board of directors from 1998 until 2001. In 1996, Ms. Bennun co-founded ArelNet Ltd. (formerly TASE: ARNT) ("ArelNet"), a pioneer in the field of Voice over IP. Ms. Bennun served as ArelNet's CEO from 1998 until 2001, during which time ArelNet went public on the TASE. In 2004, Ms. Bennun resumed her position as ArelNet's CEO and a director, until ArelNet was acquired by Airspan Network Inc. in 2005. From 2006 until 2009, Ms. Bennun served as the CEO and director of OrganiTech USA, Inc. (PINK:ORGT), a pioneer in the Cleantech industry. Ms. Bennun holds an M.Sc and B.Sc. degree in industrial and management engineering from Ben-Gurion University.

Ms. Bennun is the domestic partner of Mr. Zohar Zisapel. Otherwise, there are no family relationships between any of the directors or executive officers named above.

B. COMPENSATION

The aggregate direct remuneration paid to all of our directors and officers as a group (10 persons) for the year ended December 31, 2012 was approximately \$1.09 million in salaries, bonus, commissions and directors' fees. This amount includes approximately \$195,000 that was set aside or accrued to provide pension, retirement or similar benefits. These amounts do not include the expense of share-based compensation as per ASC Topic 718. During 2012, our directors and officers received, in the aggregate, options to purchase 190,000 ordinary shares under our 2003 Share Option Plan (the "2003 Plan"). These options have an average exercise price of \$3.46 per share and expire five to seven years from the grant date.

As of December 31, 2012, our current directors and officers as a group held options to purchase an aggregate of 746,623 ordinary shares of the Company. All of these options were granted under the 2003 Plan. The directors are reimbursed for expenses and receive cash and equity compensation, which terms are detailed below.

In addition, on September 20, 2010, the Audit Committee of our Board of Directors (the "Audit Committee") and our Board of Directors, and on November 1, 2010, our shareholders, approved cash compensation and equity compensation for our independent directors and external directors in the following amounts: (i) an annual fee of NIS 18,300 (currently equivalent to approximately \$5,041) and a per meeting attendance fee of NIS 1,060 (currently equivalent to approximately \$292), which amounts are subject to adjustment for changes in the Israeli CPI and changes in the amounts payable pursuant to Israeli law from time to time and (ii) an annual grant of options (under the 2003 Plan) to purchase 10,000 ordinary shares. The options will be fully vested and immediately exercisable on the applicable date of grant and will expire on the earlier of seven years or 180 days from the date of such director's termination or resignation from office. The exercise price per share of the options will be equal to the closing price per share of our ordinary shares on NASDAQ on the applicable date of grant, which initially was November 1, 2010, the date of our 2010 annual general meeting. The exercise price of the options granted on November 1, 2011 was \$4.39 per share, which was the closing price per share of the ordinary shares on the NASDAQ on such date. The exercise price of the options granted on November 1, 2012 was \$2.71 per share, which was the closing price per share of the ordinary shares on NASDAQ on such date. The term of such compensation arrangement shall be for three years commencing on November 1, 2010. If the shareholders approve any change to the terms of the 2003 Plan with respect to external directors, within the meaning of the Israeli Companies Law, who are not independent directors, within the meaning of the rules of the SEC and NASDAQ, during the term of the plan, such new terms shall apply equally to the independent directors.

In addition, on September 20, 2010, our Audit Committee and our Board of Directors, and on November 1, 2010, our shareholders approved the annual grant of options to purchase 30,000 ordinary shares to Mr. Zohar Zisapel. The terms of the options are the same as those described in the above paragraph. The term of such compensation arrangement shall be for three years commencing on November 1, 2010.

In addition, on October 22, 2012 our Audit Committee and our Board of Directors, and on December 17, 2012, our shareholders, approved to pay Ms. Rachel (Heli) Bennun, for her services to the Company as a director, cash compensation in an amount equal to the compensation of our other directors (other than our Chairman), as described above, and a grant of options (under the 2003 Plan) to purchase 10,000 ordinary shares. The options were fully vested and immediately exercisable on the applicable date of grant, which was December 17, 2012, the date of our 2012 annual general meeting. The options expire on the earlier of seven years or 180 days from the date of such director's termination or resignation from office. The exercise price of the options is \$2.56 per share, which was the closing price per share of the ordinary shares on the NASDAQ on December 17, 2012. If Ms. Bennun is subsequently reelected at our 2013 annual general meeting of shareholders and our shareholders approve at such meeting (or prior to such meeting) new compensation terms for our directors (other than the Chairman), Ms. Bennun will receive the same compensation as the other directors (other than the Chairman), subject to applicable law.

Share Option Plans

Until recently, we had the following two share option plans for the granting of options to our employees, officers, directors and consultants: (i) the International Employee Stock Option Plan, which expired on September 30, 2008 and (ii) the 2003 Plan, which expired on December 21, 2012. On April 3, 2013 our Board of Directors adopted our 2013 Stock Option Plan (the "2013 Plan"), which expires on April 2, 2023. As of April 22, 2013, we have not granted any options under the 2013 Plan. Options granted under our option plans generally vest over a period of between one and four years, and generally expire five to seven years from the date of grant, subject to the discretion of our Board of Directors, which has the authority to deviate from such parameters in respect of specific grants. The share option plans are administered either by our Board of Directors or, subject to applicable law, by our Compensation 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. On January 28, 2013, our Board of Directors resolved to increase the number of outstanding shares reserved under the 2003 Plan, by 758,167.

The Company measures compensation expense for all share-based payments (including employee stock options) at fair value, in accordance with ASC 718 "Compensation – Stock based compensation". We recorded an expense of \$672,000 for share-based compensation plans during 2012. During 2012 we granted options to purchase a total of 303,600 ordinary shares which will result in ongoing accounting charges that will significantly reduce our net income. See Notes 2(j) and 12(b) of the Notes to the Consolidated Financial Statements for further information.

As of April 19, 2013, we have granted options to purchase a total of 2,758,296 ordinary shares under all of the Company's share option plans, of which options to purchase 651,442 ordinary shares have been exercised and options to purchase 16,251 and 987,015 ordinary shares under the International Employee Stock Option Plan and the 2003 Plan, respectively, remain outstanding.

In August 2006, we elected, pursuant to Rule 5615(a)(3) of the NASDAQ Listing Rules, to follow our home country practice in lieu of the NASDAQ Listing 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. See also "Item 16G—Corporate Governance."

C. BOARD PRACTICES

Terms of Office

Our current Board of Directors is comprised of Zohar Zisapel, Uri Har, Irit Hillel, Matty Karp and Rachel (Heli) Bennun. 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. Our non-external directors serve until the next annual general meeting. The three year term of office for our external directors, Mr. Har and Ms. Hillel, expires in 2013. 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. For a description of our compensation of directors see "Item 6.B—Directors, Senior Management and Employees—Compensation."

External Directors

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

Under the Israeli Companies Law and the regulations promulgated pursuant thereto, Israeli public companies, namely companies whose shares have been offered to the public or are publicly traded, are required to appoint at least two natural persons as "external directors". A person may not be appointed as an external director if the person, or a relative, partner or employer of the person, or any entity under the person's control, has or had, on or within the two years preceding the date of the person's appointment to serve as an external director, any affiliation with the company to whose board the external director is proposed to be appointed; with the controlling shareholder of such company or with any entity controlling or controlled by such company or by the controlling shareholder of such company. The term "affiliation" includes an employment relationship, a business or professional relationship maintained on a regular basis, control and service as an office holder (which term includes a director).

An individual is not permitted to be appointed as an external director: (1) in a company that does not have a 25% shareholder, if he has an affiliation (as such term is defined in the Israeli Companies Law) with any person who, at the time of appointment, is the chairman, the chief executive officer, the chief financial officer or a 5% shareholder of the company; or (2) if he or his relative, partner, employer or supervisor or an entity he controls has other than negligible business or professional relations with any of the persons with whom he may not be affiliated. No person may serve as an external director if the person, the person's relative, spouse, employer or any entity controlling or controlled by the person, has a business or professional relationship with someone with whom affiliation is prohibited, even if such relationship is not maintained on a regular basis, except negligible relationships. A public company, entity controlling or entity under common control with the company may not grant an external director, his spouse or child, any benefit, and may not appoint him, his spouse or child, to serve as an officer of the company or of an entity under common control with the company, may not employ or receive professional services in consideration from him or an entity controlled by him unless two years have passed as of the end of service as external director in the company, and regarding a relative who is not a spouse or child – one year as of the end of service as external director.

In addition, no person may serve as an external director if the person's position or other business activities create, or may create, a conflict of interest with the person's responsibilities as an external director or interfere with the person's ability to serve as an external director or if the person is an employee of the Israel Securities Authority or of an Israeli stock exchange. If, at the time of election of an external director, all other directors are of the same gender, the external director to be elected must be of the other gender. Following the Amendment Date, if, at the time external directors are to be appointed, all current members of the board of directors who are not controlling shareholders or relatives of such shareholders are of the same gender, then at least one external director must be of the other gender.

Pursuant to the Israeli Companies Law, (1) an external director must have either "accounting and financial expertise" or "professional qualifications" (as such terms are defined in regulations promulgated under the Israeli Companies Law) and (2) at least one of the external directors must have "accounting and financial expertise." Our external directors are Mr. Uri Har and Ms. Irit Hillel. We have determined that Ms. Hillel has the requisite "accounting and financial expertise" and that Mr. Har has the requisite "professional qualifications."

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

- at least a majority of the shares of non-controlling shareholders voted at the meeting vote in favor of the external director's election; or
- the total number of shares of non-controlling shareholders that voted against the election of the external director does not exceed two percent of the aggregate number of voting rights in the company.

The initial term of an external director is three years and may be extended for up to two additional three year terms. In certain special situations, the term may be extended beyond these periods. Re-election of an external director is effected through one of the following mechanisms: (1) the board of directors proposed the re-election of the nominee and the election was approved by the shareholders by the majority required to appoint external directors for their initial term; or (2) a shareholder holding 1% or more of the voting rights proposed the re-election of the nominee, and the re-election is approved by a majority of the votes cast by the shareholders of the company, excluding the votes of controlling shareholders and those who have a personal interest in the matter as a result of their relations with the controlling shareholders, provided that the aggregate votes cast in favor of the re-election by such non-excluded shareholders constitute more than 2% of the voting rights in the company. Each committee of a company's board of directors is required to include at least one external director except for the audit committee and the compensation committee, which are both required to be comprised of all the external directors. Mr. Uri Har and Ms. Irit Hillel were elected to serve as external directors for an initial three-year term at our 2007 annual general meeting of shareholders, held on October 24, 2007. At our 2010 annual general meeting, held on November 1, 2010, our shareholders approved the re-election of Mr. Uri Har and Ms. Irit Hillel as our external directors, each for a second three-year term. Both Uri Har and Irit Hillel qualify as external directors under the Israeli Companies Law, and both are members of the Company's Audit Committee, Nominating Committee and Compensation Committee.

Audit Committee

NASDAQ Requirements

Our ordinary shares are listed on NASDAQ, and we are subject to the NASDAQ Listing Rules applicable to listed companies. Under the current NASDAQ Listing 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 Matty Karp qualify as independent directors under the current NASDAQ requirements, and each is a member of the Audit Committee. Irit Hillel 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 of Directors 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.

Israeli Companies Law Requirements

Audit committee

Under the Israeli 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. The majority of the members of the audit committee are required to be "independent" (as such term is defined in the Israeli Companies Law) and the chairman of the audit committee is required to be an external director. The Israeli Companies Law defines "independent directors" as either external directors or directors who: (1) meet the requirements of an external director, other than the requirement to possess accounting and financial expertise or professional qualifications, with audit committee confirmation of such; (2) have been directors in the company for an uninterrupted duration of less than 9 years (and any interim period during which such person was not a director which is less than 2 years shall not be deemed to interrupt the duration); and, (3) were classified as such by the company. In addition, the following are disqualified from serving as members of the audit committee: the chairman of the board, the controlling shareholder and his relatives, any director employed by the company or by its controlling shareholder or by an entity controlled by the controlling shareholder, a director who regularly provides services to the company or to its controlling shareholder or to an entity controlled by the controlling shareholder, any director who derives most of its income from the controlling shareholder, and any director who derives his salary primarily from a controlling shareholder.

In addition: (1) the chairman of the audit committee must be an external director, (2) all audit committee decisions must be made by a majority of the committee members, of which the majority of members present are independent and external directors, and (3) any person who is not eligible to serve on the audit committee is further restricted from participating in its meetings and votes, unless the chairman of the audit committee determines that such person's presence is necessary in order to present a certain matter, provided however, that company employees who are not controlling shareholders or relatives of such shareholders may be present in the meetings but not in the actual votes and likewise, company counsel and secretary who are not controlling shareholders or relatives of such shareholders may be present in meetings and decisions if such presence is requested by the audit committee.

The function of the audit committee is to review irregularities in the management of our business and recommend remedial measures. The audit committee is also required, under the Israeli Companies Law, to approve certain related party transactions. In addition, the responsibilities of the audit committee shall also include classifying company transactions as extraordinary transactions or non-extraordinary transactions and as material or non-material transactions, in which an officer has an interest (which will have the effect of determining the kind of corporate approvals required for such transaction), assessing the proper function of the company's internal audit regime and determining whether its internal auditor has the requisite tools and resources required to perform his role and to regulate the company's rules on employee complaints, reviewing the scope of work of the company's independent accountants and their fees, and implementing a whistleblower protection plan with respect to employee complaints of business irregularities.

An audit committee of a public company may not approve a related-party transaction under the Israeli 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.

Compensation committee

NASDAQ Requirements

Under the current NASDAQ Listing Rules, a listed company is required to have a compensation committee comprised solely of independent directors. Our compensation committee consists of Irit Hillel (Chairman), Uri Har and Matty Karp, each of whom satisfies the independence requirements under the current NASDAQ Listing Rules. The Company has adopted a compensation committee charter, which sets forth the responsibilities of the compensation committee. The compensation committee is responsible for, among other things, assisting the Board of Directors in the reviewing and approving the compensation structure and policy, including all forms of compensation relating to our directors and executive officers.

Israeli Companies Law Requirements

Under a recent amendment to the Israeli Companies Law, the board of directors of a public company must establish a compensation committee. The compensation committee must consist of at least three directors who satisfy certain independence qualifications. Under the Israeli Companies Law, the role of the compensation committee is to recommend to the board of directors, for ultimate shareholder approval by a special majority, a policy governing the compensation of office holders based on specified criteria, to review modifications to the compensation policy from time to time, to review its implementation and to approve the actual compensation terms of office holders prior to approval by the board of directors.

Internal auditor

Under the Israeli 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 Israeli 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 Israeli Companies Law as a 5% or greater shareholder, any person or entity that 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. Yisrael Gewirt, who is 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 Israeli 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.B—Additional Information—Memorandum and Articles of Association."

Management Employment Agreements

We maintain written employment agreements with all of our 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 of Directors are recommended to our Board of Directors by our Nominating Committee. Such nominees are then approved by our Board of Directors, including a majority of our independent directors. The written procedures addressing the nominating process were approved by our Board of Directors. Zohar Zisapel, Uri Har and Irit Hillel constitute our Nominating Committee. The Nominating Committee is responsible for, among other things, assisting our Board of Directors in identifying prospective director nominees and recommending nominees for each annual meeting of shareholders to our Board of Directors.

D. EMPLOYEES

As of December 31, 2012, we had 101 employees located in Israel, 8 employees of RADCOM Equipment located in the United States, 9 employees of RADCOM Brazil located in Brazil, 4 employees of RADCOM India located in India and 10 employees in total located in Spain, Singapore, Guatemala, China, Honduras and Paraguay collectively. Of the 101 employees located in Israel, 57 were employed in research and development, 7 in operations (including manufacturing and production), 27 in sales and marketing and customer support, and 10 in administration and management. Of the 8 employees located in the United States, 7 were employed in sales, marketing and customer support and 1 was employed in administration and management. Of the 9 employees located in the Brazil, 8 were employed in sales, marketing and customer support and 1 was employed in administration and management. Of the 14 employees located in Spain, Singapore, Guatemala, Honduras, Paraguay, India and China, 11 were employed in sales, marketing and customer support and 3 were employed in administration and management. We consider our relations with our employees to be good and we have never experienced a strike or work stoppage. As of December 31, 2012, all of our 132 employees located worldwide were permanent employees. All of our permanent employees have employment agreements and, with the exception of Brazil, none of them are represented by labor unions. As of December 31, 2011, we had 101 employees located in Israel, 9 employees of RADCOM Equipment located in the United States, 11 employees of RADCOM Brazil located in Brazil and 11 employees in total located in Spain, Singapore, Guatemala, India and China, collectively. As of December 31, 2010, we had 91 employees located in Israel, 7 employees of RADCOM Equipment located in the United States and 11 employees in total located in Spain, Singapore, Brazil, India and China, collectively.

For more information, see "Item 4.B—Information on the Company—Business Overview—Employees."

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 April 19, 2013. The percentage of outstanding ordinary shares is based on 6,464,719 ordinary shares(3)(7) outstanding as of April 19, 2013. Except for Messrs. Zohar Zisapel and David Ripstein, none of our executive officers or directors beneficially owns 1% or more of our outstanding ordinary shares.

Name	Number of Ordinary Shares Beneficially Owned(1)	Percentage of Outstanding Ordinary Shares Beneficially Owned(2)(3)
Zohar Zisapel	2,285,883(4)	34.4%
David Ripstein	144,000(5)	2.3%
All directors and executive officers as a group, except Zohar Zisapel and David Ripstein (8 persons)	285,457(6)	4.3%

- (1) Except as otherwise noted and subject 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 April 19, 2013.
- (2) For determining the percentage owned by each person or group, ordinary shares for each person or group includes 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 April 19, 2013.
- (3) The number of outstanding ordinary shares does not include 5,189 shares held by RADCOM Equipment, Inc., a wholly owned subsidiary and 30,843 shares that were repurchased by us.
- (4) Includes (i) 1,992,673 ordinary shares held of record by Mr. Zohar Zisapel, (ii) 44,460 ordinary shares held by RAD Data Communications Ltd. ("RDC"), an Israeli company, (iii) 13,625 ordinary shares held by Klil & Michael Holdings (93) Ltd., an Israeli company wholly owned by Mr. Zohar Zisapel, (iv) 56,139 ordinary shares held of record by Lomsha Ltd., an Israeli company wholly owned by Mr. Zohar Zisapel, (v) 140,000 ordinary shares issuable upon exercise of options, with an average exercise price per share of \$5.76, expiring between the years 2013 and 2018, and (vi) 38,986 ordinary shares issuable upon exercise of warrants, with an exercise price per share of \$10.69, expiring in October 2013. The options and warrants listed above are exercisable currently or within 60 days of April 19, 2013. Mr. Zohar Zisapel is a principal shareholder and Chairman of the Board of Directors of RDC. Mr. Zohar Zisapel and his brother, Mr. Yehuda Zisapel, have shared voting and dispositive power with respect to the shares held by RDC. This information is based on information provided by Mr. Zohar Zisapel.
- (5) Comprised of 144,000 ordinary shares issuable upon exercise of options at an average exercise price per share of 2.84, which expire between the years 2013 and 2017 and are all exercisable within 60 days of April 19, 2013.
- (6) Each of the directors and executive officers not separately identified in the above table beneficially owns less than 1% of our outstanding ordinary shares (including options or warrants held by each such party, which are vested or shall become vested within 60 days of April 19, 2013) and have, therefore, not been separately disclosed. The amount of shares is comprised of 285,457 ordinary shares issuable upon exercise of options and warrants exercisable within 60 days of April 19, 2013.
- (7) On May 6, 2008, our shareholders approved a one-to-four reverse share split, which we affected in June 2008.

For a description of our share option plans for the granting of options to our employees see "Item 6.B—Directors, Senior Management and Employees—Compensation—Share Option Plans."

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 April 19, 2013, by each person or entity known to own beneficially 5% or more 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 April 19, 2013, our ordinary shares had a total of 37 holders of record, of which 18 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 April 19, 2013, U.S. holders of record held approximately 70% of our outstanding ordinary shares.

Name	Number of Ordinary Shares(1)	Percentage of Outstanding Ordinary Shares(2)
Zohar Zisapel	2,285,883(3)	34.4%
Yehuda Zisapel	506,790(4)	7.84%
Orington Holdings Limited	389,864(5)	5.94%

- (1) Except as otherwise noted and subject 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 April 19, 2013.
- (2) The percentage of outstanding ordinary shares is based on 6,464,719 ordinary shares outstanding as of April 19, 2013. 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 April 19, 2013. The number of outstanding ordinary shares does not include 5,189 shares held by RADCOR Equipment, Inc., a wholly owned subsidiary and 30,843 shares that were repurchased by us.
- (3) Includes (i) 1,992,673 ordinary shares held of record by Mr. Zohar Zisapel, (ii) 44,460 ordinary shares held by RAD Data Communications Ltd. ("RDC"), an Israeli company, (iii) 13,625 ordinary shares held by Klil & Michael Holdings (93) Ltd., an Israeli company wholly owned by Mr. Zohar Zisapel, (iv) 56,139 ordinary shares held of record by Lomsha Ltd., an Israeli company wholly owned by Mr. Zohar Zisapel, (v) 140,000 ordinary shares issuable upon exercise of options, with an average exercise price per share of \$5.76, expiring between the years 2013 and 2019, and (vi) 38,986 ordinary shares issuable upon exercise of warrants, with an exercise price per share of \$10.69, expiring in October 2013. The options and warrants listed above are exercisable currently or within 60 days of April 19, 2013. Mr. Zohar Zisapel and his brother, Mr. Yehuda Zisapel, have shared voting and dispositive power with respect to the shares held by RDC. Mr. Zohar Zisapel is a principal shareholder and Chairman of the Board of Directors of RDC and, as such, Mr. Zisapel may be deemed to have voting and dispositive power over the ordinary shares held by RDC. Mr. Zisapel disclaims beneficial ownership of these ordinary shares except to the extent of his pecuniary interest therein. This information is based on information provided to the Company by Mr. Zohar Zisapel and based on Mr. Zohar Zisapel's Schedule 13D/A filed with the SEC on February 19, 2013.
- (4) Includes (i) 234,740 ordinary shares held of record by Mr. Yehuda Zisapel, (ii) 44,460 ordinary shares held of record by RDC, an Israeli company, and (iii) 227,590 ordinary shares held of record by Retem Local Networks Ltd., an Israeli company. Mr. Yehuda Zisapel and his brother, Mr. Zohar Zisapel, have shared voting and dispositive power with respect to the shares held by RDC. Mr. Yehuda Zisapel is a principal shareholder and director of each of RDC and Retem Local Networks Ltd. and, as such, Mr. Yehuda Zisapel may be deemed to have voting and dispositive power over the ordinary shares held by such companies. Mr. Yehuda Zisapel disclaims beneficial ownership of these ordinary shares except to the extent of his pecuniary interest therein. This information is based on Mr. Yehuda Zisapel's Schedule 13G/A, filed with the SEC on February 14, 2007.
- (5) Includes beneficial ownership of 292,398 ordinary shares and 97,466 ordinary shares issuable upon exercise of warrants exercisable within 60 days of October 12, 2010. This information is based upon a Schedule 13G filed by Orington Holdings Limited and its sole shareholder Finsbury Holdings Limited, with the SEC on October 19, 2010.

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 the Chairman of our 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 the other companies, are known as the "RAD-BYNET Group. Such other corporations include, without limitation: RAD Data Communications Ltd.("RAD"), Radware Ltd., Ceragon Networks Ltd., Silicom Ltd., BYNET Data Communications Ltd.("BYNET"), Radwin Ltd., BYNET SEMECH (Outsourcing) Ltd., BYNET SYSTEMS APPLICATIONS Ltd., BYNET ELECTRONICS Ltd. (a non-exclusive distributor in Israel for us), Channelot Ltd., RAD-Bynet Properties and Services (1981) Ltd., BYNET Software Systems Ltd., Internet Binat Ltd., Packetlight Networks Ltd., Neurim Pharmaceuticals (1991) Ltd., RADIFLOW Ltd., AB-NET Communication Ltd, RABBIT Computers Inc, SecuritiDAM Ltd. and several other holdings, real estate and biotech companies.

Certain 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 and Zohar Zisapel also hold several other real estate, holding, biotech and pharmaceutical companies. The above list does not constitute a complete list of the investments and holdings 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 \$50, \$0 and \$640 in 2012, 2011 and 2010, 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 \$61,000, \$24,000 and \$42,000 in 2012, 2011 and 2010, respectively.

Each of RAD and BYNET provides legal, personnel and administrative services to us and leases space to us, for which we pay them at market terms. The aggregate amounts of such payments were approximately \$22,000, \$19,000 and \$20,000 in 2012, 2011 and 2010, respectively.

We currently lease office premises in Tel Aviv, Israel and in Paramus, New Jersey, from private companies controlled by Messrs. Yehuda and Zohar Zisapel. 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 amounts of lease payments were approximately \$448,000, \$438,000 and \$459,000 in 2012, 2011 and 2010, respectively. We also sub-lease approximately 500 square feet of the New Jersey premises to a related party, and received aggregate rental payments of approximately \$10,000 for 2012, \$9,000 for 2011 and \$9,000 for 2010.

We were a party to a non-exclusive distribution agreement with BYNET ELECTRONICS Ltd., a related party. BYNET ELECTRONICS Ltd. purchased our products and services on the same terms and conditions as it purchases from unrelated companies with whom it has distribution agreements. The aggregate amounts of such sales were approximately \$451,000, \$347,000 and \$960,000 in 2012, 2011 and 2010, respectively. The distribution agreement was terminated during 2012.

In October and November 2010, we completed a PIPE in which we raised \$5.5 million from certain investors, including our Chairman, Mr. Zohar Zisapel (who invested \$1.0 million). For more information, see "Item 5.B—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Private Placements" above.

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 Board of Directors and, in certain circumstances, approval of our Audit Committee and shareholders under the Israeli Companies Law.

In December 2011, we entered into a consulting agreement with Ms. Heli Bennun (the "Consultant"). Ms. Bennun is the domestic partner of Mr. Zohar Zisapel, our Chairman of the Board and largest shareholder. The key terms of the agreement are as follows: (i) the Consultant will provide advisory services to our management with respect to our business operations, (ii) we will pay the Consultant a monthly amount which may not exceed the average monthly salary of employees in Israel, plus Israeli Value Added Tax, (iii) the term of engagement shall be for a period of 12 months from commencement of services or as otherwise agreed by us and the Consultant, and (iv) during the term of the agreement, the Consultant will provide services for at least 25 hours a month on the average. The transaction was authorized by all necessary corporate action required by the Israeli Companies Law.

In November 2012, we secured a loan of up to NIS 3 million from Mr. Zohar Zisapel, our Chairman of the Board and our largest shareholder to finance our operations. The term of the loan was until March 31, 2013, and Mr. Zisapel has informed us that he has agreed to waive his right to claim the repayment of the loan until June 30, 2013. The loan is interest-free, but the amount of principal required to be repaid is linked to the Israeli CPI. The transaction was authorized by all necessary corporate action required by the Israeli Companies Law. The average Israeli CPI has increased each year from 2010 through 2012 by 3.34%, 1.96% and 1.63% respectively. As of April 19, 2013, we owe Mr. Zisapel NIS 2,893,000 pursuant to the terms of the loan.

Registration Rights

As part of the PIPE we completed in 2010, 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 the PIPE. We filed a registration statement in regards to the shares and warrants of the 2010 PIPE transaction which became effective on January 24, 2011. For more information on the 2010 PIPE transaction, see "Item 5.B—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Private Placements."

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 beginning on page F-1, are incorporated herein by reference.

Export Sales

In 2012, the amount of our export sales was approximately \$14.4 million, which represented 91% of our total sales.

Legal Proceedings

None.

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

Except as otherwise disclosed in this Annual Report, there has been no material change in our financial position since December 31, 2012.

ITEM 9. THE OFFER AND LISTING**A. OFFER AND LISTING DETAILS****NASDAQ Capital Market**

The following table sets forth the high and low market prices of our ordinary shares as reported on NASDAQ for the periods indicated.

	High	Low
<u>Annual</u>		
2012	\$ 5.69	\$ 2.08
2011	\$ 13.98	\$ 3.45
2010	\$ 12.50	\$ 1.60
2009	\$ 2.80	\$ 0.40
2008	\$ 3.40	\$ 0.40
<u>Quarterly 2013</u>		
Second Quarter (Through April 19)	\$ 3.40	\$ 3.00
First Quarter	\$ 4.19	\$ 2.21
<u>Quarterly 2012</u>		
Fourth Quarter	\$ 3.25	\$ 2.08
Third Quarter	\$ 4.80	\$ 2.66
Second Quarter	\$ 5.42	\$ 3.50
First Quarter	\$ 5.72	\$ 3.94
<u>Quarterly 2011</u>		
Fourth Quarter	\$ 4.75	\$ 3.45
Third Quarter	\$ 5.56	\$ 3.55
Second Quarter	\$ 9.83	\$ 4.48
First Quarter	\$ 13.98	\$ 9.28
<u>Most recent six months</u>		
April 2013 (Through April 19)	\$ 3.40	\$ 3.00
March 2013	\$ 3.95	\$ 2.81
February 2013	\$ 4.10	\$ 2.21
January 2013	\$ 4.19	\$ 2.32
December 2012	\$ 2.78	\$ 2.16
November 2012	\$ 3.25	\$ 2.08
October 2012	\$ 3.25	\$ 2.15

On April 19, 2013, the closing price of our ordinary shares on the NASDAQ was \$3.06 per share.

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

From our initial public offering on September 24, 1997 until September 30, 2007 our ordinary shares were 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, on February 20, 2006, our ordinary shares began trading on the Tel Aviv Stock Exchange ("TASE") under the symbol "רדקם". In March 2009 we notified the TASE that we did not wish to continue our listing on the TASE. As per the TASE regulations, the de-listing became effective on June 29, 2009. Prior to September 24, 1997, there was no market for our ordinary shares.

Our ordinary shares are currently listed on NASDAQ and are thereby subject to the rules and regulations established by NASDAQ and applicable to listed companies. The Rule 5600 Series of the NASDAQ Listing Rules imposes various corporate governance requirements on listed securities. Section (a)(3) of Rule 5615 provides that foreign private issuers are required to comply with certain specific requirements of the Rule 5600 Series, but may comply with the laws of their home jurisdiction in lieu of other requirements of the Rule 5600 Series and certain other enumerated rules.

We have chosen to follow the rules of our home jurisdiction, the Israeli Companies Law, in lieu of the requirements of (i) Rule 5250(d)(1) regarding distribution of annual reports to our shareholders prior to our annual meeting of shareholders; (ii) Rule 5635(c) 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 5210(c) and Rule 5255 relating to the direct registration program. These requirements of the NASDAQ Listing Rules are not required under the Israeli Companies Law. See also "Item 10.B—Additional Information—Memorandum and Articles of Association" and "Item 16G—Corporate Governance."

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 Israeli Securities Law, 5728-1968 (the "Israeli Securities Law"), and a corresponding section of the Israeli Companies Law, authorize the Israeli Securities Authority to impose administrative sanctions against companies like ours and their office holders for certain violations of the Israeli Securities Law or the Israeli Companies Law. The law provides that only certain types of liabilities may be reimbursed by indemnification and insurance. Specifically, legal expenses (including attorneys' fees) incurred by an individual in the applicable administrative enforcement proceeding and any compensation payable to injured parties for damages suffered by them are permitted to be reimbursed via indemnification or insurance, provided that such indemnification and insurance are authorized by the company's articles of association. On September 19, 2011, at our 2011 annual general meeting, our shareholders approved certain amendments to our articles of association to authorize indemnification and insurance in connection with administrative proceedings, including without limitation, the specific sections of the Israeli Securities Law and the Israeli Companies Law described above.

On November 1, 2010, at our 2010 annual general meeting, our shareholders approved the following amendment to our articles of association. Section 173 of the Israeli Companies Law provides that privately held companies in Israel as well as companies only listed on stock exchanges outside of Israel, such as our company, are not required to provide its shareholders with annual financial statements, provided that such a provision is included in such company's articles of association. As we are only listed on NASDAQ and file our financial statements with the SEC, similar to other Israeli companies that are only listed on a stock exchange outside of Israel, following the recommendation of our Board of Directors, our shareholders approved the amendment to our articles of association by adding a provision that we will only mail out copies of our annual financial statements to those shareholders that submit a written request for such statements. In accordance with applicable law, our annual financial statements are filed with the SEC and are available at the SEC's website, www.sec.gov, and on our website, www.radcom.com.

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

Objectives 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 objectives 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 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 objectives 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, the exact number to be fixed from time to time by resolution of our shareholders. On December 9, 2009, at our annual general meeting, our shareholders fixed the number of directors on our Board of Directors at five. Our non-external directors do not stand for reelection at staggered intervals, and they serve until the next annual general meeting (in 2013). The three year term of office for our external directors, Mr. Har and Ms. Hillel, expires in 2013.

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 Israeli regulations, which is subject to approval by the board of directors only in certain circumstances.

Powers of the Board of Directors

Our 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. Our Board of Directors may elect one director to serve as the Chairman of Board to preside at the meetings of our Board of Directors, and may also remove such director.

Our Board of Directors retains all power in running the Company that is not specifically granted to the shareholders. Our 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

Our Board of Directors may declare dividends as it deems justified. Dividends may be paid in assets or shares of capital stock, debentures or debenture stock of us or of other companies. Our 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 allow us to create redeemable shares, although at the present time we do not have any such redeemable shares.

External Directors

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

Fiduciary Duties of Office Holders

The Israeli 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.A—Directors, Senior Management and Employees—Directors and Senior Management" above is an office holder. Under the Israeli Companies Law, all arrangements as to compensation of office holders who are not directors, or controlling parties, require approval of the audit committee or a compensation committee to the extent that it complies with the statutory requirements which apply to the audit committee, and the Board of Directors. Arrangements regarding the terms of employment and compensation of directors also require approval by the audit committee, the Board of Directors and the shareholders.

Approval of Officeholder Compensation

A recent amendment to the Israeli Companies Law imposes new approval requirements for the compensation of office holders. Every Israeli public company must adopt a compensation policy, recommended by the compensation committee, and approved by the board of directors and the shareholders, in that order, no later than September 2013. The shareholder approval requires a majority of the votes cast by shareholders, excluding any controlling shareholder and those who have a personal interest in the matter (similar to the threshold described below under "– Duties of Shareholders"). In general, all office holders' terms of compensation – including fixed remuneration, bonuses, equity compensation, retirement or termination payments, indemnification, liability insurance and the grant of an exemption from liability – must comply with the company's compensation policy. In addition, the compensation terms of directors, the chief executive officer, and any employee or service provider who is considered a controlling shareholder must be approved separately by the compensation committee, the board of directors and the shareholders of the company (by the same majority noted above), in that order. The compensation terms of other officers require the approval of the compensation committee and the board of directors.

Conflict of Interest

The Israeli 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.

Extraordinary Transactions

In addition, if the transaction is an extraordinary transaction as defined under Israeli law, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, spouse's descendants, also the siblings and parents of the office holder's spouse and the spouses of any of the foregoing. 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 Israeli 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 matter that is considered at a meeting of the board of directors or the audit committee may not be present at the deliberations or vote on this matter, however, with respect to an office holder, he/she may be present at the meeting discussions if the chairman determines that the office holder has to present the matter or 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

Pursuant to the Israeli Companies Law and the Company's articles of association, 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 (annual or extraordinary) 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 Listing 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. See also "Item 16G—Corporate Governance."

Duties of Shareholders

Under the Israeli 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-half 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 two percent of the voting power of the company.

