

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, 2019

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)

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(Address of Principal Executive Offices)

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Ordinary Shares, NIS 0.20 par value per share	RDCM	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, 2019, there were 13,786,153 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 every Interactive Data File required to be submitted 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 such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Emerging Growth Company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, or this Annual Report, are forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, 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, or 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.

As used in this Annual Report, the terms “we,” “us,” “our,” “RADCOM” and the “Company” mean RADCOM Ltd. and its subsidiaries, unless otherwise indicated.

References herein to our “solutions” or “solution” are intended to refer to our products and related services as the context requires.

We have registered with the United States Patent and Trademark Office, or USPTO, and hold the trademarks “Omni-Q” and “RADCOM” in the United States. All other trademarks and trade names appearing in this Annual Report are owned by their respective holders.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains express or implied “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and other U.S. Federal securities laws.

These forward-looking statements include, but are not limited to:

- our plans to become the market leader for service assurance to leading communication service providers, or CSPs, and increase our sales;
- the impact of the spread of the coronavirus on our business in the short and long terms;
- our plans to focus our expansion efforts in tier 1 and other leading and innovative CSPs in the North American, European, and Asia-Pacific markets and our success in doing so;
- our ability to leverage our technology leadership and our cumulative experience to implement one of the largest and most comprehensive network function virtualization, or NFV, deployments;
- our expectations to maintain our technological advantage over our competitors;
- our failure to meet any guidance we may give to the public from time to time;
- our ability to successfully deliver and implement our solutions to AT&T Services, Inc., or AT&T, Rakuten Mobile, Inc., or Rakuten, and other CSPs;
- our ability to identify, market and sell our solutions to CSPs migrating to the 5G, NFV, LTE, and VoLTE networks;
- our ability to release and deploy newly launched product offerings;
- the potential continued growth of our workforce, research and development operations and related expenses;
- our expectation that the NFV market will gain momentum;
- trends in our industry as a whole and their effect on us; and
- our expectations regarding CSPs’ implementation and usage of next-generation services and the resulting potential need for our solutions.

In some cases, forward-looking statements are identified by terminology such as “may,” “will,” “could,” “should,” “expects,” “plans,” “anticipates,” “believes,” “intends,” “estimates,” “predicts,” “potential,” or “continue” or the negative of these terms or other comparable terminology. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or performance to differ materially from those projected. These statements are only current predictions and are subject to known and unknown risks, uncertainties, and other factors that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from those anticipated by the forward-looking statements. The forward-looking statements contained in this Annual Report are subject to risks and uncertainties, including those discussed under “Item 3.D-Risk Factors” and in our other filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Except as required by law, we are under no duty to (and expressly disclaim any such obligation to) update or revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Annual Report.

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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 statements of operations data for the years ended December 31, 2019, 2018 and 2017 and the selected consolidated balance sheet data as of December 31, 2019 and 2018 from our audited consolidated financial statements and notes included in this Annual Report. Our selected consolidated statements of operations data for the years ended December 31, 2016 and 2015 and the selected consolidated balance sheet data as of December 31, 2017, 2016 and 2015, have been derived from 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, or 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 “dollars,” “U.S. dollars” or “\$” in this Annual Report are to United States dollars. All references to “NIS” are to the New Israeli Shekels.

Statement of Operations Data:	Year Ended December 31, (in thousands of U.S. dollars, except share and per share data)				
	2019	2018	2017	2016	2015
Revenues:					
Products	\$ 16,382	\$ 13,529	\$ 7,457	\$ 8,642	\$ 15,500
Services	16,300	8,303	3,597	3,334	2,551
Projects	328	12,218	26,179	17,534	622
	<u>33,010</u>	<u>34,050</u>	<u>37,233</u>	<u>29,510</u>	<u>18,673</u>
Cost of revenues:					
Products	4,811	4,851	4,680	5,603	3,924
Services	5,022	1,190	487	477	285
Projects	84	2,825	5,321	2,902	117
	<u>9,917</u>	<u>8,866</u>	<u>10,488</u>	<u>8,982</u>	<u>4,326</u>
Gross profit	23,093	25,184	26,745	20,528	14,347
Operating expenses:					
Research and development	18,578	15,503	10,562	8,047	6,071
Less - royalty-bearing participation	1,838	1,648	1,599	1,693	1,582
Research and development, net	<u>16,740</u>	<u>13,855</u>	<u>8,963</u>	<u>6,354</u>	<u>4,489</u>
Sales and marketing, net	10,514	11,426	10,996	8,528	7,834
General and administrative	3,674	3,391	4,191	4,523	2,393
Total operating expenses	<u>30,928</u>	<u>28,672</u>	<u>24,150</u>	<u>19,405</u>	<u>14,716</u>
Operating income (loss)	<u>(7,835)</u>	<u>(3,488)</u>	<u>2,595</u>	<u>1,123</u>	<u>(369)</u>
Financial income (expenses), net	1,172	1,136	389	816	(433)
Income (loss) before taxes on income	(6,663)	(2,352)	2,984	1,939	(802)
Taxes on income	(169)	(63)	(83)	(24)	(121)
Net income (loss)	<u>\$ (6,832)</u>	<u>\$ (2,415)</u>	<u>\$ 2,901</u>	<u>\$ 1,915</u>	<u>\$ (923)</u>
Basic net income (loss) per ordinary share	\$ (0.50)	\$ (0.18)	\$ 0.24	\$ 0.18	\$ (0.11)
Weighted average number of ordinary shares used to compute basic net income (loss) per ordinary share	13,779,885	13,630,793	12,039,176	10,406,897	8,572,681
Diluted net income (loss) per ordinary share	\$ (0.50)	\$ (0.18)	\$ 0.23	\$ 0.18	\$ (0.11)
Weighted average number of ordinary shares used to compute diluted net income (loss) per ordinary share	13,779,885	13,630,793	12,351,566	10,779,547	8,572,681
Balance Sheet Data:					
Working capital	\$ 70,487	\$ 76,860	\$ 74,842	\$ 38,854	\$ 9,643
Total assets	\$ 96,402	\$ 89,531	\$ 91,909	\$ 54,568	\$ 20,135
Shareholders' equity	\$ 73,870	\$ 78,480	\$ 76,396	\$ 40,143	\$ 9,863
Share capital	\$ 648	\$ 643	\$ 628	\$ 523	\$ 372

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)
March 2020 (through March 25)	3.862	3.460
February 2020	3.467	3.416
January 2020	3.475	3.448
December 2019	3.501	3.456
November 2019	3.522	3.455
October 2019	3.545	3.481
September 2019	3.549	3.482

On March 25, 2020, the daily representative rate of exchange between the NIS and U.S. dollar as published by the Bank of Israel was NIS 3.642 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 daily rate of exchange during the relevant period as published by the Bank of Israel:

Year	Average (NIS)
2020 (through March 25, 2020)	3.494
2019	3.564
2018	3.597
2017	3.600
2016	3.841
2015	3.884

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

Investing in our ordinary shares involves a high degree of risk. You should carefully consider the risks described below before investing in our ordinary shares.

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

The COVID-19 Coronavirus outbreak could harm our business.

The ongoing coronavirus outbreak has resulted in increased travel restrictions and has caused significant disruptions to business activities globally. Such restrictions and disruptions, and any potential future travel restrictions, quarantine requirements, government ordered shutdowns or similar actions in countries in which the Company, its employees, customers, suppliers and other stakeholders or its customers operate could interfere with our ability to deliver products and solutions, impact potential customers' procurement decisions and financial stability, and have other additional negative impacts on our operations and business. Due to the nature of our business, we have been able to transition our employees to work from home so as to allow the development of our products and solutions and our support of customers' ongoing needs to continue without interruption. However, we cannot be certain of our ability to meet all customer needs or to meet all of our development targets through remote work and are unable to predict how long we will be required to continue working remotely and what additional travel or other restrictions may arise which could have a direct impact on our business.

Our business is dependent on a limited number of significant customers and the loss of a significant customer could materially adversely affect our results of operations.

Our business is dependent on a limited number of significant customers. For example, our three largest customers accounted for approximately 83% of our revenue in fiscal year 2019. The loss of any significant customer, a significant decrease in business from any such customer, or a reduction in customer revenue due to adverse changes in the terms of our contractual arrangements, market conditions, customer circumstances or other factors could have a material adverse effect on our results of operations and financial condition. Revenue from individual customers may fluctuate from time to time based on the commencement, scope and completion of projects or other engagements, the timing and magnitude of which may be affected by market or other conditions.

The pace in which we grow our business depends on our customers' internal processes and decisions regarding the transition to NFV and 5G.

The pace of transition to NFV and 5G and timeframe for reaching a mature infrastructure for NFV and 5G is dependent on CSPs' internal decisions regarding NFV and 5G technology implementation, timing, nature of virtualization and budgeting. Such decisions may be affected by the overall pace of NFV adoption and 5G deployment in the industry as well as by other technology trends such as the deployment of 5G networks. The pace in which we deploy our solutions is directly affected by the pace of CSPs' internal processes and the pace of maturation of the NFV market. To the extent that CSPs require more time to reach the decision to virtualize, decide to delay virtualization while the market develops, or elect not to transition to NFV and to deploy 5G, our sales cycles may lengthen, and the growth of our business may be adversely affected.

Natural disasters and other events beyond our control could harm our business.

Natural disasters or other catastrophic events may cause damage or disruption to our operations, international commerce and the global economy, and thus could have a negative effect on us. Our business operations are subject to interruption by natural disasters, flooding, fire, power shortages, pandemics such as the recent spread of the coronavirus, terrorism, political unrest, telecommunications failure, vandalism, cyber-attacks, geopolitical instability, war, the effects of climate change (such as drought, wildfires, increased storm severity and sea level rise) and other events beyond our control. Although we maintain crisis management and disaster response plans, such events could make it difficult or impossible for us to deliver our solutions and services to our customers, could decrease demand for our solutions and services, and could cause us to incur substantial expense.

A reduction in some CSPs' revenues and profitability could lead to decreased investment in capital equipment and infrastructure which may, in turn, affect our revenues and results of operations. A continued slowdown in our customers' investment in capital equipment and infrastructure might 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 NFV transformation, 5G and Internet of Things, 4G cellular, Triple Play networks, VoLTE, , or IoT. During the last few years, some of the CSPs have experienced a reduction in their revenues from subscribers and lower profitability, which affected their spending budgets. This trend may continue. The global telecommunications industry and various sectors within the industry are evolving rapidly and it is difficult to predict its potential growth rate or future trends in technology development.

Our future success also depends upon the increased utilization of our solutions by next-generation network operators and specifically virtualized networks, who may not adopt our technology.

During the last few years, developments in the telecommunications industry have had a material effect on our existing and/or potential customers and may continue to have such an effect in the future. Such developments include changes in general global economic conditions, industry consolidation, emergence of new competitors, commoditization of voice services, regulatory changes, and changes in the plans of CSPs to shift, transform and adapt their network operations to NFV and to rollout 5G networks. Over the last few years, the telecommunications industry has experienced financial pressures that have caused many in the industry to reduce investment in capital intensive projects, and in some cases, have led to restructurings. While the transformation of network operations to NFV arises out of the desire of CSPs to reduce network infrastructure expense, thus creating opportunities for us, it also creates a downward pressure on the prices of our solutions.

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

The telecommunications industry is characterized by rapidly changing technology, network infrastructure, and customer requirements and by evolving industry standards and frequent new product introductions. These changes require us to constantly adapt and improve our solutions to meet changing industry requirements. If we are unable to stay ahead of industry trends or to timely and successfully complete the development of solutions supporting new standards and technologies such as 5G, our business may be affected as new requirements could reduce or shift the market for our solutions or require us to develop new solutions.

Additionally, because new or enhanced telecommunications and data communications-related products developed by other companies could be incompatible with our solutions, our timely access to information concerning changes in technology, in customer requirements, and in industry standards, as well as our ability to anticipate such changes and develop and market new and enhanced solutions successfully and on a timely basis, will be significant factors in our ability to remain competitive.

Our future success will depend on our ability to develop and maintain long-term relationships with our customers and to meet their expectations in providing solutions and related services.

We believe that our future success will depend to a significant extent on our ability to develop and maintain long-term relationships with successful CSPs who have the financial and other resources required to invest in significant ongoing Service Assurance, Customer Experience Management, or CEM, and Service Operations Center, or SOC, solutions. Our business and our results of operations could be adversely affected if we are unable to develop sustainable customer relationships, or to meet customers' expectations in providing solutions and related services.

We may enter into long-term sales agreements with large customers. Such agreements may prove unprofitable as our costs and product mix shift over the terms of the agreements.

We may enter from time to time into long-term sales agreements with large customers. We may be required under such agreements to sell our solutions at fixed prices over the terms of the agreements. The costs we incur in fulfilling the agreements may vary substantially from our initial cost estimates. Any cost overruns that we cannot pass on to our customers could adversely affect our results of operations.

In the future, we may also be required under such agreements to sell solutions that we may otherwise wish to discontinue, thereby diverting our resources from developing more profitable or strategically important solutions.

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 CSPs 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 increase our sales to large CSPs, we may be required to agree to unfavorable terms and conditions which may decrease our revenues and/or increase the time it takes to convert orders into revenues and could result in an adverse effect on our business, financial condition and results of operations. Similarly, some of our contracts may contain change in control provisions which may have an adverse effect on our business and results if exercised following a change in control transaction or, in the alternative, may act as an impediment to certain change in control transactions.

Global economic conditions may adversely affect our business.

Changes in global economic conditions could have a negative impact on business around the world and on the telecommunications sector. Conditions may be depressed, or may be subject to deterioration, which could lead to a reduction in consumer and customer spending overall and may in turn have an adverse impact on sales of our solutions. 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 solutions and the inability or failure on their part, to meet their payment obligations to us, any of which could have an adverse effect on our business, financial condition, results of operations and liquidity. In addition, any disruption in the ability of our customers to access liquidity could require us to assume greater credit risk relating to our receivables or could limit our ability to collect receivables related to purchases by affected customers. 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 we may incur losses.

Our plans to focus most of our sales efforts on tier 1 and other leading CSPs in the North American, European and select other markets may not be successful.

We believe that the significant share of NFV deployment activity is expected to take place in North America, Europe, select CSPs in Asia-Pacific and select CSPs in developing markets such as Latin America. We have accordingly enhanced our presence and focused our sales and marketing resources in these markets. While we expect the selection of our NFV solutions by AT&T and another tier 1 CSP to enhance the opportunities available to us, we may not be successful in expanding our business as we plan.

Our expectations regarding the pace of NFV transformations or 5G rollout may not materialize.

We believe that most of the industry's leading CSPs will rollout 5G networks which will in turn promote the adoption of cloud-native and NFV solutions. Our expectation is that market for our solutions will materialize and gain momentum as a result. However, our expectations may not be correct, and the actual pace of NFV transformation and/or 5G rollout may take longer than we anticipate or may not occur at all. If the demand for NFV does not continue to grow or the 5G rollout does not materialize, our business, financial condition and results of operations may suffer.

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.

We have experienced, and in the future may also experience, 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;
- seasonal factors that may affect capital spending by customers, such as the varying fiscal year-ends of customers;
- the relatively long sales cycles for our solutions;
- 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 solutions or enhancements by us and by our customers, competitors and suppliers;
- changes in the level of operating expenses relative to revenues;
- 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 product mix;
- the size and timing of approval of grants from the Government of Israel; and
- foreign currency exchange rates.

Our costs of revenues consist of variable costs, which include labor and related costs, including costs incurred in software development customization for projects and deployment costs, the use of hardware, inventory write-offs, packaging, importation taxes, shipping and handling costs, license fees for software components of third parties, warranty expenses, allocation of overhead expenses, subcontractors' expenses, royalties to the Israel Innovation Authority, or IIA, and share-based compensation. A major part of our costs of sales is relatively variable and determined based on our anticipated revenues. We believe, therefore, that quarter-to-quarter comparisons of our operating results may not be a reliable indication of future performance.

Our revenues in any quarter 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.

We may experience a delay in generating or recognizing revenues for several reasons, including revenue recognition accounting requirements. In many cases, we cannot recognize revenue from an order prior to customer acceptance, which may take three to 12 months from the commencement of the engagement. Therefore, a major part of the revenue for any fiscal quarter may be derived from a backlog of orders under delivery and may not correlate to the date of a customer's order or the delivery date.