Pursuant to an amendment to the Israeli Companies Law, which came into effect on May 14, 2011 (the "Amendment Date"), agreements and extraordinary transactions with a duration exceeding three years are subject to re-approval once every three years by the audit committee, board of directors and the shareholders of the company. Extraordinary transactions may be approved in advance for a period exceeding three years if the audit committee determines such approval reasonable under the circumstances. In addition, agreements and extraordinary transactions with a duration exceeding three years which were approved prior to the Amendment Date will need to be re-approved by the proper corporate actions at the later of the first general meeting held after the Amendment Date, six months after the Amendment Date or the expiration of three years from the date on which they approved, even though they were properly approved prior to the passing of the amendment to the Israeli Companies Law.

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 Israeli 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 Israeli 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 Israeli Companies Law, an Israeli company may not exculpate an office holder from liability with respect to a breach of his duty of loyalty, but may exculpate 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, subject to the provisions of the Israeli Companies Law, to prospectively exculpate an office holder from all or some of the office holder's responsibility for damage resulting from the office holder's breach of the office holder's duty of care to the Company.

Insurance of Office Holders

Our articles of association further provide that, subject to the provisions of the Israeli 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, in respect of each of the following:

- 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;
- financial obligation imposed on him+ in favor of another person; or
- reasonable litigation expenses, including attorney fees, incurred by the office holder as a result of an administrative enforcement proceeding instituted against him. Without derogating from the generality of the foregoing, such expenses will include a payment imposed on the office holder in favor of an injured party as set forth in Section 52(54)(a)(1)(a) of the Israeli Securities Law, 5728-1968, as amended (the "Israeli Securities Law") and expenses that the office holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees.

Indemnification of Office Holders

Our articles of association also provide that we may indemnify an office holder in respect of an obligation or expense imposed on the office holder in respect of an act performed in his or her capacity as an office holder, as follows:

- a financial obligation imposed on him in favor of another person by a court judgment, including a compromise judgment or an arbitrator's award approved by court;
- reasonable litigation expenses, including attorneys' fees, expended by the office holder as a result of an investigation or proceeding instituted against him by a competent authority, provided that such investigation or proceeding was concluded without the filing of an indictment against him and either (A) concluded without the imposition of any financial liability in lieu of criminal proceedings or (B) 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; or in connection with an administrative enforcement proceeding or a financial sanction. Without derogating from the generality of the foregoing, such expenses will include a payment imposed on the office holder in favor of an injured party as set forth in Section 52(54)(a)(1)(a) of the Israeli Securities Law, 1968, as amended (the "Securities Law"), and expenses that the office holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees; and
- reasonable litigation expenses, including attorneys' fees, expended by an office holder or charged to the office holder by a court, in a proceeding instituted against the office holder by the Company or on its behalf or by another person, or in a criminal charge from which the office holder was acquitted, or in a criminal proceeding in which the office holder was convicted of an offense that does not require proof of criminal intent.

Our articles of association also include provisions allowing us to undertake to indemnify an office holder as aforesaid:

- in advance, provided that in respect of bullet number 1 above, the undertaking is restricted to events which our Board of Directors deems to be foreseeable in light of our actual operations at the time of the undertaking and limited to an amount or criteria determined by our Board of Directors to be reasonable under the circumstances, and further provided that such events and amounts or criteria are set forth in the undertaking to indemnify; and
- retroactively.

Limitations on Exculpation, Indemnification and Insurance

The Israeli Companies Law provides that a company may not exempt or indemnify an office holder, or enter into an insurance contract, which would provide coverage for any monetary liability incurred as a result of any of the following:

- a breach by the office holder of his duty of loyalty unless, with respect to insurance coverage or indemnification, the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach by the office holder of his duty of care if the breach was done intentionally or recklessly (other than if solely done in negligence);
- any act or omission done with the intent to derive an illegal personal benefit
- a fine, civil fine or ransom levied on an office holder, or a financial sanction imposed upon an office holder under Israeli Law.

Required Approvals

In addition, under the Israeli Companies Law, any exculpation of, indemnification of, or procurement of insurance coverage for, the Company's office holders must be approved by the Company's audit committee and the Company's board of directors and, if the beneficiary is a director, by the Company's shareholders. The Company's audit committee, board of directors and shareholders resolved to indemnify and exculpate the Company's office holders by providing them with indemnification agreements and approving the purchase of a directors and officers liability insurance policy. We currently maintain directors and officers liability insurance policy limited to US\$10 million, at an annual premium of approximately US\$ 52,000.

Anti-Takeover Provisions; Mergers and Acquisitions

The Israeli Companies Law allows for mergers, provided that each party to the transaction obtains the approval of its board of directors and shareholders. A merger of the Company shall require a resolution adopted by a simple vote cast at a general meeting, not taking into account abstentions, provided, however, that if the transaction is an extraordinary transaction with a controlling shareholder or in which a controlling shareholder has an interest, then the approvals required will be the corporate approvals under the Israeli Companies Law for such extraordinary transaction (i.e. approval of the audit committee, board of directors and shareholders vote, which shareholder approval must either include at least one-half of the shares held by disinterested shareholders who are present, in person or by proxy, at the meeting, or, alternatively, the total shareholdings of the disinterested shareholders who vote against the transaction must not represent more than two percent). 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 Israeli 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 acquirer. 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 Israeli 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 Israeli 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 Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser would become a 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 acquirer 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 acquirer 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, and more than half of the shareholders without a personal interest in accepting the offer tendered their shares, then all the shares that the acquirer offered to purchase will be transferred to the acquirer. The Israeli Companies Law provides for appraisal rights if any shareholder files a request in court within six months following the consummation of a full tender offer (provided, however, that subject to certain exceptions, the terms of the tender offer may state that a shareholder that accepts the offer waives such right). If more than 5% of the outstanding shares are not tendered in the tender offer, then the acquirer may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares; provided, however, that if the dissenting shareholders constitute less than 2% of the issued and outstanding share capital of the company then the full tender will be accepted and all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. 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. If more than 5% of the outstanding shares are not tendered in the tender offer, then the acquirer may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares.

C. MATERIAL CONTRACTS

For a summary of (i) the lease agreement for the Tel Aviv premises, see "Item 4.D—Information on the Company—Property, Plants and Equipment," (ii) the Credit Facility from First International Bank of Israel, see "Item 5.B—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Loans—Credit Facility from First International Bank of Israel," and (iii) the Loan Agreement with Mr. Zohar Zisapel, see "Item 5.B—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Loans—Loan Agreement with Mr. Zohar Zisapel," which are 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 at the rate of 24% for the 2011 tax year, 25% for the 2012 tax year and 25% for the 2013 tax year. Following an amendment to the Tax Ordinance, which came into effect on January 1, 2012, the Corporate Tax rate is scheduled to remain at a rate of 25% for future tax years. Israeli companies are generally subject to Capital Gains Tax at the corporate tax rate. However, the effective tax rate payable by a company that derives income from an approved and beneficiary enterprise (as further discussed below) may be considerably less.

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, which are used for the development or advancement of the company;
- deductions over a three-year period in equal amounts 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, (exclusive of income from capital gains, direct real estate tax, interest and dividend) in any tax year, is derived from an "Industrial Enterprise" owned by it. An "Industrial Enterprise" is defined as an enterprise whose primary 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.

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, if those assets are either (i) located in Israel; (ii) are shares or a right to a share in an Israeli resident corporation (iii) represent, directly or indirectly, rights to assets located in Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The Tax Ordinance 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.

As of January 1, 2012, the tax rate generally applicable to capital gains derived from the sale of shares, whether listed on a stock market or not, is 25% 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 30%. 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 30%. Israeli Companies are subject to the Corporate Tax rate on capital gains derived from the sale of listed shares. 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.

As of January 1, 2013, shareholders that are individuals who have taxable income that exceeds NIS 800,000 in a tax year (linked to the CPI each year), will be subject to an additional tax, referred to as High Income Tax, at the rate of 2% on their taxable income for such tax year which is in excess of NIS 800,000. For this purpose taxable income will include taxable capital gains from the sale of our shares and taxable income from dividend distributions.

Shareholders that are not Israeli residents are generally exempt from Israeli capital gains tax on any gains derived from the sale, exchange or disposition of our ordinary shares, provided that (1) such shareholders did not acquire their shares prior to our initial public offering, (2) the shares are listed for trading on the Tel Aviv Stock Exchange and/or a foreign exchange, and (3) such gains did not derive from a permanent establishment of such shareholders in Israel. However, non-Israeli corporations will not be entitled to the foregoing exemptions if an Israeli resident or 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 certain 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 the 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 "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.

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.

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 by an Israeli company to non-residents of Israel, income tax is applicable at the rate of 25%, or 30% (20% or 25% in 2011) 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 (or Benefited Enterprise or Preferred Enterprise); unless a different rate is provided in a treaty between Israel and the shareholder's country of residence. Distributions of dividends are subject to the withholding of Israeli tax at the source at the prevailing rates under Israeli tax law.

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, dividends deriving from income generated by an Approved Enterprise (or Benefited Enterprise or Preferred Enterprise) are taxed at the rate of 15%. Furthermore, dividends not generated by an Approved Enterprise (or Benefited Enterprise or Preferred 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.

A non-resident of Israel who receives dividend from which tax was withheld is generally exempt from the duty to file returns in Israel in respect of such income, provided such income was not derived from a business conducted in Israel by the taxpayer, and the taxpayer has no other taxable sources of income in Israel.

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

Israeli Transfer Pricing Regulations

In accordance with Section 85A of the Israeli Tax Ordinance, if in an international transaction (whereby at least one party is a foreigner or all or part of the income from such transaction is to be taxed abroad as well as in Israel) there is a special relationship between the parties (including but not limited to family relationship or a relationships of control between companies), and due to this relationship the price set for an asset, right, service or credit was determined or other conditions for the transaction were set such that a smaller profit was realized than what would have been expected to be realized from a transaction of this nature, then such transaction shall be reported in accordance with customary market conditions and tax shall be charged accordingly. This section shall apply solely to transactions that transpire after November 29, 2006, at which time regulations with respect to this section were legislated. The assessment of whether a transaction falls under the aforementioned definition shall be implemented in accordance with one of the procedures mentioned in the regulations and is based, among others, on comparisons of characteristics which portray similar transactions in ordinary market conditions, such as profit, the area of activity, nature of the asset, the contractual conditions of the transaction and according to additional terms and conditions specified in the regulations.

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 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;
- 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;
- own our warrants;
- have a functional currency that is not the U.S. dollar;
- are grantor trusts;
- are S corporations;
- 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 to such person's particular circumstances.

Taxation of U.S. Holders 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 20% for taxable years beginning after December 31, 2012), 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., NASDAQ) or (ii) the non-U.S. corporation is eligible for benefits of a comprehensive income tax treaty with the United States, which includes 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 income 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 generally 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.

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 20% for taxable years beginning after December 31, 2012). 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 a 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.

Medicare Tax. With respect to taxable years beginning after December 31, 2012, certain non-corporate U.S. holders will be subject to an additional 3.8% Medicare tax on all or a portion of their "net investment income," which may include dividends on, or capital gains recognized from the disposition of, our ordinary shares. U.S. holders are urged to consult their own tax advisors regarding the implications of the additional Medicare tax on their investment in our ordinary shares.

Passive Foreign Investment Company Status. We would be a passive foreign investment company (a "PFIC") for 2021 if (taking into account certain "look-through" rules with respect to the income and assets of certain 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 2012.

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 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 certain nonresident aliens) would be denied the normally-available step-up in basis for such shares at the date of death and, instead, would generally have a tax basis in such shares equal to the lower of the decedent's basis or the fair value of such shares. Further, if we are a PFIC, each U.S. Holder will generally be required to file an annual report with the IRS.

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 beginning in the first taxable year in its holding period in which it were a PFIC, any gain or loss realized by such holder on the disposition of its ordinary shares held as a capital asset ordinarily will generally 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 20% for taxable years beginning after December 31, 2012. 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 NASDAQ) 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 in a taxable year in which we are a PFIC, would be treated as ordinary income. Any loss under this computation, and any loss on an actual disposition of the ordinary shares in a taxable year in which we are a PFIC, 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. 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 be revoked with consent of the IRS (except to the extent the ordinary shares no longer constitute "marketable stock").

The Code does not specify how a corporation must determine fair market value of its assets for this purpose, and the issue has not been definitively determined by the IRS or the courts. The market capitalization approach has generally been used to determine the fair market value of the assets of a publicly traded corporation. The IRS and the courts, however, have accepted other valuation methods in certain valuation contexts. We believe that we should not be classified as a PFIC for 2012. We believe also that we were not a PFIC for tax years 2004 through 2011 or any year prior to 2001, based upon our income, assets, activities and market capitalization during such years. 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. However, there can be no assurance that the IRS will not challenge our treatment. 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 shares, which are all relevant to this determination. Accordingly, there can be no assurance that we will not become a PFIC. 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 timely 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.

Taxation for Non-U.S. Holders of Ordinary Shares

Except as described in "—Information Reporting and Backup 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 backup 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 backup 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 1-800-SEC-0330 for further information on the public reference room. In addition, some of our filings are available to the public on 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. However, as an Israeli publicly traded company, we do not send copies of our annual reports to our shareholders. We will mail out copies of our annual financial statements only to those shareholders that submit a written request for such statements. See also "Item 10.B--Additional Information—Memorandum and Articles of Association" and "Item 16G—Corporate Governance." Information contained on our website is not a part of this Annual Report.

Any statement contained 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 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 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 may 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 0.45%. 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. The potential loss to us over one year that would result from a hypothetical change in interest rates of 10% is not material.

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. and Brazil subsidiaries and through our representatives and distributors. Typically, these sales and related expenses are denominated in U.S. dollars, Brazilian Real ("BRL") or in Euro for European countries, while a significant portion 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 and Brazilian Real. Based on our budget for 2013, we expect that (i) an increase of NIS 0.10 to the exchange rate of the NIS to U.S. dollar will decrease our expenses expressed in dollar terms by approximately \$40,000 per quarter and vice versa and (ii) an increase of BRL 0.1 to the exchange rate of the BRL to U.S. dollar will decrease our expenses expressed in dollar terms by approximately \$50,000 per quarter and vice versa.

See also "Item 5.A—Operating and Financial Review and Prospects—Operating Results—Impact of Inflation and Currency Fluctuations."

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

None.

ITEM 15. 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, 2012. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that, as of December 31, 2012, 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 U.S. GAAP 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 U.S. GAAP; (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 or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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 the 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, 2012, 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, 2012, the Company's internal control over financial reporting was effective.

c. Attestation Report of the Registered Public Accounting Firm

Not applicable.

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, 2012 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 Irit Hillel is our "audit committee financial expert" (as defined in paragraph (b) of Item 16A of Form 20-F) serving on our Audit Committee. For information on Ms. Hillel's professional and educational background, see "Item 6.A—Directors, Senior Management and Employees—Directors and Senior Management." Ms. Hillel qualifies as an "independent" director under the NASDAQ Listing Rules.

ITEM 16B. CODE OF ETHICS

On February 1, 2004, our Board of Directors adopted our Code of Ethics and Business Conduct, a code that applies to all of our directors, officers and employees, including our President and Chief Executive Officer and our Chief Financial Officer. 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 also publicly available on our website at www.radcom.com.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Kost Forer Gabbay & Kasierer, a member of Ernst and Young Global, is our independent registered public accounting firm. Fees for professional services in 2012 and 2011 were, respectively:

	Year Ended December 31,	
	2012	2011
Audit Fees	\$ 124,000	\$ 125,000
Tax Fees	\$ 5,000	\$ 8,000
All other Fees	\$ 0	\$ 0
Total	\$ 129,000	\$ 133,000

Audit Fees include fees associated with the annual audit, the reviews of our quarterly financial statements, statutory audits required internationally, consents and assistance with and review of documents filed with the SEC.

Tax fees included tax compliance, including the preparation of tax returns, tax planning and tax advice, including assistance with tax audits and appeals, advice related to acquisitions, transfer pricing and assistance with respect to requests for rulings from tax authorities.

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. All of the Audit Fees and Tax Fees set forth above were approved by the Audit Committee.

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.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

We are a foreign private issuer whose ordinary shares are listed on NASDAQ. As such, we are required to comply with U.S. federal securities laws, including the Sarbanes-Oxley Act, and the NASDAQ Listing Rules, including NASDAQ's corporate governance requirements. The NASDAQ Listing Rules provide that foreign private issuers may follow home country practice in lieu of certain qualitative listing requirements subject to certain exceptions and except to the extent that such exemptions would be contrary to U.S. federal securities laws, so long as the foreign issuer discloses that it does not follow such listing requirement and describes the home country practice followed in its reports filed with the SEC.

We follow the Israeli Companies Law, the relevant provisions of which are summarized in this Annual Report, rather than comply with the NASDAQ requirements relating to: (i) sending annual reports to shareholders, as described in "Item 10.H—Additional Information—Documents on Display," (ii) shareholder approval with respect to issuance of securities under equity based compensation plans and (iii) relating to the direct registration program. The NASDAQ Listing Rules generally require shareholder approval when an equity based compensation plan is established or materially amended, but we follow the Israeli Companies Law, which requires approval of the board of directors or a duly authorized committee thereof, unless such arrangements are for the compensation of directors, in which case they also require audit committee and shareholder approval.

ITEM 16H. MINE SAFETY DISCLOSURE

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, as noted below:

<u>Index to the Consolidated Financial Statements</u>	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets at December 31, 2012, 2011 and 2010	F-3
Consolidated Statements of Operations for the Years Ended December 31, 2012, 2011 and 2010	F-5
Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2012, 2011 and 2010	F-7
Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011 and 2010	F-8
Notes to Consolidated Financial Statements	F-10

ITEM 19. EXHIBITS

The exhibits filed with or incorporated into this Annual Report are listed below.

<u>Exhibit No.</u>	<u>Description</u>
1.1	Memorandum of Association, as amended (2).
1.2	Amended and Restated Articles of Association, as amended (1).
2.1	Form of ordinary share certificate (1).
4.1	International Employee Stock Option Plan (3).
4.2	2003 Share Option Plan (1)
4.3	Lease Agreement, dated March 1, 2013, among Zisapel Properties (1992) Ltd., Klil and Michael Properties (1992) Ltd. and RADCOM Ltd. (English translations accompanied by Hebrew original)(1).
4.4	Lease Agreement, dated December 1, 2000, as amended, among Zohar Zisapel Properties, Inc., Yehuda Zisapel Properties, Inc. and RADCOM Equipment, Inc. (4).
4.5	Share and Warrant Purchase Agreement, dated as of October 11, 2010, by and between RADCOM Ltd. and the purchasers listed therein (5).
4.6	Form of Warrant – Share and Warrant Purchase Agreement dated October 11, 2010 (5).
4.7	Lease Extension, dated November 14, 2012, among Zohar Zisapel Properties, Inc., Yehuda Zisapel Properties, Inc. and RADCOM Equipment, Inc (1).
4.8	Loan agreement with Mr. Zohar Zisapel (1).
4.9	Covenants letter regarding the Credit Facility from First International Bank of Israel and the floating and fixed charge (1) (English translation of the covenants letter and an English summary of the floating charge, both accompanied by Hebrew originals).
8.1	List of Subsidiaries (1)
11.1	Code of Ethics (6).
12.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1).
12.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (1).
13.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (1).
13.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (1).
15.1	Consent of Kost Forer Gabbay & Kasierer, a member of Ernst and Young Global, dated April 22, 2013 (1).

The following financial information from RADCOM Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2012 formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010; (ii) Consolidated Balance Sheets at December 31, 2012, 2011 and 2010; (iii) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2012, 2011 and 2010; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010; and (v) Notes to Consolidated Financial Statements. Users of this data are advised, in accordance with Rule 406T of Regulation S-T promulgated by the SEC, that this Interactive Data File is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections (1).

(1) Filed herewith.

(2) Incorporated herein by reference to the (i) Registration Statement on Form F-1 of RADCOM Ltd. (File No. 333-05022), filed with the SEC on June 12, 1996, and (ii) Form 6-K of RADCOM Ltd., filed with the SEC on April 1, 2008.

(3) 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.

(4) 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.

(5) Incorporated herein by reference to the Form F-3/A of RADCOM Ltd., filed with the SEC on December 14, 2010.

(6) 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.

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: April 22, 2013

RADCOM LTD. AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2012

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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. (the "Company") and its subsidiaries as of December 31, 2012 and 2011 and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Radcom Ltd. and its subsidiaries at December 31, 2012 and 2011 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

Tel-Aviv, Israel
April 22, 2013

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,474	\$ 2,901
Restricted Cash	1,452	-
Trade receivables (net of allowances for doubtful accounts of \$ 415 and \$ 395 as of December 31, 2012 and 2011, respectively)	3,292	5,389
Inventories	6,736	6,590
Other current assets	2,685	3,490
<u>Total current assets</u>	<u>15,639</u>	<u>18,370</u>
SEVERANCE PAY FUND	3,090	2,674
PROPERTY AND EQUIPMENT, NET	268	301
<u>Total assets</u>	<u>\$ 18,997</u>	<u>\$ 21,345</u>

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

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2012	2011
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short term bank credit	\$ 1,058	\$ -
Short term loans (includes loan of \$777 from related party)	1,527	-
Trade Payables	1,920	2,703
Employees and payroll accruals	1,996	2,087
Deferred revenues and advances from customers	2,100	894
Other accounts payable and accrued expenses	1,844	2,016
Total current liabilities	10,445	7,700
LONG-TERM LIABILITIES:		
Deferred revenues	37	161
Accrued severance pay	3,518	3,092
Total long-term liabilities	3,555	3,253
Total liabilities	14,000	10,953
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Share capital:		
Ordinary Shares of NIS 0.20 par value: 9,997,670 shares authorized at December 31, 2012 and 2011; 6,480,623 and 6,446,541 shares issued at December 31, 2012 and 2011, respectively; 6,449,780 and 6,415,698 shares outstanding at December 31, 2012 and 2011, respectively	251	250
Additional paid-in capital	61,470	60,754
Accumulated other comprehensive loss	(322)	(197)
Accumulated deficit	(56,402)	(50,415)
Total shareholders' equity	4,997	10,392
Total liabilities and shareholders' equity	\$ 18,997	\$ 21,345

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2012	2011	2010
Revenues:			
Products	\$ 12,480	\$ 19,199	\$ 16,770
Services	3,306	2,788	2,403
	<u>15,786</u>	<u>21,987</u>	<u>19,173</u>
Cost of revenues :			
Products	5,765	6,074	6,052
Services	417	606	434
	<u>6,182</u>	<u>6,680</u>	<u>6,486</u>
Gross profit	<u>9,604</u>	<u>15,307</u>	<u>12,687</u>
Operating expenses:			
Research and development	6,102	5,866	4,310
Less - royalty-bearing participation	1,567	1,235	1,424
Research and development, net	<u>4,535</u>	<u>4,631</u>	<u>2,886</u>
Selling and marketing, net	8,515	9,962	6,971
General and administrative	2,107	2,234	1,538
Total operating expenses	<u>15,157</u>	<u>16,827</u>	<u>11,395</u>
Operating income (loss)	(5,553)	(1,520)	1,292
Financial expenses, net	(314)	(384)	(722)
Income (loss) before taxes on income	<u>(5,867)</u>	<u>(1,904)</u>	<u>570</u>
Taxes on Income	<u>(120)</u>	<u>-</u>	<u>-</u>
Net income (loss)	<u>\$ (5,987)</u>	<u>\$ (1,904)</u>	<u>\$ 570</u>
Net earnings (loss) per share:			
Basic net earnings (loss) per Ordinary Share	<u>\$ (0.93)</u>	<u>\$ (0.30)</u>	<u>\$ 0.11</u>
Diluted net earnings (loss) per Ordinary Share	<u>\$ (0.93)</u>	<u>\$ (0.30)</u>	<u>\$ 0.10</u>

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

U.S. dollars in thousands

	Year ended December 31,		
	2012	2011	2010
Net income (loss)	\$ (5,987)	\$ (1,904)	\$ 570
Other comprehensive loss:			
Foreign currency translation adjustment	(125)	(197)	-
Other comprehensive loss	(125)	(197)	-
Comprehensive income (loss)	<u>\$ (6,112)</u>	<u>\$ (2,101)</u>	<u>\$ 570</u>

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

	Number of shares	Share capital Amount	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total
Balance as of January 1, 2010	5,102,778	\$ 177	\$ 51,544	\$ -	\$ (49,081)	\$ 2,640
Net income	-	-	-	-	570	570
Issuance of shares and warrants, net of issuance expenses of \$ 139 (private placement)	643,278	36	5,325	-	-	5,361
Share-based compensation	-	-	564	-	-	564
Exercise of options	163,822	9	634	-	-	643
Classification of warrants to equity	-	-	772	-	-	772
Exercise of warrants	235,146	12	341	-	-	353
Balance as of December 31, 2010	6,145,024	234	59,180	-	(48,511)	10,903
Share-based compensation	-	-	823	-	-	823
Exercise of options	76,143	5	139	-	-	144
Exercise of warrants	194,531	11	612	-	-	623
Net loss	-	-	-	-	(1,904)	(1,904)
Other comprehensive loss	-	-	-	(197)	-	(197)
Balance as of December 31, 2011	6,415,698	250	60,754	(197)	(50,415)	10,392
Share-based compensation	-	-	672	-	-	672
Exercise of options	34,082	1	44	-	-	45
Net loss	-	-	-	-	(5,987)	(5,987)
Other comprehensive loss	-	-	-	(125)	-	(125)
Balance as of December 31, 2012	6,449,780	\$ 251	\$ 61,470	\$ (322)	\$ (56,402)	\$ 4,997

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2012	2011	2010
Cash flows used in operating activities:			
Net income (loss)	\$ (5,987)	\$ (1,904)	\$ 570
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Depreciation	119	155	294
Share-based compensation	672	823	564
Increase (decrease) in allowance for doubtful accounts	20	-	(609)
Amortization of discount on long-term loan	-	-	141
Revaluation of warrants presented at fair value	-	-	524
Increase (decrease) in severance pay, net	10	60	(46)
Decrease (increase) in trade receivables	2,060	1,369	(2,632)
Decrease (increase) in other current assets	767	(1,782)	(1,101)
Increase in inventories	(222)	(2,661)	(1,063)
Increase (decrease) in trade payables	(775)	2	1,634
Increase (decrease) in employees and payroll accrued	(88)	74	272
Increase (decrease) in other accounts payable and accrued expenses	(131)	402	(1,192)
Decrease in interest on long-term loan	-	-	37
Interest on restricted cash	(15)	-	-
Interest and linkage on short term loan	27	-	-
Increase in deferred revenue and advances from customers	1,082	112	109
Net cash used in operating activities	(2,461)	(3,350)	(2,498)
Cash flows used in investing activities:			
Restricted cash	(1,437)	-	-
Purchase of property and equipment	(66)	(103)	(56)
Net cash used in investing activities	(1,503)	(103)	(56)
Cash flows from financing activities:			
Receipts of short term bank credit	1,058	-	-
Receipts of short term loan (includes \$777 from related party)	1,500	-	-
Payments of long term loan	-	-	(1,333)
Proceeds from issuance of Ordinary Shares and warrants, net of issuance expenses	-	-	5,361
Exercise of warrants	-	623	353
Exercise of options	45	144	643
Net cash provided by financing activities	2,603	767	5,024

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL

- a. Radcom Ltd. (the "Company") is an Israeli corporation which provides innovative service assurance solutions for communications service providers and equipment vendors. The Company specializes in solutions for next-generation networks, both wireless and wireline. The Company's comprehensive solutions are used to prevent service provider revenue leakage and enable management of customer care. The Company's products facilitate fault management, network service performance analysis, troubleshooting and pre-mediation with an OSS/BSS (Operational Support System/ Business Support System). Radcom's shares are listed on the NASDAQ Capital Market.

The Company has wholly-owned subsidiaries in the United States and Brazil, that are primarily engaged in the sales and marketing of the Company's products in North America and Brazil, respectively.

In addition, the Company formed in 2012 another wholly-owned subsidiary in India, incorporated under the laws of India, (the "India Subsidiary"). The India Subsidiary is primarily engaged in business development, marketing activities and customer support of the Company's products in India. Since inception, the Indian Subsidiary had immaterial activity.

- b. The Company has an accumulated deficit of \$ 56,402 as of December 31, 2012. The Company believes that its existing capital resources will be adequate to satisfy its expected liquidity requirements at least through the end of December 2013. The Company's foregoing estimate is based, among others, on its current backlog and on the existing pipeline. There is no assurance that, if required, the Company will be able to raise additional capital or reduce discretionary spending to provide the required liquidity in order to continue as a going concern, beyond December 31, 2013.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

a. Use of estimates:

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars ("dollar" or "dollars"):

Most of the Company's and its U.S. subsidiary's revenues and costs are denominated in U.S. dollars. Therefore, the Company's management believes 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 Accounting Standards Codification ("ASC") 830 "Foreign Currency Matters".

Other than in the Company's subsidiary in Brazil, all exchange gains and losses from re-measurement 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.

For the Company's subsidiary in Brazil whose functional currency has been determined to be their local currency, assets and liabilities are translated at year-end exchange rates and statements of income items are translated at average exchange rates prevailing during the year. Such translation adjustments are recorded as a separate component of accumulated other comprehensive loss in shareholders' equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. 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.

d. Cash equivalents:

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

e. Restricted cash:

Restricted cash is invested in a bank deposit, which is pledged in favor of the bank that provides guarantees to the Company.

f. Concentration of credit risk:

Financial instruments that may subject the Company to significant concentration of credit risk consist mainly of cash and cash equivalents, short term bank deposits, severance pay fund and trade receivables.

Cash and cash equivalents and short term bank deposits are maintained with major financial institutions mainly in Israel. Assets held for severance benefits are maintained with major insurance companies and financial institutions in Israel. Such deposits are not insured. However, management believes that such financial institutions are financially sound and, accordingly, low credit risk exists with respect to these investments.

The Company grants credit to customers without generally requiring collateral or security. The risk of collection associated with trade receivables is reduced by geographical dispersion of the Company's customer base. The Company establishes an allowance for doubtful accounts based on historical experience, credit quality, the age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay. Allowance for doubtful accounts amounted to \$415 and \$ 395 as of December 31, 2012 and 2011, respectively. The Company charges off receivables when they are deemed uncollectible. Actual collection experience may not meet expectations and may result in increased bad debt expense. Bad debt expenses (income) amounted to \$ 20, \$ 0 and \$ (609) in 2012, 2011 and 2010, respectively. Total write offs during 2012, 2011 and 2010 amounted to \$ 206, \$ 0 and \$ 0, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Inventories:

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

Inventory write-down is measured as the difference between the cost of the inventory and market based upon assumptions about future demand, and is charged to the cost of sales. At the point of the loss recognition, a new, lower-cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

The Company implements ASC 330-10-30 "Inventory Overall-Initial Measurement". ASC 330-10-30 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) requiring that those items be recognized as current-period charges. In addition, ASC 330-10-30 requires that allocation of fixed production overheads be based on the normal capacity of the production facilities.

Total write offs during 2012, 2011 and 2010 amounted to \$ 311, \$ 0 and \$ 0, respectively.

h. Property and equipment:

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

Equipment 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 - 33
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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Impairment of long-lived assets:

The Company's long-lived assets are reviewed for impairment in accordance with ASC 360 "property, plants and equipment", 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. During 2012, 2011 and 2010, no impairment losses were identified.

j. Revenue recognition:

Revenues from sales of products are recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable and collectability is probable.

Products are typically considered delivered upon shipment. In instances where final acceptance of the product is specified by the customer, and the acceptance is deemed substantive, revenue is deferred until all acceptance criteria have been met. The Company's arrangements generally do not include any provisions for cancellation, termination, or refunds that would significantly impact recognized revenue.

The Company's revenues are generated from sales to independent distributors and direct customers. The Company has a contract that is standard in substance with its distributors. Based on this contract, 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, however the Company recognizes its revenue on a "sale through" basis and therefore revenues from these distributors are deferred until all revenue recognition criteria of the sale to the end customer are met.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company accounts for revenue recognition under the guidance of ASU No. 2009-13, "Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements". ASU No. 2009-13 establishes a selling price hierarchy for determining the selling price of a deliverable in a sale arrangement. The selling price for each deliverable is based on vendor-specific objective evidence ("VSOE") if available, third-party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE or TPE is available. ASU No. 2009-13 requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. The relative selling price method allocates any discount in the arrangement proportionately to each deliverable on the basis of the deliverable's selling price.

Under the Company's selling arrangements, the Company provides a one-year warranty, which includes bug fixing and a hardware warranty ("Warranty") for all of its products. Accordingly, the Company records an appropriate provision for Warranty in accordance with ASC 450 "Contingencies" (see Note 2l). After the Warranty period initially provided with the Company's products, the Company may sell extended warranty contracts on a standalone basis, which includes bug fixing and a hardware warranty. Revenue related to extended warranty contracts is recognized pursuant to ASC 605-20-25, "Separately Priced Extended Warranty and Product Maintenance Contracts." Pursuant to this provision, revenue related to separately priced product maintenance contracts is deferred and recognized over the term of the maintenance period.

The customer may purchase an extended warranty with the initial sale. 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.

Deferred revenues - represent mainly the unrecognized fees collected for extended warranty services.

k. Share-based compensation:

The Company accounts for share-based compensation in accordance with ASC 718. ASC 718 requires companies to estimate the fair value of share-based payment awards on the grant date using an option-pricing model.

The Company recognizes compensation expenses for the value of its awards granted based on the accelerated attribution method over the requisite service period of each of the awards, net of estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company selected the Black-Scholes option pricing model as the most appropriate fair value method for its stock-options awards. The option-pricing model requires a number of assumptions, of which the most significant are the expected stock price volatility and the expected option term. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods ending on the grant date, equal to the expected option term. Expected term is calculated based on the simplified method as adequate historical experience is not available to provide a reasonable estimate. The simplified method will continue to apply until enough historical experience is available to provide a reasonable estimate of the expected term. The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term to the expected life of the options. Historically the Company has not paid dividends and in addition has no foreseeable plans to pay dividends, and therefore use an expected dividend yield of zero in the option pricing model.

The fair value for options granted in 2012, 2011 and 2010 is estimated at the date of grant with the following weighted average assumptions:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Dividend yield	0%	0%	0%
Expected volatility	80-100%	76-132%	105-121%
Risk-free interest	0.3-0.4%	0.3-2.1%	0.3 - 2.8%
Expected life (in years)	1.5-5.5	1.5-5.5	1.5-5.5

1. Provision for product warranty:

The Company's policy is to grant a product warranty for a period of up to 12 months on its products. An extended warranty may be purchased for a longer period. The provision for warranties for all periods through December 31, 2012, is determined based upon the Company's past experience. The followings are the changes in the liability for product warranty from January 1, 2010 to December 31, 2012:

Balance at January 1, 2010	225
Provision for warranties issued during the year	221
Reduction for payments and costs to satisfy claims	<u>(217)</u>
Balance at December 31, 2010	229
Provision for warranties issued during the year	316
Reduction for payments and costs to satisfy claims	<u>(297)</u>
Balance at December 31, 2011	248
Provision for warranties issued during the year	130
Reduction for payments and costs to satisfy claims	<u>(123)</u>
Balance at December 31, 2012	<u><u>255</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Research and development costs:

Research and development costs are charged to statement of operations as incurred. ASC 985-20 "Software - Costs of Computer Software to be Sold, Leased or Otherwise Marketed", requires capitalization of certain software development costs subsequent to the establishment of technological feasibility.

Based on the Company's product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working models and the point at which the products are ready for general release has been insignificant. Therefore, all research and development costs have been expensed.

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 in research and development costs as such costs are incurred. Royalties to the OCS are recorded under cost of sales, when the related sales are recognized. See also Note 10a.