Our revenues for a specific quarter may also be difficult to predict and may be affected if we experience a non-linear sales pattern. We generally experience significantly higher levels of sales orders towards the end of a quarter as a result of customers submitting their orders late in the quarter. Furthermore, orders received towards the end of the quarter are usually not delivered within the same quarter and are usually 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 for that quarter could be adversely affected.

Due to the factors described above, as well as other unanticipated factors, in future quarters our results of operations could fail to meet guidance we may give to the public from time to time or the expectations of public market analysts or investors. If this occurs, the price of our ordinary shares may be adversely affected.

We expect our gross margins to vary over time and we may not be able to sustain or improve upon our recent levels of gross margin which may have a material adverse effect on our future profitability.

We may not be able to sustain or improve upon our recent levels of gross margin. Our gross margins 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 solutions;
- changes in customer, geographic or product mix;
- increases in costs such as employment costs or third-party service or component costs;
- changes in distribution channels;
- losses on customer contracts; and
- increases in warranty costs.

Further deterioration in gross margins, due to these or other factors, may have a material adverse effect on our business, financial condition and results of operations.

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

We plan to continue to generate revenue from various emerging market countries which represent a portion of our existing business and our expected growth. Economic or political turmoil in these countries could materially adversely affect our revenues and results of operations. Our investments in emerging market countries may also be subject to risks and uncertainties, including unfavorable taxation treatment, exchange rates, 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.

Most of our customers usually require a detailed and comprehensive evaluation process before they order our solutions. Our sales process may be subject to delays that could significantly decrease our revenues and result in the eventual cancellations of some sale opportunities.

We derive all of our revenues from the sale of solutions and related services for CSPs. As common practice in our industry, our solutions 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 solutions and decisions are subject to additional levels of internal review. As a result, the sales cycle may be longer than anticipated. 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 solutions 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 delay project approval or extend anticipated decision-making timelines, or if continued delays result in the eventual cancellation of any sale opportunities, it may have a material adverse effect on our business, financial condition and results of operations.

We have experienced periods of growth of our business. If we cannot adequately manage our business, our results of operations may suffer.

During 2017, 2018 and 2019, we increased the size of our workforce and we may continue to do so in the future in order to enable us to meet our obligations, continue enhancing our products and solutions, and grow our business. There is no guarantee that these efforts to increase our work force will have a positive effect on our business. Future growth may place a significant strain on our managerial, operational and financial resources.

We cannot be sure that our systems, procedures and managerial controls will be adequate to support our operations. Any delay in implementing, or transitioning to, new or enhanced systems, procedures or controls may adversely affect our ability to record and report financial and management information on a timely and accurate basis. We believe that significant growth may require us to hire additional personnel. Moreover, competition for qualified personnel can be intense in the areas where we operate, and the processes of locating, training and successfully integrating qualified personnel into our operations can be lengthy and expensive. If we are unable to successfully manage our expansion, including by attracting, incentivizing and retaining highly skilled personnel, we may not succeed in expanding our business, our expenses may increase, and our results of operations may be adversely affected.

In addition, employees may seek future employment with our business partners, customers or competitors. We cannot be sure that the confidential nature of our proprietary information will not be compromised by any such employees who terminate their employment with us.

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

Many companies compete with us in the market for service assurance and CEM/SOC solutions. We expect that competition will increase in the future, both with respect to solutions that we currently offer and solutions that we are developing. Moreover, manufacturers of data communications and telecommunications equipment with whom we partner or may partner may in the future incorporate into their products capabilities similar to ours, thus reducing the demand for our solutions.

Some 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.

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

We generally enter into non-competition agreements with our key employees. 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 for a limited period. Under applicable Israeli law, we may be unable to enforce these agreements or any part thereof against our Israeli employees. If we cannot enforce our non-competition agreements against our Israeli (or any other) employees, then we may be unable to prevent our competitors from benefiting from the expertise of these former employees, which could impair our business, results of operations and ability to capitalize on our proprietary information.

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 depend to an extent upon the continuing services of our executive officers and other key employees including our Chief Executive Officer, Eyal Harari, our Chief Operating Officer, Hilik Itman, and our Chief Technology Officer, Rami Amit. 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.

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

The complexity and scope of the solutions we provide to larger CSPs is increasing. The larger and more complex such projects are, the greater the operational risks associated with such projects. These potential risks include failure to successfully deliver our solution, failure to fully integrate our solutions with third party products and complex environments in the CSP's network, 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, and may result in difficulty in collecting payment and recognizing revenues from such project.

We could be subject to claims under our warranties and extended maintenance and support agreements which may affect our financial condition.

Our solutions are complex and may sometimes contain undetected errors which can delay introductions or necessitate redesign. In addition, we are dependent on other suppliers for key components that are incorporated in our solutions. Failures in networks in which our solutions are deployed arising out of our solutions may result in customer dissatisfaction, contractual claims and, potentially, liability claims being filed against us. Our warranties require us to correct any errors or defects in our solutions. The warranty period is mostly for one year but could be extended either in the initial purchase of our solution or after the initial warranty period ends through the purchase of extended support and maintenance. Any failure of a network in which our solutions are deployed (whether or not our solutions are the cause) and any customer claims against us, along with any associated negative publicity, could result in the loss of, or delay in, market acceptance of our solutions 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 solutions which may expose us to liability and have a material impact on our product development and sales.

Some of our solutions utilize open source technologies. These technologies are licensed to us under varying license structures. These licenses pose a potential risk to our solution in the event they are inappropriately integrated. If we have not, or do not in the future, properly integrate software that is subject to such licenses into our solutions or if we utilize open source software that is subject to licensing terms that are incompatible with our use, we may be required to disclose our own source code to the public or may lose rights to our solutions. Any such requirement to disclose or grant rights in our source code or other confidential information related to our solutions could, therefore, materially adversely affect our competitive advantage and impact our business, financial condition and results of operations.

We depend on limited sources for key components and if we are unable to obtain these components when needed we may experience delays in delivering our solutions.

We currently obtain key components of our software solutions from a limited number of suppliers. With some of our suppliers, we do not have long-term supply contracts. We may be subject to the following risks:

- delays in delivery could interrupt and delay delivery and result in cancellations of orders;
- suppliers could increase component prices significantly and with immediate effect;
- we may not be able to locate alternatives for such components; and
- suppliers could discontinue the supply or support of such components which may require us to modify our solutions, and cause delays in delivery, increased development costs and increased solution prices.

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, non-disclosure agreements and technical measures to establish and protect our intellectual property rights in our solutions and technologies. In addition, we sometimes enter into non-competition, non-disclosure and confidentiality agreements with our employees, distributors, sales representatives and certain suppliers with access to sensitive information. We currently have one registered patent and five pending patent applications. However, these measures may not be adequate to protect our technology from third-party infringement. Additionally, effective intellectual property protection may not be available in every country in which we offer, or intend to offer, our solutions.

We may expand our business or enhance our technology through partnerships and 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 may be 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 solutions 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, financial condition and results of operations could be adversely affected. As of the date of this Annual Report, we have not proceeded with such acquisitions.

Certain privacy and data security laws and regulations may affect the use of our solutions.

Our solutions and their use may be subject to certain laws and regulations regarding privacy and data security including United States federal and state laws and recently enacted European privacy laws. Generally, attention to privacy and data security requirements is increasing worldwide and is resulting in increased regulation. Such regulations may impose significant penalties for non-compliance, such as the penalties proposed under the European data protection regulations which became effective in May 2018. Use of our solutions could be subject to such new regulation, which could significantly increase the cost of implementing our solutions and impact our ability to compete in the marketplace. Such regulations could also impose additional data security requirements which will impact the cost of developing new solutions and limit the return we can expect to achieve on past and future investments in our solutions.

If security measures for our solutions are compromised and as a result, our customers' data or our systems are accessed improperly, made unavailable, or improperly modified, our solutions may be perceived as vulnerable, which may materially affect our business and result in potential liability.

Despite our efforts to implement appropriate security measures, we cannot guarantee that our solutions and systems are fully protected from vulnerabilities such as viruses, worms and other malicious software programs, attacks, break-ins and similar disruptions from unauthorized tampering by computer hackers and others seeking to gain unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. If a cyber-attack or other security incident were to result in unauthorized access to, or deletion of, and/or modification and/or exfiltration of our customers' data, other external data or our own data or our systems or if the use of the solutions we provide to our customers was disrupted, customers could lose confidence in the security and reliability of our solutions and perceive them not to be secure. This in turn could lead to fewer customers using our solutions and result in reduced revenue and earnings. The costs we would incur to address and fix these security incidents would increase our expenses. Additionally, the occurrence of a cyber-attack or security incident with respect to our solutions could cause our customers to make claims against us for damages allegedly resulting from a security breach, and security incidents could also lead to data or privacy breaches, regulatory investigations and claims, all of which could increase our liability. These risks may increase as we grow our customer base and increase instances of deployment and use of our solutions.

Because we received grants from the IIA, we are subject to ongoing restrictions.

We have received an aggregate of \$46.7 million in royalty-bearing grants from the IIA for certain research and development activities pursuant to an incentive program. Accordingly, we are obligated to pay royalties to the IIA on revenues from products developed pursuant to the program or deriving therefrom. In addition, under the terms of the program our ability to transfer any resulting know-how, especially to parties outside of Israel, is subject to certain terms and conditions. The Law for the Encouragement of Research, Development and Technological Innovation in the Industry, 1984-5744, or the R&D Law, generally requires a grant recipient and its controlling shareholders to notify the IIA of changes in the ownership of the recipient company and to undertake to the IIA to observe the laws governing the grant programs.

Additionally, in May 2010, we received a notice from the IIA regarding alleged miscalculations in the amount of royalties paid by us to the IIA for the years 1992 through 2009 and the revenues on which the Company must pay royalties. During 2011, we reviewed with the IIA these alleged miscalculations. We believe that all royalties due to the IIA from the sale of products developed with funding provided by the IIA during such years were properly paid or were otherwise accrued as of December 31, 2019. However, we cannot be sure that the IIA will accept our arguments mentioned above, which, if not accepted, may result in the expenditure of financial resources.

We may be subject to claims of infringement of third-party intellectual property which may have an adverse effect on 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.

Zohar Zisapel and Yehuda Zisapel beneficially own, in the aggregate, approximately 23% of our ordinary shares and therefore have significant influence over the outcome of matters requiring shareholder approval including the election of directors.

As of March 25, 2020, Zohar Zisapel (a member of our Board of Directors) and Yehuda Zisapel, who are brothers, may be deemed to beneficially own an aggregate of 3,234,531 ordinary shares, including options exercisable for 16,000 ordinary shares that are exercisable within 60 days of March 25, 2020 and 610 RSU that will be vested within 60 days of March 25, 2020, representing approximately 23% 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, Zohar Zisapel and Yehuda Zisapel have significant influence over the outcome of various actions that require shareholder approval including the election of our directors. In addition, Zohar Zisapel and Yehuda 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 Zohar Zisapel and Yehuda 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 Zohar Zisapel and/or Yehuda 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. Furthermore, in some cases we may compete, or buy third party components from other companies who compete, with companies controlled by Zohar Zisapel and/or Yehuda Zisapel.

For more information, see “Item 7.B-Major Shareholders and Related Party Transactions—Related Party Transactions” and “Item 10.B-Fiduciary Duties of Shareholders.”

We incurred net losses in the past and may not achieve or sustain profitability in the future.

In 2019 and 2018, we incurred net losses of approximately \$6.8 million and \$2.4 million, respectively. Although we were profitable in 2017 and 2016, we may continue to incur losses in the future or may be unable to sustain profitability, which could materially affect our cash and liquidity and could adversely affect the value and market price of our shares.

Our growing international presence exposes us to risks associated with varied and changing political, cultural, legal and economic conditions worldwide and 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 96% of our sales in 2019, 98% of our sales in 2018, and 90% of our sales in 2017 were generated outside of Israel. Our international sales will be limited if we cannot continue to establish and maintain relationships with international distributors and resellers, set up additional foreign operations, expand international sales channel management, hire additional personnel, develop relationships with international CSPs 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 solutions. Our international operations are subject to a number of risks, including:

- legal, language and cultural differences in the conduct of business;
- challenges in staffing and managing foreign operations due to the limited number of qualified candidates and due to employment laws and business practices 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 including additional labor laws, particularly in Brazil and India, 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 and resellers for indirect sales;
- tariffs and other trade barriers;
- economic and political instability in foreign markets;
- wars, acts of terrorism and political unrest;
- lack of integration of foreign operations;
- currency fluctuations;
- variations in effective income tax rates among countries where we conduct business;
- potential foreign and domestic tax consequences and withholding taxes that limit the repatriation of earnings;
- technology standards that differ from those on which our solutions are based, which could require expensive redesign and retention of personnel familiar with those standards;
- laws and business practices favoring local competitors;
- longer accounts receivable payment cycles and possible difficulties in collecting payments; and
- failure to meet certification requirements.

Any of these factors could harm our international operations and have an adverse effect on our business, operating efficiency, results of operations, financial performance and financial condition. The continuing weakness in foreign economies could have a significant negative effect on our future operating results.

Because our revenues are generated primarily in foreign currencies (mostly in U.S. dollars but also in other currencies), but a significant portion of our expenses are incurred in New Israeli Shekels, our results of operations may be seriously harmed by currency fluctuations.

We sell in markets throughout the world and most of our revenues are generated in U.S. dollars. We also generate revenues in Brazilian real, or BRL, euro and other currencies. Financing activities are also made in U.S. 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 as well as between other currencies 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.

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. Also, as a portion of our revenues is denominated in BRL, devaluation in this currency may cause financial expenses related to our intercompany short-term balances. 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.

In addition, a material portion of our leases are denominated in currencies other than the U.S. dollar, mainly in NIS. In accordance with the lease accounting standard, which became effective on January 1, 2019, associated lease liabilities are remeasured using the current exchange rate in the future reporting periods, which may result in material foreign exchange gains or losses.

Our international sales and operations are subject to complex laws relating to foreign corrupt practices and bribery, among many other subjects. A violation of, or change in, these laws could adversely affect our business, financial condition or results of operations.

Our operations in countries outside the United States are subject, among others, to the Foreign Corrupt Practices Act of 1977 as amended from time to time, or FCPA, which prohibits U.S. companies or foreign companies whose shares traded on a U.S. stock exchange, or their agents and employees, from providing anything of value to a foreign public official, as defined in the FCPA, for the purposes of influencing any act or decision of these individuals in their official capacity to help obtain or retain business, direct business to any person or corporate entity, or obtain any unfair advantage. We have internal control policies and procedures with respect to the FCPA. However, we cannot assure that our policies and procedures will always protect us from reckless or criminal acts that may be committed by our employees or agents. Violations of the FCPA may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could have a material adverse effect on our business, results of operations and financial condition. In addition, investigations by governmental authorities as well as legal, social, economic and political issues in countries where we operate could have a material adverse effect on our business and results of operations. We are also subject to the risks that our employees or agents outside of the United States may fail to comply with other applicable laws. The costs of complying with these and similar laws may be significant and may require significant management time and focus. Any violation of these or similar laws, intentional or unintentional, could have a material adverse effect on our business, financial condition or results of operations.

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

Pursuant to rules of the U.S. Securities and Exchange Commission, or SEC, adopted pursuant to Section 404, or Section 404, of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, we are required to include in our annual report a report of management on our internal control over financial reporting including an assessment by management of the effectiveness of our internal control over financial reporting. In addition, because we qualify as an accelerated filer under the SEC rules, our independent registered public accounting firm is required to attest to and report on the effectiveness of our internal control over financial reporting. Our management or our auditors may conclude that our internal control over financial reporting is not effective. Such conclusion 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, our auditors or we may identify material weaknesses or significant deficiencies in our assessments of our internal control over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigation or sanctions by regulatory authorities and could have an adverse effect on our business, financial condition and results of operations, and on investor confidence in our reported financial information.

If we determine that we are not in compliance with Section 404, we may be required to implement new internal controls and procedures and re-evaluate our financial reporting. We may experience higher than anticipated operating expenses as well as third party advisory fees during the implementation of these changes and thereafter. Further, we may need to hire additional qualified personnel in order to comply with Section 404. If we are unable to implement these changes effectively or efficiently, it could have a material adverse effect on our business, financial condition, results of operations, financial reporting or financial results and could result in our conclusion that our internal controls over financial reporting are not effective.

Risks Related to our Ordinary Shares

Wide fluctuations in the market price of our ordinary shares could adversely affect us and our shareholders.

Between January 1, 2019 and March 25, 2020, our ordinary shares have traded on the Nasdaq Capital Market, or the Nasdaq, as high as \$10.30 and as low as \$5.52 per share. As of March 25, 2020, the closing price of our ordinary shares on Nasdaq was \$6.00 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 other risks identified in this “Item 3.D-Risk Factors”.

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.

From time to time we may choose to raise funds. If adequate financing is not available on terms favorable to us or to our shareholders, our operations and growth strategy may be affected.

From time to time we may choose to raise funds 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. Any such financings may dilute the ownership of existing shareholders and could adversely affect the market price of our ordinary shares. In addition, if adequate financing is not available on terms favorable to us or to our shareholders, our operations and growth strategy may be affected.

The trading volume of our shares is relatively low and it may be low in the future.

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. This low trading volume may also result in greater share price volatility as result of short trading activities or the acquisition or disposition of shares by any single larger or institutional shareholder.

Risks Related to Our Location in Israel

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

We are incorporated under Israeli law and our principal offices and research and development facilities are located in Israel. Accordingly, security, political and economic conditions in the Middle East in general, and in Israel in particular, may directly affect our business.

Over the past several decades, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. From time to time since late 2000, there has also been a high level of violence between Israel and the Palestinians. In addition, since 2010 political uprisings and conflicts in various countries in the Middle East, including Egypt and Syria, are affecting the political stability of those countries. Any armed conflicts or political instability in the region, including acts of terrorism or any other hostilities involving or threatening Israel, could affect business conditions and could make it more difficult for us to conduct our operations in Israel, which could increase our costs and adversely affect our financial results.

Further, in the past, the State of Israel and Israeli companies have been subjected to economic boycotts. Several countries still restrict business with the State of Israel and with Israeli companies. These restrictive laws and policies may have an adverse impact on our operating results, financial conditions or the expansion of our business.

In addition, Israel is experiencing a level of unprecedented political instability. The Israeli government has been in a transitional phase since December 2018, when the Israeli Parliament, or the Knesset, first resolved to dissolve itself and call for new general elections. Since then Israel held general elections three times – in April and September of 2019 and in March of 2020. The Knesset has not passed a budget for the year 2020 and certain government ministries, which may be critical to the operation of our business, are without necessary resources and may not receive sufficient funding moving forward. In the event that the current political stalemate is not resolved during 2020, our ability to conduct our business effectively may be adversely affected.

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

We currently receive grants under Government of Israel programs. 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 develop 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. Additionally, 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—Israel Innovation Authority.”

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, or the Israeli Companies Law, regulates acquisitions of shares through tender offers, requires special approvals for transactions involving shareholders holding 25% or more of the company’s capital, and regulates other matters that may be relevant to these types of transactions. These provisions of Israeli law could have the effect of delaying or preventing a change in control and may make it more difficult for a third party to acquire us, even if doing so would be beneficial to our shareholders. These provisions may limit the price that investors may be willing to pay in the future for our ordinary shares. Furthermore, Israeli tax considerations may make potential transactions undesirable to us or to some of our shareholders.

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

Some of our employees are required to perform annual military reserve duty in Israel and may be called to active duty at any time under certain circumstances. Our operations could be disrupted by the absence for a significant period of one or more of our executive officers or other key employees due to military service. Any disruption to our operations would harm our business.

It may be difficult to effect service of process, assert U.S. securities laws claims and enforce U.S. judgments in Israel against us or our directors, officers and auditors named in this Annual Report.

We were incorporated in Israel. All our directors reside outside of the United States, and most of our assets are located outside of the United States. Therefore, a judgment obtained against us, or any of these persons, including a judgment based on the civil liability provisions of the U.S. federal securities laws, may not be collectible in the United States and may not necessarily be enforced by an Israeli court. It also may be difficult to effect service of process on these persons in the United States or to assert U.S. securities law claims in original actions instituted in Israel. Additionally, it may be difficult for an investor, or any other person or entity, to initiate an action with respect to United States securities laws in Israel. Israeli courts may refuse to hear a claim based on an alleged violation of United States securities laws reasoning that Israel is not the most appropriate forum in which to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not United States law is applicable to the claim. If United States law is found to be applicable, the content of applicable United States law must be proven as a fact by expert witnesses, which can be a time consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel that addresses the matters described above. As a result of the difficulty associated with enforcing a judgment against us in Israel, you may not be able to collect any damages awarded by either a United States or foreign court.

As a foreign private issuer whose shares are listed on the Nasdaq, we may follow certain home country corporate governance practices instead of certain Nasdaq requirements.

As a foreign private issuer whose shares are listed on the Nasdaq, we are permitted to follow certain home country corporate governance practices instead of certain requirements of the Nasdaq Stock Market Rules including requirements regarding compensation of officers, shareholder approval for certain dilutive events (such as for the establishment or amendment of certain equity-based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company) and other matters.

Accordingly, our shareholders may not be afforded the same protection as provided under Nasdaq's corporate governance rules. For more information, see "Item 16G—Corporate Governance".

The rights and responsibilities of our shareholders are governed by Israeli law and differ in some respects from those under Delaware law.

Because we are an Israeli company, the rights and responsibilities of our shareholders are governed by our articles of association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in a Delaware corporation. In particular, a shareholder of an Israeli company has a duty to act in good faith towards the company and other shareholders and to refrain from abusing his, her or its power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters. Israeli law provides that these duties are applicable to shareholder votes on, among other things, amendments to a company's articles of association, increases in a company's authorized share capital, mergers and interested party transactions requiring shareholder approval. In addition, a shareholder who knows that it possesses the power to determine the outcome of a shareholders' vote or to appoint or prevent the appointment of a director or executive officer of the company has a duty of fairness towards the company. However, Israeli law does not define the substance of this duty of fairness. There is little case law available to assist in understanding the implications of these provisions that govern shareholder behavior.

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. We were incorporated in 1985 under the laws of the State of Israel and 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, currently named RADCOM, Inc., or RADCOM US. In 1996, we incorporated a wholly-owned subsidiary in Israel, RADCOM Investments (96) Ltd., or RADCOM Investments, located at our office in Tel Aviv, Israel. In 2010, we established a wholly-owned subsidiary in Brazil, RADCOM do Brasil Comercio, Importacao e Exportacao Ltda., or RADCOM Brazil. In 2012, we incorporated a wholly-owned subsidiary in India, RADCOM Trading India Private Limited, or RADCOM India.

In the years ended December 31, 2019, 2018 and 2017, our capital expenditures were approximately \$699, \$662 thousand, and \$790 thousand, respectively, and were spent primarily on computers and electronic equipment. We have no current significant commitments for capital expenditures.

For more information, the SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding us that has been filed electronically with the SEC.

B. BUSINESS OVERVIEW

Overview

We are a leading provider of NFV and 5G-ready service assurance, cloud-native network intelligence solutions for CSPs. NFV is a software-centric design approach which virtualizes entire classes of network functions into building blocks that may be connected or chained together to create services in software-based, virtualized network environments. NFV is designed to consolidate and deliver the networking components needed to support a fully virtualized network utilizing standard technologies that run on high-volume service, switch and storage hardware to virtualize network functions. NFV is a key enabler of the coming 5G telecommunications infrastructure, helping to virtualize all the various aspects of the network. We have a strong track-record of innovation.

Our RADCOM Network Intelligence portfolio of solutions includes: RADCOM Service Assurance, delivering service assurance, RADCOM Network Visibility for smart filtering, load balancing and sampling, and RADCOM Network Insights for business-critical intelligence and real-time information on the customer and service experience.

- **RADCOM Service Assurance and Customer Experience Monitoring** (formerly known as MaveriQ) – allows telecom operators to gain end-to-end network visibility and customer experience insights across NFV and hybrid network. RADCOM Service Assurance delivers a real-time, high performance, and automated solution that is critical in providing operators customer insights in today’s top-tier, high-capacity networks;
- **RADCOM Network Visibility** – a cloud-native network packet broker and filtering solution that allows operators to manage network traffic at scale across multiple cloud environments and control the visibility layer to perform dynamic, on-demand analysis of select datasets; and
- **RADCOM Network and Customer Insights** – a business intelligence solution offering smart insights for multiple use cases, enabled by data captured and correlated through RADCOM Network Visibility and RADCOM Service Assurance. With RADCOM Network Insights we are able to offer a broad CEM and SOC solution to CSPs.

We specialize in solutions for next-generation mobile and fixed networks, including 5G, LTE, VoLTE, VoWifi, IMS, VoIP, and UMTS.

Since 2016, we have been working with AT&T, in its continuing efforts to transition to a full NFV network. By developing and adapting our solutions to meet the industry’s most stringent requirements we have expanded our customer base to include new customers and markets while also expanding our footprint with existing customers by supporting them in their transition to NFV. As new and existing customers seek to manage their existing networks while evaluating and deploying NFV-based architectures, we believe we are well positioned with our advanced cloud-native solutions and our growing industry track record.

Our technological leadership was validated by Rakuten’s 2019 selection of our solutions as their “eyes to the network” in support of their launch of the world’s first end-to-end cloud-native, NFV-based, network. Using our solutions, Rakuten will monitor its entire end-to-end network, including the world’s first fully virtualized radio access network (RAN).

Our portfolio enables CSPs to smoothly transition their networks to NFV and 5G by monitoring and assuring both physical network and NFV-based network and consequentially, 'hybrid' networks from tapping point to network insights. With the transition between physical and virtualized networks taking place gradually, CSPs may need to manage 'hybrid' networks for the foreseeable future. Our solutions are well positioned to address this need and provide service and network performance visibility in both physical and virtual environments.

CSPs across the globe use our solutions to deliver high quality services, reduce churn, manage network performance, analyze traffic and enhance customer care. Our solutions incorporate cutting edge technologies and a wealth of knowledge gained in our advanced work with some of the most technologically innovative CSPs in the industry. Our carrier-grade solutions support both mobile and fixed networks and scale to terabit data bandwidths to enable big data analytics.

Our solutions deliver specialized capabilities for virtualized infrastructure and next-generation networks, such as 5G and allow CSPs to monitor and proactively improve quality of experience for their subscribers. The key benefits of our solutions are:

- advanced software-based architecture;
- ease of deployment and management;
- improved customer retention;
- reduced subscriber churn rates;
- improved service availability and quality;
- ability to correlate session information and provide an end-to-end view of the customer experience;
- full ability to install the solution as a virtual network function for seamless integration into all NFV infrastructures;
- dynamic multi-functional solution for 5G service assurance;
- on-demand monitoring capabilities;
- scalability for next-generation services;
- enhanced ability to collect all network packets for a complete and comprehensive view of the network and the customer experience;
- increased operational efficiency and lower costs;
- support for multiple protocols for end-to-end network coverage;
- the existence of both network-wide views and drilldown to an individual subscriber level and down to each session;
- support for the largest scale multi-market networks;
- accelerated deployment and migration to NFV and 5G; and
- real-time capabilities.

Our fully cloud-native solutions enable CSPs to manage both existing physical networks and next-generation, NFV-based architectures. We recognized that CSPs would require a new approach for service assurance and CEM solutions in order to monitor huge volumes of data and support NFV-based network deployments and the transition to 5G.

In February 2014, we launched our service assurance solution which incorporates software-based probes, and which subsequently replaced our OmniQ hardware-based solution and have, since then, continually invested in R&D so as to maintain our technological edge. In December 2015, this effort resulted in the selection of our service assurance by AT&T for its next-generation virtualized network environment. AT&T's deployment represents the first NFV networks of scale in the industry.

During 2017 and 2018, we improved our NFV capabilities to meet the stringent requirements of top tier CSPs having a large subscriber base and a high level of expertise as we commenced deployment with an additional tier 1 CSP, and further expanded our solutions to support existing customers in their transition to NFV and meeting their initial requirements for 5G. We also continued the development and enhancement of our solutions to meet the complicated needs of monitoring 5G networks and to offer a smart mediation layer which allows us to offer a full end-to-end customer and service view which addresses CSPs' requirements for a smart CEM solution.

In 2018, we also launched our Network Visibility solution to allow CSPs to gain more visibility into their network. RADCOM Network Visibility offers an integrated cloud-native solution with advanced packet broker capabilities that ensure intelligent traffic distribution, smart load balancing, and intelligent sampling for full end-to-end visibility across the network. RADCOM Network Visibility helps to distribute network traffic from multiple cloud environments to service assurance probes, security tools, and other systems.

In 2019 we increased our development efforts, focusing on enhancing automation and analytics capabilities and offering containerized solutions so as to maintain our technological leadership.

Our continuing and increased investment in research and development was validated in 2019 by our new engagements with AT&T and Rakuten. In March 2019, we entered into a new multi-year engagement with AT&T which continues our successful relationship with AT&T and establishes the foundation for the continuing and expanding integration of our solutions into AT&T's network. In May 2019, we entered into a multi-year agreement with Rakuten to provide our Network Intelligence solution for Rakuten's unique and innovative mobile network. Rakuten's network will be the world's first fully virtualized, end-to-end cloud-native mobile network that adopts 5G systems architecture from launch. Rakuten chose RADCOM Network Intelligence because of its ability to monitor the entire end-to-end network, including the world's first fully virtualized radio access network (RAN). Our solutions will be tightly integrated across Rakuten's distributed telco cloud to assure the highest service quality is delivered to customers for voice, video, VoLTE, data, and IoT services from the mobile edge up to the network core.

We expect to continue our investment in research and development and to leverage our success with industry leading customers as we seek to engage with other CSPs that are looking to manage existing networks while evaluating their transformation to the next-generation NFV architectures and to 5G.

Industry Background

Our Customers and the Markets for Our Solutions

We operate in a large market that is undergoing significant transformation with significant potential for growth. The customers in our market consist primarily of mobile and fixed CSPs who are responsible for providing mobile and fixed telecommunications services. Our solutions are used by multiple divisions within a CSP's organization, including engineering, operations, marketing, management and customer care departments.

CSPs face many challenges in managing their network – from the rapid growth in mobile data traffic to complexities in managing services that are delivered across multiple vendor technologies. These challenges are intensifying with further traffic growth and the emergence of new technologies and services, such as machine to machine, IoT and 5G. With the need to manage millions of various network elements and services from multiple vendors and technologies, deploying a virtualized network intelligence and CEM solution is an essential part of a CSP's network. In addition, CSPs are facing strong competition both from other CSPs and from over-the-top (OTT) players who are offering more and more similar services. In order to fight for their customers' satisfaction, CSPs will need to gain deeper insight into customer behavior, enabling them to tailor processes based on customer preferences.

Similar to how virtualization has become widely deployed in many data centers and large enterprises, many CSPs are looking to reduce costs and become more agile by transitioning from physical network elements to software-centric, virtualized NFV architectures. As NFV enables CSPs to replace dedicated physical network elements with software-based solutions that run on standard, non-proprietary, third-party hardware, this creates an increasing demand for NFV solutions such as ours. However, it also results in downward pressure on NFV and service assurance solution pricing in order to allow the CSPs to obtain cost reduction objectives. Although the pace of NFV transformation is uncertain and NFV deployments for existing networks did not occur at the expected pace, major CSPs are currently evaluating and/or moving parts of their network to support NFV as NFV and software-defined networking, or SDN, are expected to play an important role in 5G networks. For instance, 5G will support diverse use cases optimized by dynamic network slicing using SDN and NFV architectures and is expected to lead to an acceleration in NFV transformations.

While NFV provides many benefits, transitioning infrastructure to NFV adds significant complexity when it comes to service assurance and CEM. Prior probe and management solutions were not designed for NFV. Whereas prior solutions focused on monitoring physical network devices, new solutions must broaden capabilities to monitor internal virtual machine to virtual machine communications between various virtualized network functions all hosted on the same server as well as communications between servers. New solutions must also work tightly within the NFV eco-system to provide benefits from a full closed loop approach, where the monitoring solution acts as a virtualized network function with full automation capabilities.