The Company received participation from the Israeli Ministry of trade, commerce and labor, which is a participation of up to 50% of relevant marketing expenses. These grants are presented as a reduction in marketing expenses. See also Note 10a.

o. Income (loss) per share:

Basic and diluted income (loss) per Ordinary Share of the Company ("Ordinary Shares") are presented in conformity with ASC 260 "Earnings Per Share", for all years presented. Basic income (loss) per Ordinary Share is computed by dividing net income (loss) for each reporting period by the weighted average number of Ordinary Shares outstanding during the period. Diluted income (loss) per Ordinary Share is computed by dividing net income (loss) for each reporting period by the weighted average number of Ordinary Shares outstanding during the period plus any additional Ordinary Shares that would have been outstanding if potentially dilutive securities had been exercised during the period, calculated under the treasury stock method.

Certain securities were not included in the computation of diluted income (loss) per share since they were anti-dilutive. The total number of shares related to the outstanding options and warrants excluded from the calculation of diluted net income (loss) per share was 1,248,631 as of December 31, 2012 (2011 - 988,642; 2010 - 504,309).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Income taxes:

The Company accounts for income taxes in accordance with ASC 740 "Income Taxes". Deferred tax asset and liability account balances are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforward. 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.

q. Income tax uncertainties:

In accordance with ASC 740 "Income Taxes" (formally FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes"), 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. The Company accounts for interest and penalties related to unrecognized tax benefits as a component of income tax expense.

r. Cost of revenues:

Cost of products is comprised of cost of hardware production, employees' salaries and related costs, allocated overhead expenses, packaging, import taxes, license fees paid to third parties and royalties paid to the OCS.

Cost of services is comprised of cost of hardware maintenance and customer support employees' salaries and related costs.

s. Severance pay:

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 on the balance sheet represents the total liability for such severance benefits, while the assets held for severance benefits included on the balance sheet represent the current redemption value of the Company's contributions made to severance pay funds and to insurance policies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The carrying value of deposited funds includes profits (losses) accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli severance pay law or labor agreements.

Effective January 1, 2012, the Company's agreements with new employees in Israel are in accordance with section 14 of the Severance Pay Law - 1963 which provide that the Company's contributions to severance pay fund shall cover its entire severance obligation. Upon termination, the release of the contributed amounts from the fund to the employee shall relieve the Company from any further severance obligation and no additional payments shall be made by the Company to the employee. As a result, the related obligation and amounts deposited on behalf of such obligation are not stated on the balance sheet, as the Company is legally released from severance obligation to employees once the amounts have been deposited, and the Company has no further legal ownership on the amounts deposited.

Severance pay expenses for the years ended December 31, 2012, 2011 and 2010 amounted to \$ 588, \$ 651 and \$ 431, respectively.

t. Fair value of financial instruments:

The financial instruments of the Company consist mainly of cash and cash equivalents, bank deposits, trade receivables, short term bank credit, short term bank loans, 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.

u. 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.

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

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.

v. Comprehensive income (loss):

The Company accounts for comprehensive income (loss) in accordance with ASC No. 220, "Comprehensive Income." This statement establishes standards for the reporting and display of comprehensive income (loss) and its components in a full set of general purpose financial statements. Comprehensive income (loss) generally represents all changes in stockholders' equity during the period except those resulting from investments by, or distributions to, stockholders. The Company determined that its only item of other comprehensive income (loss) relates to foreign currency translation adjustment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In May 2011, the FASB issued guidance that changed the requirement for presenting "Comprehensive Income" in the consolidated financial statements. The update requires an entity to present the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. The Company adopted this new guidance on January 1, 2012 and elected to present the comprehensive income in two separate but consecutive statements.

NOTE 3:- INVENTORIES

	December 31,	
	2012	2011
Raw materials	\$ 583	\$ 510
Work in process	360	701
Finished products (*)	5,793	5,379
	<u>\$ 6,736</u>	<u>\$ 6,590</u>

(*) Includes amounts of \$ 4,977 and \$ 4,680 for 2012 and 2011, respectively, with respect to inventory delivered to customers but for which revenue criteria have not been met yet.

NOTE 4:- OTHER CURRENT ASSETS

	December 31,	
	2012	2011
Indirect taxes	\$ 567	\$ 1,279
Government of Israel - OCS receivable	322	218
Prepaid expenses and work in progress	1,518	1,643
Advances to suppliers	28	128
Others	250	222
	<u>\$ 2,685</u>	<u>\$ 3,490</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 5:- PROPERTY AND EQUIPMENT

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

	December 31,	
	2012	2011
Cost:		
Demonstration and rental equipment	\$ 688	\$ 2,107
Research and development equipment	3,760	3,712
Manufacturing equipment	1,190	1,185
Office furniture and equipment	1,117	1,091
Leasehold improvements	434	430
	<u>7,189</u>	<u>8,525</u>
Accumulated depreciation:		
Demonstration and rental equipment	671	2,068
Research and development equipment	3,694	3,660
Manufacturing equipment	1,171	1,155
Office furniture and equipment	1,021	999
Leasehold improvements	364	342
	<u>6,921</u>	<u>8,224</u>
	<u>\$ 268</u>	<u>\$ 301</u>

During 2011 and 2012 the Company recorded a reduction of \$ 1,422 and 0, respectively to the cost and accumulated depreciation of fully depreciated equipment no longer in use.

NOTE 6:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2012	2011
Royalties - OCS payable	\$ 552	\$ 1,016
Commissions	90	249
Provision for product warranty	255	248
Accrued expenses	824	452
Others	123	51
	<u>\$ 1,844</u>	<u>\$ 2,016</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 7:- SHORT TERM BANK CREDIT

- a. In September 2012, the Company received a credit facility from a bank in an amount of \$1,500. The facility has an initial 6 month term, and may be renewed for additional periods based on compliance with certain covenants and according to the bank's decision. As of December 31, 2012 the Company didn't meet certain covenants; however the bank agreed to continue extending the facility until July 15, 2013. The facility carries interest rates varying between LIBOR + 3.25%-4% for USD denominated advances and Prime + 1-2% for NIS denominated advances, and is secured by a floating charge on all of the Company's assets.

Under this facility the Company used as of December, 31 2012 \$714 as short bank credit with a term of 3 months, bearing interest of Libor +3% and \$750 as a short term loan (see Note 8b).

- b. During 2012 the Company obtained from another bank certain short term credits in return for balances due from customers. As of December 31, 2012 such credits amounted to \$338. During January and February 2013 the credits were repaid.

NOTE 8:- SHORT TERM LOANS

- a. In November, 2012, the Company entered into a loan agreement with a major shareholder, according to which the Company may receive a sum of up to NIS 3,000,000, bearing no interest and linked to the Israeli Consumer Price Index, to be repaid by March 31, 2013 unless otherwise agreed between the parties. As of December 31, 2012 the Company received NIS 2,900,000 (\$777). During March 2013 the parties agreed to extend the loan until June 30, 2013.

- b. As of December 31, 2012, The Company has an outstanding loan in the amount of \$750 as part of the credit facility received from a bank (see note 7a). The loan has a 3 month term and may be renewed for additional periods, subject to the extension of the credit facility by the bank. In March, 2013 the loan renewed for additional 3 months. The loan carries an interest rate of LIBOR + 3.15%.

NOTE 9:- RELATED PARTY BALANCES AND TRANSACTIONS

- a. 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 11b). The US subsidiary also sub-leases certain premises to a related party. The aggregate net amounts of lease payments were \$ 438, \$ 428 and \$ 450 in 2012, 2011 and 2010, respectively.
2. Certain entities within the RAD-BYNET Group provide the Company with administrative services. Such amounts expensed by the Company are disclosed in "d" below as "Cost of sales, Sales and marketing, General and administrative expenses and research and development".

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 9:- RELATED PARTY BALANCES AND TRANSACTIONS (Cont.)

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 certain of its product lines. Such purchases by the Company are disclosed in "d" as "Cost of sales and Research and development".

4. The Company was a 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. The agreement was terminated during 2012.

Revenues related to this distribution agreement are included in "d" below as "revenues". The remainder of the amount of "revenues" included in "d" below is comprised of sales of the Company's products to entities within RAD-BYNET Group.

b. In December 2011, the Company entered into a consulting agreement with a related party. Expenses incurred under this agreement are immaterial.

c. Balances with related parties:

	December 31,	
	2012	2011
Assets:		
Trade	\$ 153	\$ 72
Other current assets	\$ 4	-
Liabilities:		
Trade	\$ 229	\$ 104
Other payables and accrued expenses	\$ 44	\$ 102
Short term loan (see note 8a)	\$ 777	-

d. Transactions with related parties:

	Year ended December 31,		
	2012	2011	2010
Revenues	\$ 451	\$ 347	\$ 960
Expenses:			
Cost of sales	\$ 66	\$ 62	\$ 60
Operating expenses:			
Research and development	\$ 198	\$ 193	\$ 185
Sales and marketing	\$ 181	\$ 159	\$ 210
General and administrative	\$ 57	\$ 57	\$ 55

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10:- COMMITMENTS AND CONTINGENCIES

a. Royalty commitments:

1. The Company receives 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 of revenues from products developed from research and development projects financed. Royalty rate is 3.5%. 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, 2012 were \$ 33,408. The accumulated interest as of December 31, 2012 was \$ 9,810. As of December 31, 2012, the accumulated royalties paid to the OCS were \$ 9,676. Accordingly, the Company's total commitment with respect to royalty-bearing participation received or accrued, net of royalties paid or accrued, amounted to \$ 33,542 as of December 31, 2012.

Royalty expenses relating to the OCS grants included in cost of sales for the years ended December 31, 2012, 2011 and 2010 were \$ 562, \$ 759 and \$ 793, respectively.

In May 2010, the Company received a notice from the OCS regarding alleged miscalculations in the amount of royalties paid by the Company to the OCS for the years 1992-2009 and the revenues basis of which the Company has to pay royalties. The Company believes that all royalties due to the OCS from the sale of products developed with funding provided by the OCS during such years were properly paid or were otherwise accrued. During 2011 the Company reviewed with the OCS alleged miscalculation differences and since then await further instructions. Currently the Company is unable to assess the merits of the aforesaid arguments raised by the OCS.

2. According to the Company's agreements with the Israel-U.S 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 funds from the BIRD-F were 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10:- COMMITMENTS AND CONTINGENCIES (Cont.)

The total research and development funds that the Company has received from the BIRD-F were \$ 340. As of December 31, 2012, the Company is required to pay royalties up to an amount of \$ 775, including linkage to the United States Consumer Price Index (CPI).

As of December 31, 2012, the accumulated royalties paid to the BIRD-F including linkage to the CPI were \$ 427. Accordingly, the Company's total commitment with respect to royalty-bearing participation received, net of royalties paid, amounted to \$ 348 as of December 31, 2012.

Starting 2003 the Company has not generated sales of products developed with the funds provided by BIRD-F, therefore the Company is not obligated to pay royalties or repay the grant since that date.

3. In April, 2012 the Israeli Ministry of trade, commerce and labor approved the Company's application for participation in funding the setting up of the Company's Indian subsidiary as part of a designated grants plan for the purpose of setting up and establishing a marketing agency in India. The grant is intended to cover up to 50% from the costs of the office establishment, logistics expenses and hiring employees and consultants in India, based on the approved budget for the plan over a period of 3 years.

The Company is obligated to pay to the Israeli Ministry of trade, commerce and labor royalties of 3% from the revenues growth derived in India up to an aggregate of 100% of the dollar-linked value of the total grant and for a period of up to 7 years from the last year of the plan.

The total marketing grants that the Company has received from the Ministry of trade, commerce and labor as of December 31, 2012 were in the amount of \$55.

b. Operating leases:

Premises occupied by the Company and its subsidiaries are rented under various rental agreements part of which are with related parties (see Note 8). The rental agreements for the premises of the Company and its subsidiaries expire up to December 31, 2016.

Aggregate minimum rental payments under non-cancelable operating leases as of December 31, 2012, are (in the aggregate) and for each succeeding fiscal year below:

Year ended December 31

2013	\$	715
2014		583
2015		501
2016		488
Total	\$	<u>2,287</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10:- COMMITMENTS AND CONTINGENCIES (Cont.)

Total lease expenses (net of sublease income from premises under sublease agreements) amounted to \$1,056, \$ 1,048 and \$ 968 for the years ended December 31, 2012, 2011 and 2010, respectively.

c. Bank guarantee:

The Company has granted bank performance guarantees in favor of five of its customers in the total amount of \$ 1,520 of which \$ 1,136 expire on December 30, 2013 and \$384 expire on January 15, 2014. In addition, and the Company established another guarantee in the amount of \$ 32 which expires on May 31, 2013.

In addition, in order to secure the bank facility, a floating charge on all of the Company's assets was placed by the bank (see note 7a).

NOTE 11:- INCOME TAXES

a. Israel tax reform:

Taxable income of the Israeli parent is subject to the Israeli corporate tax at the rate as follows: 2010 - 25%, 2011 - 24%, 2012- 25%.

b. Israeli taxation:

The Company has not received final tax assessments since incorporation. In accordance with the tax laws, tax returns submitted up to and including the 2007 tax year can be regarded as final.

Tax loss carryforward:

The Company's tax loss carryforward were \$ 44,118 as of December 31, 2012. Such losses can be carried forward indefinitely to offset any future taxable income of the Company.

c. Foreign subsidiaries:

U.S subsidiary:

1. The U.S subsidiary is taxed under United States federal and state tax rules.
2. The U.S subsidiary's tax loss carryforward amounted to \$ 10,115 as of December 31, 2012 for federal and state tax purposes. Such losses are available to offset any future U.S taxable income of the U.S subsidiary and will expire in the years 2013-2027 for federal tax purpose and in the years 2013-2017 for state tax purpose.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- INCOME TAXES (Cont.)

3. The U.S subsidiary has not received final tax assessments since incorporation. In accordance with the tax laws, tax returns submitted up to and including the 2008 tax year can be regarded as final.

Brazilian subsidiary:

1. The Brazilian subsidiary is taxed under Brazilian tax rules.
2. The Brazilian subsidiary's tax loss carryforward amounted to \$ 3,489 as of December 31, 2012 for tax purposes. Tax losses may be carried forward indefinitely, but can only offset up to 30% of the company taxable income for a tax period.

d. 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	
	2012	2011
Deferred tax assets:		
Carryforward tax losses	\$ 15,836	\$ 14,635
Allowance for doubtful accounts	104	99
Provisions for employees related obligations	353	104
Research and development	472	559
Other	3	53
	16,768	15,685
Less - valuation allowance	(16,768)	(15,685)
Net deferred tax assets	\$ -	\$ -

The net change in the total valuation allowance for the year ended December 31, 2012 was an increase of \$ 1,083 and is mainly relates to increase in deferred taxes on NOL's for which a full valuation allowance was recorded. 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 carryforward are deductible. Management considers the projected taxable income and tax-planning strategies 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 currently believes that it is more likely than not that the Company will not realize its deferred tax assets and accordingly recorded a valuation allowance to fully offset all the deferred tax assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- INCOME TAXES (Cont.)

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

	Year ended December 31,		
	2012	2011	2010
Domestic	\$ (5,684)	\$ (2,038)	\$ 496
Foreign	(183)	134	74
Income (loss) before income taxes	<u>\$ (5,867)</u>	<u>\$ (1,904)</u>	<u>\$ 570</u>

f. Reconciliation of the theoretical tax benefit and the actual tax expense:

	Year ended December 31,		
	2012	2011	2010
Income (loss) before income taxes, as reported in the statements of operations	<u>\$ (5,867)</u>	<u>\$ (1,904)</u>	<u>\$ 570</u>
Statutory tax rate in Israel	25%	24%	25%
Theoretical tax (benefit) expense	\$ (1,467)	\$ (457)	\$ 143
Increase (decrease) in income taxes resulting from:			
Tax rate differential on foreign subsidiaries	(11)	18	5
Non-deductible expenses	185	175	312
Losses and timing differences for which no deferred taxes were recorded	1,083	234	-
Utilization of tax losses in respect of which deferred tax assets were not recorded in prior years	-	-	(622)
Other	330	30	162
Income taxes	<u>\$ 120</u>	<u>\$ -</u>	<u>\$ -</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- INCOME TAXES (Cont.)

- g. Accounting for uncertainty in income taxes:

For the years ended December 31, 2010, 2011 and 2012, the Company did not have any unrecognized tax benefits and no interest and penalties related to unrecognized tax benefits had been accrued. The Company does not expect that the amount of unrecognized tax benefits will change significantly within the next 12 months.

NOTE 12:- SHAREHOLDERS' EQUITY

- a. The number of shares issued and outstanding at December 31, 2012 and 2011 does not include 5,189 Ordinary Shares, which are held by a subsidiary, and 30,843 Ordinary Shares which are held by the Company.

1. Ordinary Shares confer all rights to their holders, e.g. voting, equity and receipt of dividend.
2. On October 11, 2010, the Company entered into a private placement transaction (the "2010 PIPE"). Under the PIPE investment, the Company issued 643,277 Ordinary Shares to investors (investors in the 2010 PIPE included certain existing shareholders) at an aggregate purchase price of \$ 5,500 or \$ 8.55 per Ordinary Share. The Company also issued to the investors warrants to purchase one Ordinary Share for every three Ordinary Shares purchased by each investor in the 2010 PIPE (up to 214,426 shares) for an exercise price of \$ 10.69 per Ordinary Share. The warrants are exercisable for three years from the closing of the 2010 PIPE. As of December 31, 2012, no warrants were exercised.

- b. Share option plans:

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

Under the following plans options are granted at an exercise price equal to the fair market value at the date of grant and are granted for periods not to exceed seven years. Options vest over a period of zero to four years from date of grant. Any options that are cancelled or forfeited before expiration become available for future grants.

- a) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

- b) 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. In accordance with Section 102 of the Income Tax Ordinance (New Version) - 1961, the Company's Board of Directors (the "Board") elected the "Capital Gains Route".

2. Grants in 2012, 2011 and 2010 were at exercise prices equal to the market value of the Ordinary Shares at the date of grant.
3. Stock options under the Radcom plans are as follows for the periods indicated:

	Number of options(in thousands)	Weighted- average exercise price	Weighted- average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at January 1, 2012	774,216	\$ 4.08	4.4	\$ 715
Granted	323,600	3.75		
Exercised	(34,082)	1.30		124
Expired	-	-		
Forfeited	(29,529)	6.19		
Outstanding at December 31, 2012	<u>1,034,205</u>	<u>4.0</u>	<u>4.0</u>	<u>\$ 529</u>
Exercisable at December 31, 2012	<u>761,126</u>	<u>4.45</u>	<u>3.88</u>	<u>\$ 372</u>
Vested and expected to vest at December 31, 2012	<u>1,034,205</u>	<u>4.0</u>	<u>4.0</u>	<u>\$ 529</u>

The aggregate intrinsic value of options outstanding at December 31, 2012 represents intrinsic value of 372,931 outstanding options that are in-the-money as of December 31, 2012. The remaining 661,274 outstanding options are out of the money as of December 31, 2012, and their intrinsic value was considered as zero.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

The aggregate intrinsic value of options exercisable at December 31, 2012 represents intrinsic value of 261,751 outstanding options that are in-the-money as of December 31, 2012. The remaining 499,375 outstanding options are out of the money as of December 31, 2012, and their intrinsic value was considered as zero.

The total number of shares available for future grants as of December 31, 2012 was 609,257

4. Stock options under the Radcom plans are as follows for the periods indicated:

Exercise price \$	Options outstanding at December 31, 2012			Options exercisable at December 31, 2012		
	Number outstanding	Weighted average exercise price \$	Weighted average remaining contractual life In years	Number outstanding	Weighted average exercise price \$	Weighted average remaining contractual life In years
	0.5 - 0.7	266,469	0.7	4.7	186,524	0.7
1.57 - 5.00	567,475	3.5	4.5	388,391	3.6	4.4
5.08 - 8.72	76,861	6.8	2.9	66,861	7	2.7
10.80 - 13.16	123,400	11.8	4.2	119,350	11.7	4.1
	<u>1,034,205</u>			<u>761,126</u>		

5. The weighted average fair values of options granted during the years ended December 31, 2012, 2011 and 2010 were:

	Year ended December 31,		
	2012	2011	2010
Weighted average fair values on grant date	\$ 2.5	\$ 5.3	\$ 4.1

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

	Year ended December 31,		
	2012	2011	2010
Cost of sales	\$ 14	\$ 27	\$ 5
Research and development	205	218	10
Selling and marketing	167	231	36
General and administrative	286	347	513
	<u>\$ 672</u>	<u>\$ 823</u>	<u>\$ 564</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

7. Share-based compensation:

The unrecognized balance of the compensation expenses according to ASC Topic 718 in respect of these stock options amounted to \$ 224 as of December 31, 2012, of which \$ 177 will be recognized in the year ended December 31, 2013 and \$ 44 will be recognized in accordance with the vesting period of the options by the end of fiscal 2016.

d. Warrants:

The Company's outstanding warrants and rights as of December 31, 2012 are as follows:

Issuance date	Outstanding and exercisable	Exercise price	Exercisable through
October 13, 2010	214,426	10.69	October 13, 2013

NOTE 13:- EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	Years ended December 31,		
	2012	2011	2010
Net income (loss)	\$ (5,987)	\$ (1,904)	\$ 570
Weighted average Ordinary Shares outstanding	6,442,068	6,367,560	5,373,515
Dilutive effect:			
Employee stock options and warrants	-	-	573,795
Diluted weighted average Ordinary Shares outstanding	6,442,068	6,367,560	5,947,310
Basic earnings (loss) per Ordinary Share	\$ (0.93)	\$ (0.30)	\$ 0.11
Diluted earnings (loss) per Ordinary Share	\$ (0.93)	\$ (0.30)	\$ 0.10

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14:- SELECTED STATEMENTS OF OPERATIONS DATA

a. Revenues:

1. Classified by geographical destination:

	Year ended December 31,		
	2012	2011	2010
North America	\$ 3,850	\$ 3,242	\$ 3,045
Europe	2,970	6,371	4,765
Asia	2,826	4,261	3,596
South America (Excluding Brazil)	2,848	2,308	2,093
Brazil	1,896	5,234	4,107
Other	1,396	571	1,567
	<u>\$ 15,786</u>	<u>\$ 21,987</u>	<u>\$ 19,173</u>

2. Major customers:

During 2012 and 2011, the Company did not have any customer whose purchases contributed to more than 10% of the total respective consolidated revenues. In 2010, the Company had one customer in Brazil whose purchases contributed approximately 13% of the total consolidated revenues.

3. Substantially all of the Company's long-lived assets are located in Israel.

b. Financial expenses, net:

	Years ended December 31,		
	2012	2011	2010
Financial income:			
Interest from banks	\$ 15	\$ 20	\$ 11
	<u>15</u>	<u>20</u>	<u>11</u>
Financial expenses:			
Interest and bank charges	(108)	(74)	(15)
Interest and accretion of discount on long-term loan	-	-	(186)
Revaluation of warrants presented at fair value	-	-	(524)
Exchange translation	(221)	(330)	(8)
	<u>(329)</u>	<u>(404)</u>	<u>(733)</u>
Financial expenses, net	<u>\$ (314)</u>	<u>\$ (384)</u>	<u>\$ (722)</u>

THE COMPANIES LAW

A COMPANY LIMITED BY SHARES

AMENDED AND RESTATED
ARTICLES OF ASSOCIATION
OF

RADCOM LTD.

GENERAL PROVISIONS

1. Object and Purpose of the Company

(a) The object and purpose of the Company shall be as set forth in the Company's Memorandum of Association, as the same shall be amended from time to time in accordance with applicable law.

(b) In accordance with Section 11(a) of the Companies Law 5759 - 1999 (the "Companies Law"), the Company may contribute a reasonable amount to a worthy cause.

2. Limitation of Liability

The liability of the shareholders is limited to the payment of the nominal value of the shares in the Company allotted to them and which remains unpaid, and only to that amount. If the Company's share capital shall include at any time shares without a nominal value, the shareholders' liability in respect of such shares shall be limited to the payment of up to NIS 0.05 for each such share allotted to them and which remains unpaid, and only to that amount.

3. Interpretation

(a) Unless the subject or the context otherwise requires: words and expressions used herein which are defined in the Memorandum of Association of the Company shall have the meanings therein defined, and words and expressions defined in the Companies Law in force on the date when these Articles or any amendment thereto, as the case may be, first became effective shall have the same meanings herein; words and expressions importing the singular shall include the plural and vice versa; words and expressions importing the masculine gender shall include the feminine gender; and words and expressions importing persons shall include bodies corporate.

(b) The captions in these Articles are for convenience only and shall not be deemed a part hereof or affect the construction of any provision hereof.

3A Amendment

The approval of a resolution adopted in a General Meeting approved by a simple majority of the voting power represented at the meeting in person or by proxy and voting thereon (a "Shareholders' Resolution") is required to approve any amendment to these Articles of Association.

SHARE CAPITAL

4. Share Capital

The share capital of the Company is two million New Israeli Shekel (NIS 2,000,000) divided into nine million nine hundred ninety seven thousand six hundred and seventy (9,997,670) Ordinary Shares, par value NIS 0.20 each, and two thousand three hundred and thirty (2,330) Deferred Shares, par value NIS 0.20 each. The Ordinary Shares confer upon their holders the rights described in these Articles. Notwithstanding any other provision of these Articles, the Deferred Shares confer upon their holders no rights other than the right to their par value upon liquidation of the Company.

5. Increase of Share Capital

(a) The Company may, from time to time, by a Shareholders Resolution, whether or not all the shares then authorized have been issued, and whether or not all the shares theretofore issued have been called up for payment, increase its share capital by the creation of new shares. Any such increase shall be in such amount and shall be divided into shares of such nominal amounts, and such shares shall confer such rights and preferences, and shall be subject to such restrictions, as such resolution shall provide.

(b) Except to the extent otherwise provided in such resolution, such new shares shall be subject to all the provisions applicable to the shares of the original capital.

6. Special Rights; Modifications of Rights

(a) Without prejudice to any special rights previously conferred upon the holders of existing shares in the Company, the Company may, from time to time, by Shareholders Resolution, provide for shares with such preferred or deferred rights or rights of redemption or other special rights and/or such restrictions, whether in regard to dividends, voting, repayment of share capital or otherwise, as may be stipulated in such resolution.

(b) (i) If at any time the share capital is divided into different classes of shares, the rights attached to any class, unless otherwise provided by these Articles, may be modified or abrogated by the Company, by Shareholders Resolution, subject to the sanction of a resolution passed by a majority of the holders of a majority of the shares of such class present and voting at a separate General Meeting of the holders of the shares of such class.

(ii) The provisions of these Articles relating to General Meetings shall, mutatis mutandis, apply to any separate General Meeting of the holders of the shares of a particular class.

(iii) Unless otherwise provided by these Articles, the enlargement of an existing class of shares, or the issuance of additional shares thereof, shall not be deemed, for purposes of this Article 6(b), to modify or abrogate the rights attached to the previously issued shares of such class or of any other class.

7. Consolidation, Subdivision, Cancellation and Reduction of Share Capital

(a) The Company may, from time to time, by Shareholders Resolution (subject, however, to the provisions of Article 6(b) hereof and to applicable law):

(i) consolidate and divide all or any of its issued or unissued share capital into shares of larger nominal value than its existing shares,

(ii) subdivide its shares (issued or unissued) or any of them, into shares of smaller nominal value than is fixed by these Articles of Association (subject, however, to the provisions of the Companies Law), and the Shareholders Resolution whereby any share is subdivided may determine that, as among the holders of the shares resulting from such subdivision, one or more of the shares may, as compared with the others, have any such preferred or deferred rights or rights of redemption or other special rights, or be subject to any such restrictions, as the Company has power to attach to unissued or new shares,

(iii) cancel any shares which, at the date of the adoption of such resolution, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so canceled, or

(iv) reduce its share capital in any manner, and with and subject to any incident authorized, and consent required, by law.

(b) With respect to any consolidation of issued shares into shares of larger nominal value, and with respect to any other action which may result in fractional shares, the Board of Directors may settle any difficulty which may arise with regard thereto, as it deems fit, including, inter alia, resort to one or more of the following actions:

(i) determine, as to the holder of shares so consolidated, which issued shares shall be consolidated into each share of larger nominal value;

(ii) allot, in contemplation of or subsequent to such consolidation or other action, such shares or fractional shares sufficient to preclude or remove fractional share holdings;

(iii) redeem, in the case of redeemable preference shares, and subject to applicable law, such shares or fractional shares sufficient to preclude or remove fractional share holdings;

(iv) cause the transfer of fractional shares by certain shareholders of the Company to other shareholders thereof so as to most expediently preclude or remove any fractional shareholdings, and cause the transferees to pay the transferors the fair value of fractional shares so transferred, and the Board of Directors is hereby authorized to act as agent for the transferors and transferees with power of substitution for purposes of implementing the provisions of this sub-Article 7(b)(iv).

SHARES

8. Issuance of Share Certificates; Replacement of Lost Certificates

(a) Share certificates shall be issued under the seal or stamp of the Company and shall bear the signature of one Director, or of any other person or persons authorized thereto by the Board of Directors.

(b) Each holder of shares shall be entitled to one numbered certificate for all the shares of any class registered in his name, and if reasonably requested by such member, to several certificates, each for one or more of such shares.

(c) A share certificate registered in the names of two or more persons shall be delivered to the person first named in the Registrar of Members in respect of such co-ownership.

(d) If a share certificate is defaced, lost or destroyed, it may be replaced, upon payment of such fee, and upon the furnishing of such evidence of ownership and such indemnity, as Board of Directors may think fit.

(e) The Company may issue bearer shares.

9. Registered Holder

Except as otherwise provided in these Articles, the Company shall be entitled to treat the registered holder of any share as the absolute owner thereof, and, accordingly, shall not, except as ordered by a court of competent jurisdiction, or as required by statute, be bound to recognize any equitable or other claim to, or interest in such share on the part of any other person.

10. Allotment of Shares

The unissued shares from time to time shall be under the control of the Board of Directors, who shall have the power to allot shares or otherwise dispose of them to such persons, on such terms and conditions (including inter alia terms relating to calls as set forth in Article 12(f) hereof), and either at par or at a premium, or, subject to the provisions of the Companies Law, at a discount, and at such times, as the Board of Directors may think fit, and the power to give to any person the option to acquire from the Company any shares, either at par or at a premium, or, subject as aforesaid, at a discount, during such time and for such consideration as the Board of Directors may think fit.

11. Payment in Installments

If by the terms of allotment of any share, the whole or any part of the price thereof shall be payable in installments, every such installment shall, when due, be paid to the Company by the then registered holder(s) of the share of the person(s) entitled thereto.

12. Calls on Shares

(a) The Board of Directors may, from time to time, make such calls as it may think fit upon holders of shares in respect of any sum unpaid in respect of shares held by such holders which is not, by the terms of allotment thereof or otherwise, payable at a fixed time, and each such holder shall pay the amount of every call so made upon him (and of each installment thereof if the same is payable in installments), to the person(s) and at the time(s) and place(s) designated by the Board of Directors, as any such time(s) may be thereafter extended and/or such person(s) or place(s) changed. Unless otherwise stipulated in the resolution of the Board of Directors (and in the notice hereafter referred to), each payment in response to a call shall be deemed to constitute a pro rata payment on account of all shares in respect of which such call was made.

(b) Notice of any call shall be given in writing to the holder(s) in question not less than fourteen (14) days prior to the time of payment, specifying the time and place of payment, and designating the person to whom such payment shall be made, provided, however, that before the time for any such payment, the Board of Directors may, by notice in writing to such holder (s), revoke such call in whole or in part, extend such time, or alter such person and/or place. In the event of a call payable in installments, only one notice thereof need be given.

(c) If, by the terms of allotment of any share or otherwise, any amount is made payable at any fixed time, every such amount shall be payable at such time as if it were a call duly made by the Board of Directors and of which due notice had been given, and all the provisions herein contained with respect to such calls shall apply to each such amount.

(d) The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof and all interest payable thereon.

(e) Any amount unpaid in respect of a call shall bear interest from the date on which it is payable until actual payment thereof, at such rate (not exceeding the then prevailing debitory rate charged by leading commercial banks in Israel), and at such time(s) as the Board of Directors may prescribe.

(f) Upon the allotment of shares, the Board of Directors may provide for differences among the allottees of such shares as to the amount of calls and/or the times of payment thereof.

13. Prepayment

With the approval of the Board of Directors, any holder of shares may pay to the Company any amount not yet payable in respect of his shares, and the Board of Directors may approve the payment of interest on any such amount until the same would be payable if it had not been paid in advance, at such rate and time(s) as may be approved by the Board of Directors. The Board of Directors may at any time cause the Company to repay all or any part of the money so advanced, without premium or penalty. Nothing in this Article 13 shall derogate from the right of the Board of Directors to make any call before or after receipt by the Company of any such advance.

14. Forfeiture and Surrender

(a) If any holder fails to pay any amount payable in respect of a call, or interest thereon as provided for herein, on or before the day fixed for payment of the same, the Company, by resolution of the Board of Directors, may at any time thereafter, so long as the said amount or interest remains unpaid, forfeit all or any of the shares in respect of which said call had been made. Any expense incurred by the Company in attempting to collect any such amount or interest, including, inter alia, attorneys' fees and costs of suit, shall be added to, and shall, for all purposes (including the accrual of interest thereon), constitute a part of the amount payable to the Company in respect of such call.

(b) Upon the adoption of a resolution of forfeiture, the Board of Directors shall cause notice thereof to be given to such holder, which notice shall state that, in the event of the failure to pay the entire amount so payable within a period stipulated in the notice (which period shall not be less than fourteen (14) days and which may be extended by the Board of Directors), such shares shall be ipso facto forfeited, provided, however, that, prior to the expiration of such period, the Board of Directors may nullify such resolution of forfeiture, but no such nullification shall estop the Board of Directors from adopting a further resolution of forfeiture in respect of the non-payment of the same amount.

(c) Whenever shares are forfeited as herein provided, all dividends theretofore declared in respect thereof and not actually paid shall be deemed to have been forfeited at the same time.

(d) The Company, by resolution of the Board of Directors, may accept the voluntary surrender of any share.

(e) Any share forfeited or surrendered as provided herein shall become the property of the Company, and the same, subject to the provisions of these Articles, may be sold, re-allotted or otherwise disposed of as the Board of Directors thinks fit.

(f) Any holder whose shares have been forfeited or surrendered shall cease to be a holder in respect of the forfeited or surrendered shares, but shall, notwithstanding, be liable to pay, and shall forthwith pay, to the Company, all calls, interest and expenses owing upon or in respect of such shares at the time of forfeiture or surrender, together with interest thereon from the time of forfeiture or surrender until actual payment, at the rate prescribed in Article 12(e) above, and the Board of Directors, in its discretion, may enforce the payment of such moneys, or any part thereof, but shall not be under any obligation to do so. In the event of such forfeiture or surrender, the Company, by resolution of the Board of Directors, may accelerate the date(s) of payment of any or all amounts then owing by the holder in question (but not yet due) in respect of all shares owned by such holder, solely or jointly with another, and in respect of any other matter or transaction whatsoever.

(g) The Board of Directors may at any time, before any share so forfeited or surrendered shall have been sold, re-allotted or otherwise disposed of, nullify the forfeiture or surrender on such conditions as it thinks fit, but no such nullification shall estop the Board of Directors from re-exercising its powers of forfeiture pursuant to this Article 14.

15. Lien

(a) Except to the extent the same may be waived or subordinated in writing, the Company shall have a first and paramount lien upon all the shares registered in the name of each holder (without regard to any equitable or other claim or interest in such shares on the part of any other person), and upon the proceeds of the sale thereof, for his debts, liabilities and engagements arising from any cause whatsoever, solely or jointly with another, to or with the Company, whether the period for the payment, fulfillment or discharge thereof shall have actually arrived or not. Such lien shall extend to all dividends from time to time declared in respect of such share. Unless otherwise provided, the registration by the Company of a transfer of shares shall be deemed to be a waiver on the part of the Company of the lien (if any) existing on such shares immediately prior to such transfer.