Our Strategy

Our objective is to be the market leader for virtualized network intelligence and customer experience solutions for virtualized, 5G and hybrid networks. We believe our leadership and innovation around NFV and cloud-based solutions will be advantageous to us as these types of solutions are expected to play a key role in the deployment of 5G networks. We plan to increase our sales by leveraging our unparalleled experience gained from implementing the largest, most advanced NFV deployment to date (with AT&T) and from implementing our solutions in the world's first fully virtualized network (with Rakuten) where we provide complete visibility from the radio access network (RAN) to the network core. In addition, we also offer our solutions and expertise to new and existing tier 1 and innovative CSPs in our targeted geographical regions. We plan to maintain our technical advantage over competitors by further extensively investing in enhancing the analytics and automation capabilities of our NFV and cloud-based solutions to meet the needs of 5G networks.

Key elements of our strategy include:

- **Focusing our network and customer experience insight capabilities to enhance the business value of our solution.** RADCOM Network Insights is intended to meet the need for an end-to-end customer and service experience management solution. In addition to standard reporting and dashboards, this solution offers advanced capabilities which allow CSPs to gain real-time insights, discern trends, and develop forecasts which will allow them to improve core operations, enhance the customer experience, and improve marketing efficiency. Through the addition of new offerings such as those offered by Network Visibility, we aim to provide end-to-end network visibility from virtual tapping point to network insights.
- **Targeting Tier 1 and other CSPs who are evaluating and/or migrating to NFV and 5G.** The introduction of 5G networks is expected to drive a greater transition to NFV and necessitate real cloud-native network intelligence solutions. We believe that our solutions are significantly more advanced than competitors' offerings and that we are better positioned than competitors who lack the experience deploying in virtualized environments or do not offer true cloud-native solutions that can be deployed at large scale. In order to transition to NFV, CSPs generally need to replace or upgrade their service assurance and CEM solutions with software that can support legacy, NFV-based architectures as well as 5G use cases. Our solution, which monitors both existing networks and NFV, ensures a smooth migration and enables CSPs to future-proof their investment in a network intelligence solution. With our advanced deployment with customers such as AT&T and Rakuten, and our reputation as the NFV technology leader, we believe we are well positioned to leverage our vast experience in true cloud-native and fully virtualized network intelligence in order to successfully expand our deployment base to other CSPs as we focus our sales and marketing activities on tier 1, galaxy (multi-carrier) and innovative operators and other operators seeking to migrate or actively migrating to NFV.

- **Targeting innovative CSPs deploying fully virtualized, cloud-based networks.** The introduction of new technologies and 5G network architecture allows innovative CSPs to deploy fully virtualized networks. These virtualized networks require fully virtualized service assurance and other solutions such as those in our Network Intelligence portfolio of solutions. Building on our experience with Rakuten, the world's first and only CSP to deploy a fully virtualized network, we intend to target innovative CSPs seeking to upgrade their networks or to deploy new networks in a fully virtualized environment. We believe that our key role in Rakuten's innovative and unique deployment places us at an advantage as we seek to engage with other CSPs looking to deploy similar networks.
- **Entering into multi-year contracts providing for recurring revenues.** With a transition to NFV and completely virtualized solutions, the sale of hardware with our solutions is expected to decrease while our engagements with CSPs are expected to consist primarily of software products and professional services. Software and services, more so than hardware, can be deployed and paid for in phases over time. We aim to leverage this by offering CSPs long term multi-year sales models which allow them to meet their system planning needs through term licensing, operational services, managed services, annual maintenance and support and software upgrade packages and the ability to add new capabilities so as to ensure that the CSPs are always benefitting from our most-up to date cutting-edge software solutions.
- **Utilizing our industry leadership to introduce optimized costing models to the market.** As a true software-based company we offer our existing and potential customers an appealing commercial model that combines both predictable spending on capital and operating expenditures with lower spending on service assurance and CEM solutions, in comparison to the appliance-based legacy solutions our competition continues to offer. With our optimized commercial model, we offer our customers several alternatives that enable them to grow their business and traffic on the network without impacting their spending with us.

Products and Solutions

Our Network Intelligence portfolio includes RADCOM Service Assurance, RADCOM Network Visibility and RADCOM Network Insights.

RADCOM Service Assurance and Customer Experience Monitoring (formerly MaveriQ)

RADCOM Service Assurance is a cloud-native, 5G-ready, fully virtualized service assurance solutions which allows telecom operators to gain end-to-end network visibility and customer experience insights across NFV and hybrid network. RADCOM Service Assurance delivers a real-time, high performance, and automated solution that is critical in providing operators customer insights in today's top-tier, high-capacity networks.

Our patented technology enables RADCOM Service Assurance to capture and correlate network events and RADCOM virtual probes to acquire and correlate network packets, which together are the key to 5G monitoring. RADCOM's solution is designed to provide network intelligence from the RAN to the core. Built using a dynamic, modular, and stream-based microservices architecture, RADCOM Service Assurance can process large volumes of streaming data at lightning speed with very low latency. This enables customers to use RADCOM Service Assurance on their physical and cloud infrastructures as they transition from legacy hardware-based networks to NFV-based virtualized networks.

RADCOM Service Assurance offers the service provider full end-to-end visibility of the network across technologies. RADCOM Service Assurance monitors multiple types of services such as voice, video and data, employing numerous tools and network performance and measurement methodologies to continuously analyze service performance and provide customer experience quality metrics. RADCOM Service Assurance offers users a full array of analysis and troubleshooting tools, delivering a comprehensive, integrated network service view that facilitates performance monitoring, fault detection and network and service troubleshooting from tapping point to network insights. RADCOM Service Assurance displays performance and quality measurements from both the signaling and the user planes, based on a broad range of passive software-based probes, which are installed on standard, non-proprietary third-party hardware that function together with RADCOM Service Assurance to deliver essential functionality.

RADCOM Service Assurance consists of a powerful and user-friendly central management module and a broad range of passive software-based probes used to gather transmission quality data from various types of networks and services, including 5G, VoIP, UMTS, LTE, IMS data and others. Signaling and media attributes and quality measurement extended detail records collected from the probes in the RADCOM Service Assurance Manager (the central site-management software) are stored in the solution's database. These can then be used by the reporting and troubleshooting applications to perform service performance analysis, drilldown and troubleshooting on key performance indicators, or KPIs, to gauge performance over time and key quality indicators to gauge the quality of service.

RADCOM Service Assurance provides an advanced set of service assurance monitoring applications: network troubleshooting, network quality monitoring, service quality monitoring, customer quality of service monitoring, and customer service level agreements monitoring.

RADCOM Service Assurance is designed to enable CSPs to succeed in their efforts to address significant technology challenges, including:

- deployment of next-generation networks such as 5G and LTE;
- migration to and integration of new network architectures;
- delivery of advanced, complex services such as VoIP IMS and video quality analytics; and
- proactive management and quality assurance for all data sessions and calls on existing and next-generation service providers' production networks.

CSPs use RADCOM Service Assurance for a wide array of use cases, such as:

Customer and Service Assurance

- **Troubleshooting** – enables CSPs 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** – allows CSPs to analyze and optimize network component performance levels and customer experience with the goal of identifying faults before they compromise the customer's experience.
- **Fault detection** – automatic fault detection and service KPIs alert CSPs to network problems as they arise.
- **Mediation** – generates call detail records needed to feed the solutions' smart mediation layer as well as third-party operations support systems and other solutions.

Roaming and Interconnect Analysis

RADCOM Service Assurance is used by CSPs to monitor their roaming and interconnect traffic. By identifying problematic links, CSPs avoid revenue loss, detect problems with specific roaming partners, and manage interconnection KPIs.

RADCOM Network Visibility

RADCOM Network Visibility, launched in February 2018, virtualizes the traditional network packet broker. Utilizing its advanced smart load balancing capabilities, RADCOM Network Visibility cost effectively provides operators with end-to-end network visibility for NFV networks. Working in unison with RADCOM Service Assurance, RADCOM Network Visibility is fully automated under ETSI compliant NFV orchestration for onboarding and configuration and provides operators with on-demand capabilities, auto-scaling, and auto-healing as well as seamless upgrades.

RADCOM Network Visibility offers operators an integrated cloud-native visibility solution that ensures intelligent traffic distribution, load balancing and full end-to-end visibility across virtual networks, and provides advanced packet broker capabilities, like packet de-duplication, secure socket layer decryption and packet slicing. As a cloud-native solution, RADCOM Network Visibility has no dedicated hardware limitations and can be dynamically deployed and scaled efficiently with an NFV distributed approach to high scale packet brokering.

RADCOM Network Visibility enables CSPs to virtually, intelligently and efficiently:

- manage, scale and load balance the network traffic;
- automate and synchronize visibility and assurance, onboarding and configuration;
- distribute traffic between the network intelligence probes without having to duplicate traffic and waste network resources;
- load balance Mobility Management Entity (MME)/IMS traffic with deciphering support;
- filter and analyze traffic with application-based routing;
- save network and bandwidth resources by filtering traffic at the tapping point; and
- utilize a unified and centralized management solution.

RADCOM Network Visibility plays a critical role in managing network performance and aggregating live data from the network, performing session-aware load balancing and filtering before carefully optimizing the traffic flow to virtual probes. Under a unified management solution, RADCOM Network Visibility is deployed and configured with a simple drop and drag graphic user interface that provides operators with direct interfaces to a suite of troubleshooting tools and with a single point of access to multiple resources. This approach can deliver significant cost savings as operators can analyze traffic before it reaches the service assurance tools. Furthermore, with powerful filtering capabilities, this solution's visibility layer can identify and manage specific data, thus significantly saving on the use of network resources by filtering the amount of data delivered to RADCOM Service Assurance.

RADCOM Network Insights

RADCOM Network Insights provides CSPs with real-time actionable business and marketing insights, which are customer centric while still maximizing revenue streams across the organization. These rich, actionable network insights, allows operators to fully visualize their networks and improve the service and customer experience, provide customer impact analysis, and proactively handle issues to fully understand the customer experience and offer an improved Quality of Experience, or QoE, and a reduced customer churn, which is of particular importance in transitioning to NFV and 5G.

RADCOM Network Insights takes data from the RADCOM Service Assurance and RADCOM Network Visibility solutions, and certain external systems, to generate automatic alerts when service levels drop below a pre-defined threshold. The solution can provide actionable triggers to external systems for proactive handling. Operators can view the insights via an interactive dashboard and easily segment the data – deciding the area of the network on which to focus.

RADCOM's Network Insights solution takes a proactive approach to handling network issues. By using both internal probe-based data and certain external data feeds, RADCOM has the network intelligence to know which data to extract in order to provide the actionable insights required. Key network monitoring metrics can be fed into RADCOM's key quality indicators and converted to Quality of Service. Combined with customer resource management feeds and legacy third-party probe data, the solution enables operators to assess the QoE for the subscriber and make proactive decisions.

RADCOM Network Insights' sophisticated tools are delivered via a powerful data virtualization suite. This enables the CSP to pinpoint necessary data for actionable insights which are required to improve the CSP's customers QoE and therefore to improve the CSP's capital efficiency.

Sales and Marketing Organization

We sell to customers throughout the world mainly via direct channels and through resellers, including through our executives and sales representatives in the United States, Europe, Israel, Brazil and Asia, but also via indirect channels.

Direct channels:

Most of our sales are made through a direct channel, whereby our customers (the end-users) enter into an agreement directly with us. During 2019, this direct channel was used mainly in North America, South America and Asia.

In North America, we operate through RADCOM US, which sells our solutions to end-users directly and provides support to customers in the North American market. Our solutions are sold to end-users in North America either by RADCOM US or by RADCOM Ltd.

In Brazil, we operate through RADCOM Brazil, which primarily sells our solutions to end-users in the Brazilian market directly.

In India, we operate through RADCOM India, which primarily provides customer support and development services worldwide.

Elsewhere, our solutions are primarily sold to the end-users directly by RADCOM Ltd., including through our sales representatives in Europe and in Asia, and supported by local representatives and subcontractors in the local market.

Indirect channels:

In several markets we sell our solutions through independent distributors who market our solutions. We continue to search for new distributors to penetrate new geographical markets and new customers, and to better serve our target markets.

Our distributors and resellers serve as our local representative in certain countries as part of our sales, marketing and support team. They help sell, deploy and service our solutions, offer technical support in the end-user's native language, and attend to customer needs during local business hours.

Geographic Markets:

The table below indicates the approximate breakdown of our revenue by territory, based on the location of the end-customer:

	Year ended December 31, (in millions of U.S. dollars)			Year ended December 31, (in percentages)		
	2019	2018	2017	2019	2018	2017
North America	14.5	22.2	25.1	43.9	65.1	67.5
Asia	14.1	7.2	4.9	42.7	21.1	13.2
Latin America	2.7	3.6	2.7	8.2	10.6	7.2
Others (including Israel)	1.7	1.1	4.5	5.2	3.2	12.1
Total revenues	33.0	34.1	37.2	100%	100%	100%

Competition

The market for our solutions is competitive, and we expect that competition will continue in the future, both with respect to solutions that we are currently offering and solutions that we are developing. Our principal competitors include Anritsu, Empirix, Huawei, NetScout, Polystar, and EXFO. In addition to these competitors, we expect competition from established and emerging communications, network management and test equipment companies, as well as traditional players in the CEM space such as Huawei, Sandvine, Ericsson and Nokia. Many of our 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. Furthermore, the transition to NFV and software-based solutions could possibly open the market to new competitors or bring in competitors from adjacent markets. For more information, see “Item 3.D-Risk Factors- Risks Related to Our Business and Our Industry.”

We believe that we are differentiated from our competitors due to:

- our recognized class-leading, cloud-native NFV service assurance solutions;
- our experience deploying and scaling NFV solutions with Tier 1 CSPs such as AT&T;
- our experience deploying our NFV solutions on the world’s first fully virtualized network;
- our advanced technology offering which provides end-to-end network visibility from virtual tapping point to network insights;
- our multi-technology correlation capabilities that can support all major technologies – 4G, 5G, LTE, IMS, VoLTE, VoIP and legacy 3G - within the same solution;
- our development of service assurance solutions for the deployment of 5G networks;
- our solution full software-based solutions provide cost-efficiency, rapid deployment times and agility in development;
- our support for both physical and NFV networks to allow CSPs who have yet to transform to NFV, to accelerate NFV deployments and smoothly transition from physical infrastructure while using the same solutions; and
- our proven flexibility and responsiveness in a dynamic customer and technology environment.

Following our strategic deployment with AT&T, our additional deployments with other CSPs, our engagement with Rakuten and our progress in engaging new customers thereafter, we believe that we are positioned to be the leader in NFV, cloud-native network intelligence solutions for CSPs transitioning to NFV and deploying 5G 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 it is our goal to establish 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 Original Equipment Manufacturer, or OEM, partners. In addition, we routinely contact our customers to solicit feedback and promote full usage of our solutions. We may provide our customers with a free warranty period which includes bug-fixing and a warranty on our solutions. After the initial warranty period, we offer extended warranties which can be purchased for multi-year periods. Generally, the cost of the extended warranty is an annual maintenance fee based on a percentage of the overall cost of the solutions.
- **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 solutions and guide our R&D roadmap.
- **Regional technical support:** As the sale of 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. This strategy is advantageous in terms of the time zone, culture and language. For example, in our U.S., Brazil and India offices we established local support teams responsible for first level engagements with customers (tier 1).
- **Support of our sales representatives:** We provide a high level of pre- and post-sale technical support to our sales representatives in the field. We use a broad range of channels to deliver this support, including technical training, marketing material 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 the varying fiscal year-ends of customers. Although this results in fluctuations in our revenues from quarter to quarter, such fluctuations are not subject to any clear seasonality or consistent seasonal patterns.

Development Facilities

Our corporate office and development facilities are located in Tel Aviv, Israel, and consist primarily of software development, testing, quality control and installation.

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 depends in part upon our ability to continue to enhance our existing solutions and to develop and introduce new solutions that improve performance and reduce total costs on a cost-effective and timely basis.