(b) The Board of Directors may cause the Company to sell any shares subject to such lien when any such debt, liability or engagement has matured, in such manner as the Board of Directors may think fit, but no such sale shall be made unless such debt, liability or engagement has not been satisfied within fourteen (14) days after written notice of the intention to sell shall have been served on such holder, his executors or administrators.

(c) The net proceeds of any such sale, after payment of the costs thereof, shall be applied in or toward satisfaction of the debts, liabilities or engagements of such holder (whether or not the same have matured), or any specific part of the same (as the Company may determine), and the residue (if any) shall be paid to the holder, his executors, administrators or assigns.

16. Sale after Forfeiture or Surrender or in Enforcement of Lien

Upon any sale of shares after forfeiture or surrender or for enforcing a lien, the Board of Directors may appoint some person to execute an instrument of transfer of the shares so sold and cause the purchaser's name to be entered in the Register of Members in respect of such shares, and the purchaser shall not be bound to see to the regularity of the proceedings, or to the application of the purchase money, and after his name has been entered in the Register of Members in respect of such shares, the validity of the sale shall not be impeached by any person, and the remedy of any person aggrieved by the sale shall be in damages only and against the Company exclusively.

17. Redeemable Shares

The Company may, subject to applicable law, issue redeemable shares and redeem the same.

18. [reserved]

TRANSFER OF SHARES

19. Effectiveness and Registration

No transfer of shares shall be registered unless a proper instrument of transfer (in form and substance satisfactory to the Board of Directors) has been submitted to the Company or its agent, together with any share certificate(s) and such other evidence of title as the Board of Directors may reasonably require. Until the transferee has been registered in the Register of Members in respect of the shares so transferred, the Company may continue to regard the transferor as the owner thereof. The Board of Directors, may, from time to time, prescribe a fee for the registration of a transfer.

20. Record Date for General Meetings

Notwithstanding any provision to the contrary in these Articles, for the determination of the holders entitled to receive notice of and to participate in and vote at a General Meeting, or to express consent to or dissent from any corporate action in writing, or to receive payment of any dividend or other distribution or allotment of any rights or to exercise any rights in respect of shares of the Company, the Board of Directors may fix, in advance, a record date, which, subject to applicable law, shall not be earlier than ninety (90) days prior to the General Meeting or other action, as the case may be. No persons other than holders of record of Ordinary Shares as of such record date shall be entitled to notice of and to participate in and vote at such General Meeting, or to exercise such other right, as the case may be. A determination of holders of record with respect to a General Meeting shall apply to any adjournment of such meeting, provided that the Board of Directors may fix a new record date for an adjourned meeting.

TRANSMISSION OF SHARES

21. Decedents' Shares

(a) In case of a share registered in the names of two or more holders, the Company may recognize the survivor(s) as the sole owner(s) thereof unless and until the provisions of Article

(b) 21(b) have been effectively invoked.

(b) Any person becoming entitled to a share in consequence of the death of any person, upon producing evidence of the grant of probate or letters of administration or declaration of succession (or such other evidence as the Board of Directors may reasonably deem sufficient that he sustains the character in respect of which he proposes to act under this Article or of his title), shall be registered as a holder in respect of such share, or may, subject to the regulations as to transfer herein contained, transfer such share.

22. Receivers and Liquidators

(a) The Company may recognize the receiver or liquidator of any corporate shareholder in winding-up or dissolution, or the receiver or trustee in bankruptcy of any shareholder, as being entitled to the shares registered in the name of such shareholder.

(b) The receiver or liquidator of a corporate shareholder in winding-up or dissolution, or the receiver or trustee in bankruptcy of any shareholder, upon producing such evidence as the Board of Directors may deem sufficient that he sustains the character in respect of which he proposes to act under this Article or of his title, shall with the consent of the Board of Directors (which the Board of Directors may grant or refuse in its absolute discretion), be registered as a shareholder in respect of such shares, or may, subject to the regulations as to transfer herein contained, transfer such shares.

GENERAL MEETINGS

23. Annual General Meeting

An Annual General Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen (15) months after the last preceding Annual General Meeting) and at such place either within or without the State of Israel as may be determined by the Board of Directors.

24. Extraordinary General Meetings

All General Meetings other than Annual General Meetings shall be called "Extraordinary General Meetings." The Board of Directors may, whenever it thinks fit, convene an Extraordinary General Meeting at such time and place, within or without the State of Israel, as may be determined by the Board of Directors, and shall be obliged to do so upon a requisition in writing in accordance with Sections 63(b)(1) or (2) and 63(c) of the Companies Law.

25. Notice of General Meetings

The Company is not required to give notice under Section 69(b) of the Companies Law. The Company is required to such give prior notice of a General Meeting as required by law or applicable stock exchange rules, but in any event not less than seven (7) days. The accidental omission to give notice of a meeting to any shareholder or the non-receipt of notice by one of the shareholders shall not invalidate the proceedings at any meeting.

PROCEEDINGS AT GENERAL MEETINGS

26. Quorum

(a) Two or more holders of Ordinary Shares (not in default in payment of any sum referred to in Article 32(a) hereof), present in person or by proxy and holding shares conferring in the aggregate at least 33 1/3% of the voting power of the Company (subject to rules and regulations, if any, applicable to the Company), shall constitute a quorum at General Meetings. No business shall be transacted at a General Meeting, or at any adjournment thereof, unless the requisite quorum is present when the meeting proceeds to business.

(b) If within an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon requisition under Sections 63(b)(1) or (2), 64 or 65 of the Companies Law, shall be dissolved, but in any other case it shall stand adjourned to the same day in the next week, at the same time and place, or to such day and at such time and place as the Chairman may determine with the consent of the holders of a majority of the voting power represented at the meeting in person by proxy and voting on the question of adjournment. No business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called. At such adjourned meeting, any two (2) holders of Ordinary Shares (not in default as aforesaid) present in person or by proxy, shall constitute a quorum (subject to rules and regulations, if any, applicable to the Company).

(c) The Board of Directors may determine, in its discretion, the matters that may be voted upon at the meeting by proxy in addition to the matters listed in Section 87(a) to the Companies Law.

27. Chairman

The Chairman, if any, of the Board of Directors shall preside as Chairman at every General Meeting of the Company. If there is no such Chairman, or if at any meeting he is not present within fifteen (15) minutes after the time fixed for holding the meeting or is unwilling to act as Chairman, the holders of Ordinary Shares present shall choose someone of their number to be Chairman. The office of Chairman shall not, by itself, entitle the holder thereof to vote at any General Meeting nor shall it entitle such holder to a second or casting vote (without derogating, however, from the rights of such Chairman to vote as a holder of Ordinary Shares or proxy of a shareholder if, in fact, he is also a shareholder or such proxy).

28. Adoption of Resolutions at General Meetings

(a) Unless otherwise indicated herein, a Shareholders Resolution shall be deemed adopted if approved by the holders of a majority of the voting power represented at the meeting in person or by proxy and voting thereon.

(b) A Shareholders Resolution approving a merger (as defined in the Companies Law) of the Company shall be deemed adopted if approved by the holders of a majority of the voting power represented at the meeting in person or by proxy and voting thereon.

(c) Every question submitted to a General Meeting shall be decided by a show of hands, but if a written ballot is demanded by any holder of Ordinary Shares present in person or by proxy and entitled to vote at the meeting, the same shall be decided by such ballot. A written ballot may be demanded before the proposed resolution is voted upon or immediately after the declaration by the Chairman of the results of the vote by a show of hands. If a vote by written ballot is taken after such declaration, the results of the vote by a show of hands shall be of no effect, and the proposed resolution shall be decided by such written ballot. The demand for a written ballot may be withdrawn at any time before the same is conducted, in which event another holder of Ordinary Shares may then demand such written ballot. The demand for a written ballot shall not prevent the continuance of the meeting for the transaction of business other than the question on which the written ballot has been demanded.

(d) A declaration by the Chairman of the meeting that a resolution has been carried unanimously, or carried by a particular majority, or lost, and an entry to that effect in the minute book of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favor of or against such resolution.

29. Resolutions in Writing

A resolution in writing signed by all holders of Ordinary Shares of the Company then entitled to attend and vote at General Meetings or to which all such holders of Ordinary Shares have given their written consent (by letter, facsimile telecopier, telegram, telex or otherwise), or their oral consent by telephone (provided that a written summary thereof has been approved and signed by the Chairman of the Board of Directors of the Company) shall be deemed to have been unanimously adopted by a General Meeting duly convened and held.

30. Power to Adjourn

(a) The Chairman of a General Meeting at which a quorum is present may, with the consent of the holders of a majority of the voting power represented in person or by proxy and voting on the question of adjournment (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called.

(b) It shall not be necessary to give any notice of an adjournment, whether pursuant to Article 26(b) or Article 30(a), unless the meeting is adjourned for thirty (30) days or more in which event notice thereof shall be given in the manner required for the meeting as originally called.

31. Voting Power

Subject to the provisions of Article 32(a) and subject to any provision hereof conferring special rights as to voting, or restricting the right to vote, every holder of Ordinary Shares shall have one vote for each share held by him of record, on every resolution, without regard to whether the vote hereon is conducted by a show of hands, by written ballot or by any other means.

32. Voting Rights

(a) No holder of Ordinary Shares shall be entitled to vote at any General Meeting (or be counted as a part of the quorum thereat), unless all calls and other sums then payable by him in respect of his shares in the Company have been paid, but this Article shall not apply to separate General Meetings of the holders of a particular class of shares pursuant to Article 6(b).

(b) A company or other corporate body being a holder of Ordinary Shares of the Company may, by resolution of its directors or any other managing body thereof, authorize any person to be its representative at any meeting of the Company. Any person so authorized shall be entitled to exercise on behalf of such holder all the power which the latter could have exercised if it were an individual shareholder. Upon the request of the Chairman of the meeting, written evidence of such authorization (in form acceptable to the Chairman) shall be delivered to him.

(c) Any holder of Ordinary Shares entitled to vote may vote either personally or by proxy (who need not be a holder of the Company), or, if the holder is a company or other corporate body, by a representative authorized pursuant to Article 32(b).

(d) If two or more persons are registered as joint holders of any Ordinary Share, the vote of the senior who tenders a vote, in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s); and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members.

PROXIES

33. Instrument of Appointment

(a) The instrument appointing a proxy shall be in writing and shall be substantially in the following form:

"I _____ of _____
(Name of Shareholder) (Address of Shareholder)

being a member of _____ hereby appoint
(Name of the Company)

_____ of _____
(Name of Proxy) (Address of Proxy)

as my proxy to vote for me and on my behalf at the General Meeting of the Company to be held on the
____ day of _____, 20__ and at any adjournment(s) thereof.

Signed this _____ day of _____, 20__.

(Signature of Appointer)"

or in any usual or common form or in such other form as may be approved by the Board of Directors. It shall be duly signed by the appointer or his duly authorized attorney or, if such appointer is a company or other corporate body, under its common seal or stamp or the hand of its duly authorized agent(s) or attorney(s).

(b) The instrument appointing a proxy (and the power of attorney or other authority, if any, under which such instrument has been signed) shall either be delivered to the Company (at its Registered Office, or at its principal place of business or at the offices of its registrar and/or transfer agent or at such place as the Board of Directors may specify) not less than forty-eight (48) hours (or not less than seventy-two (72) hours with respect to a meeting to be held outside of Israel) before the time fixed for the meeting which the person named in the instrument proposes to vote.

34. Effect of Death of Appointor or Revocation of Appointment

A vote cast pursuant to an instrument appointing a proxy shall be valid notwithstanding the previous death of the appointing holder (or of his attorney-in-fact, if any, who signed such instrument), or the revocation of the appointment or the transfer of the share in respect of which the vote is cast, provided no written intimation of such death, revocation or transfer shall have been received by the Company or by the Chairman of the meeting before such vote is cast and provided, further, that the appointing holder, if present in person at said meeting, may revoke the appointment by means of a writing, oral notification to the Chairman, or otherwise.

BOARD OF DIRECTORS

35. Powers of Board of Directors

(a) In General

The management of the business of the Company shall be vested in the Board of Directors, which may exercise all such powers and do all such acts and things as the Company is authorized to exercise and do, and are not hereby or by law required to be exercised or done by the Company in General Meeting. The authority conferred on the Board of Directors by this Article 35 shall be subject to the provisions of the Companies Law, of these Articles and any regulation or resolution consistent with these Articles adopted from time to time by the Company in General Meeting, provided, however, that no such regulation or resolution shall invalidate any prior act done by or pursuant to a decision of the Board of Directors which would have been valid if such regulation or resolution had not been adopted.

(b) Borrowing Power

The Board of Directors may from time to time, in its discretion, cause the Company to borrow or secure the payment of any sum or sums of money for the purposes of the Company, and may secure or provide for the repayment of such sum or sums in such manner, at such times and upon such terms and conditions in all respects as it thinks fit, and, in particular, by 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 the property of the Company, both present and future, including its uncalled or called but unpaid capital for the time being.

(c) Reserves

The Board of Directors may, from time to time, set aside any amount(s) out of the profits of the Company as a reserve or reserves for any purpose(s) which the Board of Directors, in its absolute discretion, shall think fit, and may invest any sum so set aside in any manner and from time to time deal with and vary such investments, and dispose of all or any part thereof, and employ any such reserve or any part thereof in the business of the Company without being bound to keep the same separate from other assets of the Company, and may subdivide or redesignate any reserve or cancel the same or apply the funds therein for another purpose, all as the Board of Directors may from time to time think fit.

36. Exercise of Powers of Directors

(a) A meeting of the Board of Directors at which a quorum is present (in person, by means of a conference call or any other device allowing each director participating in such meeting to hear all the other directors participating in such meeting) shall be competent to exercise all the authorities, powers and discretions vested in or exercisable by the Board of Directors.

(b) A resolution proposed at any meeting of the Board of Directors shall be deemed adopted if approved by a majority of the Directors present when such resolution is put to a vote and voting thereon.

(c) A resolution in writing signed by all Directors then in office and lawfully entitled to vote thereon (as conclusively determined by the Chairman of the Audit Committee, and in the absence of such determination - by the Chairman of the Board of Directors) or to which all such Directors have given their consent (by letter, telegram, telex, facsimile telecopier or otherwise), or their oral consent by telephone (provided that a written summary thereof has been approved and signed by the Chairman of the Board of Directors of the Company) shall be deemed to have been unanimously adopted by a meeting of the Board of Directors duly convened and held.

37. Delegation of Powers

(a) The Board of Directors may, subject to the provisions of the Companies Law and these Articles, delegate any or all of its powers to committees, each consisting of two or more persons (all of whose members must be Directors), and it may from time to time revoke such delegation or alter the composition of any such committee. Any Committee so formed (in these Articles referred to as a "Committee of the Board of Directors"), shall, in the exercise of the powers so delegated, conform to any regulations imposed on it by the Board of Directors. The meetings and proceedings of any such Committee of the Board of Directors shall, mutatis mutandis, be governed by the provisions herein contained for regulating the meetings of the Board of Directors, so far as not superseded by the Companies Law or any regulations adopted by the Board of Directors under this Article. Unless otherwise expressly provided by the Board of Directors in delegating powers to a Committee of the Board of Directors, such Committee shall not be empowered to further delegate such powers.

(b) Without derogating from the provisions of Article 50, the Board of Directors may, subject to the provisions of the Companies Law, from time to time appoint a Secretary to the Company, as well as officers, agents, employees and independent contractors, as the Board of Directors may think fit, and may terminate the service of any such person. The Board of Directors may, subject to the provisions of the Companies Law, determine the powers and duties, as well as the salaries and emoluments, of all such persons, and may require security in such cases and in such amounts as it thinks fit.

(c) The Board of Directors may from time to time, by power of attorney or otherwise, appoint any person, company, firm or body of persons to be the attorney or attorneys of the Company at law or in fact for such purpose(s) and with such powers, authorities and discretions, and for such period and subject to such conditions, as it thinks fit, and any such power of attorney or other appointment may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board of Directors may think fit, and may also authorize any such attorney to delegate all or any of the powers, authorities and discretions vested in him.

38. Number of Directors

The Board of Directors shall consist of such number of Directors (not less than three (3) nor more than nine (9)) as may be determined by Shareholder Resolution of the Company.

39. Election and Removal of Directors

(a) If at any time, the Company shall be required to appoint independent or external directors such as a public director or directors of any other type as may be required by law ("External Directors") such directors shall serve on the Board according to the number required by law. External Directors will be appointed and removed pursuant to and shall be governed by the relevant provisions of the law which applies to External Directors. If permitted by applicable law, External Directors will be appointed by the Board.

(b) The members of the Board of Directors shall be called Directors, and other than External Directors (who will be chosen and appointed, and whose term will expire, in accordance with applicable law,) they shall be appointed in accordance with the provisions of this Article.

(c) Directors (other than External Directors) shall be elected at the Annual General Meeting by the vote of the holders of a majority of the voting power represented at such meeting in person or by proxy and voting on the election of directors, or by the Board of Directors. In the event that Directors are appointed by the Board of Directors, such Directors shall be adopted by Shareholders' Resolution at the first extraordinary or annual general meeting of the shareholders following the date upon which the Director was appointed by the Board of Directors. Each Director shall serve, subject to Article 42 hereof, and with respect to a Director appointed pursuant to Article 41 hereof, subject to such Article, until the Annual General Meeting next following the Annual General Meeting at which such Director was appointed, or his earlier removal pursuant to this Article 39. The shareholders shall be entitled to remove any Director(s) from office, all subject to applicable law.

(d) Notwithstanding anything to the contrary herein, the term of a Director may commence at a date later than the date of the shareholders resolution electing such Director, if so specified in such shareholder resolution.

40. Qualification of Directors

No person shall be disqualified to serve as a Director by reason of his not holding shares in the Company or by reason of his having served as a Director in the past.

41. Continuing Directors in the Event of Vacancies

In the event of one or more vacancies in the Board of Directors, the continuing Directors may continue to act in every matter, and may temporarily fill any such vacancy until the next Annual General Meeting, provided, however, that if they number less than the minimum number provided for pursuant to Article 38 hereof, they may only act in an emergency, and may call a General Meeting of the Company for the purpose of electing Directors to fill any or all vacancies, so that at least a majority of the number of Directors provided for pursuant to Article 38 hereof are in office as a result of said meeting.

42. Vacation of Office

(a) The office of a Director shall be vacated, ipso facto, upon his death, or if he be found lunatic or become of unsound mind, or if he becomes bankrupt, or, if the Director is a company, upon its winding-up.

(b) The office of a Director shall be vacated by his written resignation. Such resignation shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

43. Remuneration of Directors

No Director shall be paid any remuneration by the Company for his services as Director except as may be approved by the Company in a General Meeting (including, but not limited to, the grant of options for the Company's shares) and except for reimbursement of reasonable expenses incurred in connection with carrying out his duties as a Director.

44. Conflict of Interests

Subject to the provisions of the Companies Law, the Company may enter into any contract or otherwise transact any business with any Director in which contract or business such Director has a personal interest, directly or indirectly; and may enter into any contract or otherwise transact any business with any third party in which contract or business a Director has a personal interest, directly or indirectly.

45. Alternate Directors

(a) A Director may, by written notice to the Company, appoint a natural person who is not a Director as an alternate for himself (in these Articles referred to as "Alternate Director"), remove such Alternate Director and appoint another Alternate Director in place of any Alternate Director appointed by him whose office has been vacated for any reason whatsoever. Unless the appointing Director, by the instrument appointing an Alternate Director or by written notice to the Company, limits such appointment to a specified period of time or restricts it to a specified meeting or action of the Board of Directors, or otherwise restricts its scope, the appointment shall be for an indefinite period, but will expire upon the expiration of the appointing Director's term, and shall be for all purposes.

(b) Any notice given to the Company pursuant to Article 45(a) shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

(c) An Alternate Director shall have all the rights and obligations of the Director who appointed him, provided, however, that he may not in turn appoint an alternate for himself (unless the instrument appointing him otherwise expressly provides), and provided further that an Alternate Director shall have no standing at any meeting of the Board of Directors or any committee thereof while the Director who appointed him is present.

(d) An Alternate Director shall alone be responsible for his own acts and defaults, and he shall not be deemed the agent of the Director(s) who appointed him.

(e) The office of an Alternate Director shall be vacated under the circumstances, mutatis mutandis, set forth in Article 42, and such office shall ipso facto be vacated if the Director who appointed such Alternate Director ceases to be a Director.

PROCEEDINGS OF THE BOARD OF DIRECTORS

46. Meetings

(a) The Board of Directors may meet and adjourn its meetings and otherwise regulate such meetings and proceedings as the Board of Directors think fit. Notice of the meetings of the Board of Directors shall be sent to each Director at the last address that the Director provided to the Company, or via telephone, facsimile or e-mail message.

(b) Any Director may at any time, and the Secretary, upon the request of such Director, shall, convene a meeting of the Board of Directors, but not less than four (4) days' notice (oral or written) shall be given of any meeting so convened. The failure to give notice to a Director in the manner required hereby may be waived by such Director. In urgent situations, a meeting of the Board of Directors can be convened without any prior notice with the consent of a majority of the Directors, including a majority of those who are lawfully entitled to participate in and vote at such meeting (as conclusively determined by the Secretary, and in the absence of such determination, by the Chairman of the Board of Directors).

47. Quorum

Until otherwise unanimously decided by the Board of Directors, a quorum at a meeting of the Board of Directors shall be constituted by the presence of a majority of the Directors then in office who are lawfully entitled to participate in the meeting (as conclusively determined by the Chairman of the Audit Committee and in the absence of such determination - by the Chairman of the Board of Directors), but shall not be less than two.

48. Chairman of the Board of Directors

The Board of Directors may from time to time elect one of its members to be the Chairman of the Board of Directors, remove such Chairman from office and appoint another in its place. The Chairman of the Board of Directors shall preside at every meeting of the Board of Directors, but if there is no such Chairman, or if at any meeting he is not present within fifteen (15) minutes of the time fixed for the meeting, or if he is unwilling to take the chair, the Directors present shall choose one of their number to be the chairman of such meeting.

49. Validity of Acts Despite Defects

Subject to the provisions of the Companies Law, all acts done bona fide at any meeting of the Board of Directors, or of a Committee of the Board of Directors, or by any person(s) acting as Director(s), shall, notwithstanding that it may afterwards be discovered that there was some defect in the appointment of the participants in such meetings or any of them or any person(s) acting as aforesaid, or that they or any of them were disqualified, be as valid as if there were no such defect or disqualification.

GENERAL MANAGER

50. General Manager

The Board of Directors may from time to time appoint one or more persons, whether or not Directors, as General Manager(s) of the Company and may confer upon such person(s), and from time to time modify or revoke, such title(s) (including Managing Director, President, Director General or any similar or dissimilar title) and such duties and authorities of the Board of Directors as the Board of Directors may deem fit, subject to such limitations and restrictions as the Board of Directors may from time to time prescribe. Such appointment(s) may be either for a fixed term or without any limitation of time, and the Board of Directors may from time to time (subject to the provisions of the Companies Law and of any contract between any such person and the Company) fix his or their salaries and emoluments, remove or dismiss him or them from office and appoint another or others in his or their place or places.

MINUTES

51. Minutes

(a) Minutes of each General Meeting and of each meeting of the Board of Directors shall be recorded and duly entered in books provided for that purpose. Such minutes shall, in all events, set forth the names of the persons present at the meeting and all resolutions adopted thereat.

(b) Any minutes as aforesaid, if purporting to be by the chairman of the meeting or by the chairman of the next succeeding meeting, shall constitute prima facie evidence of the matters recorded therein.

DIVIDENDS

52. Declaration and Payment of Dividends

The Board of Directors may from time to time declare, and cause the Company to pay, such dividend as may appear to the Board of Directors to be justified. The Board of Directors shall determine the time for payment of such dividends, and the record date for determining the shareholders entitled thereto.

53. [Reserved]

54. Amount Payable by Way of Dividends

Subject to the rights of the holders of shares with special rights as to dividends, any dividend paid by the Company shall be allocated among the members entitled thereto in proportion to their respective holdings of the shares in respect of which such dividend is being paid.

55. Interest

No dividend shall carry interest as against the Company.

56. Payment in Specie

Upon the declaration of the Board of Directors, a dividend may be paid, wholly or partly, by the distribution of specific assets of the Company or by distribution of paid up shares, debentures or debenture stock of the Company or of any other companies, or in any one or more of such ways.

57. Capitalization of Profits, Reserves etc.

Upon the resolution of the Board of Directors, the Company -

(a) may cause any moneys, investments, or other assets forming part of the undivided profits of the Company, standing to the credit of a reserve fund, or to the credit of a reserve fund for the redemption of capital, or in the hands of the Company and available for dividends, or representing premiums received on the issuance of shares and standing to the credit of the share premium account, to be capitalized and distributed among such of the shareholders as would be entitled to receive the same if distributed by way of dividend and in the same proportion, on the footing that they become entitled thereto as capital, or may cause any part of such capitalized fund to be applied on behalf of such shareholders in paying up in full, either at par or at such premium as the resolution may provide, any unissued shares or debentures or debenture stock of the Company which shall be distributed accordingly, in payment, in full or in part, of the uncalled liability on any issued shares or debentures or debenture stock; and

(b) may cause such distribution or payment to be accepted by such shareholders in full satisfaction of their interest in the said capitalized sum.

58. Implementation of Powers under Articles 56 and 57

For the purpose of giving full effect to any resolution under Articles 56 or 57, and without derogating from the provisions of Article 7(b) hereof, and subject to applicable law, the Board of Directors may settle any difficulty which may arise in regard to the distribution as it thinks expedient, and, in particular, may issue fractional certificates, and may fix the value for distribution of any specific assets, and may determine that cash payments shall be made to any members upon the footing of the value so fixed, or that fractions of less value than the nominal value of one share may be disregarded in order to adjust the rights of all parties, and may vest any such cash, shares, debentures, debenture stock or specific assets in trustees upon such trusts for the persons entitled to the dividend or capitalized fund as may seem expedient to the Board of Directors.

59. Deductions from Dividends

The Board of Directors may deduct from any dividend or other moneys payable to any member in respect of a share any and all sums of money then payable by him to the Company on account of calls or otherwise in respect of shares of the Company and/or on account of any other matter of transaction whatsoever.

60. Retention of Dividends

(a) The Board of Directors may retain any dividend or other moneys payable or property distributable in respect of a share on which the Company has a lien, and may apply the same in or toward satisfaction of the debts, liabilities, or engagements in respect of which the lien exists.

(b) The Board of Directors may retain any dividend or other moneys payable or property distributable in respect of a share in respect of which any person is, under Articles 21 or 22, entitled to become a member, or which any person is, under said Articles, entitled to transfer, until such person shall become a member in respect of such share or shall transfer the same.

61. Unclaimed Dividends

All unclaimed dividends or other moneys payable in respect of a share may be invested or otherwise made use of by the Board of Directors for the benefit of the Company until claimed. The payment by the Directors of any unclaimed dividend or such other moneys into a separate account shall not constitute the Company a trustee in respect thereof, and any dividend unclaimed after a period of seven (7) years from the date of declaration of such dividend, and any such other moneys unclaimed after a like period from the date the same were payable, shall be forfeited and shall revert to the Company, provided, however, that the Board of Directors may, at its discretion, cause the Company to pay any such dividend or such other moneys, or any part thereof, to a person who would have been entitled thereto had the same not reverted to the Company.

62. Mechanics of Payment

Any dividend or other moneys payable in cash in respect of a share may be paid by check or warrant sent through the post to, or left at, the registered address of the person entitled thereto or by transfer to a bank account specified by such person (or, if two or more persons are registered as joint holders of such share or are entitled jointly thereto in consequence of the death or bankruptcy of the holder or otherwise, to any one of such persons or to his bank account), or to such person and at such address as the person entitled thereto may by writing direct. Every such check or warrant shall be made payable to the order of the person to whom it is sent, or to such person as the person entitled thereto as aforesaid may direct, and payment of the check or warrant by the banker upon whom it is drawn shall be a good discharge to the Company. Every such check or warrant shall be sent at the risk of the person entitled to the money represented thereby.

63. Receipt from a Joint Holder

If two or more persons are registered as joint holders of any share, or are entitled jointly thereto in consequence of the death or bankruptcy of the holder or otherwise, any one of them may give effectual receipts for any dividend or other moneys payable or property distributable in respect of such share.

ACCOUNTS

64. Books of Account

The Board of Directors shall cause accurate books of account to be kept in accordance with the provisions of the Companies Law and of any other applicable law. Such books of account shall be kept at the Registered Office of the Company, or at such other place or places as the Board of Directors may think fit, and they shall always be open to inspection by all Directors. No member, not being a Director, shall have any right to inspect any account or book or other similar document of the Company, except as conferred by law or authorized by the Board of Directors or by a Shareholders Resolution. The Company shall make copies of its annual financial statements available for inspection by the shareholders at the principal offices of the Company. The Company shall not be required to send copies of its annual financial statements to shareholders, except upon written request to the principal office of the Company.

65. Audit

At least once in every fiscal year the accounts of the Company shall be audited and the correctness of the profit and loss account and balance sheet certified by one or more duly qualified auditors.

66. Auditors

The appointment, authorities, rights and duties of the auditor(s) of the Company, shall be regulated by applicable law. The Audit Committee of the Company shall have the authority to fix, in its discretion, the remuneration of the auditor(s) for the auditing services.

BRANCH REGISTERS

67. Branch Registers

Subject to and in accordance with the provisions of the Companies Law and to all orders and regulations issued thereunder, the Company may cause branch registers to be kept in any place outside Israel as the Board of Directors may think fit, and, subject to all applicable requirements of law, the Board of Directors may from time to time adopt such rules and procedures as it may think fit in connection with the keeping of such branch registers.

RIGHTS OF SIGNATURE, STAMP AND SEAL

68. Rights of Signature, Stamp and Seal

(a) The Board of Directors shall be entitled to authorize any person or persons (who need not be Directors) to act and sign on behalf of the Company, and the acts and signature of such person(s) on behalf of the Company shall bind the Company insofar as such person(s) acted and signed within the scope of his or their authority.

(b) The Company shall have at least one official stamp.

(c) The Board of Directors may provide for a seal. If the Board of Directors so provides, it shall also provide for the safe custody thereof. Such seal shall not be used except by the authority of the Board of Directors and in the presence of the person(s) authorized to sign on behalf of the Company, who shall sign every instrument to which such seal is affixed.

NOTICES

69. Notices

(a) Any written notice or other document may be served by the Company upon any shareholder either personally, or by facsimile transmission, or by sending it by prepaid mail (airmail or overnight air courier if sent to an address on a different continent from the place of mailing) addressed to such shareholder at his address as described in the Register of Members or such other address as he may have designated in writing for the receipt of notices and other documents. Any written notice or other document may be served by any shareholder upon the Company by tendering the same in person to the Secretary or the General Manager of the Company at the principal office of the Company, or by facsimile transmission, or by sending it by prepaid registered mail (airmail or overnight air courier if posted outside Israel) to the Company at its Registered Address. Any such notice or other document shall be deemed to have been served (i) in the case of mailing, two (2) business days after it has been posted (seven (7) business days if sent internationally), or when actually received by the addressee if sooner than two (2) days or seven (7) days, as the case may be, after it has been posted; (ii) in the case of overnight air courier, on the third (3rd) business day following the day sent, with receipt confirmed by the courier, or when actually received by the addressee if sooner than three (3) business days after it has been sent; (iii) in the case of personal delivery, on the date such notice was actually tendered in person to such shareholder (or to the Secretary or the General Manager); (iv) in the case of facsimile transmission, on the date on which the sender receives automatic electronic confirmation by the recipient's facsimile machine that such notice was received by the addressee. The mailing or publication date and the date of the meeting shall be counted as part of the days comprising any notice period. If a notice is, in fact, received by the addressee, it shall be deemed to have been duly served, when received, notwithstanding that it was defectively addressed or failed, in some respect, to comply with the provisions of this Article 69(a).

(b) All notices to be given to the shareholders shall, with respect to any share to which persons are jointly entitled, be given to whichever of such persons is named first in the Register of Members, and any notice so given shall be sufficient notice to the holders of such share.

(c) Any shareholder whose address is not described in the Register of Members, and who shall not have designated in writing an address for the receipt of notices, shall not be entitled to receive any notice from the Company.

(d) Notwithstanding anything to the contrary herein, notice by the Company of a General Meeting which is published in two (2) daily newspapers in the State of Israel, if at all, shall be deemed to have been duly given on the date of such publication to any shareholder whose address as registered in the Register of Members (or as designated in writing for the receipt of notices and other documents) is located in the State of Israel.

Notwithstanding anything to the contrary herein, notice by the Company of a General Meeting which is published in one (1) daily newspaper in the United States shall be deemed to have been duly given on the date of such publication to any member whose address as registered in the Registrar of Members (or as designated in writing for the receipt of notices and other documents) is located outside the State of Israel.

EXCULPATION, INSURANCE AND INDEMNITY

70. Exculpation, Indemnity and Insurance

(a) For purposes of these Articles, the term "Office Holder" shall mean every Director and every officer of the Company, including, without limitation, each of the persons defined as "Nosei Misra" in the Companies Law.

(b) Subject to the provisions of the Companies Law, the Company may prospectively exculpate an Office Holder from all or some of the Office Holder's responsibility for damage resulting from the Office Holder's breach of the Office Holder's duty of care to the Company.

(c) Subject to the provisions of the Companies Law, the Company may indemnify an Office Holder in respect of an obligation or expense specified below imposed on the Office Holder in respect of an act performed in his capacity as an Office Holder, as follows:

(i) a financial obligation imposed on him in favor of another person by a court judgment, including a compromise judgment or an arbitrator's award approved by court;

(ii) reasonable litigation expenses, including attorneys' fees, expended by the Office Holder as a result of an investigation or proceeding instituted against him by a competent authority, provided that such investigation or proceeding was concluded without the filing of an indictment against him and either (A) concluded without the imposition of any financial liability in lieu of criminal proceedings or (B) 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; or in connection with an administrative enforcement proceeding or a financial sanction. Without derogating from the generality of the foregoing, such expenses will include a payment imposed on the Office Holder in favor of an injured party as set forth in Section 52(54)(a)(1)(a) of the Israeli Securities Law, 1968, as amended (the "Securities Law"), and expenses that the Office Holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees; and

(iii) reasonable litigation expenses, including attorneys' fees, expended by an Office Holder or charged to the Office Holder by a court, in a proceeding instituted against the Office Holder by the Company or on its behalf or by another person, or in a criminal charge from which the Office Holder was acquitted, or in a criminal proceeding in which the Office Holder was convicted of an offense that does not require proof of criminal intent.

The Company may undertake to indemnify an Office Holder as aforesaid, (aa) prospectively, provided that in respect of Article 70(c)(i), the undertaking is limited to events which in the opinion of the Board of Directors are foreseeable in light of the Company's actual operations when the undertaking to indemnify is given, and to an amount or criteria set by the Board of Directors as reasonable under the circumstances, and further provided that such events and amounts or criteria are set forth in the undertaking to indemnify, and (bb) retroactively.

(d) Subject to the provisions of the Companies Law, the Company may enter into a contract for the insurance of all or part of the liability of any Office Holder imposed on the Office Holder in respect of an act performed in his capacity as an Office Holder, in respect of each of the following:

(i) a breach of his duty of care to the Company or to another person;

(ii) a breach of his duty of loyalty to the Company, provided that the Office Holder acted in good faith and had reasonable cause to assume that such act would not prejudice the interests of the Company;

(iii) a financial obligation imposed on him in favor of another person; or

(iv) reasonable litigation expenses, including attorney fees, incurred by the Office Holder as a result of an administrative enforcement proceeding instituted against him. Without derogating from the generality of the foregoing, such expenses will include a payment imposed on the Office Holder in favor of an injured party as set forth in Section 52(54)(a)(1)(a) of the Securities Law and expenses that the Office Holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees.

(e) The provisions of Articles 70 are not intended, and shall not be interpreted, to restrict the Company in any manner in respect of the procurement of insurance and/or in respect of indemnification (i) in connection with any person who is not an Office Holder, including, without limitation, any employee, agent, consultant or contractor of the Company who is not an Office Holder, and/or (ii) in connection with any Office Holder to the extent that such insurance and/or indemnification is not specifically prohibited under law; provided that the procurement of any such insurance and/or the provision of any such indemnification shall be approved by the Audit Committee of the Company.

Any amendment to the Companies Law, the Securities Law or any other applicable law adversely affecting the right of any Office Holder to be indemnified or insured pursuant to this Article 61 shall be prospective in effect, and shall not affect the Company's obligation or ability to indemnify or insure an Office Holder for any act or omission occurring prior to such amendment, unless otherwise provided by the Companies Law, the Securities Law or such other applicable law.

WINDING UP

71. Winding Up

(a) A resolution adopted in a General Meeting approved by 75% of the voting shares represented at such meeting in person or by proxy is required to approve the winding up of the Company.

(b) If the Company be wound up, then, subject to applicable law and to the rights of the holders of shares with special rights upon winding up, the assets of the Company available for distribution among the members shall be distributed to them in proportion to the nominal value of their respective holdings of the shares in respect of which such distribution is being made.

RADCOM LTD.

The Company will furnish without charge to each shareholder who so requests a complete statement of the powers, designations, preferences and relative participating optional or other special rights of each class of shares or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights as contained in the Company's Articles of Association. Any such request should be addressed to the Secretary of the Company.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	- as tenants in common	UNIF GIFT MIN ACT-	_____ Custodian _____
TEN ENT	- as tenants by the entireties		(Cust) (Minor)
JT TEN	- as joint tenants with right of survivorship and not as tenants in common		under Uniform Gifts to Minors Act _____ (State)

Additional abbreviations may also be used though not in the above list.

For value received, _____ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

[Empty box for Social Security or other identifying number]

PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS INCLUDING POSTAL ZIP CODE OF ASSIGNEE

_____ Shares of the ordinary shares represented by the within Certificate, and do hereby irrevocably constitute and appoint _____

Attorney to transfer the said shares on the books of the within-named Company with full power of substitution in the premises.

Dated, _____

NOTICE: THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE, IN EVERY PARTICULAR. WITHOUT ALTERATION OR ENLARGEMENT. OR ANY CHANGE WHATEVER.

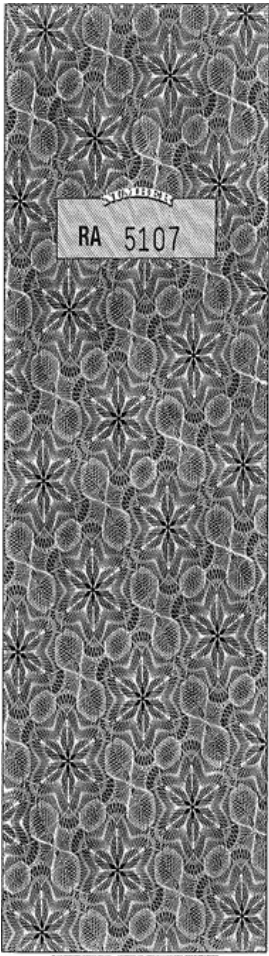
SIGNATURE(S) GUARANTEED:

THE SIGNATURE(S) MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15.

ORDINARY SHARES
PAR VALUE NIS 0.20 PER SHARE



SHARES
CUSIP 063665 11 1
SEE REVERSE FOR CERTAIN INFORMATION



RADCOM LTD.
INCORPORATED UNDER THE LAWS OF THE STATE OF ISRAEL THIS CERTIFICATE IS
TRANSFERABLE IN NEW YORK, NEW YORK, U.S.A.

THIS
CERTIFIES
that

is the owner of

**FULLY PAID AND NONASSESSABLE ORDINARY SHARES OF
RADCOM LTD.**

(hereinafter called the "Company") transferable on the books of the Company by the holder hereof, in person or by duly authorized attorney, upon surrender of this certificate properly endorsed. This certificate is not valid unless countersigned and registered by the Transfer Agent and Registrar.

WITNESS the facsimile seal of the Company and the facsimile signatures of its duly authorized officers.

Dated:



[Signature]
Chairman of the Board

[Signature]
Chief Executive Officer

[Signature]
Secretary

[Signature]

Organized for Regime
By
AMERICAN STOCK TRANSFER & TRUST COMPANY
Transfer Agent
and Registrar

Radcom Ltd.

2003 SHARE OPTION PLAN

A. NAME AND PURPOSE

1. **Name:** This plan, as amended from time to time, shall be known as the Radcom Ltd. 2003 Share Option Plan” (the “Plan”).
2. **Purpose:** The purpose and intent of the Plan is to provide incentives to employees, directors, consultants and contractors of Radcom Ltd., a company organized under the laws of the State of Israel, or any subsidiary thereof (the “Company”), by providing them with opportunities to purchase Ordinary Shares, nominal value of 0.05 New Israeli Shekel each (the “Shares”) of the Company, pursuant to a plan approved by the Board of Directors of the Company (the “Board”) which is designed to benefit from, and is made pursuant to, the provisions of either Section 102 or Section 3(9) of the Israeli Income Tax Ordinance [New Version] 1961 (the “Ordinance”), as applicable, and the rules and regulations promulgated thereunder.

B. GENERAL TERMS AND CONDITIONS OF THE PLAN

3. **Administration:**
 - 3.1 The Board may appoint a Share Incentive Committee, which will consist of such number of Directors of the Company, as may be fixed from time to time by the Board. The Board shall appoint the members of the committee, may from time to time remove members from, or add members to, the Committee and shall fill vacancies in the Committee however caused. The Plan will be administered by the Share Incentive Committee, or where not permitted according to Section 112 of the Companies Law, 1999 (the “Companies Law”), by the Board (collectively - the “Committee”).
 - 3.2 The Committee shall select one of its members as its Chairman and shall hold its meetings at such times and places, as it shall determine. Actions taken by a majority of the members of the Committee, at a meeting at which a majority of its members is present, or acts reduced to, or approved in, writing by all members of the Committee, shall be the valid acts of the Committee. The Committee may appoint a Secretary, who shall keep records of its meetings and shall make such rules and regulations for the conduct of its business, as it shall deem advisable.
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3.3 Subject to the general terms and conditions of this Plan and applicable law, the Committee shall have the full authority in its discretion, from time to time and at any time, to determine (i) the persons ("Grantees") to whom options to purchase Shares (the "Options") shall be granted, (ii) the number of Shares subject to each Option, (iii) the time or times at which the same shall be granted, (iv) the schedule and conditions on which such Options may be exercised and on which such Shares shall be paid for, and/or (v) any other matter which is necessary or desirable for, or incidental to, the administration of the Plan. In determining the number of Shares subject to the Options to be granted to each Grantee, the Committee may consider, among other things, the Grantee's salary and the duration of the Grantee's employment by the Company.

3.4 Subject to the general terms and conditions of the Plan and the Ordinance, the Committee shall have the full authority in its discretion, from time to time and at any time, to determine:

(a) with respect to the grant of 102 Options (as defined in Section 5.1(a)(i) below) - whether the Company shall elect the "Ordinary Income Route" under Section 102(b)(1) of the Ordinance (the "Ordinary Income Route") or the "Capital Gains Route" under Section 102(b)(2) of the Ordinance (the "Capital Gains Route") (each of the Ordinary Income Route or the Capital Gains Route - a "Taxation Route") for the grant of 102 Options, and the identity of the trustee who shall be granted such 102 Options in accordance with the provisions of this Plan and the then prevailing Taxation Route;

In the event the Committee determines that the Company shall elect one of the Taxation Routes for the grant of 102 Options, the Company shall be entitled to change such election only following the lapse of one year from the end of the tax year in which 102 Options are first granted under the then prevailing Taxation Route; and

(b) with respect to the grant of 3(9) Options (as defined in Section 5.1(a)(ii) below) - whether or not 3(9) Options shall be granted to a trustee in accordance with the terms and conditions of this Plan, and the identity of the trustee who shall be granted such 3(9) Options in accordance with the provisions of this Plan.

3.5 Notwithstanding the aforesaid, the Committee may, from time to time and at any time, grant 102 Options that will not subject to a Taxation Route, as detailed in Section 102(c) of the Ordinance ("102(c) Options").

3.6 The Committee may, from time to time, adopt such rules and regulations for carrying out the Plan as it may deem necessary. No member of the Board or of the Committee shall be liable for any act or determination made in good faith with respect to the Plan or any Option granted thereunder.

3.7 The interpretation and construction by the Committee of any provision of the Plan or of any Option thereunder shall be final and conclusive and binding on all parties who have an interest in the Plan or any Option or Share issuance thereunder unless otherwise determined by the Board.

4. **Eligible Grantees:**

4.1 The Committee, at its discretion, may grant Options to any employee, director, consultant or contractor of the Company. Anything in this Plan to the contrary notwithstanding, all grants of Options to office holders (i.e., "Nosei Misra", as such term is defined in the Companies Law) shall be authorized and implemented only in accordance with the provisions of the Companies Law.

4.2 The grant of an Option to a Grantee hereunder, shall neither entitle such Grantee to participate, nor disqualify him from participating, in any other grant of options pursuant to this Plan or any other share option plan of the Company.

5. **Grant of Options, Issuance of Shares, Dividends and Shareholder Rights:**

5.1 Grant of Options and Issuance of Shares.

(a) Subject to the provisions of the Ordinance and applicable law,

(i) all grants of Options to employees, directors and office holders of the Company, other than to a Controlling Shareholder of the Company (i.e., "Baal Shlita", as such term is defined in the Ordinance), shall be made only pursuant to the provisions of Section 102 of the Ordinance and the rules and regulations promulgated thereunder ("102 Options"), or any other section of the Income Tax Ordinance that will be relevant for such issuance in the future; and

(ii) all grants of Options to consultants, contractors or Controlling Shareholders of the Company shall be made only pursuant to the provisions of Section 3(9) of the Ordinance and the rules and regulations promulgated thereunder ("3(9) Options"), or any other section of the Ordinance that will be relevant for such issuance in the future.

(b) Subject to Sections 7.1 and 7.2 hereof, the effective date of the grant of an Option (the "Date of Grant") shall be the date specified by the Committee in its determination relating to the award of such Option. The Committee shall promptly give the Grantee written notice (the "Notice of Grant") of the grant of an Option.

(c) Trust. In the event Options are granted under the Plan to a trustee designated by the Committee in accordance with the provisions of Section 3.4 hereof and, with respect to 102 Options, approved by the Israeli Commissioner of Income Tax (the "Trustee"), the Trustee shall hold each such Option and the Shares issued upon exercise thereof in trust (the "Trust") for the benefit of the Grantee in respect of whom such Option was granted (the "Beneficial Grantee").

In accordance with Section 102 of the Ordinance and the rules and regulations promulgated thereunder, the tax treatment of 102 Options (and any Shares received upon exercise of such Options) in accordance with the Ordinary Income Route or Capital Gains Route, as applicable, shall be contingent upon the Trustee holding such 102 Options for a period of at least (i) one year from the end of the tax year in which the 102 Options are granted, if the Company elects the Ordinary Income Route, or (ii) two years from the end of the tax year in which the 102 Options are granted, if the Company elects the Capital Gains Route, or (iii) such other period as shall be approved by the Israeli Commissioner of Income Tax.

All 102 Options granted hereunder to the Trustee, as aforementioned, shall be governed by the provisions of Section 102 of the Ordinance, the Income Tax Rules (Tax Relief in Issuance of Shares to Employees), 2003 (the "102 Rules") and any other regulations, rulings, procedures or clarifications promulgated thereunder.

With respect to 102 Options granted to the Trustee under a Taxation Route, the following shall apply:

(i) A Grantee granted 102 Options shall not be entitled to sell the Shares received upon exercise thereof (the "Exercised Shares") or to transfer such Exercised Shares (or such 102 Options) from the Trustee prior to the lapse of the Trust Period (as defined below);

(ii) Any and all rights issued in respect of the Exercised Shares, including bonus shares but excluding cash dividends ("Rights"), shall be issued to the Trustee and held thereby until the lapse of the Trust Period, and such Rights shall be subject to the Taxation Route which is applicable to such Exercised Shares.

Notwithstanding the aforesaid, Exercised Shares or Rights may be sold or transferred, and the Trustee may release such Exercised Shares (or 102 Options) or Rights from Trust, prior to the lapse of the Trust Period, provided however, that tax is paid or withheld in accordance with Section 102(b)(4) of the Ordinance and Section 7 of the 102 Rules.

For the purposes of this section "Trust Period" shall mean: (i) one year from the end of the tax year in which the 102 Options are granted, if the Company elects the Ordinary Income Route, or (ii) two years from the end of the tax year in which the 102 Options are granted, if the Company elects the Capital Gains Route, or (iii) such shorter period as may be approved by the Israeli Income Tax Commissioner.

All certificates representing Shares issued to the Trustee under the Plan shall be deposited with the Trustee, and shall be held by the Trustee until such time that such Shares are released from the Trust as herein provided.

(d) Subject to the terms hereof, at any time after the options have vested, with respect to any Options or Shares the following shall apply:

(i) Upon the written request of any Beneficial Grantee, the Trustee shall release from the Trust the Options granted, and/or the Shares issued, on behalf of such Beneficial Grantee, by executing and delivering to the Company such instrument(s) as the Company may require, giving due notice of such release to such Beneficial Grantee, provided, however, that the Trustee shall not so release any such Options and/or Shares to such Beneficial Grantee unless the latter, prior to, or concurrently with, such release, provides the Trustee with evidence, satisfactory in form and substance to the Trustee, that all taxes, if any, required to be paid upon such release have, in fact, been paid.

(ii) Alternatively, provided the Shares are listed on a stock exchange or admitted to trading on an electronic securities trading system (such as the Nasdaq Stock Market), upon the written instructions of the Beneficial Grantee to sell any Shares issued upon exercise of Options, the Trustee shall use its reasonable efforts to effect such sale and shall transfer such Shares to the purchaser thereof concurrently with the receipt, or after having made suitable arrangements to secure the payment of the proceeds of the purchase price in such transaction. The Trustee shall withhold from such proceeds any and all taxes required to be paid in respect of such sale, shall remit the amount so withheld to the appropriate tax authorities and shall pay the balance thereof directly to the Beneficial Grantee, reporting to such Beneficial Grantee and to the Company the amount so withheld and paid to said tax authorities.

5.2 Guarantee. In the event a 102(c) Option is granted to a Grantee who is an employee at the time of such grant, if the Grantee's employment is terminated, for any reason, such Grantee shall provide the Company with a guarantee or collateral, to the full satisfaction of the Committee, securing the payment of all taxes required to be paid in connection with any action involving such 102(c) Option or the Shares received upon exercise of thereof. Alternatively, the Committee shall have the authority to instruct such Grantee to transfer his/her 102(c) Option to a trustee (or escrow agent) who shall hold such 102(c) Option, and the Shares received upon exercise thereof, in trust (or escrow) to guarantee the full payment of all taxes required to be paid in connection with any action involving such 102(c) Option or Shares.

5.3 Dividend. All Shares issued upon the exercise of Options granted under the Plan shall entitle the Beneficial Grantee thereof to receive dividends with respect thereto. For so long as Shares issued to the Trustee on behalf of a Beneficial Grantee are held in the Trust, the dividends paid or distributed with respect thereto shall be remitted to the Trustee for the benefit of such Beneficial Grantee or distributed directly to such Beneficial Grantee, as shall be solely determined by the Committee prior to each such distribution or payment.

5.4 **Shareholder Rights.** The holder of an Option shall have no shareholder rights with respect to the Shares subject to the Option until such person shall have exercised the Option, paid the exercise price and become the recordholder of the purchased Shares.

6. **Reserved Shares:** The Company has reserved 946,748 authorized but unissued Shares to be issued under the Plan and any other option or incentive plan that the Company may adopt, subject to adjustments as provided in Section 11 hereof. Notwithstanding the aforesaid, the Committee shall have full authority in its discretion to determine that the Company may issue, for the purposes of this Plan, previously issued Shares which are held by the Company, from time to time, as Dormant Shares (as such term is defined in the Companies Law). All Shares under the Plan, in respect of which the right hereunder of a Grantee to purchase the same shall, for any reason, terminate, expire or otherwise cease to exist, shall again be available for grant through Options under the Plan.

7. **Grant of Options:**

7.1 The implementation of the Plan and the granting of any Option under the Plan shall be subject to the Company's procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the Options granted under it and the Shares issued pursuant to it.

7.2 Without derogating from the foregoing, the Committee in its discretion may, subject to the provisions of the Ordinance, award to Grantees Options available under the Plan, provided however, that 102 Options granted under one of the Taxation Routes may be granted to the Trustee only following the fulfillment of the following procedure:

(i) The Company shall inform the Israeli tax authorities of its election of a Taxation Route and shall submit the Plan to the Israeli tax authorities at least 30 days prior to the grant of any 102 Options under the elected Taxation Route;

(ii) The Plan and the appointment of the Trustee shall be subject to approval of the Israeli tax authorities, provided, however, that if the Israeli Tax authorities shall not respond within 90 days of submission of the Plan and election of a Taxation Route by the Company, the Plan and/or the Trustee shall be deemed approved by the Israeli tax authorities.

7.3 The Notice of Grant shall state, *inter alia*, the number of Shares subject to each Option, the vesting schedule, the dates when the Options may be exercised, the exercise price, whether the Options granted thereby are 102 Options or 3(9) Options, and such other terms and conditions as the Committee at its discretion may prescribe, provided that they are consistent with this Plan. Each Notice of Grant evidencing a 102 Option shall, in addition, be subject to the provisions of the provisions of the Ordinance applicable to such options.

7.4 **Vesting.** Without derogating from the rights and powers of the Committee under Section 7.3 hereof, unless otherwise specified by the Committee, the Options shall be for a term of ten (10) years, and, unless determined otherwise by the Committee, the schedule pursuant to which such Options shall vest, and the Beneficial Grantee thereof shall be entitled to pay for and acquire the Shares, shall be such that the Options shall be fully vested on the first business day following the passing of four (4) years from the Date of Grant (the "Vesting Period") as follows: 50% of such Options shall vest on the second anniversary of the Adoption Date (the "Adoption Date" for the purpose of this Plan means the Date of Grant or any other date determined by the Committee for a given grant of Options). A further 25% of such Options shall vest on each of the third and fourth anniversaries of the Adoption Date.

"Vesting Period" of an Option means, for the purpose of the Plan and its related instruments, the period between the Adoption Date and the date on which the holder of an Option may exercise the rights awarded pursuant to terms of the Option.

7.5 **Acceleration of Vesting.** Anything herein to the contrary in this Plan notwithstanding, the Committee shall have full authority to determine any provisions regarding the acceleration of the Vesting Period of any Option or the cancellation of all or any portion of any outstanding restrictions with respect to any Option or Share upon certain events or occurrences, and to include such provisions in the Notice of Grant on such terms and conditions as the Committee shall deem appropriate.

7.6 **Repricing.** Subject to applicable law, the Committee shall have full authority to, at any time and from time to time, without the approval of the Shareholders of the Company, (i) grant in its discretion to the holder of an outstanding Option, in exchange for the surrender and cancellation of such Option, a new Option having an exercise price lower than provided in the Option so surrendered and canceled and containing such other terms and conditions as the Committee may prescribe in accordance with the provisions of the Plan, or (ii) effectuate a decrease in the Exercise Price (see Section 8 below) of outstanding Options.

8. **Exercise Price:** The exercise price per Share subject to each Option shall be determined by the Committee in its sole and absolute discretion; provided, however, that such exercise price shall not be less than the par value of the Shares into which such Option is exercisable.

9. **Exercise of Options:**

9.1 Options shall be exercisable pursuant to the terms under which they were awarded and subject to the terms and conditions of the Plan.

9.2 The exercise of an Option shall be made by a written notice of exercise (the "Notice of Exercise") delivered by the Beneficial Grantee (or, with respect to Options held in the Trust, by the Trustee upon receipt of written instructions from the Beneficial Grantee) to the Company at its principal executive office, specifying the number of Shares to be purchased and accompanied by the payment therefor, and containing such other terms and conditions as the Committee shall prescribe from time to time.

9.3 Anything herein to the contrary notwithstanding, but without derogating from the provisions of Section 10 hereof, if any Option has not been exercised and the Shares subject thereto not paid for within ten (10) years after the Date of Grant (or any shorter period set forth in the Notice of Grant), such Option and the right to acquire such Shares shall terminate, all interests and rights of the Grantee in and to the same shall ipso facto expire, and, in the event that in connection therewith any Options are still held in the Trust as aforesaid, the Trust with respect thereto shall ipso facto expire, and the Shares subject to such Options shall again be available for grant through Options under the Plan, as provided for in Section 6 herein.

9.4 Each payment for Shares shall be in respect of a whole number of Shares, and shall be effected in cash or by a bank's check payable to the order of the Company, or such other method of payment acceptable to the Company.

10. Termination of Employment:

10.1 Employees. In the event that a Grantee who was an employee of the Company on the Date of Grant of any Options to him or her ceases, for any reason, to be employed by the Company (the "Cessation of Employment"), all Options theretofore granted to such Grantee when such Grantee was an employee of the Company shall terminate as follows:

(a) The date of the Grantee's Cessation of Employment shall be the date on which the employee-employer relationship between the Grantee and the Company ceases to exist (the "Date of the Cessation").

(b) All such Options which are not vested at the Date of Cessation shall terminate immediately.

(c) If the Grantee's Cessation of Employment is by reason of such Grantee's death or "Disability" (as hereinafter defined), such Options (to the extent vested at the Date of Cessation) shall be exercisable by the Grantee or the Grantee's guardian, legal representative, estate or other person to whom the Grantee's rights are transferred by will or by laws of descent or distribution, at any time until 180 days from the Date of Cessation, and shall thereafter terminate.

For purposes hereof, "Disability" shall mean the inability to engage in any substantial gainful occupation for which the Grantee is suited by education, training or experience, by reason of any medically determinable physical or mental impairment which is expected to result in such person's death or to continue for a period of six (6) consecutive months or more.

(d) If the Grantee's Cessation of Employment is due to any reason other than those stated in Sections 10.1(c), 10.1(e) and 10.1(f) herein, such Options (to the extent vested at the Date of Cessation) shall be exercisable at any time until 180 days after the Date of Cessation, and shall thereafter terminate; provided, however, that if the Grantee dies within such period, such Options (to the extent vested at the Date of Cessation) shall be exercisable by the Grantee's legal representative, estate or other person to whom the Grantee's rights are transferred by will or by laws of descent or distribution at any time until 180 days from the Date of Cessation, and shall thereafter terminate.

(e) Notwithstanding the aforesaid, if the Grantee's Cessation of Employment is due to (i) breach of the Grantee's duty of loyalty towards the Company, or (ii) breach of the Grantee's duty of care towards the Company, or (iii) the commission any flagrant criminal offense by the Grantee, or (iv) the commission of any act of fraud, embezzlement or dishonesty towards the Company by the Grantee, or (v) any unauthorized use or disclosure by the Grantee of confidential information or trade secrets of the Company, or (vi) any other intentional misconduct by the Grantee (by act or omission) adversely affecting the business or affairs of the Company in a material manner, or (vii) any act or omission by the Grantee which would allow for the termination of the Grantee's employment without severance pay, according to the Severance Pay Law, 1963, all the Options whether vested or not shall ipso facto expire immediately and be of no legal effect.

(f) If a Grantee retires, he shall, subject to the approval of the Committee, continue to enjoy such rights, if any, under the Plan and on such terms and conditions, with such limitations and subject to such requirements as the Committee in its discretion may determine.

(g) Whether the Cessation of Employment of a particular Grantee is by reason of "Disability" for the purposes of paragraph 10.1(c) hereof or by virtue of "retirement" for purposes of paragraph 10.1(f) hereof, or is a termination of employment other than by reason of such Disability or retirement, or is for reasons as set forth in paragraph 10.1(e) hereof, shall be finally and conclusively determined by the Committee in its absolute discretion.

(h) Notwithstanding the aforesaid, under no circumstances shall any Option be exercisable after the specified expiration of the term of such Option.

10.2 Directors, Consultants and Contractors. In the event that a Grantee, who is a director, consultant or contractor of the Company, ceases, for any reason, to serve as such, the provisions of Sections 10.1(b), 10.1(c), 10.1(d), 10.1(e), 10.1(g) and 10.2(h) above shall apply, *mutatis mutandis*. For the purposes of this Section 10.2, "Date of Cessation" shall mean:

(a) with respect to directors - the date on which a director submits notice of resignation from the Board or the date on which the shareholders of the Company remove such director from the Board; and

(b) with respect to consultants and contractors - the date on which the consulting or contractor agreement between such consultant or contractor, as applicable, and the Company expires or the date on which either of the parties to such agreement sends the other notice of its intention to terminate said agreement.

10.3 Notwithstanding the foregoing provisions of this Section 10, the Committee shall have the discretion, exercisable either at the time an Option is granted or thereafter, to:

(a) extend the period of time for which the Option is to remain exercisable following the Date of Cessation to such greater period of time as the Committee shall deem appropriate, but in no event beyond the specified expiration of the term of the Option;

(b) permit the Option to be exercised, during the applicable exercise period following the Date of Cessation, not only with respect to the number of Shares for which such Option is exercisable at the Date of Cessation but also with respect to one or more additional installments in which the Grantee would have vested under the Option had the Grantee continued in the employ or service of the Company.

11. Adjustments, Liquidation and Corporate Transaction:

11.1 Definitions:

"Merger" means a merger or consolidation or a similar business combination, in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction.

"Sale of All of the Company's Assets" means the sale, transfer or other disposition of all or substantially all of the Company's assets.

"Corporate Transaction" means a Merger or a Sale of All of the Company's Assets.

11.2 Adjustments. Subject to any required action by the shareholders of the Company, the number of Shares subject to each outstanding Option, and the number of Shares which have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per share of Shares subject to each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Shares or the payment of a stock dividend (bonus shares) with respect to the Shares or any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an Option.

11.3 Liquidation. Unless otherwise provided by the Board, in the event of the proposed dissolution or liquidation of the Company, all outstanding Options will terminate immediately prior to the consummation of such proposed action. In such case, the Committee may declare that any Option shall terminate as of a date fixed by the Committee and give each Grantee the right to exercise his Option, including any Option which would not otherwise be exercisable.

11.4 Corporate Transaction.

(a) Immediately following the consummation of the Corporate Transaction, all outstanding Options shall terminate and cease to be outstanding, except to the extent assumed by the Successor Entity.

(b) Notwithstanding the foregoing, the Committee shall have full authority and sole discretion to determine that any of the provisions of Sections 11.4(a)(i), or 11.4(a)(ii) above shall apply in the event of a Corporate Transaction in which the consideration received by the shareholders of the Company is not solely comprised of securities of the Successor Entity, or in which such consideration is solely cash or assets other than securities of the Successor Entity.

11.5 Sale. In the event that all or substantially all of the issued and outstanding share capital of the Company is to be sold (the "Sale"), each Grantee shall be obligated to participate in the Sale and sell his or her Shares and/or Options in the Company, provided, however, that each such Share or Option shall be sold at a price equal to that of any other Share sold under the Sale (minus the applicable exercise price), while accounting for changes in such price due to the respective terms of any such Option, and subject to the absolute discretion of the Board.

11.6 The grant of Options under the Plan shall in no way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

12. **Limitations on Transfer:** No Option shall be assignable or transferable by the Grantee to whom granted otherwise than by will or the laws of descent and distribution, and an Option may be exercised during the lifetime of the Grantee only by such Grantee or by such Grantee's guardian or legal representative. The terms of such Option shall be binding upon the beneficiaries, executors, administrators, heirs and successors of such Grantee.

13. **Term and Amendment of the Plan:**

13.1 The Plan was adopted by the Board on _____, 2003. The Plan shall terminate upon the earliest of (i) the expiration of the ten (10)-year period measured from the date the Plan was adopted by the Board, or (ii) the termination of all outstanding Options in connection with a Corporate Transaction. All Options outstanding at the time of a clause (i) termination event shall continue to have full force and effect in accordance with the provisions of the Plan and the documents evidencing such Options.

13.2 Subject to applicable laws, the Board shall have complete and exclusive power and authority to amend or modify the Plan in any or all respects. However, no such amendment or modification shall adversely affect any rights and obligations with respect to Options at the time outstanding under the Plan, unless the Grantee consents to such amendment or modification.

13.3 Without derogating from the foregoing, the Board in its discretion may, at any time and from time to time, without the approval of the Shareholders of the Company, (i) increase the number of Shares to be issued under the Plan; or (ii) expand of the class of participants eligible to participate in the Plan; or (iii) expand the types of options or awards provided under the Plan.

14. **Withholding and Tax Consequences:** The Company's obligation to deliver Shares upon the exercise of any Options granted under the Plan shall be subject to the satisfaction of all applicable income tax and other compulsory payments withholding requirements. All tax consequences and obligations regarding any other compulsory payments arising from the grant or exercise of any Option, from the payment for, or the subsequent disposition of, Shares subject thereto or from any other event or act (of the Company or the Grantee) hereunder, shall be borne solely by the Grantee, and the Grantee shall indemnify the Company and/or the Trustee, as applicable, and hold them harmless against and from any and all liability for any such tax or other compulsory payment, or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax or other compulsory payment from any payment made to the Grantee.

15. **Miscellaneous:**

15.1 Continuance of Employment. Neither the Plan nor the grant of an Option thereunder shall impose any obligation on the Company to continue the employment or service of any Grantee. Nothing in the Plan or in any Option granted thereunder shall confer upon any Grantee any right to continue in the employ or service of the Company for any period of specific duration, or interfere with or otherwise restrict in any way the right of the Company to terminate such employment or service at any time, for any reason, with or without cause.

15.2 Governing Law. The Plan and all instruments issued thereunder or in connection therewith, shall be governed by, and interpreted in accordance with, the laws of the State of Israel.

15.3 Use of Funds. Any proceeds received by the Company from the sale of Shares pursuant to the exercise of Options granted under the Plan shall be used for general corporate purposes of the Company.

15.4 Multiple Agreements. The terms of each Option may differ from other Options granted under the Plan at the same time, or at any other time. The Committee may also grant more than one Option to a given Grantee during the term of the Plan, either in addition to, or in substitution for, one or more Options previously granted to that Grantee. The grant of multiple Options may be evidenced by a single Notice of Grant or multiple Notices of Grant, as determined by the Committee.

15.5 Non-Exclusivity of the Plan. The adoption of the Plan by the Board shall not be construed as amending, modifying or rescinding any previously approved incentive arrangement or as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options otherwise than under the Plan, and such arrangements may be either applicable generally or only in specific cases.

Translation for convenience only

Binding version is the original Hebrew

Unprotected Lease Agreement

Drawn up and signed in Tel Aviv on the ____ day of the month of __ ____, 2013

Between: 1. Zisapel Properties (1992) Ltd., Private Company No. 51-174168-8
2. Klil and Michael Properties (1992) Ltd., Private Co. No. 51-174159-7
(Hereinafter, jointly and severally: "**The Lessor**")

Of the first part:

And: Radcom Ltd., Company No. 52-004345-6
Of 24 Raoul Wallenberg St. Tel Aviv
(Hereinafter: "**The Lessee**")

Of the second part:

Whereas the Lessor owns the rights of possession in a portion of the areas in the Ziv Towers located at 24 Raoul Wallenberg St., Ramat HaChayal, Tel Aviv, known as bloc 6638, parcel 616 (hereinafter: "**the building**") and is authorized to lease the property as defined below; and

And Whereas the Lessee wishes to lease from the Lessor, and the Lessor wishes to lease to the Lessee, by a lease that is not protected by the Tenant Protection Law, the leased property as defined below, in accordance with and subject to all the provisions of this agreement;

THEREFORE IT IS DECLARED, STIPULATED AND AGREED AS FOLLOWS:

1. The preamble to this agreement constitutes a binding, integral and indivisible part of the agreement

2. **Definitions**

In this agreement the terms specified below will have the meanings adjacent thereto:

- “**The Agreement:**” This agreement with all its appendices
- “**The Property**” Offices in an area of 1,545 sq. m. (gross) and protected floor space in an area of 23 sq. m. (gross) on the 4th floor of section A1 in the building, as marked on the blueprint in the parking spaces addendum to **Appendix A** as per Clause 7 below.
- To remove any doubt, it is hereby clarified and agreed that for all intents and purposes, the property area pursuant to this agreement shall be considered as the gross property area as specified above, i.e. offices in an area of 1,545 sq. m. gross, with the addition of protected floor space in an area of 23 sq. m. gross, and that this area is final and cannot be appealed even if it transpires upon any measurement that it differs from the specifications above.
- “**Project Manager:**” Person certified in writing by the Lessor
- “**Index:**” The Consumer Price Index (including fruits and vegetables) published by the Central Bureau of Statistics, and should this index no longer be published – any other similar index
- “**Basic Index:**” The index for November, 2012 published on 15 Dec 2012 and which stood at 105.5 points
- “**Interest for delay:**” Monthly interest at the prime interest rate (as of the date on which the demand for payment of interest for delay was issued pursuant to this agreement), plus 1%, for each month or prorated portion thereof for a portion of a month

3. **Non-Applicability of Tenant Protection Law**

- 3.1 It is explicitly warranted that the property is located in a structure whose construction was completed after 20 Aug 1968, and that this lease is effected with the explicit proviso that the Tenant Protection Law (combined version) of 1972, as well as other tenant protection laws, its regulations and decrees (hereinafter: “**The Tenant Protection Law**”), and any law conferring to the Lessee the status of a protected tenant shall not apply to the lease.
- 3.2 The Lessee warrants that it has not paid nor shall it pay to the Lessor key money or any other consideration for the lease that is not a rental amount, and the Lessee or anyone on its behalf shall not be a protected tenant in the property according to the law.
- 3.3 The Lessee warrants that all investments made thereby in the property, including equipment and facilities shall be made for its needs only, and it shall be barred from claiming that these investments are any type of key money or payment pursuant to Section 82 of the Tenant Protection Law (combined version) of 1972 or any payment granting it any rights of any kind in the property, and that it shall be barred from demanding of the Lessor sharing or a refund of expenditures, full or partial, for said investments.

3.4 The Lessee is aware that the property is leased to the Lessee, *inter alia*, on the basis of its declarations above, and it shall be barred from filing lawsuits or raising grievances of any kind in connection with its status as a protected tenant, or that it has more rights in the property than what is explicitly granted thereto in this agreement.

4. **The Lease**

4.1 The Lessor hereby leases to the Lessee, and the Lessee hereby leases the property from the Lessor in a lease that is not protected by the Tenant Protection Law for the purpose of the lease only, for a period and under terms and conditions as specified in this agreement above and hereunder.

4.2 The Lessee warrants that it physically saw and inspected the lands on which the structure was built and its surroundings, and that it was able to inspect them from planning and legal aspects, as well as inspecting the property and/or its plans and/or specifications and/or the property blueprints, including the property's and structure's condition as of the conclusion of this agreement, and that it received from the Lessor and competent authorities all the information required, and that it found the building in compliance with the Lessor's declarations and its needs, and that it hereby refrains from filing any grievance regarding compliance of the property and/or the structure with its needs and/or with the Lessor's declarations and/or the quality of the property and/or any other grievance, except for hidden defects. The Lessor shall not be liable for changes and amendments made in the urban building plans that shall apply to the lands, if any, even if they were made prior to conclusion of this agreement. It is agreed that, in the event and as a result of changes and/or amendments made in the urban building plans applying to the lands, the Lessee shall be enjoined from continuing to lease the property pursuant to the terms and conditions of this agreement, and the Lessee shall be entitled to terminate this lease agreement immediately.