In 2019, we significantly increased investment in research and development in order to maintain our technological leadership and to meet the current and future needs of the world's most advanced CSPs. We believe that the widescale rollout of 5G will bring with it a larger wave of network virtualization by CSPs. Through our research and development efforts, we expect to be well positioned to offer state of the art technologies and capabilities to these CSPs. Accordingly, we increased our strategic focus in 2019 on research and development and on future-proofing our solutions by increasing our investing in the development of enhanced automation, containerized deployment capabilities; and advanced machine learning based techniques to identify network anomalies and analyze the increased network traffic that is expected with the roll-out of 5G networks. In parallel, we continued to enhance and develop our NFV solutions so as to offer greater value and benefit to our customers.

We expect to continue this significant investment in 2020 as we develop new features and new solution offerings to meet the requirements of 5G networks.

Israel Innovation Authority

We have received royalty-bearing grants from the IIA for certain research and development activities pursuant to an incentive program, which are subject to provisions of the R&D Law and the regulations promulgated thereunder.

In addition, we have filed numerous applications, and in the future may continue to file additional applications, for grants from the IIA pursuant to the R&D Law. Grants received under such programs are repaid through mandatory royalty payments based on revenues generated from products developed pursuant to such programs or deriving therefrom. The receipt of such grants is contingent upon our ability to comply with certain applicable requirements and conditions specified in the R&D Law and under the applicable program. As of December 31, 2019, royalties at a rate of 3% are due on revenues from sales of products and related services that incorporate know-how developed, in whole or in part, within the framework of projects funded by the IIA.

The R&D Law provides that the IIA is authorized to determine the ownership requirements of know-how developed under an approved research and development program and/or rights associated with such know-how including intellectual property, which is not the product that was developed under such program, or the Funded Know-How.

The R&D Law further provides that Funded Know-How may not be transferred to any third parties, unless certain requirements are met, as determined in each project separately.

Among others, the IIA may determine that certain Funded Know-How can be transferred to third parties in Israel only if such transferee company will also be subject to the same terms and conditions that were levied upon the transferor company under the R&D Law prior to the transfer of such know-how.

The IIA may approve the transfer of Funded Know-How from Israel to abroad, generally, in the following cases: (a) the grant recipient pays to the IIA up to 600% of the total amount of the grants and interest in consideration for such Funded Know-How ; (b) if the grant recipient receives an alternative know-how from a third party in exchange for its Funded Know-How, subject to certain requirements, among which the alternative know-how will generate higher revenues than the Funded Know-How for the company; (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 and the Funded Know-How is sold for a lower price than the amount of funds invested in it, in which case the payment set forth in (a) may be reduced.

The R&D Law generally 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 or the foreign interested party of such grant recipient to notify the IIA of any change in control of the recipient or a change in the holdings of the means of control of the grant recipient that results in a non-Israeli citizen or non-Israeli resident or corporation incorporated in Israel becoming an interested party directly in the grant recipient, and requires the new interested party to undertake to the IIA to comply with the R&D Law. In addition, the IIA may require additional information or representations in respect of such events. For R&D Law purposes, "control" is defined as the ability to direct the activities of a corporation except the ability that stems 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" generally refers to voting rights in a company's shareholders meeting 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 IIA that it has become an interested party and to sign an undertaking to comply with the R&D Law.

Amendment No. 7 to the R&D Law became effective on January 1, 2016 and established the formation of the IIA in place of the Office of the Chief Scientist. Accordingly, pursuant to Amendment No. 7, it is expected that the IIA may establish new guidelines and/or amend the existing guidelines regarding the R&D Law and/or regulations thereunder. Consequently, Amendment No. 7 creates uncertainty with respect to the terms of our existing and/or future IIA programs and incentives as we do not know what guidelines will be adopted by the IIA or will be amended by it.

Since we commenced operations, we have received royalty-bearing grants from the IIA. As of December 31, 2019, our total contingent liability to the IIA in respect of grants received including accumulated interest and net of accumulated royalties paid was approximately \$51.0 million.

In May 2010, we received a notice from the IIA regarding alleged miscalculations in the amount of royalties paid by us to the IIA for the years 1992 through 2009. See “Item 3.D. Risk Factors–Risks related to our Business and Our Industry”.

Binational Industrial Research and Development Foundation

Although we have not received any new grants since 1996 and have not been required to pay any royalties since 2003, we have in the past received funding for the research and development of products from the Israel-U.S. Binational Industrial Research and Development Foundation, or the BIRD Foundation. 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, 2019, our contingent liability to the BIRD Foundation for funding received was approximately \$390 thousand. Since 2003, we have not generated sales of products developed with the funds provided by the BIRD Foundation.

Indian Subsidiary and China Office Funding

In April 2012 and in April 2014, the Israeli Ministry of Economy, or MOE, approved our application for funding to help set up our Indian subsidiary and China office, respectively, as part of a designated grant plan for the purpose of setting up and establishing a marketing agency in India and China. The grant was intended to cover up to 50% of the costs of the office establishment, logistics, expenses and hiring of employees and consultants in India and China, based on the approved budget for the plan for a period of three years. We are currently in the process of winding down our China office.

We are obligated to pay to the MOE, over a period of five years commencing as of the lapse of the third anniversary of the grant, royalties of 3% of increased sales in the target market, with respect to the year during which the grant was approved (2012 for India, and 2014 for China), over a period of five years but not more than the total linked amount of the grant received. No further grants are expected to be received from this plan.

As of December 31, 2019, the total amount of marketing grants received from the MOE with respect to our offices in China and our subsidiary in India is approximately \$668 thousand. We had no obligation to pay royalties during the year ended December 31, 2019.

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 solutions and technologies. We own registered trademarks for the name RADCOM and for the name Omni-Q®. We currently have one registered patent and five pending patent applications in the United States. In addition, we usually enter into non-disclosure and confidentiality agreements with our employees, distributors, sales representatives and with suppliers and sub-contractors who have access to sensitive information.

Employees

Our total headcount as of December 31, 2019 was 282 including employees and contractors. See “Item 6.D – Directors, Senior Management and Employees – Employees.”

We consider our relations with our employees to be good and we have never experienced a strike or work stoppage. Except for employees located in Brazil, none of our employees are represented by labor unions.

Although we are not a party to a collective bargaining agreement in Israel, we are subject to certain provisions of collective bargaining agreements among the General Federation of Labor in Israel, or the Histadrut, and the Coordinating Bureau of Economic Organizations (including the Industrialists’ Association), or the CBEO, that are applicable to our Israeli employees by virtue of expansion orders of the MOE, 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 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, we follow a general practice, which is the contribution of funds on behalf of most of our 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 15.4% and 17.3% of the employee’s base salary. Pursuant to changes to Israeli law as well as collective bargaining agreements entered into by the Histadrut and the CBEO, the amounts that we are required to contribute may increase from time to time.

Our employment agreements with new employees in Israel are in accordance with Section 14 of the Israeli Severance Pay Law – 1963, which provides 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.

We also provide employees of RADCOM 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). 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 the United States, we provide benefits in the form of health, dental, vision and disability coverage and matching 401(k) plan contributions, in an average amount equal to approximately 16.9% of the employee’s base salary.

In Brazil, we provide benefits in the form of health coverage, including health, vision and dental coverage, in an amount that varies from 3% - 12% of the employee’s base salary.

In India, we provide benefits in form of health coverage, education fund, house rent allowance and health insurance fund, in an amount equal to 26% of the employee’s salary.

C. ORGANIZATIONAL STRUCTURE

Our subsidiaries are: (1) RADCOM US, which conducts the sales, marketing, and customer support of our products in North America; (2) RADCOM Investments (96) Ltd, for the purpose of making various investments, including the purchase of securities; (3) RADCOM Brazil, which conducts the sales, marketing and customer support of our products in Brazil; and (4) RADCOM India, which primarily provides, customer support and development services worldwide. The following is a list of our subsidiaries, each of which is wholly-owned:

Name of Subsidiary	Jurisdiction of Incorporation
RADCOM, Inc.	New Jersey
RADCOM Investments (96) Ltd	Israel
RADCOM do Brasil Comercio, Importacao Exportacao Ltda	Brazil
RADCOM Trading India Private Limited	India

D. PROPERTY, PLANTS AND EQUIPMENT

We currently lease an aggregate of approximately 22,830 square feet of office space in Tel Aviv, Israel, from affiliates of our principal shareholders. This space includes our development facilities, which consist primarily of programming, documenting, quality control, testing and bug fixing, as well as from time to time, installation of software components on third party hardware.

In 2019, we paid to affiliates of our principal shareholders aggregate annual lease and maintenance payments in the sum of approximately \$772 thousand for our Tel Aviv offices. We may, in the future, lease additional space from affiliated parties.

We also lease an aggregate of approximately 5,946 square feet of office space in Paramus, New Jersey, from an affiliate of our principal shareholder. In 2019, our aggregate annual lease payments for such premises were approximately \$117 thousand.

We also lease an aggregate of approximately 484 square feet of office space in Brazil and 5,809 square feet in India. The aggregate annual lease and maintenance payments for those premises in 2019 were approximately \$7 thousand and \$119 thousand.

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.

Overview

We provide cloud-native NFV-ready network intelligence solutions for CSPs. Our world leading, innovative solutions are well-positioned to fulfill the CSPs’ ongoing needs to monitor their networks (fixed and mobile) and assure the delivery of a quality service to their subscribers; both on NFV networks and non-virtual networks.

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 financing activities are made in U.S. dollars. Accordingly, we consider the U.S. dollar to be our functional currency and our consolidated financial statements are prepared in dollars.

As we evaluate our growth prospects and manage our operations for the future, we believe that the adoption of NFV and future deployment of 5G by leading CSPs will drive our growth.

We followed the below sales strategy in 2019 in order to expand our sales pipeline and revenues:

- We focused on leveraging our NFV implementations with AT&T, Rakuten and other customers to expand our value proposition to additional carriers;
- We expanded our business with our key existing customers;
- We continued our investment in our sales and marketing resources and have expanded our reach through the engagement of local representatives;
- We invested in marketing campaigns globally to enhance our market positioning and open new opportunities;
- We increased our investment in research and development to maintain our recognized technological leadership in cloud-based, 5G and NFV solutions, to meet the requirements of our customers, and to develop new product offerings and capabilities;
- We invested in our professional services team and resources to meet our customers' deployment, customization and support requirements and to allow us to successfully deliver multiple proof of concept demonstrations to potential new customers; and
- We pursued strategic partnerships, including OEM partnerships, and teaming agreements.

In 2019, we continued expanding the capability and solution offerings of our RADCOM Network Intelligence portfolio. Our leadership in virtualized solutions has contributed to our 2019 results, including by our expansion into new markets through the addition of new customers such as Rakuten.

Revenues. In general, our revenues derive from sales of our products or solutions, fixed-price projects, and sales of services which primarily include extended warranty, support services and managed services. Revenues consist of gross sales, less discounts and refunds, when applicable. In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, 2014-09, Revenue from Contracts with Customers (Topic 606). For further information regarding this ASU and its impact on our financial results see "Item 5.B—Liquidity and Capital Resources — Critical Accounting Policies and Estimates".

Cost of revenues. Cost of revenues, consisting of salaries and related expenses derive primarily from employees engaged in managed services and ongoing customer support, solution deployment and software development customization activities. Cost of revenues also consists of the use of hardware, inventory write-offs, importation taxes, shipping and handling costs, license fees for software components of third parties, hardware warranty expenses, allocation of overhead expenses, subcontractors', royalties to the IIA and share-based compensation. As part of our plan to reduce product cost and improve flexibility, we shifted during the last few years to a model whereby we install our software-based solutions on standard, non-proprietary third-party hardware that functions together with our software to deliver the product's essential functionality.

Our gross profit is affected by several factors, including the introduction of new products, price erosion due to increasing competition, the bargaining power of larger clients, the number of employees that we have in operations, deployment, software development customization, managed services and customer support, integration of third-party software components into our own, product mix, and exchange rate fluctuations.

Research and Development expenses, Net. Research and development expenses, net consist primarily of salaries and related expenses, including share-based compensation, payments for subcontractors and overhead expenses. Overhead expenses consist of a variety of costs, including rent, office and associated expenses. The R&D expenses have been partially offset by royalty-bearing grants from the IIA.

Sales and Marketing expenses, Net. Sales and marketing expenses, net consist primarily of salaries and related expenses, including share-based compensation, commissions and fees to third party representatives, advertising, trade shows, promotional expenses, domestic and international travels, web site maintenance, and overhead expenses, net of grants received from the MOE.

General and Administrative Expenses. General and administrative expenses consist primarily of salaries and related expenses including share-based compensation, professional fees (which include legal, audit and other consulting fees), bad debt expenses, other general corporate expenses and overhead expenses.

Financial Income, Net. Financial income, net, consists primarily of interest earned on bank deposits, bank charges, and gains or 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 2019 Compared to the Fiscal Year Ended 2018

For the year ended December 31, 2019, our revenues were approximately \$33.0 million, compared to approximately \$34.1 million in 2018, reflecting a decrease of approximately 3.2%. We provided approximately \$6.8 million in cash from operating activities during 2019, compared to approximately \$1.9 million used in 2018. Our net loss for the year ended December 31, 2019 was approximately \$6.8 million, compared to a net loss of approximately \$2.4 million for 2018.

As of December 31, 2019, our cash and cash equivalents and short-term bank deposits totaled approximately \$69.3 million, compared with cash and cash equivalents of approximately \$62.0 million as of December 31, 2018.

Our 2019 net loss includes non-cash expenses due to share-based compensation of approximately \$2.2 million compared to approximately \$2.1 million in 2018.

Reportable Segments

Management receives sales information by customers 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

Results for the Year Ended December 31, 2019 compared to Year Ended December 31, 2018

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

	Year ended December 31,	
	2019	2018
Revenues	100%	100%
Cost of revenues	30.0	26.0
Gross profit	70.0	74.0
<u>Operating expenses:</u>		
Research and development	56.3	45.5
Less royalty-bearing participation	5.6	4.8
Research and development, net	50.7	40.7
Sales and marketing	31.9	33.5
General and administrative	11.1	10.0
Total operating expenses	93.7	84.2
Operating loss	(23.7)	(10.2)
Financial income, net	3.5	3.3
Loss before taxes on income	(20.2)	(6.9)
Taxes on income	(0.5)	(0.2)
Net loss	(20.7)	(7.1)

Revenues

	Year Ended December 31, (in millions of U.S. dollars)	
	2019	2018
Products	16.4	13.6
Services	16.3	8.3
Projects	0.3	12.2
Total Revenues	33.0	34.1

Revenues. In 2019, our revenues decreased by approximately \$1.1 million, or approximately 3.2% compared to 2018 due to a decrease of approximately \$11.9 million in revenues from projects, offset by an increase of approximately \$8.0 million and \$2.8 million in revenues from services and products, respectively. The decrease in projects revenues relates to the completion of the AT&T initial project implementation in the first quarter of 2019. The increase in products and services revenues relates mainly to a new engagement in Asia.

Revenues per geographic region, based on the location of the end-customer

	Year Ended December 31, (in millions of U.S. dollars)		Year Ended December 31, (as percentages)	
	2019	2018	2019	2018
North America	14.5	22.2	43.9	65.1
Asia	14.1	7.2	42.7	21.1
Latin America	2.7	3.6	8.2	10.6
Others (including Israel)	1.7	1.1	5.2	3.2
Total revenues	33.0	34.1	100%	100%

In 2019 our three largest customers amounted to approximately \$13.5 million, \$6.8 million and \$7.2 million of the total consolidated revenues. In 2018, our three largest customers amounted to approximately \$16.3 million, \$6.2 million and \$5.1 million out of total consolidated revenues.

Cost of Revenues and Gross Profit

	Year Ended December 31, (in millions of U.S. dollars)	
	2019	2018
Products	4.8	4.9
Services	5.0	1.2
Projects	0.1	2.8
Total cost of revenues	9.9	8.9
Gross profit	23.1	25.2

Cost of Revenues. During 2019, our gross profit as a percentage of revenues, calculated to include variable costs such as salaries and related expenses was approximately 70% compared to approximately 74% in 2018. The decrease in the gross profit as a percentage of revenue reflects a larger relative increase in our cost of revenues as compared to the decrease in our revenues. This increase in our cost of revenues is attributed mainly to cost of salaries and related expenses as well as subcontractors' fees associated with managed services activities.

Our cost of revenues for 2019 includes an expense of approximately \$204 thousand for share-based compensation, as compared to approximately \$112 thousand for share-based compensation in 2018.

The following table provides the operating costs and expenses of the Company in 2019 and 2018 as well as the percentage change of such expenses in 2019 as compared to 2018.

	Year ended December 31, (in millions of U.S. dollars)		% Change 2019 vs 2018
	2019	2018	
Research and development	18.5	15.5	19.4
Less royalty-bearing participation	1.8	1.6	12.5
Research and development, net	16.7	13.9	20.1
Sales and marketing	10.5	11.4	(7.9)
General and administrative	3.7	3.4	8.8
Total operating expenses	30.9	28.7	7.7

Research and Development Expenses. Research and development expenses, gross, increased from approximately \$15.5 million in 2018 to approximately \$18.5 million in 2019. As a percentage of total revenues, research and development expenses, gross, increased from approximately 45.5% in 2018 to approximately 56.3% in 2019. The increase in our gross research and development expenses is attributable mostly to the increase in the average number of employees allocated to research and development costs, sub-contractors and related expenses. This primarily derives from a decrease in the allocation of research and development employees' to cost of projects associated with software development customizations, in line with the decrease in project revenues. As of December 31, 2019, our total research and development headcount, including contractors, was 150, compared to 125 employees and contractors as of December 31, 2018. Our research and development costs included an expense of approximately \$729 thousand for share-based compensation in 2019, as compared to approximately \$808 thousand for share-based compensation in 2018.

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 revenues 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.

Sales and Marketing Expenses. Sales and marketing expenses decreased from approximately \$11.4 million in 2018 to approximately \$10.5 million in 2019. The decrease in our sales and marketing expenses from 2018 to 2019 is mainly attributable to decrease in the average number of employees allocated to sales and marketing. As a percentage of total revenues, sales and marketing expenses decreased from 33.5% in 2018 to 31.9% in 2019. Our sales and marketing expenses included an expense of approximately \$638 thousand for share-based compensation in 2019, as compared to approximately \$698 thousand for share-based compensation in 2018.

General and Administrative Expenses. General and administrative expenses increased from approximately \$3.4 million in 2018 to approximately \$3.7 million in 2019. The increase in our general and administrative expenses from 2018 is mainly attributed to an increase in share-based compensation and professional fees. As a percentage of total revenues, general and administrative expenses increased from 10.0% in 2018 to 11.1% in 2019. Our general and administrative expenses included approximately \$657 thousand for share-based compensation in 2019, as compared to approximately \$503 thousand for share-based compensation in 2018.

Financial Income, Net. In 2019, the financial income, net, was approximately \$1.2 million, as compared to financial income, net, of approximately \$1.1 million in 2018. The increase in our financial income, net from 2018 is attributed to an increase in interest income from short-term bank deposits.

Taxes on Income. In 2019, we recorded tax expenses of approximately \$169 thousand, as compared to tax expenses of approximately \$63 thousand in 2018. Tax expenses are comprised from tax expenses of RADCOM India and RADCOM US as well as withholding taxes that were deducted by our customers.

Comparison of Financial Data for Year Ended December 31, 2018 compared with Year Ended December 31, 2017

For a discussion of the financial data for the year ended December 31, 2018 compared with the year ended December 31, 2017, see “Item 5.A.–Operating and Financial Review and Prospects–Operating Results” included in our Annual Report on Form 20-F for the fiscal year ended December 31, 2018.

Impact of Inflation and Foreign Currency Fluctuations

Most of our revenues are generated in U.S. dollars and the financing activities are made in U.S. dollars. We also generate revenues in BRLs, euros and other currencies; however, we consider the U.S. dollar to be our functional currency. In the future additional revenues may be denominated in currencies other than U.S. dollars.

Since a significant portion of our expenses is in NIS, as we pay our Israeli employees’ salaries in NIS, the dollar cost of our operations is influenced by the exchange rates between the NIS and the US dollar. Fluctuations in exchange rates between the U.S. dollar, the BRL, euro, and other currencies in which we generate revenue, and the U.S. dollar, may also have an effect on our results of operations. With respect to 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.

Because exchange rates between the NIS and the U.S. 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 of financial assets and liabilities are reported in our financial statements as financial income or expense. Based on our budget for 2020, we expect that 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 \$584 thousand per fiscal year and vice versa.

Effective Corporate Tax Rate

As of January 1, 2019, Israeli resident companies were generally subject to corporate tax at the rate of 23%. Israeli resident companies are generally subject to capital gains tax at the corporate tax rate. We do not generate taxable income in Israel, as we have historically incurred operating losses resulting in carry forward losses for tax purposes totaling approximately \$33.7 million as of December 31, 2019. We believe that we will be able to carry forward these tax losses to future tax years. We do not expect to pay taxes in Israel, on our incomes from operations, until we utilize our carry forward tax losses. We may be required to pay taxes on our passive income, if any. For more information on taxation, see “Item 10.E – Taxation.

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 business activities.

We recorded a valuation allowance of approximately \$13.5 million at December 31, 2019 for all of our deferred tax assets. Based on the weight of available evidence, we believe 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 from our private and public offerings, proceeds from the exercise of options and warrants and royalty-bearing participation from the IIA and others. Cash and cash equivalents and short-term bank deposits at December 31, 2019, and 2018 were approximately \$69.3 million and \$62.0 million, respectively.

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. Without derogating from the foregoing estimate regarding our existing capital resources and cash flows from operations, we may decide to raise additional funds in 2020. We believe that, if required, we will be able to raise additional capital or reduce discretionary spending to provide the required liquidity beyond the next twelve months.

Net Cash Provided by (Used in) Operating Activities. Net cash provided by operating activities was approximately \$6.8 million in 2019 compared to net cash used in operating activities of approximately \$1.9 million in 2018.

The positive net cash flow in 2019 was primarily due to a decrease in trade receivables of approximately \$9.3 million, an increase in other liabilities and accrued expenses of approximately \$2.7 million, share-based and restricted share compensation expenses of approximately \$2.2 million, an increase in trade payable of approximately \$1.0 million, decrease in operating lease right-of-use assets and liabilities, net and effect of exchange rate differences of approximately \$0.4 million, depreciation of approximately \$0.8 million, an increase in deferred revenue and advances from customers of approximately \$0.6 million and an increase in the employees and payroll accruals of approximately \$0.7 million. This was partially offset by net loss of approximately \$6.8 million, an increase in other accounts receivable and prepaid expenses of approximately \$1.8 million, an increase in accrued interest on short-term bank deposits of approximately \$1.2 million and an increase in inventories of approximately \$1.1 million.

The negative net cash flow in 2018 was primarily due to net loss of approximately \$2.4 million, a decrease in the deferred revenue and advances from customers of approximately \$2.2 million, a decrease in employees and payroll accruals of approximately \$0.6 million, a decrease in trade payables of approximately \$0.2 million and a decrease in other liabilities and accrued expenses of approximately \$0.8 million. This was partially offset by share-based and restricted share compensation expenses of approximately \$2.1 million, a decrease in inventories of approximately \$0.9 million, a decrease in other accounts receivable and prepaid expenses of approximately \$0.7 million and depreciation of approximately \$0.7 million.

The trade receivables and days of sales outstanding, or DSO, are primarily impacted by payment terms, variations in the levels of shipment in the quarter, and collections performance. Trade receivables for 2019 decreased to approximately \$11.0 million from approximately \$20.4 million in 2018.

The increase in inventories in 2019 was mainly due to the increase in inventory delivered to customers for which revenue criteria have not been met and recognized.

Net Cash Provided by (Used in) Investing Activities. Our investing activities generally consist of the purchase of equipment and investment in short-term bank deposits. Net cash used in investing activities in 2019 was approximately \$62.6 million, compared to net cash provided by investing activities in 2018 of \$39.3 million. In 2019, we invested approximately \$61.9 million in a short-term bank deposits and approximately \$0.7 million for the purchase of equipment. In 2018 we received approximately \$40.0 million from the maturity of a short-term bank deposit and invested approximately \$0.7 million for the purchase of equipment.

Net Cash provided by Financing Activities. In 2019, net cash provided by financing activities was approximately \$16 thousand compared to approximately \$2.1 million in 2018 from the exercise of options.

Investments

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 lease agreements with the RAD-BYNET Group (as described under “Item 7.B-Major Shareholders and Related Party Transactions-Related Party Transactions”). The pricing of the transactions with respect to such leases was determined based on negotiations between the parties. Members of our audit committee of the Board of Directors, or the Audit Committee, Board of Directors and management reviewed the pricing of the leases and confirmed that these leases 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.

We have also entered into a number of limited term engagements with Matrix IT Ltd. or its affiliated companies (as described under “Item 7.B-Major Shareholders and Related Party Transactions-Related Party Transactions”) for certain software and/or services used in connection with the development of our solutions. Members of our Board of Directors and management reviewed the pricing of such agreements and confirmed that these agreements were not different from terms that could have been obtained from unaffiliated third parties.

For more information, see “Item 7.B—Major Shareholders and Related Party Transactions—Related Party Transactions” below.

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 IIA, encourages research and development projects pursuant to the R&D Law and the regulations promulgated thereunder. We may receive grants from the IIA at the rates that range from 20% to 50% of the research and development expenses, as prescribed by the research committee of the IIA in accordance with the R&D Law. We recorded such grants from the IIA in the total amount of approximately \$1.8 million in 2019, \$1.6 million in 2018 and \$1.6 million in 2017. Pursuant to the specific terms of these grants, we are obligated to pay royalties of 3% of the revenues generated by sales of products (and certain related services) funded with these grants. In the event that a project funded by the IIA 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. Royalty expenses relating to the IIA grants included in the cost of revenues for years ended December 31, 2019, 2018 and 2017 were approximately \$990 thousand, \$922 thousand, and \$1.3 million, respectively. The total grants regarding projects that we have received from the IIA as of December 31, 2019 were approximately \$46.7 million. For projects authorized as a research and development program under the R&D Law since January 1, 1999, the repayment interest rate is LIBOR. As of December 31, 2019, the accumulated interest was approximately \$20.0 million, the accumulated royalties paid to the IIA were approximately \$15.7 million and our total amount of contingent liability to the IIA in respect of grants received was, according to our records, approximately \$51.0 million. For additional information, see “Item 4.B—Information on the Company—Business Overview—Israel Innovation Authority.”

In April 2012 and in April 2014, the MOE approved our application for funding to help set up our Indian subsidiary and China office respectively as part of a designated grant plan for the purpose of setting up and establishing a marketing agency in India and China. 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 and China, based on the approved budget for the plan for a period of three years. The total marketing grants that we have received from the MOE as of December 31, 2017 were approximately \$668 thousand. No further grants are expected to be received from such plans.

We are obligated to pay to the MOE, royalties of 3% on the increased sales in the target market, with respect to the year during which the grant was approved (2012 for India, and 2014 for China), over a period of five years but not more than the total linked amount of the grant received. During 2018, the Company paid an aggregate amount of \$9 thousand of royalties to the MOE. No royalties were required to be paid during 2019. For additional information, see “Item 4.B—Information on the Company—Business Overview—Israel Innovation Authority.”

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 generally payable at the rate of 5% of the sales of such products, up to 150% of the grant received, linked to the United States Consumer Price Index. As of December 31, 2019, we had a contingent obligation to pay the BIRD Foundation aggregate royalties in the amount of approximately \$390 thousand. For additional information, see “Item 4.B—Information on the Company—Business Overview—Binational Industrial Research and Development Foundation.”

Critical Accounting Policies and Estimates

The preparation of Consolidated 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 of the Notes 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 estimations 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.

We recognize revenues in accordance with ASC No. 606, “Revenue from Contracts with Customers”. As such, we identify a contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation in the contract and recognize revenues when (or as) performance obligations are satisfied as follows:

- a) Identify the contract with a customer:

We generally consider either agreements or purchase orders, which in some cases are governed by master agreements, to be contracts with customers. In evaluating the contract with a customer, we analyze the customer’s intent and ability to pay the amount of promised consideration (credit risk) and consider the probability of collecting substantially all of the consideration.

- b) Identify the performance obligations in the contract:

At a contract’s inception, we assess the goods or services promised in a contract with a customer and identify the performance obligations.

The main performance obligations usually are the provisions of the following:

License for our software solutions (which may include significant customization), professional services, managed services, service type warranty and post-contract customer support, each of which are distinct, to be the identified performance obligations.

c) Determine the transaction price:

The transaction price is the amount of consideration to which we are entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

We don't usually grant our customers with a right to return the products sold. However, in some cases, the arrangements may include refunds, liquidated damages, penalties or other damages if we fail to deliver future goods or services or if the goods or services fail to meet certain specifications to acceptance criteria. All of the above are accounted for as variable considerations, which may be considered as adjustments to the transaction price.

We include estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and all information (historical, current and forecasted) that is reasonably available.

As our standard payment terms are less than one year, the contracts have no significant financing component. In instances of contracts where revenue recognition differs from the timing of invoicing, we have determined that those contracts generally do not include a significant financing component. The primary purpose of the invoicing terms is to provide customers with simplified and predictable ways of purchasing our products and services, not to receive or provide financing.

d) Allocate the transaction price to the performance obligations in the contract:

Our selling price is highly variable. Each contract is different by its scope and price. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. The standalone selling prices of software licenses are typically estimated using the residual approach. Standalone selling prices of services are typically estimated based on observable transactions when these services are sold on a standalone basis.

e) Recognize revenue when a performance obligation is satisfied:

Revenue is recognized when or as performance obligations are satisfied by transferring control of a promised good or service to a customer. Control is either transferred over time or at a point in time, which affects the revenue recognition schedule.

Products. Revenues from sales of software solutions which include customer acceptance or software licenses only which do not include significant customization are recognized at a point in time of the acceptance of the solution or the point in time the software license is delivered.

Services. Revenues related to managed services, service type warranty and post-contract customer support are recognized over time on a straight-line basis.

Projects. Revenues from the software solutions which include software license with significant customization are usually recognized over time during the customization period based on Man Months ("MM") incurred to date in ratio to total estimated MM which represent an input method that best depicts the transfer of control over the performance obligation to the customer. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

Deferred revenues represent unrecognized fees collected as well as other advances and payments received from customers, for which revenue has not yet been recognized. Deferred revenues are classified as short-term and long-term deferred revenues based on the period in which revenues are expected to be recognized.

We record unbilled receivables from contracts when the revenue recognized exceeds the amount billed to the customer.

We capitalize an asset for the incremental costs of obtaining a contract whenever such expenses are expected to be recovered. Capitalized costs derive primarily from sales commissions or incentives granted to employees and partners. Our contracts with customers include performance obligations related to products and services, some of which are satisfied at a point in time and others over time. Commission costs related to performance obligations satisfied at a point in time are expensed at the time of sale, which is when revenue is recognized. Commission costs related to long-term service contracts and performance obligations satisfied over time are deferred and recognized on a systematic basis that is consistent with the transfer of the products or services to which the asset relates. Amortization expense is included in sales and marketing expenses in the accompanying consolidated statements of income (loss).

Share-based compensation. Our accounts for share-based compensation are in accordance with ASC 718 “Compensation – Stock-based Compensation”, or ASC 718, which requires us to estimate the fair value of share-based payment awards on the grant date using an option-pricing model.

We recognize compensation expenses for the value of the awards granted based on the accelerated attribution method over the requisite service period of each of the awards.

ASC 718 allows entities to make an accounting policy election to either estimate forfeitures or recognize forfeitures as they occur. We elected an accounting policy of recording forfeitures as they occur.

We selected the Black-Scholes option-pricing model as the most appropriate fair value method for our stock options awards. This option-pricing model requires several 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, as management believes that this is the best indicator of future volatility. The expected term was generated by running the Monte Carlo model pursuant to which historical post-vesting forfeitures and suboptimal exercise factor is estimated by using historical option exercise information. The suboptimal exercise factor is the ratio by which the stock price must increase over the exercise price before employees are expected to exercise their stock options. The expected term of the options granted is derived from the output of the options valuation model and represents the period of time that options granted are expected to be outstanding. 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. Forfeitures account as they occur. Historically the Company has not paid dividends and in addition has no plans in the foreseeable future to pay dividends, and therefore use an expected dividend yield of zero in the option pricing model.