4.3 The Lessor warrants that, to the best of its knowledge, there is no planning and/or legal and/or any other impediment preventing the leasing of the property to the Lessee pursuant to the terms and conditions of this agreement. In addition, the Lessor warrants that it has no undertakings (including conditional undertakings) contradicting its undertakings pursuant to this agreement, and that its signature on the agreement or fulfillment of its undertakings pursuant thereto does not constitute a breach of the agreement or any other undertakings thereof.

5. **Delivery of Property and Adaptation Works**

5.1 The Lessee leases the property from the Lessor as of the date on which this agreement is signed, in accordance with the provisions of the lease agreement signed between the parties on 1 March 2001 and a lease agreement for protected floor space signed between the parties on 30 Apr 2007, including the repair agreements and the addendum signed in relation to these agreements (hereinafter: **"the previous agreements"**), and by which the lease period expired on 31 December 2012. It is agreed that on the lease's commencement date, as defined below, the previous agreements have expired.

Therefore, it is hereby clarified and agreed that pursuant to this agreement, the Lessee shall lease the property in its current condition ("as is"), and that it waives any grievance and/or claim pertaining thereto (except for hidden defects).

5.2 The Lessee shall plan and perform (following the lease's commencement date) all works required for adaptation of the property to the purpose of the lease and its needs at its exclusive responsibility and expense, in accordance with and subject to all provisions, terms and conditions of this agreement, including the provisions, terms and conditions of Clause 14 below.

5A. **Initial Adaptation Works at Property**

5A (1) Adaptation works at the property shall be performed, as stated in this agreement above and hereafter, by the Lessee on its full responsibility and at its expense. However, it is agreed that subject to performance of the initial adaptation works (as defined hereafter) during the first six (6) months of the lease period, as defined hereafter (hereinafter: **"period for performance of initial adaptation works"**), pursuant to the provisions of this agreement, the Lessor shall share a portion of the cost for the initial adaptation works (as defined hereafter), in the amount of NIS 150,000 (one hundred fifty thousand New Israeli Shekels) plus VAT (hereinafter: **"the Lessor's share"**), all subject to the provisions of this Clause 5. It is hereby clarified and agreed that the Lessor's share amount shall not be linked to the Index.

5A (2) The Lessor's share in the cost of the initial adaptation works to be performed during the period for performing the initial adaptation works, as specified and defined above, shall apply only and exclusively to the initial adaptation works to be performed at the property in accordance with the provisions of this agreement and shall remain at the property on the date that it is vacated by the Lessee, and which constitute a change and/or enhancement and/or addition to the property's infrastructures or systems and/or building addition, adaptation and finishing works. Adaptation works also include the relevant planning and/or consultants. To remove any doubt, it is clarified that the Lessor's share, as stated, shall not apply to the purchase of mobile equipment such as furniture, kitchen appliances, computer equipment, communications et al (adaptation works specified in this clause shall be known above and hereunder as: **"the initial permanent adaptation work"**).

- 5A (3) To remove any doubt, it is hereby clarified that the Lessor's share may be lower than or equal to the actual cost of the initial permanent adaptation work, and that should the Lessor's share be higher than the actual cost of the initial permanent adaptation work, then, as stated in this clause above, the Lessee shall not be entitled to any payment and/or refund of the difference between the actual cost of the initial permanent adaptation work and the amount of the Lessor's share as specified above because, in the event that the cost of the initial permanent adaptation work exceeds the amount of the Lessor's share, as defined above, the surplus price supplement shall be paid by the Lessee.
- 5A (4) Subject to the remaining provisions of this agreement and the contents of this clause herein, the Lessor shall pay to the Lessee the Lessor's share amount for planning and/or performing the initial permanent adaptation work, or any portion thereof, up to 45 days after final tax invoices are submitted to the Lessor for final and full payment effected by the Lessee to consultants and contractors. It is agreed that in the event that the Lessor is late in paying the Lessor's share amount, or any portion thereof, for a period of up to 15 additional days (following the 45-day period stipulated above), such delay shall not be considered a breach of this agreement. The Lessor's payment of its share amount shall be effected, as stated, against a tax invoice to be submitted by the Lessee to the Lessor.
- It is clarified and agreed that payment of the VAT for the Lessor's share shall be effected by the Lessor on the legal date for payment of VAT instead of together with payment of the Lessor's share.
- 5A (5) Notwithstanding the above, the hook-up to all building systems (air conditioning, electricity, water, etc.), inasmuch as the initial adaptation works include these, shall be coordinated with the management company and subject to its approval and directives.
- 5A (6) During the initial adaptation works period, the Lessor, via the management company, shall provide a freight elevator with appropriate reinforced lining for use by the Lessee's contractors for the purpose of transporting materials and employees. It is clarified that there is a total ban on use of the other elevators in the building. The Lessee is responsible for using the elevator with appropriate caution. The Lessee shall be liable for any damage caused to the elevator during and in connection with performance of works due to acts by the Lessee and/or anyone on its behalf, and it shall indemnify the Lessor upon its first demand for any actual expenditure imposed thereon in connection thereto.
- 5A (7) The Lessee undertakes to remove promptly and in accordance with all management company instructions and directives any and all refuse belonging thereto from the property area and building and/or any of the contractors and/or anyone on its behalf in connection with performance of the works.

6. **Works in the Structure**

- 6.1 The Lessee hereby and explicitly agrees that the Lessor shall be entitled to perform construction and other works in the structure and property during the lease period, and the Lessee shall have no grievance and/or demand and/or complaint whatsoever pertaining to performance of the works and/or building additions as stated, including everything involved therein and deriving therefrom, provided that none of these prevents reasonable use of the property by the Lessee or infringes on his rights pursuant to this agreement. Works that must be performed inside the property shall be performed by coordination with the Lessee five (5) business days in advance.
- 6.2 The Lessee undertakes to allow the Lessor and/or its representatives and/or its employees and/or anyone on its behalf the performance of any technical or other works or arrangements, including repairs, such as: laying pipes, cables, wires, sewage wells etc. in the property or any portions of the structure or shared property, or in the parcel of land on which the building stands. Actions that must be performed inside the property shall be performed, inasmuch as practically possible, by coordination with the Lessee five (5) business days in advance.
- 6.3 To remove any doubt, it is clarified that also following completion of the structure and following the delivery date, the Lessor shall be entitled to perform construction and other works in portions of the structure and/or the building that are not part of the leased property, including, but not limited to, development works, provided that such works do not impede the reasonable use of the property by the Lessee.
- Furthermore, the addition of floors (stories) and/or portions of floors to and/or enlargement of the areas permitted for use of the structure and/or a change in the permitted designation of areas in the structure shall not be regarded as a breach of the Lessor's undertakings as stated, provided that these do not constitute an impediment to the reasonable use of the property by the Lessee or its rights in accordance with this agreement.
- 6.4 The Lessor shall be entitled to effect changes in the structure's and/or property's plans if required to do so by any competent authority, provided that such changes do not impede the reasonable use of the property by the Lessee.

7. **Parking**

During the lease period, the Lessee shall be entitled to use seventy-four (74) parking spaces that are neither reserved nor marked in the structure's parking lot, of which seven (7) parking spaces are exempt from payment of rent only (but are not exempt from payment of all other relevant charges, including management fee and municipal taxes).

It is hereby clarified and agreed that parking in these parking spaces is permitted in any available parking space among those provided, from time to time, for the benefit of building tenants who lease rights to use unreserved parking spaces.

- 7.1 For use of the parking spaces, the Lessee shall pay to the Lessor rental fee as stipulated in Clause 10 below, as well as municipal taxes, management fee and any other payment as specified in this agreement.
- 7.2 In any case of termination or revocation of the lease, as the case may be, permission to use the abovementioned parking spaces will also be automatically revoked. The provisions of this agreement pertaining to the property shall also apply to the parking spaces.
- 7.3 The Lessee shall be entitled, subject to provision of written notice as specified hereunder, to reduce the number of parking spaces included in the property, and payment for use of the spaces shall be adjusted accordingly.

Should the Lessee's notice regarding its desire to reduce the number of parking spaces, as stated, be received by the Lessor up to the 15th day of a calendar month, i.e. during the first half of the calendar month, the parking spaces as specified in the Lessee's request shall be reduced as of the first day of the next calendar month. Should the Lessee's notice be received by the Lessor during the second half of the calendar month, the parking spaces as specified in the Lessee's request shall be reduced as of the first day of the calendar month following the next calendar month. The parties shall conclude a detailed agreement regarding any such revision in parking.

8. **Purpose of Lease**

- 8.1 Without derogating from the above, the purpose of the lease is the management of dealings by a company that supplies communications solutions that include, *inter alia*, hardware manufactured and/or assembled by the Lessee at the property, as long as this does not create a nuisance for the building's other tenants, and as long as the usage thereof does not deviate from the structure's building permit.

It is the Lessee's responsibility to obtain all licenses required for conducting its dealings at the property and placement of signs, if required. Failure to obtain these shall not constitute grounds for shortening the lease or withholding or reducing rental fee, even in the event that the business is closed as a result of such lack of license. The Lessor shall assist the Lessee in a reasonable manner, at the Lessee's expense and whenever the Lessor is requested to do so by the Lessee, in obtaining the said licenses and/or permits required, provided that this does not result in imposition of any obligation, liability and/or expense whatsoever on the Lessor. The Lessee warrants that it is aware that operating the property in contravention of the lease's purpose or without authorizations and/or permits required is liable to cause the Lessor extremely severe damages, including breach of the lease agreements with other tenants in the structure, and therefore, the Lessor shall be entitled, in addition to any other remedy, to obtain injunctions against any such improper operation of the property.

- 8.2 Nothing stated in this agreement shall be regarded as permission by the Lessor to the Lessee to use the property and/or conduct its dealings without a permit and/or while deviating therefrom.
- 8.3 To remove any doubt, and without derogating from what is stated, it is hereby agreed between the parties, that liability for conducting the Lessee's dealings that contravene a lawful permit rests solely with the Lessee. It is also agreed that the Lessor shall not reach a settlement with any third party whatsoever regarding payments owed by the Lessee to said third party without the Lessee's consent.
- 8.4 Inasmuch as the area of the property also includes protected spaces on each floor or area (hereinafter: "**protected floor space**"), the Lessee warrants and affirms that it is clearly aware that the protected floor space is intended to serve as a protected floor space and/or shelter, and it is forbidden to use it for any other purpose apart from taking shelter therein in case of attack, unless pursuant to a license from the competent authorities per any law, including the provisions of the Civil Defense Act – 1951.

The Lessee warrants and affirms that responsibility for obtaining the licenses required by any law for the purpose of its use of the protected floor space pursuant to this agreement rests exclusively with the Lessee, and the Lessee shall file no grievance with and/or demand and/or claim from the Lessor in this matter.

It is hereby clarified that right of usage of the protected floor space is subject to the instructions of the Home Front Command and the provisions of any law. Without derogating from the generality of the above, the Lessee undertakes to maintain the protected floor space and use it in accordance with the provisions of any law, the instructions of the Home Front Command and the instructions of the management company deriving from the provisions of any law.

Notwithstanding the above and what is stated hereunder, it is hereby agreed that the Lessee shall be entitled to return the protected floor space at any time via written notice to the Lessor thirty days in advance, and in such a case, lease of the protected floor space by the Lessee shall be terminated at the end of the calendar month following the month in which the notice was served.

In times of emergency, the Lessee undertakes to vacate the protected floor space at once and make it available to the public. To remove any doubt, it is clarified that also throughout the entire period in which the protected floor space is at the public's disposal, the Lessee will continue to make all payments stipulated in this agreement and the management agreement pertaining to the protected floor space. The lessee shall not be entitled to any compensation or payment, and it waves all claims in connection therewith.

The Lessee shall be entitled to lock the protected floor space at its discretion, and provided that in such a case, it leaves a key with the management company. This key will allow entrance to the protected floor space during emergencies or for the purpose of conducting an inspection, following coordination in advance.

Should there be other protected floor spaces outside the property area (in addition the protected floor space leased to the Lessee as part of the property pursuant to this agreement), the Lessee warrants that it is aware that the Lessor is entitled, at its sole discretion, to grant rights therein to third parties, and as a result the Lessee shall raise no grievance with and/or file a claim against the Lessor.

9. **The Lease Period**

9.1 Subject to fulfillment by the Lessee of all its obligations pursuant to this agreement, the Lessor hereby leases to the Lessee and the Lessee hereby leases the property from the Lessor for a period beginning on January 1st, 2013 (the: "commencement date of the lease"), until its conclusion on 31 December 2016 (hereinafter: "**the basic lease period**").

9.2 Subject to fulfillment by the Lessee of all its obligations pursuant to this agreement, in their entirety and on time, the basic lease period shall be automatically extended for an additional subsequent lease period of twenty-four (24) months (hereinafter: "**the extended period**").

The Lessee shall be entitled to notify the Lessor of its desire not to extend the basic lease period for the extended period, via registered letter to be delivered to the Lessor at least 4 months prior to conclusion of the basic lease period.

It is explicitly clarified herewith, that in the event that the Lessee notifies the Lessor up to 4 months prior to the last date of the basic lease period regarding non-extension of the agreement period for the extended period, as required in this sub-clause above, the option shall be null and void, and the Lessee shall not be entitled to utilize the extended period and continue leasing the property, including in the event that, for any reason whatsoever, the Lessee also continues to hold the property following conclusion of the basic lease period. In such a case, wherein the Lessee continues to hold the property even beyond conclusion of the basic lease period, despite having advised that it does not wish to exercise the option to extend the lease period, the Lessee must vacate the property immediately upon demand by the Lessor, except in the event that the parties reach another agreement in writing.

9.3 Notwithstanding the above, it is hereby agreed between the parties that the Lessee may also exercise the option available thereto pursuant to Clause 9.2 above regarding a portion of the property area by providing written notice to the Lessor four (4) months in advance, of its desire to reduce the property area during the extended period, provided that the area that the Lessee returns to the Lessor can serve for lease as an independent and integral unit that includes an independent kitchenette, separate restrooms and separate entrance, and which complies with rules to be determined by a safety consultant on the Lessor's behalf.

9.4 During the extended period the rental fee shall be updated per Clause 10 below.

Subject to the above, all terms and conditions stated in this agreement shall also apply to the Lessee during the extended period. In this agreement, the basic lease period as well as the extended period shall be given the abbreviated term "**the lease period.**"

9.5 Subject to the Lessor's right to evict the Lessee from the property as specified in this agreement, the Lessee shall not be entitled to terminate the lease and/or vacate the property and/or stop using it prior to the conclusion of the lease period. In the event and in spite of the above, the Lessee vacates the property prior to the conclusion of the said lease term, or stops using the property, the Lessee will nevertheless be liable for all its debts and payments regarding the entire property area until conclusion of the lease period.

9.6 Notwithstanding the above, since the Lessee is a public company, this agreement is thus subject to receipt of the appropriate authorizations in accordance with the provisions of the Companies Law – 1999 (hereinafter: "Companies Law"). Therefore, it is hereby agreed between the parties that only and exclusively in the event that the Lessee is unsuccessful in obtaining the authorizations required thereof pursuant to the Companies Law for the purpose of implementing the agreement by 30 Apr 2013, it shall be entitled to terminate the lease prior to the conclusion of the lease period, subject to advance and written notice of 30 days, and in such a case the lease shall be terminated no later than 31 May 2013 (hereinafter: "the early termination date").

9.7 It is also hereby agreed between the parties that in the event that the Lessee terminates the lease period on the early termination date in accordance with Clause 9.6 above and inasmuch as adaptation works at the property were performed by the Lessee up to the early termination date, with monetary participation by the Lessor as specified in Clause 5A above, the Lessee shall refund to the Lessor all amounts paid thereby as sharing in the performance of the works, plus linkage differentials and interest, from the date of payment thereof by the Lessor until the date on which they are refunded, and this within 30 days from the early termination date.

To remove any doubt, it is hereby clarified that nothing in the provisions of this clause shall be construed as derogating from the Lessee's obligations pertaining to evacuation of the property and its return to the Lessor pursuant to the provisions of Clause 22 below.

10. **Rental**

- 10.1 During the basic lease period the Lessee shall pay to the Lessor for the property a monthly rental fee of \$15 (fifteen US dollars) per sq. m. (gross) of office space in the property, as stipulated in Clause 2 above, plus an amount of \$9 (nine US dollars) per sq. m. (gross) of protected floor space in the property, as stipulated in Clause 2 above, as well as \$108 (one hundred eight US dollars) for right of use of each of the parking spaces in the property (except parking spaces exempt from payment of rent), as stipulated in Clause 7 above (together hereinafter: "**the basic rental fee**").
- 10.2 At the beginning of the extended period, the rental fee shall be increased by 10% (ten percent) relative to the rental fee on the termination date of the basic lease period (hereinafter: "**adjusted rental fee**"). For purposes of brevity, the basic and adjusted rental fee shall hereinafter be called "**the rental fee**."
- 10.3 The rental fee shall be converted to and paid in New Israeli Shekels according to the representative US dollar rate known on the date determined for effecting each and every payment pursuant to the provisions of this agreement.

It is hereby and explicitly agreed that notwithstanding whatever is stated anywhere else, under no circumstances and at no time shall the rental fee value in shekels be less than NIS 3.7 to one US dollar, which shall constitute the minimum exchange rate in relation to the rental fee (hereinafter: "**minimum rate**").

11. **Payment of Rental Fee**

- 11.1 The Lessee shall pay the rental fee per Clause 10 above in advance for every three (3) calendar months of the lease period, on the first day of each calendar quarterly period as stated.
- 11.2 All payments incumbent on the Lessee pursuant to this agreement shall be paid by the Lessee as stipulated above, as follows: 76% of each payment shall be paid directly to Lessor No. 1 and the remaining 24% shall be paid to Lessor No. 2. If the payment date falls on a non-business day, the payments shall be effected on next business day.
- 11.3 Payment by checks, confirmation of bank transfer and/or any other means of payment shall not be regarded as payment. Only actual clearance of the check and/or actual transfer of amounts to the Lessor by the bank shall be regarded as payment of the rental fee.
- 11.4 The Lessee shall pay the rental fee to the Lessor and shall effect all other payments owed thereby pursuant to this agreement, for the entire lease period, even when, due to a reason for which the Lessor is not responsible, the Lessee uses only a portion of the property and/or only a portion of the time, whether willingly or unwillingly.
- 11.5 The Lessee hereby waives any grievance and existing or future grounds for the offset of any amount, allotted or not, from the rental fee and/or management fee and/or any other payment due to the Lessor and/or management company pursuant to this agreement. Furthermore, it is agreed that the Lessee shall not be entitled to condition payment of the rental fee and/or management fee and/or any other payment due to the Lessor and/or management company pursuant to this agreement, upon prior fulfillment of any of the Lessor's and/or management company's undertakings.

11.6 It is agreed that receipt of any payment from the Lessee by the Lessor shall not constitute an acknowledgment by the Lessor in connection with fulfillment of the Lessee's other obligations vis-à-vis the Lessor and shall not preclude any grievance by the Lessor vis-à-vis the Lessee, if any.

11.7 In any case wherein the Lessee owes the Lessor several charges, the Lessor shall have the right to determine at the time of payment, at its discretion, the charge to the account of which the amount paid will be entered.

12. **Other Payments and Supply of Electricity to the Property**

In addition to all other payments specified in this agreement, including management fee, all the following payments shall incumbent on the Lessee for the entire lease period:

12.1 All taxes, municipal charges, fees and levies, municipal and governmental, of all types that apply and that shall apply to whomever holds the property and/or that are imposed on the holder of the property specifically for use of the property, including, but not limited to, general municipal fee and other municipal taxes and/or those charges involved with the property (including parking spaces) and/or operation and/or use and/or maintenance thereof and/or the business conducted by the Lessee at the property and/or the purpose of the lease, including corporate tax, signage tax, fees and licenses for the business and management thereof, as applicable from time to time. The Lessee shall effect any payment stipulated in Clause 12 above and hereafter on the date determined for said payment. Should the Lessee fail to act as stated, the Lessor shall be entitled, subject to advance written notice, to effect such payment in the Lessee's stead. In such circumstances, the payment shall be regarded as the Lessee's debt for rental fee for all intents and purposes.

Exceptional garbage collection charges, if any, shall apply to the Lessee.

12.2 All fees and payments relating to electricity consumption at the property:

The Lessee warrants that it is aware that the Lessor is the exclusive holder of rights vis-à-vis the Israel Electric Corporation Ltd. (hereinafter: "**the Electric Corp.**") in everything pertaining to receipt of electricity in the building, since the electricity supply to the building is in bulk, and since, for this purpose, it undertook to place the electricity room in the building at the Electric Corporation's disposal and maintenance in accordance with the contract between the Lessor or anyone on its behalf and the Electric Corp., and the Lessor is the party that regulates the electricity to low voltage for use in the building.

In view of the above, the Lessor hereby undertakes to supply electricity to the property, from time to time, under the Electric Corporation's terms and conditions as follows:

- (A) The Lessee hereby waives, totally, absolutely, finally and irrevocably, its right to engage with the Electric Corp. in any and all matters pertaining to the supply of electricity to the property, and it hereby warrants and undertakes that the exclusive legal party pertaining to the supply of electricity to the property is the Lessor only (or, at the Lessor's request – the management company), and that it does not and shall not have, and that it hereby waives, totally, absolutely, finally and irrevocably, any and all claims against the Electric Corp. in everything pertaining to the supply of electricity to the property.
- (B) The Lessee shall not be entitled to request a direct supply of electricity from the Electric Corp. and/or any other party except the Lessor and it will also not be entitled to contact the Electric Corp. to request installation of a separate meter or effect payment directly to the Electric Corp.
- (C) The Lessee shall have no claim on any grounds whatsoever against the Electric Corp. for failure to supply electricity or disruptions in the electricity supply.
- (D) Without derogating from the above, should electrical equipment or electricity of any kind be installed by the Lessee, it will not be entitled to file any grievance or claim whatsoever due to interruption of electricity and/or disruption in the supply thereof.

- (E) The Lessor shall be entitled to visit the property at any reasonable time and inspect any electrical device and equipment connected to the electricity grid for the purpose of testing their safety and compliance with accepted safety standards as well as consumption practices, as shall be determined from time to time. Should an electrical engineer on behalf of the Lessor, and who renders similar service to the Lessor in relation to all Lessees, believe that changes should be effected in the electrical system inside the property, or that any electrical equipment installed in the property is liable to cause damage to the electricity supply and/or that it constitutes a safety hazard or risk and/or it does not meet accepted safety standards and/or the load that it is liable to place on the electrical system could disrupt its operation or lead to excessive monetary expenses, then the engineer shall demand repair and/or replacement and/or modification of the system or equipment as applicable, and the Lessee undertakes to employ, at its expense, all required measures at the earliest possible opportunity. The Lessee shall be liable for any damage caused to the Lessee and/or the Lessor and/or the property and/or equipment and to the building systems as a result of operating a non-standard electrical device or appliance.
- (F) Without derogating from anything stated anywhere else, the electrical supply to the property and/or other locations in the building may be interrupted and/or restricted in the following instances:
- Any interference or disruption in the electricity flow from the Electric Corp. to the building for any reason
 - In any case of danger or suspicion of danger to people or property
 - In any other case wherein an electrical engineer on the Lessor's behalf calls for interruption of the electricity
- The Lessor shall coordinate with the Lessee in advance regarding expected cuts and/or disruptions in the electricity supply, except for events beyond its control and/or urgent cases.
- (G) The lessor shall employ reasonable and accepted measures to prevent interruption and/or disruption in the electricity supply to the property. The Lessor shall act quickly and efficiently to resume the electricity supply fully or partially at the earliest possible opportunity.
- (H) The Lessor is entitled to conduct inspections, tests, regular maintenance and repairs of the electrical appliances and all equipment connected with the electrical system, as it shall deem appropriate from time to time, and for this purpose it will be entitled, from time to time and subject to written notice 14 days in advance (except in urgent or unforeseen cases), to disconnect the electricity supply to the property and/or the building partially or fully. The Lessor shall endeavor to shorten the duration and frequency of such power cuts as much as possible. The Lessee hereby waives all grievances or claims in this matter.

- (I) The Lessee hereby undertakes to pay the Lessor (or, at the latter's request, the management company) for electricity consumption at the property throughout the lease period, in accordance with the reading from the electricity meter on the property and the Electric Corporation's load-time rate for low voltage, as shall prevail on the billing dates from time to time.
- (J) Electricity bills as stated shall be paid to the Lessor or management company (as per the Lessor's instructions) each and every month on the dates and in the manner to be determined by the Lessor from time to time.
- (K) The Lessor must pay the Electric Corp. for electricity supplied to the building regardless of whether the Lessor successfully collects the amounts for electricity consumption from the tenants. Therefore, the Lessee hereby agrees that the Lessor (or management company) shall be entitled, following written notice of at least seven (7) days in advance, during which the breach was not rectified, to disconnect the electricity supply to the property due to non-payment for electricity consumption by the Lessee as stated, non-transfer in full and on time of any other payment owed by the Lessee pursuant to this agreement and in any event of the Lessee failing to vacate the property pursuant to the provisions and terms and conditions of this agreement in connection thereto, at the end of the lease period and/or upon lawful revocation of this agreement and in any case of material breach of this agreement by the Lessee, with the proviso that, for the purposes of this Clause, it shall not be considered a material breach of contract unless it is a breach regarding which written notice was given to the Lessee, and same did not rectify it on time. The Lessee hereby explicitly exempts the Lessor from any liability for any loss and/or damage and/or monetary loss liable to be caused thereto as a result of cutting the electricity supply in the circumstances specified above.
- (L) Notwithstanding the above, if, for any reason whatsoever, there is no bulk electricity supply to the building or the Lessor asks to connect the property or part of the building to ordinary electricity supply (instead of bulk), whether permanently or temporarily, then at the Lessor's request, the Lessee shall engage directly with the Electric Corp. in any and all matters relating to supplying electricity to the property and its consumption by the Lessee, and the contents of this Clause shall be revoked or amended, as applicable, and all Electric Corp. stipulations and rules pertaining to engagement with and supply of electricity shall apply to the Lessee. The Lessee shall bear all expenses involved in the contents of this clause above. Should the Lessor ask to restore bulk electricity supply to the Lessee, the Lessee shall act as required.

- (M) Without derogating from the remaining provisions of the contract in regard to effecting changes in the property, and as a special and fundamental provision in the contract, the Lessee hereby undertakes not to perform works and/or effect any changes whatsoever in the electrical system on the property and/or in the building and/or in any component thereof, without receiving the Lessor's advance written consent and subject to the terms and conditions of said consent.
- (N) In the event that, as a result of any law, regulation, decree or action by a governmental or other competent authority, there shall be a need, in the Lessor's opinion, to effect any changes whatsoever in the property's electricity supply system, the Lessor shall effect all such changes, and the Lessee shall have no grievance of any kind due to introduction of said changes, provided that said changes do not infringe upon the Lessee's rights pursuant to this agreement. The Lessor shall coordinate performance of said adaptation works with the Lessee, except for urgent situations.
- (O) Deleted
- (P) The Lessor shall not be liable or indebted for any damage, including direct and/or resultant and/or indirect damage incurred by the Lessee or any other party, institution or corporation due to interruption of electricity supply and/or air conditioning to the property by the Lessor due to non-payment by the Lessee on time as stated above.
- (Q) The Lessee hereby waives, totally, absolutely, finally and irrevocably, any right to sue the Lessor and/or management company for electricity cuts to the property and/or building and/or interruptions in this supply and hereby exempts the Lessor, explicitly, from any liability for any loss and/or damage and/or monetary loss liable to be caused thereto due to disruptions in the power supply to the property. Notwithstanding the above, the Lessor shall not be exempt from said liability should the damage be caused due to a malicious act and/or malicious oversight by the Lessor and/or anyone acting on its behalf.
- (R) Notwithstanding what is stated anywhere else, even if the Lessor is found liable for damages caused to the Lessee or any third party in connection with this agreement, including in connection with supply or non-supply of electricity to the property and/or other parts of the building, in any case the Lessor and/or management company shall not be liable for indirect and/or collateral damages and/or damages that are not monetary, except if said damage was caused as a result of a malicious act and/or malicious oversight by the Lessor and/or anyone acting on its behalf.

- 12.3 Gas services – the Lessee is aware of and hereby agrees to the fact that it is not possible to connect the property to a gas system of any kind, and it hereby undertakes not to connect the property to a gas system and not to make any use whatsoever of gas at the property.
- 12.4 Maintenance and management services – in accordance with stipulations in Clause 16 hereunder and pursuant to the remaining provisions of this agreement and its appendices, including the management agreement.
- 12.5 All payments and expenses for the supply of water (it is clarified that the charges for water consumption are included in the management fee), sewage and phones in the property.
- 12.6 The Lessee shall not be entitled to request an exemption from or discount on property rates for an empty asset due to leased property, and it warrants that it is aware that the right to apply for an exemption from or discount on property rates for an empty asset due to leased property (for any reason whatsoever) belongs to the Lessor only. In any case that the Lessee breaches this undertaking thereof, the property rate not paid by the Lessee as stated shall be a debt owed to the Lessor by the Lessee, and the Lessor shall be entitled to collect this debt in any manner it sees fit, including utilization of the collateral provided by the Lessee.
- 12.7 The Lessee undertakes to inform in writing the local authority and all other relevant parties that it has leased the property. Shortly after commencement of the lease, the Lessee undertakes, should the Lessor so instruct it and as shall be instructed, to transfer in the Lessee's name the telephone and municipality bills and/or any other payment relating to any payment and/or tax that applies to the property and/or use thereof, and which the Lessee must pay pursuant to this agreement. Immediately upon the conclusion of the lease period, the Lessee shall return said bills to the Lessor's name or, at the Lessor's express written request, shall transfer them in the name of a new Lessee that will lease the property. All such actions by the Lessee shall be at the Lessee's responsibility and expense.
- 12.8 In the event that any of the amounts that must be paid by the Lessee to the Lessor pursuant to Clause 12.1 above is based on the bill relating to the entire building or area in the building that includes the property or portion thereof, the Lessee shall pay to the Lessor the appropriate prorated amount from the entire bill amount, provided that for purposes of calculating the Lessee's prorated amount in such payments, the ratio between the property and the entire building areas to which the bill relates is taken into account.
- 12.9 The Lessee undertakes to see to cleaning and maintaining the property itself and at its expense. It is also agreed that the care and maintenance of the electricity boxes outside the property are the Lessor's responsibility, except for in the event that said care and/or maintenance are required in connection with the use of or activity in the property.

13. **Value-Added Tax**

The Lessee undertakes to pay to the Lessor value-added tax in addition to and together with the rental and management fee payment, including linkage differentials deriving therefrom and/or interest for delay, as well as any additional payment owed to the Lessor for payment pursuant to this agreement and/or that the Lessor paid for the Lessee, and the Lessee is obligated to reimburse the Lessor, all against a lawful tax invoice.

The contents of this Clause are in force even in the event that another tax is imposed or levy added to the VAT or is replaced and/or any other tax that may be lawfully imposed shall apply to any payment that the Lessee is required to effect pursuant to the provisions of this agreement. The VAT shall carry the same weight as the rental fee for all intents and purposes. It is hereby agreed that in the event that any new and substantial tax applying to the Lessee is imposed, the Lessee shall have the option of concluding the lease period pursuant to this agreement, following written notice of 4 months in advance.

14. **Changes in the Property**

14.1 At its expense and on its responsibility, and following receipt of the Lessor's written consent in advance, the Lessee is entitled to perform work and/or changes that it requires for erecting and/or moving stationary or mobile internal partitions, installing a telephone system, air conditioning, plumbing, electricity and/or communications for hook-up and installation of its machinery, computers and equipment, as well as any additional or other work or modification necessary (in the Lessee's opinion) for conducting its dealings at the property, except for changes that are liable to damage its construction, walls or water, air conditioning and electrical systems and/or changes affecting the building's appearance, both internal and external, or the reasonable use of the structure by those using its other units. The Lessor warrants that it shall not refuse implementation of such changes, except on reasonable grounds.

It is hereby agreed that the Lessor's consent to performance of works and/or implementation of changes as specified above shall be provided under the following cumulative terms and conditions:

14.1.1 Receipt of the Lessor's approval for the plans and specifications of the abovementioned work, in advance and in writing. It is agreed that the Lessee will forward the plans and specifications for inspection by a safety consultant to be designated by the Lessor, in advance and in writing. It is agreed that the Lessee shall bear fee and all expenses and/or costs connected with the safety consultant's inspection of the plans and specifications stated above.

14.1.2 The Lessor and safety consultant, as stated above, shall have the right to demand modifications to the plans, specifications and details of the works, and the Lessee undertakes to modify them pursuant to the Lessor's and safety consultant's requirements, and commence work only after the Lessor and safety consultant have approved them in writing. Furthermore, the Lessee hereby undertakes to present the abovementioned safety consultant's approval of these works to the Lessor at the conclusion of said works and as a condition for use of the property.

- 14.1.3 Provision of the Lessor's approval for performing the works is conditional, in addition to the above, on the Lessee delivering to the Lessor copies of the insurance policies pursuant to the provisions of Clause 18 below.
- 14.1.4 All works shall be performed by skilled professionals according to accepted standards at shopping centers and office buildings of this type in Israel, as well as in accordance with Israeli standards and pursuant to any law, at the Lessee's expense and sole responsibility, and subject to all directives from the Lessor or anyone acting on its behalf.
- 14.1.5 The Lessee shall perform the works at the property in a manner and fashion that does not create a disruption in the activity conducted in any part of the structure and/or to the other lessees, and it undertakes to strictly fulfill all instructions from the Lessor and Electric Corp., and to employ all means to prevent such disruption. Furthermore, the Lessee hereby undertakes to instruct all its contractors, supervisor and anyone acting on the Lessee's behalf in connection with performance of the initial adaptation works to sign the Electric Corporation's Procedures for Performance of Adaptation Works per the text attached as **Appendix C** to this agreement, and to work pursuant thereto, and the Lessee shall be responsible for same.
- 14.1.6 The Lessee shall be liable for any damage caused during and resulting from performance of the works at the property, for all persons and effects, including the structure and/or the property and/or other lessees and/or other lessors and/or the Lessor and its representatives, whether the works were performed by the Lessee itself or by anyone on its behalf, and whether or not they were approved by the Lessor or anyone on its behalf.
- 14.1.7 It is clarified that the contents of this Clause 14 (including, but not limited to approvals by the Lessor and/or anyone on its behalf and/or under their supervision) shall not be construed as imposing any liability on the Lessor and/or the Electric Corp. and/or anyone acting on their behalf in connection with the works, including planning of said works and/or their quality and/or their suitability to the Lessee and its needs and/or the timetable for implementation and completion thereof, and the Lessee hereby exempts the Lessor, Electric Corp. and all those acting on their behalf from any liability for same and waives all grievances and claims in connection therewith.