Determining the fair value of share-based awards at the grant date requires the exercise of judgment.

No stock options awards were granted by us during the year ended December 31, 2018.

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 2019, we saw an increased interest in NFV capable service assurance solutions as the first step in NFV transitions. Initial inquiries by CSPs into potential NFV migrations during the preceding three years are now starting to evolve into proof of concept demonstrations and actual deployments. However, despite the interest in NFV solutions, the pace of transition to NFV in 2019 has been slow as the market awaits 5G rollout. Due to the complexity of NFV transformations and 5G rollout, there is variability in the pace of implementation. Some carriers are not yet out of the design phase, others are launching only limited initial implementations, and yet others electing to delay decision until more information can be gleaned from those CSPs that have elected to embark on their own NFV transformation. In addition, some CSPs are delaying NFV for now as they focus on future infrastructure plans such as 5G.

We expect that the NFV market will gain momentum with the deployment of 5G networks, resulting in potential increased interest by CSPs in our solutions. Key benefits that CSPs will derive from NFV include faster time-to-market, enablement of new services, automatic scaling of resources up and down to fit the network's dynamic nature, and significantly lower costs (both capital expenditures and operating expenses).

Customer experience is a major driver for CSPs to invest in solutions that enable to them to better monitor and proactively offer resolution and upgrade of quality of service.

As services become more technologically complex and their volumes increase, service quality becomes an issue that must be addressed and specifically must be virtualized to allow for end-to-end visibility across the different network areas. Our Network Intelligence solutions address this need by providing end-to-end network visibility from virtual tapping point to network insights.

E. OFF-BALANCE SHEET ARRANGEMENTS

None.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table of our material contractual obligations as of December 31, 2019, 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	4-5 years	More than 5 years
	(in thousands of U.S. dollars)				
Operating lease obligations, including imputed interest (1)	\$ 6,720	\$ 1,410	\$ 2,697	\$ 2,182	\$ 431
Open purchase orders (2)	415	415	-	-	-
Other long-term commitments (3)	539	-	-	-	-
Total	<u>\$ 7,674</u>	<u>\$ 1,825</u>	<u>\$ 2,697</u>	<u>\$ 2,182</u>	<u>\$ 431</u>

- (1) Represents operating lease costs, consisting of leases for facilities and vehicles. Includes options to extend part of the lease agreements for additional 2 years and up to 5 years.
- (2) We purchase components from a variety of suppliers and vendors, in connection with the development and sales of our products.
- (3) 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 obligation for accrued severance pay under Israel's Severance Pay Law as of December 31, 2019, was approximately \$3.9 million, of which approximately \$3.4 million was funded through deposits in severance pay funds, leaving a net obligation of approximately \$0.5 million. 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% and 5% of the revenues derived from products incorporating know-how developed from research and development grants from the IIA and BIRD Foundation, respectively. As of December 31, 2019, our contingent liability to the IIA in respect of grants received was approximately \$51.0 million, and our contingent liability to the BIRD Foundation in respect of funding received was approximately \$390 thousand. 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.

For additional information, see “Item 4.B—Information on the Company—Business Overview—Israel Innovation Authority”, and “Item 4.B—Information on the Company—Business Overview—Binational Industrial Research and Development Foundation.”

We are also obligated to pay to the MOE royalties of 3% on the increased sales in the target market derived in India and China, with respect to the year during which the grant was approved (2012 and 2014, respectively), over a period of five years but not more than the total linked amount of the grant received by us. The total marketing grants that the Company has received from the MOE as of December 31, 2019 were approximately \$668 thousand. No further grants are expected to be received from such plans.

Effect of Recent Accounting Pronouncements

See Note 2, Significant Accounting policies, in Notes to the Consolidated Financial Statements in Item 18 of part II of this Report, for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on financial condition and results of operations.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

The following table lists our current directors and executive officers:

Name	Age	Position
Rachel (Heli) Bennun	66	Executive Chairman of our Board of Directors
Matty Karp (1)(4)(5)	70	Director
Mirella Kuvent (1)(2)(4)	59	Director
Oren Most (1)(3)(4)(5)	69	Director
Yaron Ravkaie	51	Director
Rami Schwartz (1)(5)	62	Director
Zohar Zisapel	71	Director
Eyal Harari	43	Chief Executive Officer
Amir Hai	54	Chief Financial Officer
Hilik Itman	48	Chief Operating Officer
Rami Amit	54	Chief Technology Officer and Head of Product

- (1) Independent Director, under Nasdaq Stock Market Rules, or the Nasdaq Listing Rules.
- (2) Chairman of Audit Committee.
- (3) Chairman of Compensation Committee.
- (4) Audit Committee Member.
- (5) Compensation Committee Member.

Ms. Rachel (Heli) Bennun has served as a director since December 2012 and was appointed as the Executive Chairman of our Board of Directors in September 2015. In addition, Ms. Bennun has served as a consultant to the Company's management since January 2012. Ms. Bennun has over 25 years of professional experience in hi-tech companies. Ms. Bennun co-founded Arel Communications & Software Ltd. (formerly Nasdaq: ARLC) in 1988, a company focused on offering integrated video, audio and data-enabled conferencing solutions, including real time Interactive Distance Learning, and served as CEO, CFO, and director, leading the company to its initial public offering on Nasdaq in 1994. Ms. Bennun also co-founded ArelNet Ltd. (formerly TASE: ARNT), a pioneer in the field of Voice over IP, and served as CEO and as a director, leading the company to its initial public offering on TASE and until its acquisition by Airspan Network Inc. Ms. Bennun has also served as CEO and director of OrganiTech USA, Inc. (PINK: ORGT), a pioneer in the cleantech industry. Ms. Bennun holds a M.Sc. and a B.Sc. in Industrial and Management Engineering from Ben-Gurion University.

Mr. Matty Karp has served as a director since December 2009. From 1996 to 2015, he was 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: Elta Ltd.; 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.Sc., 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. Mirella Kuvent has served as a director since July 2019. Ms. Kuvent serves as an external director and member of the risk management and audit committees for Diners Club Israel Ltd. and Diners Finance Ltd. Ms. Kuvent has also served as an external director to Ham-Let (Israel Canada) Ltd. from 2007 to 2013 and for the Company for the Reconstruction and Development of the Jewish Quarter in the Old City of Jerusalem Ltd. from 2014 to 2017 and has been a member of finance committees, audit committees and compensation committees, having also served as chair of an audit committee. Ms. Kuvent also has extensive experience in senior commercial, marketing and business development roles with technology companies offering solutions to communications services providers as well as with a large communication services company. Ms. Kuvent holds a B.A. in business administration from Fundação Getúlio Vargas and an M.B.A. from the Hebrew University of Jerusalem.

Mr. Oren Most has served as a director since July 2019. Mr. Most is the founder and president of Golan Telecom, Ltd., an Israeli cellular operator. Mr. Most has also served in executive positions with several private and public companies including as President and Chief Executive Officer of Gilat Satellite Networks Ltd. (Nasdaq and TASE: GILT) and as Founder and Deputy Chief Executive Officer of Cellcom (Israel) Ltd. Mr. Most has also served as director for several public and private corporations. Mr. Most holds a B.A. in Sociology & Anthropology, Film & Television from the Tel Aviv University and an M.B.A. from New York University.

Mr. Yaron Ravkaie has served as a director since January 2020. Mr. Ravkaie is the chief executive officer of Teridion Technologies Ltd., having assumed that role in January 2020. Mr. Ravkaie previously served as the Company's chief executive officer from January 2016 through December 2019. Prior to joining RADCOM, Mr. Ravkaie served during 2015 as the Chief Business Officer of RR Media Ltd. (Nasdaq: RRM). Prior to serving at RR Media Ltd., and between 1998 and 2015, Mr. Ravkaie served in various roles with Amdocs Ltd. (Nasdaq: DOX), including as the President of the Mobile Financial Services Division, President of the AT&T division, and other director and vice president roles. Mr. Ravkaie served for nine years in information systems, industrial engineering and logistics with the Israeli Air Force as a Major. Mr. Ravkaie holds an M.B.A. from the University of Beersheba and a B.Sc. in Industrial Engineering & Management from the Technion, Haifa.

Mr. Rami Schwartz has served as a director since July 2019. Mr. Schwartz has over 20 years' experience in leadership positions in the technology and enterprise software fields. Mr. Schwartz currently serves as the Managing Director of the Portland Trust Israel and as an Advisory Board Member to AlgoSec. Mr. Schwartz previously served in senior positions, including as business group president, founder, Chief Executive Officer and Active Chairman, with several public and private companies including Amdocs. Mr. Schwartz also served as Chief of System Development for the Israeli Air Force. Mr. Schwartz holds a B.Sc. in math and computer science from the Hebrew University of Jerusalem.

Mr. Zohar Zisapel, a co-founder of our Company, has served as a director since our inception in 1985 and served as our Chairman of the Board from inception until September 2015. Mr. Zisapel is the Chairman of Ceragon Networks Ltd. (Nasdaq: CRNT) and serves as chairman or director of several private companies in the in the areas of communications, cyber security and automotive. Mr. Zisapel holds a B.Sc. and a M.Sc. in Electrical Engineering from the Technion - Israel Institute of Technology and an M.B.A. from Tel-Aviv University.

Mr. Eyal Harari, our Chief Executive Officer, joined us in November 2000 as a software R&D group manager and was appointed to his current position effective January 1, 2020, having previously served as Chief Executive Officer of RADCOM US and as our Chief Operating Officer. Before joining RADCOM, Mr. Harari served 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 holds an M.B.A. from Tel-Aviv University and an LL.M in Business Law from Bar Ilan University.

Mr. Amir Hai, our Chief Financial Officer, joined us in October 2018. Prior to joining RADCOM, Mr. Hai was Chief Financial Officer of Smart Medical Systems Ltd., from 2014 to 2018. Before 2014, Mr. Hai served as Chief Financial Officer for several other companies including two publicly traded companies and served as High-tech Senior Manager for Ernst & Young Israel. Since 2012, Mr. Hai also serves as external director and chairman of the audit committee of Matrix IT Ltd. Mr. Hai holds a B.A. in Economics from the College of Management Academic Studies in Israel and is certified in Israel as a CPA.

Mr. Hilik Itman, our Chief Operating Officer joined us in June 1997 as a software engineer and was appointed to his current position in January 2020, having most recently served as the Company's Vice President of Research and Development. Mr. Itman led the R70S software development and led the MaveriQ development during the company's transition from hardware-based products, to software-based probe products. Mr. Itman holds a B.A. in Mathematics and Computer Science from the Open University.

Mr. Rami Amit, our Chief Technology Officer and Head of Product, joined us in February 2017. Prior to joining RADCOM, Mr. Amit served from 2013 to 2017 as director of engineering in the Cisco NFV Business Unit, which included worldwide deployments by many tier 1 customers. Mr. Amit was a major contributor to the vision of the evolution to virtualization in that space. Prior to his time at Cisco Mr. Amit was Chief Technology Officer for Jungo, a leading software provider, founded Surf&Call Solutions, which was later acquired by CosmoCom and was the first employee of the VoIP industry pioneer, VocalTec, in which he is considered as one of the early inventors of VoIP, building the first ever VoIP gateway shown in public in the mid-1990s and leading many of the VoIP technologies used today on a daily basis. Mr. Amit holds a B.Sc. in electrical engineering from Tel Aviv University.

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

B. COMPENSATION

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Equity-Based Compensation (\$) ⁽¹⁾	All Other Compensation (\$) ⁽²⁾	Total (\$)
Yaron Ravkaie, Former CEO	2019	288,827	127,159	232,303	150,767 ⁽³⁾	799,056
Eyal Harari, CEO (former CEO of RADCOM US)	2019	250,000	100,000	203,427	53,552	606,979
Hilik Itman, VP R&D	2019	184,352	49,151	308,283	42,000	583,786
Rami Amit, CTO and Head of Product	2019	224,536	75,625	155,963	52,000	508,124
Amir Hai, CFO	2019	157,271	40,046	31,632	57,486	286,435

⁽¹⁾ Equity based compensation includes the cost of non-cash share-based compensation of the Company in 2019. The grants awarded during 2019 and 2018 were for a vesting term of up to 4 years.

- (2) All other compensation includes social benefits and car leasing costs.
- (3) Includes amounts accrued in connection with the termination of Yaron Ravakie's employment as CEO.

The bonus paid to our CEO is based on a formula which takes into consideration three independent measurable and non-measurable components and which was approved by Board of Directors in accordance with the Compensation Policy and the CEO's amended terms of employment approved by general meeting of our shareholders on July 11, 2019.

The bonus and commission payments made to our other officers are based on the achievements of goals and objectives that are set and communicated at the beginning of each year and which are made in accordance with our compensation policy, as approved by our shareholders from time to time and most recently on July 11, 2019.

The aggregate direct remuneration paid to all our directors and executive officers as a group for the year ended December 31, 2019 was approximately \$2.1 million in salaries, bonus, commissions and directors' fees. This amount includes approximately \$0.2 million 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 718.

During 2019, our officers received, in the aggregate, 216,200 restricted share units, or RSUs, under our 2013 Share Option Plan, or the 2013 Plan. The RSUs have a vesting schedule of three to four years over equal annual installments commencing as of the date of the grant. Further information regarding the options and RSU grants to our directors is detailed below.

As of December 31, 2019, our current directors and officers, as a group, held options to purchase an aggregate of 171,260 ordinary shares of the Company and 246,709 RSUs that were granted under our 2013 Plan. The directors are reimbursed for expenses and receive cash and equity compensation, which terms are detailed below.

The cash compensation paid to our independent directors (other than to our Executive Chairman, as of September 10, 2015) and external directors (until we adopted the exemption from the need to have external directors), is an annual fee of NIS 52,575 (currently equivalent to approximately \$14,372) and a per meeting attendance fee of NIS 1,856 (currently equivalent to approximately \$507), 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.

Share Option Plans

On April 3, 2013, our Board of Directors adopted the 2013 Plan. The 2013 Plan expires on April 2, 2023. Under the 2013 Plan, we may grant options to purchase our ordinary shares, restricted shares and RSUs to our employees, directors, consultants and contractors. As of March 25, 2020, we have granted 1,238,802 options and 1,016,948 RSUs under the 2013 Plan. In addition, we granted 40,000 RSUs to our CEO in February 2020 which are pending shareholders' approval. Options and RSUs granted under our option plans generally vest over a period of between one and four years, with expiration term for options of 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 October 30, 2016, the Company's Board of Directors resolved to increase the number of outstanding shares reserved under the 2013 Plan to 2,450,000.

The Company measures the compensation expense for all share-based payments (including employee stock options) at fair value, in accordance with ASC 718. We recorded an expense of approximately \$2.2 million for share-based compensation plans during 2019. During 2019, we granted 388,020 RSUs, which will result in ongoing accounting charges that will significantly reduce our net income. See Notes 2(m) and 11(c) of the Notes to the Consolidated Financial Statements for further information.

As of March 25, 2020, there are 324,285 outstanding options to purchase ordinary shares and 584,203 unvested RSUs under the 2013 Plan.

Pursuant to Rule 5615(a)(3) of the Nasdaq Listing Rules, we 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, we have adopted share option plans and material amendments thereto by action of our Board of Directors, without shareholder approval. See also “Item 16G—Corporate Governance.”

Compensation Policy

On June 5, 2019, our Compensation Committee and Board of Directors approved our compensation policy for our Executive Officers and Directors, and our shareholders approved the compensation policy on July 11, 2019. See “Item 6.C—Directors, Senior Management and Employees—Board Practices—Compensation Committee.”

C. BOARD PRACTICES

Terms of Office

Our current Board of Directors is comprised of Rachel (Heli) Bennun (Executive Chairman), Matty Karp, Mirella Kuvent, Oren Most, Yaron Ravkaie, Rami Schwartz, and Zohar Zisapel. 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. Other than Mr. Ravkaie, all of our directors were elected in our annual general meeting which took place in July 2019. The terms of office of Mr. Zisapel and Ms. Kuvent will expire on the first annual general meeting following their election. The terms of office of Mr. Schwartz and Mr. Most will expire on the second annual general meeting following their election. The terms of office of Ms. Bennun and Mr. Karp will expire on the third annual general meeting following their election. In November 2019, Mr. Ravkaie was appointed by our Board of Directors to filling a vacant position on our Board of Directors for a term commencing January 1, 2020 and expiring on our next annual general meeting. None of our directors have service contracts with the Company relating to their service 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

Under the Israeli Companies Law, a public company incorporated under the laws of the State of Israel must appoint at least two External Directors; however, pursuant to an exemption provided under section 5D of the Israeli Companies Regulations (Relief for Public Companies with Shares Listed for Trading on a Stock Market Outside of Israel), 5760-2000, or the Exemption, a public company with securities listed on certain foreign exchanges, including Nasdaq, that satisfies the applicable foreign country laws and regulations that apply to companies organized in that country relating to the appointment of independent directors and composition of audit and compensation committees and has no controlling shareholder is exempt from the requirement to elect External Directors or comply with the audit committee and compensation committee composition requirements under the Companies Law.

On July 31, 2019, our Board adopted the Exemption. As a result of the adoption of the Exemption, the terms of office of any External Directors serving at the time of such adoption were shortened to the earlier to occur of the remainder of their three-year term as External Director or the term ending on the second annual general meeting following the adoption of the Exemption. As a result, the terms of office of Mr. Schwartz and Mr. Most were reduced.

Audit Committee

The current members of our Audit Committee are Matty Karp, Mirella Kuvent, and Oren Most. Ms. Kuvent is the Chairman of the Audit Committee. Our Board of Directors has determined that all of the above are independent Audit Committee members within the meaning of the Nasdaq Listing Rules. Our Board of Directors has also determined that Oren Most is an “Audit Committee Financial Expert” as defined in Item 407(d)(5)(ii) of Regulation S-K under the Exchange Act and that he has the requisite experience under Nasdaq Listing Rules.

Our Audit Committee operates under a written charter that is posted on our website.

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” requirements 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, the replacement of our independent auditors, and to pre-approve audit engagement fees and all permitted non-audit services and fees.

Under the Companies Law and the Nasdaq Listing Rules, our Audit Committee is responsible for (i) determining whether there are deficiencies in the business management practices of our Company, including in consultation with our internal auditor or the independent auditor, and making recommendations to the Board to improve such practices, (ii) determining whether to approve certain related party transactions (including transactions in which an office holder has a personal interest) and whether such transaction should be deemed as material or extraordinary, (iii) where the Board approves the working plan of the internal auditor, to examine such working plan before its submission to the Board and propose amendments thereto, (iv) examining our internal controls and internal auditor’s performance, including whether the internal auditor has sufficient resources and tools to dispose of its responsibilities, (v) examining the scope of our auditor’s work and compensation and submitting a recommendation with respect thereto to our Board or shareholders, depending on which of them is considering the appointment of our auditor, and (vi) establishing procedures for the handling of employee complaints as to the management of our business and the protection to be provided to such employees. In compliance with regulations promulgated under the Israeli Companies Law, our Audit Committee also approves our financial statements, thereby fulfilling the requirement that a board committee provide such approval.

Compensation Committee

The current members of our Compensation Committee are Matty Karp, Oren Most and Rami Schwartz. Mr. Most is the Chairman of the Compensation Committee. Our Board of Directors has determined that all Compensation Committee members are independent within the meaning of the Nasdaq Listing Rules.

The Compensation Committee operates under a charter that is posted on our website.

As stated in our Compensation Committee Charter and as provided under the Israeli Companies Law and the Nasdaq Listing Rules, our Compensation Committee is responsible for (i) proposing office holder compensation policies to the Board, (ii) proposing necessary revisions to any compensation policy and examining its implementation, (iii) determining whether to approve transactions with respect to compensation of office holders, (iv) determining, in accordance with office holder compensation policies, whether to exempt an engagement with an unaffiliated nominee for the position of chief executive officer from requiring shareholder approval, and (v) administration of our share option plan.

Subject to the provisions of the Israeli Companies Law, compensation of executive officers is generally determined and approved by our Compensation Committee and our Board of Directors. Shareholder approval is generally required when (i) approval by our Board of Directors and our Compensation Committee is not consistent with our Compensation Policy which was last adopted by annual meeting of shareholders on July 11, 2019, or (ii) the compensation is that of our Chief Executive Officer. In special circumstances, our Compensation Committee and Board may approve the compensation of an executive officer (other than a director, a chief executive officer or a controlling shareholder) or approve the compensation policy despite shareholder objection. Additionally, under certain circumstances, our Compensation Committee may exempt an engagement with a nominee for the position of chief executive officer from requiring shareholders’ approval or may otherwise postpone such shareholders’ approval.

A director or executive officer may not be present when the Board discusses or votes upon the terms of his or her compensation, unless the chairman of the Board determines that he or she should be present to present the transaction that is subject to approval. The Chief Executive Officer may not be present during voting or deliberations regarding his or her compensation.

The Israeli Companies Law provides that our compensation policy must serve as the basis for the decisions concerning the financial terms of employment or engagement of executives and directors, including exculpation, insurance, indemnification or any monetary payment or obligation of payment in respect of employment or engagement. The compensation policy must be approved (or reapproved) not longer than every three years, and relate to certain factors, including advancement of the company's objective, business plan and its long-term strategy and creation of appropriate incentives for office holders. It must also consider, among other things, the company's risk management, size and nature of its operations. The compensation policy must furthermore consider the following additional factors:

- the knowledge, skills, expertise and accomplishments of the relevant office holder;
- the office holder's roles and responsibilities and prior compensation agreements with him or her;
- the relationship between the terms offered and the average compensation of the other employees of the company, including those employed through human resource companies;
- the impact of disparities in salary upon work relationships in the company;
- the possibility of reducing variable compensation at the discretion of the Board of Directors or the possibility of setting a limit on the exercise value of non-cash variable equity-based compensation; and
- as to severance compensation, the period of service of the office holder, the terms of his or her compensation during such service period, the company's performance during that period of service, the person's contributions towards the company's achievement of its goals and the maximization of its profits and the circumstances under which the person is leaving the company.

The compensation policy must also include the following principles:

- the link between variable compensation and long-term performance and measurable criteria;
- the relationship between variable and fixed compensation, and the ceiling for the value of variable compensation;
- the conditions under which a director or executive would be required to repay compensation paid to him or her if it was later shown that the data upon which such compensation was based was inaccurate and was required to be restated in the company's financial statements;
- the minimum holding or vesting period for variable, equity-based compensation; and
- maximum limits for severance compensation.

On June 5, 2019, our Compensation Committee and Board of Directors approved an amended compensation policy for Executive Officers and Directors, and our shareholders approved such compensation policy on July 11, 2019.

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.

Ms. Sharon Cohen, who is a partner at Brightman Almagor Zohar & Co., a member of Deloitte, 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 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

Our Board of Directors does not currently have a nominating committee. However, independent directors do retain oversight over director nominations, and in accordance with the requirements of the Nasdaq Listing Rules, our director nominees will either be selected for or recommended to the Board of Directors' by a majority of the independent directors of the Board of Directors.

D. EMPLOYEES

Our total headcount as of December 31, 2019 was 282, including full-time and part-time employees and contractors, broken down geographically and by function as follows:

	Research and Development	Sales, Marketing and Customer Support	Operations	Administration and Management	Total Headcount
Israel	111	41	3	13	168
India	14	26	-	2	42
United States	-	23	-	4	27
Brazil	-	7	-	1	8
Other	25	12	-	-	37
Total	150	109	3	20	282

We consider our relations with our employees to be good and we have never experienced a strike or work stoppage. Except for employees located in Brazil, none of our employees are represented by labor unions.

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. The percentage of outstanding ordinary shares is based on 13,883,538 ordinary shares outstanding as of March 25, 2020. Except for Mr. Zohar Zisapel, 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	2,889,722(4)	20.8%
All directors and executive officers as a group, except Zohar Zisapel (10 persons)	264,809(5)	1.9%

- (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 March 25, 2020.
- (2) In 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 March 25, 2020.
- (3) The number of outstanding ordinary shares does not include 5,189 shares held by RADCOM US, a wholly owned subsidiary, and 30,843 shares that were repurchased by us.
- (4) Includes (i) 2,330,965 ordinary shares held by Mr. Zohar Zisapel, (ii) 299,416 ordinary shares held by Michael & Klil Holdings (93) Ltd or Klil, an Israeli company, wholly owned by Mr. Zohar Zisapel, (iii) 242,731 ordinary shares held by Lomsha Ltd. or Lomsha, an Israeli company wholly owned by Mr. Zohar Zisapel, (iv) 610 RSUs expected to be vested within 60 days of March 25, 2020 and (v) 16,000 ordinary shares issuable upon exercise of options, with an average exercise price per share of \$13.46, expiring between the years 2020 and 2021. The options listed above are exercisable currently or within 60 days of March 25, 2020. Mr. Zohar Zisapel's brother, Mr. Yehuda Zisapel holds 344,809 ordinary shares. Additionally, Mr. Zohar Zisapel's life partner and Executive Chairman of the Company's Board of Directors, Ms. Heli Bennun holds 21,258 exercisable options, 1,832 RSUs expected to be vested within 60 days of March 25, 2020 and 7,328 ordinary shares. Mr. Zohar Zisapel disclaims beneficial ownership of the ordinary shares held by Mr. Yehuda Zisapel and by Ms. Heli Bennun. This information is based on information provided to the Company by Mr. Zohar Zisapel.
- (5) 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 held by each such party, which are vested or shall become vested within 60 days of March 25, 2020 and have, therefore, not been separately disclosed. The number of shares is comprised of 136,260 ordinary shares issuable upon exercise of options exercisable within 60 days of March 25, 2020, 9,272 RSU that will vest within 60 days of March 25, 2020 and 119,277 ordinary shares.

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 March 25, 2020, 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 shareholders 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 March 25, 2020, our ordinary shares had a total of 16 holders of record, of which 9 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 March 25, 2020, U.S. holders of record held approximately 65% of our outstanding ordinary shares.

Name	Number of Ordinary Shares beneficially owned(1)	Percentage of Outstanding Ordinary Shares beneficially owned (2)
Zohar Zisapel	2,889,722(3)	20.8%
Yelin Lapidot Holdings Management Ltd.	1,630,633(4)	11.7%

- (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 March 25, 2020.
- (2) The percentage of outstanding ordinary shares is based on 13,883,538 ordinary shares outstanding as of March 25, 2020. In 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 March 25, 2020. The number of outstanding ordinary shares does not include 5,189 ordinary shares held by RADCOM US, a wholly owned subsidiary and 30,843 ordinary shares that were repurchased by us.
- (3) Includes (i) 2,330,965 ordinary shares held by Mr. Zohar Zisapel, (ii) 299,416 ordinary shares held by Michael & Klil Holdings (93) Ltd or Klil, an Israeli company, wholly owned by Mr. Zohar Zisapel, (iii) 242,731 ordinary shares held by Lomsha Ltd. or Lomsha, an Israeli company wholly owned by Mr. Zohar Zisapel, (iv) 610 RSUs expected to be vested within 60 days of March 25, 2020 and (v) 16,000 ordinary shares issuable upon exercise of options, with an average exercise price per share of \$13.46, expiring between the years 2020 and 2021. The options listed above are exercisable currently or within 60 days of March 25, 2020. Mr. Zohar Zisapel’s brother, Mr. Yehuda Zisapel holds 344,809 ordinary shares. Additionally, Mr. Zohar Zisapel’s life partner and Executive Chairman of the Company’s Board of Directors, Ms. Heli Bennun holds 21,258 exercisable options, 1,832 RSUs expected to be vested within 60 days of March 25, 2020 and 7,328 ordinary shares. Mr. Zohar Zisapel disclaims beneficial ownership of the ordinary shares held by Mr. Yehuda Zisapel and by Ms. Heli Bennun. This information is based on information provided to the Company by Mr. Zohar Zisapel.
- (4) The information with respect to the holdings of Yelin Lapidot Holdings Management, Ltd. is based on a Schedule 13G/A filed with the SEC by Dov Yelin, Yair Lapidot, Yelin Lapidot Holdings Management Ltd. Yelin Lapidot Mutual Funds Management Ltd. and Yelin Lapidot Provident Funds Management Ltd. on February 10, 2020 and reflects the holdings of such persons as of December 31, 2019.

B. RELATED PARTY TRANSACTIONS

RAD-BYNET Group

Mr. Zohar Zisapel, a member of our Board of Directors, is the Chairman of the board of Ceragon Networks Ltd., RADWIN Ltd., RADIFLOW Ltd., Hailo, HiAuto Ltd. and Innoviz Ltd. and director in the following companies: Nuance Hearing Ltd., RAD Data Communications Ltd., RAD-Bynet Properties and Assets (1981) Ltd., Packetlight Networks Ltd., CyberInt Technologies Ltd., Armis Security Ltd., Cylus Ltd. and several other private holdings, real estate and medical devices companies. The above list does not constitute a complete list of Mr. Zohar Zisapel’s holdings. In some of these companies his brother, Mr. Yehuda Zisapel is also a director.

Mr. Yehuda Zisapel (brother of Mr. Zohar Zisapel) serves also as director in additional companies, including: RADWARE Ltd., Bynet Data Communications Ltd., Bynet Electronics Ltd., Bynet Semech (Outsourcing) Ltd., Bynet Systems Applications Ltd., Ab-Net Communications Ltd., BYNET Software Systems Ltd., Internet Binat Ltd., SecurityDam Ltd., Binat Business Ltd and several other private holdings, real estate and medical devices companies. The above list does not constitute a complete list of Mr. Yehuda Zisapel's holdings.

Some of the above companies may be suppliers/distributors/consumers of RADCOM products or may render additional services by arm's length transactions or share logistical arrangements with the Company. Some of the above companies are known as the "RAD-BYNET Group."

Ms. Rachel (Heli) Bennun, who is the Executive Chairman of our Board of Directors, is Mr. Zohar Zisapel's life partner.

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.

Supplier and Service Provider Arrangements

We purchase certain personnel, administrative and IT 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.

Members of the RAD-BYNET group may provide to us, for which we pay on market terms and rates. The aggregate amount of such purchases was approximately \$49 thousand in 2019.

Office Leases

We currently lease office premises in Tel Aviv, Israel and in Paramus, New Jersey, from private companies controlled by Mr. Yehuda Zisapel and his wife, Ms. Nava Zisapel, and Mr. 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 amount of lease and maintenance payments was approximately \$912 thousand in 2019.

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.

Matrix IT Ltd.

Mr. Amir Hai, our Chief Financial Officer, is a member of the board and Chairman of the Audit Committee of Matrix IT Ltd., or Matrix., an Israeli technology company offering a broad array of project and technology services. Among other things, Matrix is a certified distributor of the Red Hat OpenStack platform. The Company, from time to time, has entered and expects to continue to enter into certain limited term engagements with Matrix or its affiliated companies in connection with specific development projects and/or use of the Red Hat OpenStack platform. The terms of the transactions in which we have entered and are currently engaged with Matrix and/or its affiliates are believed to be no less favorable to us than terms that might be available to us from unrelated third parties. All future transactions and arrangements (or modifications of existing ones) with Matrix or its affiliated companies will require approval by our Board of Directors and, in certain circumstances, approval of our Audit Committee and shareholders in accordance with the Israeli Companies Law. In 2019, we purchased products and services from Matrix and its affiliates as a related party in the amount of approximately \$288 thousand.

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 2019 and 2018, the amount of our export sales was approximately \$31.6 million and \$33.3 million respectively, which represented 96% and 98% of our total sales.

Legal Proceedings

We are currently not, and have not been in the recent past, a party to any legal proceedings which may have or have had in the recent past material effects on our financial position or profitability. However, we have been in the past, and may be from time to time in the future, named as a defendant in certain routine litigation incidental to our business.

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 below and/or in this Annual Report, there has been no significant change affecting our financial statements since December 31, 2019.

ITEM 9. THE OFFER AND LISTING**A. OFFER AND LISTING DETAILS**

Our ordinary shares are traded on the Nasdaq Capital Market under the symbol "RDCM."

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

Our ordinary shares are traded on the Nasdaq Capital Market.

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

Copies of our Memorandum and Articles of Association are attached as Exhibit 1.1 and