- 14.1.8 The Lessee agrees and affirms that any amount paid for effecting the changes in order to adapt the property to its needs, as stated above, shall not grant it a right vis-à-vis the Lessor to a refund or payment whatsoever for the amounts paid and/or changes that it effected – neither during the lease period nor upon evacuation of the property, nor after said evacuation, whether or not the Lessor required the Lessee to restore the property to its original condition prior to implementation of the changes. It is clarified that in the event that the Lessor does not require the Lessee to restore the property to its original condition, the changes shall remain under the Lessor's full ownership, and the Lessee shall not be entitled to any consideration for same, even if these also enhanced the property. To remove doubt, the Lessor is entitled to condition performance of the said works on removal thereof upon completion of the lease period or evacuation of the property and restoration of the property to its condition prior to performance of the works. All expenses involved in performance of said works and restoration of the property to its condition prior to the works shall be at the Lessee's expense and responsibility.
- 14.1.9 The Lessee shall obtain, at its expense, the licenses, authorizations and permits required for performance of the works from the competent institutions and authorities, inasmuch as they are required, and provided that said permits, licenses and authorizations are required from the Lessor as a user and/or holder of the property and/or as the party performing the works at the property.
- 14.2 Immediately upon completion of the works as stated in this Clause, and no later than 14 days from the completion date of the works, the Lessee undertakes to deliver updated "AS MADE" plans of all the works and/or changes performed to the Lessor and/or management company.
- 14.3 Commencing on the date that this agreement is signed, Mr. / Ms. Mickey Schillinger shall be in charge of safety at the property on the Lessee's behalf, and s/he shall be responsible, on the Lessee's behalf, for obtaining all authorizations and complying with all standards necessary for meeting firefighting requirements, as shall be from time to time, including (1) receipt of authorizations from all manufacturers of materials and performers of the works pursuant to Clause 14.1 above in regard to their compliance with the standards, immediately upon conclusion of the works and transfer thereof to the Lessor upon its first demand, (2) issuance of a confirmation to the Lessor, immediately upon demand thereby, regarding compliance of the electricity works, firefighting and detection systems, firewalls, areas and doors performed at the property by the Lessee and/or anyone on its behalf, with fire safety standards and (3) regular care and maintenance of the escape routes to and from the property so that they are clear at all times.

The security officer shall be available at all times at telephone # _____ and _____. The Lessee is entitled to change the safety officer's identity upon written advance notice to the Lessor.

The Lessee is liable for any damaged caused to the property and/or any person and/or entity and/or possessions due to non-fulfillment of instructions and/or safety and defense procedures at the property, pursuant to the provisions of this agreement and directives of all relevant authorities.

In the event that the Lessee does not uphold its undertakings in full pursuant to Clause 14.3 above, the Lessor shall be entitled (but not obligated) to perform the actions and fulfill the undertakings applying to the Lessee, or any portion thereof, as stated, and the Lessee shall refund to the Lessor all costs actually expended for this purpose, immediately upon first demand, in accordance with the stipulations of said demand and subject to receipt of written documents attesting to payment of the costs. Nothing in this clause shall be construed as derogating from the Lessee's obligation to uphold and fulfill its undertakings pursuant to Clause 14 as stated and/or derogating from the Lessee's liability as stipulated in the abovementioned clause.

15. **Use of the Property**

Without derogating from the validity of the remaining provisions of the agreement, the Lessee undertakes as follows:

- 15.1 To conduct the work only and solely within the confines of the property and to use the property only and solely for the purpose of the lease and for no other purpose, while strictly following all instructions from the Lessor and management company, including instructions regarding transport of merchandise to and from the property and all provisions of the management agreement. The Lessee undertakes that all its business associates, guests and representatives shall adhere strictly to all instructions from the Lessor and management company.
- 15.2 The Lessee undertakes to use the property, facilities and equipment therein and/or in the structure (outside the property) in a careful and reasonable manner and to ensure that throughout the entire lease period, the property and all facilities associated therewith remain in proper, operative, orderly and clean working condition. The Lessee shall refrain from causing any damage or malfunction to the facilities in the structure due to its use thereof and/or due to acts of commission or omission by the Lessee and/or its employees and/or vendors and/or customers and/or anyone else acting on its behalf.
- 15.3 To maintain the cleanliness of the property and its surroundings and not to place and/or keep any other equipment, inventory, personal effects and/or objects whatsoever in the property's and/or structure's yard and/or other area outside the property, and not to use any part of the property, save for the property itself, for any purpose whatsoever, except for purposes of access to the property.

- 15.4 It is hereby clarified that the Lessee shall not be entitled to install in the property dining rooms, kitchens, kitchenettes and the like, unless it receives advance written approval for these from the Lessor, and if it receives such approval, it shall be entitled to operate only in accordance with the terms and conditions, if any, to be stipulated in said approval.
- If, contrary to this clause, any personal effects belonging to the Lessee are found outside the property and the Lessee fails to remove them upon the Lessor's first demand, the Lessor shall be entitled, but not obligated, to remove such effects from the structure and/or area, at the Lessee's expense, and the Lessor shall not be liable for their soundness.
- Failure by the Lessor to exercise its rights above shall not be construed as its consent to keeping such personal effects outside the property, nor as conferring to the Lessee a right to add to and keep the effects there, nor preventing the Lessor from taking any action to which it is entitled by law and/or by the terms and conditions of this agreement.
- 15.5 Not to create any nuisance, bother and unpleasantness, including noise, pollution and other hazards that deviate from reasonable and accepted standards while remaining mindful of the nature of the structure, other lessees in the structure, persons in or visiting the area in which the Lessee is located, neighbors and/or the surrounding areas.
- 15.6 The Lessee hereby undertakes that in the event that, in the Lessor's opinion at any time, there are unseemly odors and/or noises of any kind emanating from the property, then, immediately upon the Lessor's demand, the Lessee shall install at the property, on the Lessee's responsibility and at its expense, systems to neutralize the odors and/or noises to the Lessor's satisfaction. These systems shall be operated during all hours of the Lessee's business activity at the property, and the Lessee undertakes that these systems and/or their operation and/or anything else involved therein shall not constitute any nuisance whatsoever and/or create any noise whatsoever for the upper floors of the property or the areas adjacent to the property.
- 15.7 Deleted
- 15.8 The Lessee undertakes to adhere to instructions from the Lessor, management company and/or anyone on their behalf in everything pertaining to steps that it is to take and devices to install in order to prevent disturbances, dirt, odor, smoke, noise and any other nuisance deriving from its business at the property, on the Lessee's responsibility and at its expense. In the event that a nuisance of any kind is discovered as specified above, the Lessor is entitled to take action to remove the nuisance and charge the Lessee for expenses paid for removal of the nuisance.

- 15.9 The Lessee hereby undertakes not to inject into the sewage system or cause injection thereto, of waste whose properties do not comply with Ministry of Health statutes on this matter.
- 15.10 In the event that the Lessee usually and regularly produces an amount of refuse and/or waste that deviates from reasonable and accepted standards vis-à-vis the purpose of the lease and use of the property made by the Lessee, the Lessor shall be entitled to charge the Lessee for the special costs of removing the refuse from the structure in which the property is located.
- 15.11 The Lessee hereby undertakes and agrees not to enter the air conditioning rooms in the structure, which are operated only and exclusively by the management company. Should the Lessee violate the provisions of this clause, thus causing damage to the air conditioning system, the Lessee shall bear the full costs of repairing the damage.
- 15.12 To obey fully all laws, regulations and bylaws that apply and/or shall apply to use of the property and the business, works and actions conducted therein during the lease period by the Lessee or anyone on its behalf, and to be liable vis-à-vis the institutions and governmental and municipal authorities for payment of any fines whatsoever due to non-fulfillment of this clause's provisions. It is clarified that no liability shall be imposed on the Lessee regarding laws, regulations and bylaws applying to the Lessor in its capacity as owner of the property, and that are not connected with use of the property and/or business, actions or works conducted therein by the Lessee or anyone on its behalf.
- 15.13 The Lessee shall conduct its business at the property under strict adherence to all procedures and directives to be determined by the management company from time to time.
- 15.14 To use solely and exclusively for access to the property the access routes that are marked in the approved plan and will exist in the future, to park vehicles and transport vehicles in the designated parking spaces, and not to use any motorized or other vehicle liable to damage the access routes and parking areas, and to follow directions to be issued by the Lessor from time to time regarding access and parking arrangements within the parking lot area.
- 15.15 The Lessee undertakes to ensure that its vendors also obey the Lessor's instructions regarding access routes to the property, as well as delivery of goods and equipment.
- 15.16 To remove doubt, in any event that the Lessee, or its vendor, or anyone on its behalf violates the abovementioned directives, the Lessor shall be entitled to prevent passage or access to the property and the Lessee shall express no grievance in the matter.
- 15.17 To effect all payments due therefrom to the Lessor and/or to the competent authorities punctually on the dates stipulated for payment thereof.

- 15.18 To enable the owner and/or Lessor and/or their representative to visit the property at any reasonable time and, whenever possible, subject to coordination in advance, and to inspect its condition and use made thereof in order to ascertain the extent of compliance with the provisions of this agreement and/or in order to perform the actions and employ the measures stipulated in this agreement or any law, and which require entering the property, including:
- 15.18.1 Effecting within the confines of the property repairs necessary for the needs of the structure or any part thereof
 - 15.18.2 Performing building and/or demolition works that the Lessor is entitled to perform pursuant to this agreement
 - 15.18.3 Showing the property to potential buyers and/or Lessees
 - 15.18.4 In the event that some of the structure's systems are located such that access thereto is via the leased property, the Lessee shall enable the Lessor and/or its representative access to said systems at all times, for the purpose of repair and inspection thereof, and for this purpose the Lessee shall provide the Lessor with a key to the property that will allow entry thereto for the purpose of performing said repairs and inspections.
- 15.19 To follow the Lessee's and competent authorities' instructions regarding procedures for firefighting and fire prevention, civil defense, safety and security and to purchase, at its expense, pursuant to directives of the above bodies, all prevention and safety equipment required for implementation and maintenance of the above directives, and connect it to the floor's dispatch center.
- 15.20 Upon the Lessor's demand, to demolish and/or modify any addition or change introduced by the Lessee at the property and/or in the structure that were built contrary to the provisions of this agreement and to restore the property to its former condition, all at the Lessee's expense.
- 15.21 The Lessee hereby undertakes neither to hang nor to affix notices, signs and/or other advertising material in the area and/or in any part of the structure. Signing, placement, type, size and form thereof shall be determined by the Lessor at its sole discretion, and they shall be installed by the Lessor at the Lessee's expense. The Lessor or management company shall be entitled to remove and withdraw any sign or placard hung by the Lessee in contravention of the contents of this Clause above.
- 15.22 To remove doubt, it is hereby explicitly clarified that the Lessee shall not be entitled to install air conditioners or any other electromechanical equipment in the walls and/or windows of the property.

16. **Maintenance and Repairs**

- 16.1 In exchange for payment of the amounts stated in Clause 16.3 hereunder, the Lessor shall provide the building with maintenance services specified in Clause 16.2 hereafter (hereinafter: “**the maintenance services**”) itself and/or via the management company, pursuant to the terms and conditions specified hereunder and in the management agreement. In case a management company has not been designated and/or established, the Lessor shall serve as the management company for purposes of this agreement and the management agreement.

Upon signature of this agreement and as a condition for signature thereof, the Lessee undertakes to sign an agreement with the management company for the entire lease period, with wording to be determined by the Lessor from time to time, and to sign any update and/or addendum of any kind to the agreement, as shall be required in the management company’s and/or Lessor’s opinion, and provided that the amendment applies to all lessees of the same type (above and hereinafter: “**the management agreement**”), and it undertakes to uphold all provisions of the management agreement and meet all its obligations pursuant to the management agreement. The management agreement is appended to this agreement as **Appendix D**. Failure to conclude a management agreement, or breach of the management agreement shall be regarded as a breach of this agreement by the Lessee, and it is explicitly clarified that non-payment of management fee to the Lessor or management company as arranged and on their specified dates shall be regarded, *inter alia*, as a material breach of this agreement by the Lessee. Furthermore, it is clarified that the internal cleanliness of the property is not included in the services that the Lessee shall receive from the Lessor or management company.

- 16.2 The maintenance services to be provided by the Lessor and/or management company shall be of the type, scope and conditions as specified below:

- 16.2.1 Maintenance of the structure, maintenance of mechanical systems, public plumbing, public sewage, public electricity, maintenance of elevators, gardening, maintenance of public signs and cleanliness of public areas.

Air conditioning services that include maintenance services of the central cooling system including ventilation outlets and provision of central cooling services; air conditioning systems shall operate Monday through Thursday, from 7:00 until 20:00.

It is clarified and agreed that the Lessor undertakes to provide central air conditioning services in the public areas, as well as care and maintenance of the air conditioning system’s end units (fan coolers/cooling fans) that are inside the property.

To remove doubt, it is explicitly clarified herewith that subject to the Lessor's undertaking to maintain and repair malfunctions in the central air conditioning system as well as the end units (fan coolers/cooling fans) inside the property, if any, the provisions of this agreement shall not be construed as imposing thereon any liability whatsoever for interruptions liable to occur in the operation of air conditioning appliances whether because of breakdowns, maintenance actions or any other reason without exception, and the Lessee shall not be entitled to demand and/or receive from the Lessor any compensation and/or damages and/or any payment for any reason.

The Lessor shall endeavor to prevent malfunctions in the air conditioning system, above and beyond what is reasonable, and as infrequently as possible, and should any such breakdowns occur, handling of the breakdown shall commence within four (4) hours from the time that the breakdown was reported.

16.2.2 Environmental maintenance – to an extent to be determined from time to time by the Lessor, at its absolute and sole discretion.

16.3 In exchange for maintenance services, excluding electricity charges for air conditioning, the Lessee shall pay to the Lessor or management company, according to the Lessor's choice, in addition to the rental fee specified in Clause 10 above, the management fee as specified in the management agreement (above and hereinafter: "**management fee**" or "**maintenance fee**").

The Lessee shall pay the management fee as specified above to the management company, in advance, for each calendar quarter during the lease period, together with payment of the rental fee.

16.4 Together with payment of the management fee, the Lessee shall pay the VAT applicable to such payments.

16.5 To remove doubt, it is agreed that the Lessor and/or management company shall not be regarded as the "guardian" of the property and/or its contents as pertains to the Guardians Act – 1967.

16.6 The Lessee undertakes to maintain the property and all its systems in good working order as it received same from the Lessor. The Lessee undertakes to effect repairs and conduct regular maintenance at its expense and on its responsibility, including repair of any breakdown or damage caused to the property by the Lessee, its employees, emissaries, visitors or customers. It is hereby clarified that the Lessor is not and shall not be liable for wear and tear caused to the property due to regular use of the property.

- 16.7 Maintenance of the property and all repairs therein shall be conducted by the Lessee at its expense via certified and skilled professionals, and under close supervision by the Lessee at its expense. The Lessee undertakes to notify the Lessor and/or management company, immediately and without delay, of any loss, breakdown or damage caused to the property or any part thereof. Any such breakdown or damage caused in connection with the maintenance and/or use of the property by the Lessee, its employees, emissaries, visitors, customers or anyone else on its behalf at the property, shall be repaired immediately by the Lessee, at its expense and after reporting any material breakdown or damage to the Lessor and receiving its approval for the measures intended to be taken. In the event of a breakdown or damage the repair of which cannot be delayed until submission of the report to the Lessor and receipt of its approval, the Lessee shall repair whatever requires such repair and report to the Lessor immediately afterwards. It is clarified that nothing in this Clause (including, but not limited to, approvals by the Lessor and/or management company and/or anyone on its behalf) shall be construed as imposing liability on the Lessor and/or management company and/or anyone on its behalf in connection thereto.
- 16.8 In the event that the Lessee does not immediately repair any damage or breakdown as stated above, the Lessor shall be entitled, but not obligated, to repair them, and the Lessee shall bear all actual expenses incurred by the Lessor and/or management company, and shall pay them to the Lessor within 7 (seven) days from the date on which the bill issued in connection with performance of the above repairs was submitted, plus written documents attesting to the actual expenses incurred by the Lessor.
- 16.9 Deleted
- 16.10 To remove doubt, as long as there is a management company for the building, any grievance by the Lessee against the management company shall not constitute grounds for a lawsuit and/or grounds for defense by the Lessee vis-à-vis the Lessor, and likewise, any grievance by the Lessee against the Lessor shall not constitute grounds for a lawsuit and/or grounds for defense by the Lessee vis-à-vis the management company. Notwithstanding the above, it is clarified that in the event that the management company violates the management agreement, the Lessee shall be entitled to demand rectification of the violation from the Lessor.

17. **Liability**

Without derogating from the Lessee's liability pursuant to any law, the Lessee shall be solely liable for any damage and/or loss caused to persons and/or property of any person and/or legal entity during and due to performance of works at the property by the Lessee and/or subcontractors hired thereby and/or anyone on its behalf, and shall also be liable for any damage and/or loss to any person, legal entity, body or property in connection with the maintenance and/or use of the property and/or any act of commission or omission by the Lessee and/or its employees and/or visitors and/or vendors and/or anyone on its behalf.

18. **Insurance**

- 18.1 Without derogating from the Lessee's liability pursuant to this agreement and/or any law, prior to the commencement date for performance of adaptation works at the property, if any, the Lessee undertakes to arrange for and maintain, whether itself or via itself, contract work insurance in the name of the Lessee, contractors and sub-contractors, the Lessor and management company, as specified in the authorization for obtaining insurance appended to this agreement and constituting an integral part thereof, and marked as **Appendix E-1** (hereinafter: "**Authorization for Obtaining Lessee Works Insurance**" and "**Lessee Works Insurance**" respectively). Notwithstanding the above, in the case of works at the property that do not exceed a cost of NIS 150,000, the Lessee is entitled to waive contract work insurance, provided that it submits confirmation of the Lessee's standing insurance policies, which specify that the policies include coverage for works conducted at the property.
- 18.2 Without need for any demand by the Lessor, the Lessee undertakes to provide the Lessor, no later than the commencement date for performing works at the property, the authorization for obtaining lessee works insurance, which shall be signed by the insurer. The Lessee warrants that it is aware that provision of authorization for obtaining such lessee works insurance is a suspending and preliminary condition for performance of works at the property, and the Lessor shall be entitled to enjoin the Lessee from performing works at the property should the said authorization not be provided prior to the commencement date for performing the works.
- The limits of liability in third party insurance arranged in the Lessee's works insurance policy, as stated in Clause (2) of the authorization for arranging Lessee works insurance (Appendix E-1) are NIS 8,000 (eight thousand new Israeli shekels) multiplied by the property area, minimum NIS 400,000 and maximum NIS 4,000,000 per instance and cumulative during the insurance period; all the above subject to the provisions of Clause 18.17 hereunder.
- 18.3 Without derogating from the Lessee's liability pursuant to this agreement and/or law, during the validity of this agreement, the Lessee undertakes to arrange and maintain the insurance policies specified in the authorization for arranging insurance appended to this agreement and constituting an integral part thereof and marked as **Appendix E** (hereinafter: "**authorization for arranging Lessee's insurances**") with a legally authorized and reputable insurance company (hereinafter: "**Lessee's insurance policies**").
- 18.4 Without need for any demand by the Lessor, the Lessee undertakes to provide the Lessor with the said authorization for arranging Lessee's insurances duly signed by the insurer.
- 18.5 The limits of liability in third party insurance arranged by the Lessee, as stated in Clause (2) of the authorization for arranging Lessee works insurance (Appendix E) are NIS 14,000 multiplied by the property area, minimum NIS 1,000,000 and maximum NIS 20,000,000 per instance and cumulative during the yearly insurance period; all the above subject to the provisions of Clause 18.17 hereafter.

- 18.6 It is agreed that the Lessee is entitled to waive loss of income insurance, in full or in part, as specified in Clause (4) of the authorization for arranging Lessee's insurance (Appendix E); however, the provisions of Clause 18.10 hereunder shall apply in regard to any loss of income as stated above as if the insurance for same had been taken out in full.
- 18.7 It is agreed that the Lessee is entitled to waive insurance, in full or in part, against broken glass as specified in Clause (1) of the authorization for arranging Lessee's insurance (Appendix E); however, the provisions of Clause 18.10 hereunder shall apply in regard to any loss or damage due to broken glass as if the insurance for same had been taken out in full.
- 18.8 The Lessee undertakes that any property insurance in addition or complementary to the Lessee's insurance policies as stated shall include a clause regarding waiver of the right of subrogation in favor of the Lessor, management company and those on their behalf. However, said waiver shall not apply in favor of a person causing damage with malice aforethought.
- 18.9 The Lessee undertakes to adjust insurance amounts for policies taken out pursuant to Clauses (1) and (4) of the authorization for arranging Lessee's insurance (Appendix E), from time to time, so that they will always reflect the full value of what is insured thereby.
- 18.10 The Lessee exempts the Lessor, management company and those on their behalf above, as well as other lessees, tenants and other holders of rights in the building (hereinafter the other lessees, tenants and other holders of rights in the building as stated shall be jointly called: "**the other holders of rights**"), who, in their lease agreements or in any other agreement that grants them rights in the building, have a parallel exemption included vis-à-vis the Lessee due to damages for which it is entitled to indemnification (or was entitled to such indemnification if not for the deductibles indicated in the policies) pursuant to the insurance policies that it undertook to arrange in accordance with Clause (1) of the authorization for arranging Lessee works insurance (Appendix E-1) and Clauses (1) and (4) of the authorization for arranging Lessee's insurance (Appendix E), provided that the exemption from liability does not apply to the benefit of a person causing damage with malice aforethought
- 18.11 To remove doubt, it is clarified that failure to provide confirmations of insurance in a timely fashion, as stated in Clauses 18.2 and 18.4 above, shall not derogate from the Lessee's undertaking pursuant to this agreement, including, and without prejudice to the generality of what is stated, regarding any duty of payment applying to the Lessee. The Lessee undertakes to fulfill all its undertakings as agreed, even if it is prevented from performing works and/or receiving possession in the property and/or placing assets in the property and/or opening its business at the property due to non-provision of the authorizations when due.

- 18.12 Prior to the expiration date of the Lessee's insurance policies, the Lessee undertakes to deliver to the Lessor the authorization to arrange insurance as stated in Clause 18.4 above regarding extension of their validity for an additional period. The Lessee undertakes to repeat said delivery of authorization to arrange insurance on the dates stipulated at every insurance period and as long as this agreement is in effect.
- 18.13 The Lessor is entitled to inspect the insurance confirmations to be provided by the Lessee as stated in Clauses 18.2, 18.4 and 18.12 above, and the Lessee undertakes to effect any change or correction required so that they conform to the Lessee's undertakings as stated in this Clause 18 above. The Lessee warrants that the Lessor's right of audit relative to the confirmations of insurance and its right to call for amending the Lessee's insurance policies as specified above does not impose upon the Lessor or anyone on its behalf any obligation or any liability whatsoever pertaining to said confirmations of insurance, the quality, scope and validity of the Lessee's insurance policies or absence thereof, and it shall not be construed as derogating from any obligation whatsoever imposed upon the Lessee pursuant to this agreement.
- 18.14 The Lessee undertakes to fulfill the terms and conditions of the insurance policies arranged thereby, to pay premiums in full and on time, and to ensure that the Lessee's insurance policies are renewed from time to time as needed, and shall be in force during the entire lease period.
- 18.15 The Lessee undertakes to follow the reasonable safety procedures that shall be published from time to time by the lessor and/or management company.
- 18.16 Deleted
- 18.17 To remove doubt, it is hereby agreed that setting the liability limit as specified in Clauses 18.2 and 18.5 above is essentially a minimal demand imposed on the Lessee. The Lessee warrants and affirms that it shall be barred from raising any grievance and/or demand vis-à-vis the Lessor and/or the management company and/or those on their behalf regarding the said minimal liability limits.
- 18.18 Without prejudice to the generality as stated in Clause 17 above, the Lessee shall be liable for any claim to which it is liable to commit itself as a result of a breach or non-fulfillment of the provisions of any law or license by the Lessee or as a result of a breach of the Lessee's undertaking in accordance with the provisions of this agreement.

- 18.19 Without derogating from the provisions of this agreement, and without derogating from the Lessor's or management company's liability pursuant to this agreement or law, the Lessor must arrange and maintain, whether via the Lessor or via the management company, during the validity of the agreement period, the insurance policies specified later on in this Clause with a lawfully certified and reputable insurance company:
- 18.19.1 **Building structure insurance** (including the property's structure), with all its annexes and systems, for their full replacement value, as well as any of the Lessor's or management company's additional property located in the building structure and its surroundings, for replacement value, against loss or damage due to accepted risks in expanded fire insurance, including fire, smoke, lightning, explosions, earthquakes, storms and gales, floods, damage from liquids and pipeline ruptures, injury by vehicles, injury by aircraft, civil disturbances, strikes, malicious damage and damage from break-ins. Such insurance shall include a clause regarding waiver of the right of subrogation in favor of the Lessee and those on its behalf. However, said waiver shall not apply in favor of a person causing damage with malice aforethought. Said insurance shall not include contents of any kind, additions, improvements or expansions effected by or on behalf of or for the Lessee or other holders of rights (not via the Lessor, management company or those on their behalf).
- 18.19.2 **Resulting (ensuing) loss insurance** covering loss of rental and management fees due to damage caused to the building structure (including the leased property structure) as well as any additional property as stated in Clause 18.19.1 above resulting from the risks specified in Clause 18.19.1 above (excluding break-ins), during the indemnification period of 12 months. Such insurance shall include a clause regarding waiver of the right of subrogation in favor of the Lessee and those on the Lessee's behalf. However, such waiver shall not apply in favor of a person causing damage with malice aforethought.
- The Lessor and management company have the right to waive resulting loss insurance against loss of rental, management and parking fees (if any) as stated in this Clause 18.19.2 above, in full or in part. However, the provisions of Clause 18.20 hereafter shall apply as if said insurance were taken out in full.
- 18.9.3 Third party liability insurance with a liability limit of \$2,500,000 per event and cumulative pursuant to the policy, covering the Lessor's and management company's lawful obligation due to physical injury or damage to property liable to be caused to any person's or legal entity's body or property whatsoever in the building and its surroundings. Such insurance shall not be subject to any restriction regarding an obligation deriving from: fire, explosions, panic, lifting devices, loading and unloading, animals, defective sanitary facilities, poisoning, any harmful element in food or drink, strikes and lockouts, obligation due to and vis-à-vis contractors and sub-contractors (of any rank) and their employees, as well as subrogation claims by the National Insurance Institute of Israel ("Bituach Leumi"). The insurance shall be expanded to indemnify the Lessee for liability resulting from acts of commission or omission by the Lessor or the management company and/or those on their behalf, and subject to a cross liability clause whereby the insurance is regarded as if it were arranged separately for each of the insured's individuals.

18.19.4 Employer liability insurance covering the Lessor's and management company's obligation vis-à-vis their employees due to physical injury or work illness liable to be caused to any of them during or as a result of their work in the building and its surroundings, with a liability limit of \$5,000,000 per event and in total for the insurance period. This insurance does not include any restriction regarding work at high elevation or in deep areas, working hours, lures and poisons, as well as in regard to employment of teenagers. The insurance shall be expanded to indemnify the Lessee in the event of a claim for occurrence of any work accident or illness whatsoever, since the Lessee bears employer obligations of any kind vis-à-vis any of the Lessor's or management company's employees.

18.20 The Lessor exempts, in the name of the Lessor and in the name of the management company, the Lessee and those acting on the Lessor's behalf from liability for damage for which the Lessor or management company is entitled to indemnification pursuant to the insurance policies that the Lessor is required to arrange in accordance with Clauses 18.19.1 and 18.19.2 above (or would be entitled to indemnification if not for the deductibles indicated in the policies). However, such exemption shall not apply in favor of a person causing damage with malice aforethought.

19. **Transfer and Endorsement of Rights**

19.1 The Lessee shall not be entitled to transfer rights in the property and rights in the agreement, or to permit any use whatsoever of the property or any part thereof to others, whether for consideration or not, directly or indirectly, without receipt of the Lessor's express permission for same, in writing and in advance.

19.2 Notwithstanding the contents of Clause 19.1 above, it is hereby agreed that the Lessee shall be entitled to lease the property, or portion thereof via sublet, subject to providing a detailed written request to the Lessor 30 days in advance and receiving the Lessor's approval in advance and in writing. The Lessor shall not refuse, unless on reasonable grounds, and provided that the nature of the Sub-Lessee's activity conforms to the nature of the building and uses permitted in the urban building plan. The Sub-Lessee shall assume all provisions of this agreement, including provisions of parking lot procedures and of the management company for the building in which the property is located.

It is hereby clarified that in any event, the Lessor shall continue to bear all of its debts and obligations pursuant to this agreement in regard to the entire property area, and it shall be a guarantor for fulfillment of all the provisions of this agreement by the Sub-Lessee.

A signed sublet agreement shall be provided to the Lessor immediately following signature thereof.

19.3 Without derogating from the contents of Clause 19.1 above, it is agreed that the Lessee shall be entitled to find a substitute lessee for the property pursuant to the terms and conditions of this agreement, subject to fulfillment of all the conditions below, in aggregate:

- (1) The substitute lessee's identity and its purpose for leasing shall be approved by the Lessor 60 days in advance and in writing, and the Lessor shall not refuse to provide its approval except on reasonable grounds;
- (2) The substitute lessee shall assume, in an explicit agreement to be drawn up between it and the Lessor, in advance and in writing, all provisions, terms and conditions of this agreement regarding leasing of the property and shall provide the Lessor, in their entirety and on their due dates, all the payments and collateral associated therewith;
- (3) As part of the collateral to be provided to ensure fulfillment of the provisions of the lease agreement, the substitute lessee shall deposit with the Lessor an autonomous and unconditional bank guarantee for an amount equal to the rental and management fee, plus VAT, for 6 months of leasing the property as collateral for the substitute lessee's compliance with all provisions of the lease agreement to be concluded between it and the Lessor, as stated above, in their entirety and on their due dates.

It is also hereby agreed that in the event and inasmuch as the Lessee shall ask to bring in a substitute lessee for lease of the property in the Lessee's stead, as specified in this sub-Clause above, the Lessor shall be entitled, after receiving the particulars of the proposed substitute lessee, and at the Lessor's sole discretion, to notify the Lessee regarding early termination of the lease period pursuant to this agreement, such that the Lessee's lease of the property shall conclude within 2 (two) months from the date on which the Lessor receives the proposed substitute lessee's particulars, or on another date, provided that this is agreed upon in writing between the parties. To remove doubt, it is hereby clarified and agreed that in such a case, the Lessor shall be entitled to lease the property immediately upon the early termination of the lease period, to any person and/or entity, at its sole discretion. The Lessee agrees to everything stipulated in this Clause above and hereby waives any grievance and/or claim in connection with early termination of the lease period as stipulated in this Clause above.

19.4 The Lessor shall be entitled to sell and transfer its rights in the lot and/or structure and/or in any of its units, including the leased property or any part thereof and/or its rights pursuant to the agreement, or mortgage or pledge them with no need for the Lessee's prior consent, provided that the Lessee's rights pursuant to the agreement and/or any law are not infringed, and the provisions of this agreement shall apply to the parties *mutatis mutandis*.

19.5 Without derogating from the above, the Lessor shall be entitled to transfer, assign, endorse and mortgage in favor of another person all its rights to rental fee subject of the agreement, and the Lessee shall act pursuant to and in accordance with written instructions to be provided thereto in this matter by the Lessor.

20. **Material Clauses and Agreed Advance Compensation**

20.1 It is hereby agreed that the provisions of Clauses 8.1, 9, 10, 11, 12.1, 13, 14, 15.1, 15.2, 15.3, 15.8, 16.3, 16.4, 18, 19.1 and 22 are the primary and material clauses of this agreement as this term is defined pursuant to the Contracts Law (Remedies for Breach of Contract) – 1970. A breach of any or all of these clauses shall be regarded as a material breach as this term is defined pursuant to the Contracts Law (Remedies for Breach of Contract) – 1970.

20.2 A breach of the provisions of Clauses 9, 10, 11, 12.1, 14, 16.4, 18 and 22 of this agreement shall confer upon the Lessor, in addition to all redress and remedies granted thereto, a right to compensation agreed upon and calculated in advance, in the amount of the rental and management fee for the property covering 4 months of rent, plus VAT, as shall apply from time to time (hereinafter: "**the agreed compensation**"). The agreed compensation shall be linked to the index from the basic index until the index prevailing at the time of actual payment. The parties hereby warrant that the amount of agreed compensation is proper and reasonable, and it was determined by them according to damages that they expect in the event of a material breach of the agreement.

20.3 Without derogating from the Lessee's undertakings pursuant to this agreement, it is hereby agreed that a delay by the Lessee in payment of the rental fee and/or any other payment imposed thereon pursuant to this agreement shall bear interest for delay as defined in this agreement, starting from the fourth day of said delay in payment, and all in addition to and without derogating from all redress and remedies granted thereto pursuant to this agreement and/or pursuant to any law. Furthermore, and without prejudice to the above, it is hereby agreed that in the event that the Lessee is late in paying the rental fee and/or any other payment required thereby to the Lessor pursuant to this agreement, the Lessee shall effect these payments according to the dollar exchange rate prevailing on the actual date of payment, but in any case, according a dollar exchange rate of not less than the higher of the dollar exchange rates prevailing on the date determined and intended for the relevant payment pursuant to the provisions of this agreement or the minimum rate as defined above.

21. **Revocation of the Lease and the Agreement**

Without derogating from the Lessee's lawful rights, the Lessee hereby agrees and undertakes that notwithstanding the provisions of this agreement in regard to the lease period, the Lessor shall be entitled – but not obligated – to revoke this agreement and evict the Lessee from the property by unilateral and written notice of 30 days in advance, provided that the Lessee was given an opportunity of 14 days to rectify the breach in any of the instances specified below:

- 21.1 If the lessee breaches and/or fails to fulfill punctually any of the terms and conditions and/or undertakings pursuant to the fundamental clauses.
- 21.2 The Lessee commits a breach of the agreement that is not a fundamental breach and fails to rectify it within 30 days from the date it was required to do so.
- 21.3 If a receiver and/or liquidator (including temporary ones) is appointed for the Lessee and/or its assets, wholly or partially, and/or its business and/or if it is declared bankrupt and/or a motion for injunction was filed against it pursuant to Section 350 of the Companies Law – 1999 or for seizure of a material portion of its assets, as the case may be.

In each of the instances above, the provisions of Clause 22 hereunder shall apply.

22. **Vacating the Property**

22.1 The Lessee hereby undertakes to vacate the property at the conclusion of the lease period or upon lawful revocation of this agreement, for any reason, whichever is earlier, as the case may be, and to restore the property to the exclusive possession of the Lessor or to whomever the Lessor shall designate. The property shall be clean, orderly, repainted in a "Supercryl" color (in the shade in which the Lessee received the property), free of all persons, effects and systems therein, and in good and proper condition, except for reasonable wear and tear. Notwithstanding the above, in regard to facilities and systems that were installed in the property, these facilities shall be left behind in the property by the Lessee, as specified in Sub-Clause 22.2 hereafter. All works involved in implementation of the above shall be performed prior to the conclusion of the lease period or revocation thereof pursuant to this agreement, and in accordance with instructions from an engineer on the Lessor's behalf, and in any event, without harming the structure and/or systems therein and/or regular activity by the building's tenants. It is agreed that disconnection of the Lessee's servers from the property shall be effected via advance coordination with the Lessor's IT staff, subject to all their instructions, and in any event, cables shall not be cut, so that disconnecting the servers does not cause any damage to the property and/or wiring in the property.

- 22.2 Unless agreed otherwise in writing between the parties, it is hereby agreed that all the modifications and/or adjustments and/or renovations and/or facilities and/or systems and/or annexes that are not mobile facilities that shall be performed and/or installed in the property by the Lessee and/or Lessor, and all other hookups to the property (hereinafter: "**the facilities**") shall revert to the sole disposal and ownership of the Lessor upon conclusion of the lease period or agreement, including with substitute lessees. The Lessee undertakes not to mortgage or confer to a third party any right whatsoever in the stated facilities and systems. The Lessee hereby waives any grievance in connection with the above. Nothing in the above shall be construed as derogating from the Lessor's right to demand from the Lessee evacuation, clearance, removal or performance of any action whatsoever in order to restore the property's condition as it was on the delivery date, and the full cost of the works involved therein shall apply to the Lessee. To remove doubt, it is clarified that none of the above shall be construed as allowing the Lessee to effect any modification whatsoever that is contrary to the provisions of this agreement.
- 22.3 In addition, and without derogating from the remedies and redress granted to the Lessor pursuant to the provisions of this agreement and/or provisions of law, the Lessee hereby undertakes that if it does not vacate the property and does not deliver it to the Lessor as required in Sub-Clause 22.1 above, the Lessee shall pay to the Lessor a usage fee agreed upon and calculated in advance, in a shekel amount equal to the product of the daily rental fee multiplied by 2, for every day of delay, without any need to prove damages. This amount shall be linked to the index from the basic index until the index prevailing at the time of actual evacuation. The parties agree that this amount constitutes agreed and fair compensation to the Lessor over any other remedy and/or a higher rate of compensation, including compensation that the Lessor shall be charged with, if any, vis-à-vis any substitute lessee. Moreover, in the event that the property is not vacated, the Lessee shall bear all applicable legal expenses for its removal from the property and for collection of the amounts due to the Lessor in connection with failure to vacate, including, but not limited to, fees for expert opinions and attorney fees, including interest and linkage differentials deriving from these expenses. Without derogating from the above, it is clarified that until the property is cleared of all the effects and facilities that the Lessee is required to remove and the property is delivered to the Lessor, as required in Sub-Clause 22.1 above, including in the event that negotiations are conducted between the parties regarding extension of the lease period and/or amendment of any terms and conditions of the lease agreement, the Lessee, in addition to any other remedy, shall be liable for all the undertakings and payments applicable thereto pursuant to this agreement during the lease period, including, but not limited to, rental fee (at the higher amount between the basic rental fee and the adjusted rental fee), municipal taxes ("arnona"), management fee, electricity et al. It is clarified that nothing in the above shall be construed as constituting confirmation of any kind to the Lessee, even if implied, not to vacate the property on the conclusion date of the lease period as specified in Clause 22.1 above.

22.4 In the event that the Lessee does not remove the movable effects and/or facilities that it is required to remove, or any portion thereof as stipulated, the Lessor shall have the right and option to disassemble, remove or store them, all at the Lessee's expense and responsibility or, alternatively, to take possession thereof with no obligation to pay indemnification and/or compensation and/or a refund and/or any other payment, and the Lessee waives any grievance in connection therewith. Without derogating from what is stated anywhere else, in the event that the agreement is concluded due to a breach thereof by the Lessee and/or if the Lessee continues to owe any monies whatsoever that it was obligated to pay on the strength of this agreement, including – but not limited to – municipal tax, electricity and rental fee, in any event the Lessor shall have right of lien in the facilities. If the Lessor demands removal of the effects and/or facilities and all or some of them have not been removed, then, for the purpose of paying appropriate usage fee as stipulated in Clause 22.3 above, the Lessee shall be regarded as having failed to vacate the property inasmuch as the Lessee does not dismantle and remove all effects and facilities from the property or restore the property to its condition as it was on the delivery date.

23. **Collateral**

23.1 In the event that the joint rate for the holdings of Yehuda Zisapel and Zohar Zisapel, directly or indirectly, drops below 25% of the Lessee's total allotted shares, which serve as collateral for fulfillment of all the Lessee's undertakings pursuant to this agreement, in full or in part, the Lessee shall, immediately upon such change in the holdings rate, deposit with the Lessor an autonomous, unconditional and seizure-exempt bank guarantee, in full or in installments, at any time and without justification, for an amount in shekels equal to six (6) months' rent, including rental fees, management fees and VAT, at their rate pursuant to this agreement on the issue date of the bank guarantee (hereinafter: "**the guarantee**" or "**the collateral**").

The guarantee shall be as per the wording appended as **Appendix F** to this agreement and shall be linked to the Consumer Price Index. Validity of the guarantee shall be for the entire duration of the lease period, plus 3 months. The guarantee shall have the required amount of stamps duly affixed, and all expenses for issuance of the guarantee shall apply to the Lessee only.

In the event that the guarantee or portion thereof is seized, the Lessee undertakes, immediately following such seizure, to deposit an additional guarantee in the wording and pursuant to the terms and conditions above.

23.2 Without derogating from other provisions of this agreement, the Lessor shall be entitled to utilize the collateral, wholly or partially, as it chooses, as follows:

23.2.1 Should the property not be vacated on the obligatory date, the Lessor shall be entitled to utilize the collateral in full or in part, and in a manner such that the monies to be paid shall be regarded, *inter alia*, as the agreed advance and calculated compensation as stipulated in this agreement.

23.2.2 In the event that any payment owed by the Lessee pursuant to this agreement or the management agreement is not effected, the Lessor shall be entitled to utilize the collateral in the amount of the payment due, plus linkage differentials, fines, interest for delay and any other expenses paid by the Lessor.

In the event that such non-payment constitutes a material breach of this agreement, the Lessor shall be entitled to utilize the collateral up for up to any amount due to the Lessor pursuant to this agreement.

23.2.3 In the event of damage or loss to the property and/or its contents attributable to the Lessee pursuant to this agreement and/or the management agreement, the Lessor shall be entitled to utilize the collateral for up to the amount required for repair thereof. "Repair" also means: Including replacement.

23.2.4 In any case of material breach of this agreement that is not rectified within 7 days, and in the case of a non-material breach that is not rectified within 14 days from the date on which the Lessee received written notice thereof from the Lessor and/or management company and/or those on their behalf.

23.3 Provision of the collateral pursuant to this clause, and/or utilization of any portion thereof shall not constitute a waiver by the Lessor and/or management company of their right to other remedies against the Lessee, whether the remedies are explicit in the body of this agreement or management agreement, or the remedies available to the Lessor are on the strength of any law, and shall not limit the amount of compensation or damages that the management company and/or Lessor shall be entitled to claim and/or collect from the Lessee.

24. **Acting as Owner – Repossession of Property by Lessor**

Without derogating from the validity of the provisions of this agreement, and in addition to all remedies and redress available to the Lessor pursuant to this agreement and/or any law, it is hereby agreed as follows:

24.1 Upon conclusion of the lease period and/or in any event of lawful expiry or revocation of this agreement and/or in any event that the Lessee terminates its activity at the property or abandons the property, whichever is earlier, the Lessee shall be entitled to act as owner of all or any part of the property.

24.2 In the event that the Lessee does not vacate the property upon conclusion of the lease period and/or lawful expiry or revocation of this agreement and/or in any event that the Lessee terminates its activity at the property or abandons the property, whichever is earlier, the Lessee shall be regarded as trespassing on the Lessor's territory in the property or any part thereof, and as a "fresh intruder", starting from the date on which it is obligated to vacate the property as stated until actual evacuation thereof. In such cases, as well as any case in which the Lessee terminates its activity at the property or abandons the property, the Lessor shall be entitled and permitted to prevent the Lessee or any of its associates and/or anyone on its behalf from entering the property and making use thereof or any part thereof. Furthermore, the Lessor shall be entitled and permitted, *inter alia*, to use reasonable force, replace the lock at the property, disconnect and/or order disconnection of the electricity, water, telephones, gas, air conditioning and any other utility or service, and to prevent from the Lessee access and entry to the property, including the building.

24.3 The Lessee hereby gives its consent to the Lessor to perform all the actions specified in Clauses 24.1 and 24.2 above. The Lessor shall not be liable for any damage of any kind incurred by the Lessee or those on its behalf or the property of same, if any, in connection with the Lessor's actions as stated, and the Lessee shall have no grievance or claim in connection with such actions by the Lessor, even if damages were incurred by the Lessee as a result. Moreover, the Lessee shall pay to the Lessor all expenses and damages incurred by the Lessor or those on its behalf in connection with the actions as stated above.

25. **Miscellaneous**

- 25.1 The headers in this agreement have been added for the sake of convenient perusal and use only, and they shall not be construed as instructive regarding the content and interpretation of the agreement.
- 25.2 The appendices attached to this agreement constitute an integral part thereof.
- 25.3 In the event that one of the parties to the agreement, following prior written notice of seven (7) business days to the other, pays any amount whatsoever for which duty of payment thereof rests with the other party by the power of any law or by virtue of the provisions of this agreement, the party owing such payment shall refund the paying party for the amount paid thereby, with the addition of interest for delay from the payment date thereof by the paying party until the date of actual refund thereof by the indebted party.
- 25.4 The parties have selected the City of Tel Aviv-Jaffa as the sole and exclusive venue of jurisdiction for the purposes of the provisions of this agreement.
- 25.5 Any change or amendment or waiver in the agreement or any of its terms and conditions shall be effected in writing and signed by the parties.
- 25.6 Consent by the Lessor and/or the Lessee to a deviation from the terms and conditions of the agreement shall not serve as a precedent and/or constitute any kind of waiver nor shall it be inferred in any other case.
- 25.7 Deleted
- 25.8 The parties' addresses for purposes of the agreement are as indicated in the Preamble, and all notices to be delivered pursuant to the agreement or in connection therewith shall be in writing and delivered by hand or by registered mail to these addresses. If a notice is sent by registered mail, it shall be regarded as having been delivered to the addressee's attention and for disposal thereof within 72 hours from the date on which it was dispatched.
- 25.9 It is clarified and agreed that the Lessee shall not be entitled to register the lease pursuant to this agreement at the Land Registration Bureau, and that the Lessee shall not be entitled at any time whatsoever to file a warning note by virtue of its rights pursuant to this agreement. Any action by the Lessee in contravention of the provisions of this clause shall constitute a material breach of the agreement.
- 25.10 This agreement fully encompasses and faithfully reflects what has been agreed upon between the parties. Any representation and/or undertaking and/or agreement and/or protocol and/or publication and/or declaration shall have no validity unless they are expressed in this agreement. Any representation and/or agreement and/or undertaking preceding this agreement are hereby null and void. The parties warrant that they have reached this agreement based on investigation and inspection, and no party has acted on the basis of any information unless it is explicitly stated in this agreement.

- 25.11 Notwithstanding everything stated elsewhere in this agreement, in any event, the Lessor and/or management company shall not be liable, pursuant to this agreement, for indirect and/or collateral damages, except in the case of an act with malice aforethought and/or acts of malicious omission by the Lessor and/or the management company and/or those on their behalf.
- 25.12 The parties hereby undertake to maintain total and absolute confidentiality regarding all terms and conditions of this agreement and its appendices, especially, but not limited to, the rental fee amount, the costs associated with the lease and the lease period, as well as any information in connection with companies of the Rad-Binat group obtained thereby in the framework of negotiations for concluding this agreement and/or following signature thereof, and that is not in the public domain (hereinafter: "the confidential information"), and not to transfer or disclose it to any third party, unless and only if it is required by law or a competent authority. In such a case, the party shall notify the other immediately upon receipt of the demand for disclosure of the confidential information and prior to disclosure thereof.

IN WITNESS WHEREOF the parties have executed this Agreement as of the date first above written.

Radcom Ltd., Company No. 52-004345-6.

/s/ Gilad Yehudai
Name: Gilad Yehudai
Title: Chief Financial Officer

Klil and Michael Properties (1992) Ltd., Private Co. No. 51-174159-7
/s/ Klil and Michael Properties (1992) Ltd

**Zisapel Properties (1992) Ltd.,
Private Company No. 51-174168-8**

/s/ Zisapel Properties (1992) Ltd

2012 LEASE MODIFICATION AND EXTENSION

THIS 2012 LEASE MODIFICATION AND EXTENSION ENTERED INTO AS OF THIS 5th DAY OF February, 2013 BY ZOHAR ZISAPEL PROPERTIES, INC. AND YEHUDA ZISAPEL PROPERTIES, INC., both New Jersey corporations ("Lessor"), with offices located at 900 Corporate Drive, Mahwah, New Jersey, 07430 and RADCOM Equipment, Inc. ("Lessee"), with offices located at 6 Forest Avenue, Paramus, New Jersey, 07652.

WITNESSETH:

WHEREAS, Lessor and Lessee entered into a Lease Agreement dated January 15, 2001, covering approximately 8,946 square feet of office space in Premises located at 6 Forest Avenue, Paramus, New Jersey (the "Lease Agreement"); and

WHEREAS, the parties entered into an Extension and Modification of Lease dated October 14, 2005 extending the Lease Agreement for an additional Five (5) year term commencing January 15, 2006 and expiring January 14, 2011; and agreeing to reduce the Demised Premises from 8,946 gross rentable square feet to 6,131 gross rentable square feet (the "Lease Extension"); and

WHEREAS, the parties entered into a Modification of Lease and Release Agreement dated as of September 15, 2010 providing that Lessee vacate 1,527 gross rentable square feet of office space and be released from the terms of the Lease Agreement and Lease Extension as to such vacated office space (the "Modification of Lease"); and

WHEREAS, the parties entered into a Lease Extension dated December 2010 extending the Modification of Lease for an additional term commencing on January 15, 2011 and expiring on December 31, 2012 (the Second Lease Extension); and

WHEREAS, the parties have agreed to modify the space being defined as the Demised Premises or Premises in the Lease Agreement and to extend the Lease Agreement for an additional two (2) years to December 31, 2014;

NOW, THEREFORE, the parties hereto agree as follows:

1. Demised Premises or Premises shall be deemed to be 2,850 gross rentable square feet on the First floor in the building known as 6 Forest Avenue, Paramus, New Jersey, as shown on Exhibit A hereto, which includes an allocable share of the Common Facilities as defined in Article 41 (a).
2. The Lease Agreement is hereby extended for an additional two (2) year term commencing on January 1, 2013 and expiring December 31, 2014 (the "Renewal Term").
3. During the Renewal Term hereof, Lessee shall pay to Lessor for the Demised Premises, Fixed Basic Rent at the rate of \$17.50 per gross rentable square foot per annum, which is \$49,000 per annum and \$4,156.25 per month. Rent for any period during the Renewal Term hereof which is for less than one month shall be a pro-rata portion of the monthly installment.

4. During the Renewal Term, the base year for computing Base Period Costs shall be calendar 2011.
5. During the Renewal Term, the Electric Energy Charge shall remain \$1.50 per gross rentable square foot of the Premises.
6. Lessee's Percentage shall be 10.10; the total gross rentable square footage of the Building is 28,220.
7. The parties agree the Demised Premises are being taken "as is" and that Lessee will not be responsible or perform any fit up for this space, except as set forth below. Fit up will consist of painting and carpeting of the whole Premises. Lessor will provide an allowance of \$5,600.00 which is 40% of the estimated cost for this fit up. The remaining cost of fit up will be paid by Lessee at the time of occupancy.

8. Paragraph 18 of the Preamble of the Lease Agreement is amended to read:

- (1) Lessor: Zisapel Properties
900 Corporate Drive
Mahwah, New Jersey 07430
ATTN: Paul Sweeney
Vice President

Cc: Colliers International NJLLC
119 Cherry Hill Road
Parsippany, NJ 07054

Donald W. Reeder, Esq.
112 Franklin Turnpike
Suite 200
Waldwick, NJ 07463
- (2) Lessee: RADCOM Equipment, Inc.
6 Forest Avenue
Paramus, NJ 07652
Attn: David Judge, Director of Finance
- (3) Checks payable to: Zisapel Properties

Mail payments to: Colliers International NJLLC
380 Madison Avenue - Third Floor
New York, NY 10017

9. The parties represent each to the other that no broker has negotiated in bringing about this 2012 Lease Modification and Extension. Each of the parties agrees to indemnify the other to hold it harmless from any and all claims of other brokers and expenses in connection therewith, arising out of or in connection with any claim by one party against the other that the aforesaid statement is untrue.

10. All capitalized words and terms in this 2012 Lease Modification and Extension shall have the same meaning as defined in the Lease Agreement, the Lease Extension, the Modification of Lease, and the Second Lease Extension. Except for the foregoing terms, conditions and amendments, this 2012 Lease Modification and Extension shall be on the same terms, conditions and provisions as set forth in the Lease Agreement, the Lease Extension, the Modification of Lease and the Second Lease Extension, now in effect and which are incorporated herein by reference thereto as if set forth herein at

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands and seals the day and year first above written.

LESSOR:

LESSEE:

Zohar Zisapel Properties, Inc.

RADCOM Equipment, Inc.

By: /s/ Paul Sweeney
Paul Sweeney, Vice President

By: /s/ David Judge
David Judge, Director of Finance

Yehuda Zisapel Properties, Inc.

By: /s/ Paul Sweeney
Paul Sweeney, Vice President

LOAN AGREEMENT

THIS AGREEMENT (this "**Agreement**") is entered into as of November 26, 2012 (the "**Effective Date**"), by and between Zohar Zisapel, an Israeli citizen, having his official address at 62 Pinkas St, Tel Aviv, Israel (the "**Lender**"), and Radcom Ltd., a company incorporated in Israel, having its registered office at 24 Raul Wallenberg, Tel Aviv, Israel (the "**Borrower**").

WHEREAS, the Borrower desires to borrow from the Lender an aggregate amount of up to three million New Israeli Shekel (NIS 3,000,000), in order to finance its daily operations; and,

WHEREAS, the Lender, who holds approximately 34% of the outstanding share capital of the Borrower, agrees to lend said amount to Borrower, subject to the terms below.

WHEREAS, the Audit Committee and the Board of Directors of the Borrower confirmed that the contemplated loan is in the best interest, and solely for the benefit, of the Borrower.

NOW, THEREFORE, the parties agree as follows:

1. LOAN

- 1.1. Lender shall make a short term loan available to Borrower in an amount of up to three million New Israeli Shekel (NIS 3,000,000) (the "**Loan**"). The Loan shall be linked to the Israeli Consumer Price Index ("**CPI**").
- 1.2. The Loan shall be made available by the Lender promptly following a written request of the Borrower to the Lender, to transfer the amount of the Loan, or part thereof, onto the bank account designated by the Borrower.
- 1.3. Repayment. Borrower shall repay the Loan and the CPI linkage in one or more installment(s), no later than March 31, 2013, or at any time earlier at Borrower's sole discretion, unless otherwise agreed by both parties.

2. Miscellaneous

- 2.1 **Waiver**. The waiver by either party of a breach or default of any of the provisions of this Agreement by the other party shall not be construed as a waiver of any succeeding breach of the same or other provisions nor shall any delay or omission on the part of either party to exercise or avail itself of any right, power or privilege that it has or may have hereunder operate as a waiver of any breach or default by the other party.
 - 2.2 **Notices**. Any notice, request, instruction or other document to be given hereunder shall be delivered or sent by registered post or first class post or by e-mail or facsimile transmission (such e-mail or facsimile transmission notice to be confirmed by letter posted within 12 hours) to the address or facsimile number of the other party set out in this Agreement (or such other address or numbers as may have been notified) and any such notice or other document shall be deemed to have been served (if delivered) at the time of delivery (if sent by post) upon the expiration of 48 hours after posting and (if sent by e-mail or facsimile transmission) upon the expiration of 12 hours after dispatch.
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Notices to the Borrower: 21, Raul Wallenberg, Tel Aviv, Israel

E-mail Address: Gilady@radcom.com
Facsimile Number: 03-6474681

Notices to the Lender : Attention: Zohar Zisapel
E-mail Address: zohar_z@rad.com
Facsimile Number: 03-6472115

- 2.3 Invalidity and Severability. If any provision of this Agreement shall be found by any court or administrative body of competent jurisdiction to be invalid or unenforceable, the invalidity or unenforceability of such provision shall not affect the other provisions of this Agreement and all provisions not affected by such invalidity or unenforceability shall remain in full force and effect. The parties hereby agree to attempt to substitute for any invalid or unenforceable provision a valid or enforceable provision that achieves to the greatest extent possible the economic, legal and commercial objectives of the invalid or unenforceable provision.
- 2.4 Successors. This Agreement shall be binding upon and inure to the benefit of the successors in title of the parties hereto.
- 2.5 Assignment. Neither party shall be entitled to assign this Agreement nor all or any of their rights and obligations hereunder without the prior written consent of the other.
- 2.6 Governing Law: Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the State of Israel without giving effect to its conflicts of law principles, and the courts located in Tel-Aviv shall have exclusive jurisdiction with respect to any dispute arising under this Agreement.

IN WITNESS WHEREOF the parties have executed this Agreement as of the date first above written.

RADCOM LTD.

ZOHAR ZISAPEL

By: /s/Gilad Yehudai _____
Name: Gilad Yehudai
Title: Chief Financial Officer

/s/ Zohar Zisapel _____

**THE BELOW IS A SUMMARIZED ENGLISH VERSION FOR CONVENIENCE PURPOSES ONLY
BINDING VERSION IS THE ORIGINAL HEBREW**

Floating and Fixed Charge and Collateral on all of Company's Assets – Highlights Summary

1. In order to secure the payments RADCOM Ltd. (the "Company") will owe to the First International Bank of Israel (the "Bank"), in connection with the credit facility received by the Company from the Bank (the "Secured Sums"), the Company pledged and granted to the Bank a first priority floating charge on all of the Company's assets and a fixed charge and first priority collateral on other assets, in an unlimited amount.
2. The floating and first priority charge is on all of the Company's assets, plants, property, real estate, chattels, debts, losses, revenues and profits, and any right of any sort which the Company has or may have in the future as long as the bond which sets the pledge terms (the "Bond") is in effect.
3. The fixed charge and first priority collateral are on uncalled and/or unpaid share capital, including their goodwill rights, as in effect on the Bond's effective date and as may be in effect in the future.
4. The fixed charge and first priority collateral are also on all of the Company's entitlements to receive moneys and/or other rights derived from insurance, including any of the Company's rights according to the Israeli Compensation Fund and Property Tax Law, 1961 and/or any other law, as will be in effect at all times.

(The above shall be referred to as the "Pledged Assets")

The pledge and collateral also apply to any right for compensation and/or indemnification the Company will be entitled for, due to any loss, damage and expense the Company incurs.

5. Save for transactions being conducted by the Company during its normal course of business, the Company is not permitted to sell, rent, transfer, lease, lend, permit usage in or pledge the Pledged Assets, directly and/or indirectly, without the Bank's approval (such approval shall not be unreasonably denied).

The Company hereby declares that the Pledged Assets are in their sole possession and ownership, and are free of all mortgage, lien, foreclosure or other rights of any third party, excluding pledges specified on the pledge list.

The Company may not change and/or agree to any change in any of its rights in the Pledged assets without the Bank's written approval in advance.

The Company gives its irrevocable consent to transfer at any time the collateral security to any banking institution.

6. Certain conditions if met, allow the Bank to request the immediate payment of some or all of the Secured Sums, whether before the payment due date or afterwards, including but not limited to in the following events:
 - 6.1. The Company's failure to pay when due any of the Secured Sums;
 - 6.2. In the event the Company becomes insolvent, makes an assignment for the benefit of creditors or a general arrangement with creditors, or adopts a resolution providing for its dissolution or liquidation, or there are instituted by or against it proceedings in bankruptcy or under insolvency law or for reorganization, receivership or dissolution;

- 6.3. An event occurs which harms or may harm the Company's financial ability, and according to the Bank's sole discretion such will jeopardize the chances of repaying the Secured Sums, or if the Company's business will materially change, or if the Company has begun to sell assets which are detrimental to its business, or if the Company's business are ran in a manner which may have substantially, a negative effect on the business, or if the Company's stops its activity for two months or more;
 - 6.4. If the Company's assets will be subject to a foreclosure (or a similar proceeding), and the foreclosed sum according to the Bank's discretion, may harm the Company's ability to stand up to its obligations according to the terms of the charge, provided such proceeding is not dismissed within 15 days;
 - 6.5. If it turned out that the Company gave false or incorrect representations, or breaches any of its obligations toward the Bank according to any agreement in effect between the parties;

If under the circumstances the Company is not willing to fulfill its obligation, and the violation is not corrected within 7 days.
 - 6.6. If the Company will be requested to pay early its commitments and obligations, all or some, to other creditors, or if a debt the Company has toward a third party has been demanded to be immediately paid, including pursuant to a court decision;
 - 6.7. If there is a change in the Company's holders composition with respect to that of the date of the charge, without the Bank's approval; the following will be deemed as included in such a change: the transfer of shares in any way, the decision of individuals and/or entities of which the Company consists of, which affects or may affect the Company's holding composition, any change in the individuals and/or entities which form the Company and/or hold the Company, directly and/or indirectly;
 - 6.8. If there is a substantial decrease in the market value of the Company's outstanding shares;
 - 6.9. If the Company is no longer listed and/or is about to delist itself from any registration administrated according to the law;
 - 6.10. If the Company gave any loans to its shareholders and/or paid to its shareholders any existing loans, without the bank's prior and written approval and/or the Company did not obtain its shareholders' commitment toward the Bank, according to which they will refrain from requesting or demanding the payment of such loans.
7. This pledge will be deemed as a constant security, and if the bank will receive other securities from any party, including the Company, this pledge will be in addition to and independent of such other securities, and will not affect nor be affected of such securities. The Company's obligations will remain in effect until the Bank will grant the Company a written notice, confirming that the Bond and the pledge are no longer in effect.
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TRANSLATION FOR CONVENIENCE ONLY
BINDING VERSION IS THE ORIGINAL HEBREW

September 19, 2012

To:
The First International Bank of Israel Ltd.
Branch: *Avnei Chen*

Dear Sir/Madame,

Whereas Radcom Ltd. (the “**Company**”) owes and/or will owe the bank, various amounts for credit, documentary credit, various loans, overdrafts in its accounts, in a current loan account or any other account, indemnification letters and guarantees, cheques discounting and various banking services which have been and/or will be provided to it and/or to other entities who are being guaranteed by the Company (the “**Banking Services**”);

And whereas Zohar Zisapel and Yehuda Zisapel hold some of the Company’s outstanding shares, as set in the Company’s review document of 11.9.2012 attached to this letter (the “**Shareholders**”) and/or are considered as controlling shareholders as the term “Control” is defined in The Securities Law - 1968 (the “**Controlling Shareholders**”) and/or are corporations who are under the control of the Shareholders and/or under the control of the Shareholders, according to the term “Control” as defined under The Securities Law – 1968 (hereafter: the “**Interested Parties**”);

And whereas as one of the conditions for providing Banking Services, the bank has requested that the Company and Interested Parties will sign this letter of covenants and the obligations specified herein, and the Company and Interested Parties have agreed.

Therefore, the Company warrants and commits toward the bank, that as long as it is being provided with the credits and Banking Services from the bank, and as long as its commitments and obligations toward the bank are in effect, as set out in the bank’s books, the following shall apply:

1. The Company shall comply at all times with the terms and financial ratios as set out below, which will be examined in accordance with the Company’s consolidated quarterly and annual financial statements (the annual ones will be audited and the quarterly will be internal).

1.1. The Company’s equity according to the financial statements as mentioned above shall not be reduced from 32% with respect to the balance sheet’s total.

Equity – as set out in the Company’s financial statements (which include, inter alia, the Company’s paid up share capital, capital funds, accumulated deficit and without the cost of the Company’s outstanding shares being held by the Company and/or its subsidiaries and without minority interests), with the addition of the Deferred Owners Loans, without loans and/or capital notes provided to the Interested Parties and/or related companies and without guarantees which the Company provided for guaranteeing the debts of the Interested Parties and/or the Company’s related companies and without intangible assets as set out in the Company’s financial statements, including but not limited to deferred expenses, goodwill, patents, trademarks, registered names, copyrights etc.

Interested Parties and/or subsidiaries and/or related companies, as these terms are defined in The Securities Law – 1968. Sums deducted from the Equity as defined above for the purpose of calculating the Equity, will also be deducted from the balance sheet in order to determine its rate, as required in Clause 1.1 above.

2. The Company undertakes that upon the implementation of accounting standards which are different from those being implemented by the Company today, partially or fully (the “**New Standards**”), and the filing of the financial statements in accordance with the New Standards, it will address the bank in order to adapt its obligations according to Clause 1 above to those derived out of the implementation of the New Standards. In the event the bank and the Company would fail to reach an agreement regarding the required changes within 30 days of the Company addressing the bank or within a different timeframe agreed between the parties, then such failure will be deemed as a cause for demanding the immediate pay off, of the Company’s obligations and commitments.

The Company declares that as of the effective date of this letter, it complies with these terms and financial ratios.

3. The joint Shareholders holding rate of the ownership and control of the Company and/or the entitlement for profits and/or other rights attached to the Company’s shares, shall not reduce below 30%, without the bank’s prior written consent.
4. Loans which the Company received and/or will receive from the Interested Parties (the “**Owners Loans**”) will be inferior and deferred from the Company’s debts and commitments to the bank, and debts and commitments to the bank will be prioritized over the Owners Loans as will be at any time.
5. The Company undertakes not to pay nor pay off the Owners Loans (or a part thereof) before paying off the full amounts owed to the bank for the Banking Services, and for as long as the Company’s full debts and commitments to the bank haven’t been paid off.

The Company declares that as of the date of this letter, there is no change in the Owners Loans and in their sums as are set out in the last financial statements which were filed and/or presented to the bank by the Company before signing on this letter.

Notwithstanding the above, the Company shall be entitled to pay and/or pay off the Owners Loans, or a part thereof, provided that at any time, even following the above payments and/or pay off, it shall comply with its obligations set out in Clause 1 at all times.

6. The Company shall provide the bank, following the receipt of the bank’s request, reports, documents and information in connection with the Company’s financial and business condition.
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Without derogating from the above, the bank will be presented, inter alia, as of the date of this letter, continuous reports as follows:

- 6.1. Within 90 days of the 31st day of December of each year, the Company shall provide the bank with all the financial statements relating to the year ending on the 31st day of December, when the statements are audited by a certified external accountant.
- 6.2. Within 60 days of the last day of March, June, and September of each year, the Company will provide the bank with all the internal statements relating to the previous quarter ending on the last day of each of the above mentioned months.
- 6.3. Within 30 days of the last day of each quarter, the Company will provide the bank with details on inventory (including the types of inventory), debtors (including customers in Israel, abroad, various debtors and its debts to prioritized creditors) and the debt balance in the banking system. The data will relate to the last day of each quarter.
- 6.4. Not later than the February 15 of each year, the Company will provide the bank with an annual budget and cash flow on a quarterly basis, relating in advance to that year.
- 6.5. If the Company will prepare additional financial statements in Israel and abroad, audited or not audited and/or additional financial statements such as prospectus, which are intended to be presented to entities in Israel or abroad, the Company will provide the bank copies of such statements immediately after their preparation.
- 6.6. Without derogating from this Clause, the delegates of the bank will be entitled to meet the Company's accountant at all times upon request, for the purpose of verifying the data on the Company's financial situation.

For the purpose of this letter, the term "**financial statements**" means- balance, profit and loss report, cash flow report, equity change report including the explanations which were edited and audited (with regard to annual reports only) in accordance with acceptable accounting standards.

7. The Company will report to the bank immediately, upon a claim or legal proceeding of any sort, the value of which is above NIS 100,000, which was filed or commenced or of which the Company is aware that such are going to commence against it in a court or any other judicial tribunal, in Israel or abroad.
 8. The Company is aware that the breach of one or more of its commitments according to this letter, including in the event of a breach caused due to the implementation of New Standards as set out in Clause 2 above, partially or fully, then in addition to every remedy the bank will be entitled to according to every document the Company has signed and/or will sign and/or according to the law, the bank will be entitled, but not obligated, to demand the immediate pay off of all the amounts it is entitled to from the Company for the Banking Services, all or some, and to exercise any collateral and/or guarantee which was provided by and/or for the Company.
 9. All the obligations of the Company and the Interested Parties according to this letter, and all the rights of the bank according to this letter are in addition to and independent, of the obligations, collateral and guarantees the bank received and/or will receive from the Company and/or the Interested Parties and/or any of them, and will not effect on or be affected from them.
 10. The waiver of the bank of a previous breach or of the noncompliance of one or more obligations towards it, whether such commitment is included in this letter or whether it is included or will be included in any other document, will not be deemed as a justified cause for an additional breach or additional noncompliance of any term or commitment; the abstention of the bank from exercising any right it is entitled to according to any document and/or the law, will not be deemed as a waiver of that right.
-

11. For the sake of relieving any doubt, it is clarified that nothing mentioned in this letter shall derogate from or diminish in any way, any commitment of the Company and/or Interested Parties and/or any of them toward the bank and/or from any right the bank is entitled to from the Company and/or the Interested Parties according to the General Terms For Operating An Account and any other document which has been and/or will be signed by them and/or any one of them.

Respectfully yours,

RADCOM LTD.

By: /s/ Gilad Yehudai

Gilad Yehudai, CFO

We the undersigned, who are the shareholders and/or controlling shareholders of RADCOM Ltd. (the “Company”), approve and commit toward you, jointly and individually, as follows:

1. We hereby give our consent to the above commitments given by the Company.
2. We undertake not to cause or agree for a change in the Company’s shares holding rate, including in the manner of transferring shares and/or grating shares and/or in any other way, and for a change in the identity of the shareholders in a way which will cause the Company to breach its above undertakings.
3. We agree and commit, that the loans the Company has and/or will receive from us (the ‘Owners Loans’) will be inferior to and deferred from the Company’s obligations and debts toward the bank, and that the Company’s obligations and debts toward the bank will be prioritized over the Company’s commitments towards us for the Owners Loans as will be in effect at all time, and that the Company and/or anyone on its behalf will pay off all of the Company’s debts and obligations toward the bank, before paying off the Owners Loans as will be in effect at that time.
4. Without derogating from Clause 3, we undertake not to demand and not to receive from the Company in any way, payments on the account of paying off the Owners Loans, or any part thereof, as long as the Company receives credits and Banking Services, and as long as all of the Company’s debts and obligations haven’t been paid off to the bank.
5. We hereby undertake that if, and for any cause, we will receive some payment on the account of paying off the Owners Loans, whilst at that time all of the Company’s dents and obligations haven’t been paid off to you, we will pay off to you any sum paid to us and/or which will be received by us on the account of the Owners Loans.
6. We will instruct the office holders appointed on our behalf to exercise best efforts, so that the Company will comply with all of its debts and obligations toward the bank when due, and will pay off all of the Company’s debts and obligations toward the bank when due.
7. Our above undertakings will be cancelled upon the cancellation of the Company’s above commitments.

By: /s/ Zohar Zisapel
Zohar Zisapel

By: /s/ Yehuda Zisapel
Yehuda Zisapel

LIST OF SUBSIDIARIES

<u>Name</u>	<u>Jurisdiction of Incorporation</u>
RADCOM Equipment, Inc.	New Jersey
RADCOM Investments (96) Ltd.	Israel
RADCOM do Brasil Comercio, Importacao E Exportacao Ltda.	Brazil
RADCOM Trading India Private Limited.	India

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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: April 22, 2013

/s/ David Ripstein
David Ripstein
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Gilad Yehudai, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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: April 22, 2013

/s/ Gilad Yehudai
Gilad Yehudai
Chief Financial Officer
(Principal Financial Officer)

**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, 2012, 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: April 22, 2013

/s/ David Ripstein

David Ripstein
Chief Executive Officer
(Principal Executive Officer)

**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, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gilad Yehudai, 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: April 22, 2013

/s/ Gilad Yehudai
Gilad Yehudai
Chief Financial Officer
(Principal Financial Officer)

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File No. 333-13250, No. 333-111931 and No. 333-123981) pertaining to The Radcom Ltd. International Employee Stock Option Plan, and The Radcom Ltd. 2003 Share Option Plan and Form F-3 (File No. 333-152848 and 333-170512) of Radcom Ltd., and in the related Prospectus, of our report dated April 22, 2013 with respect to the consolidated financial statements of Radcom Ltd. and its subsidiaries for the year ended December 31, 2012 included in this Annual Report on Form 20-F for the year ended December 31, 2012.

Tel-Aviv, Israel
April 22, 2013

/s/ KOST FORER GABBAY & KASIERER
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global
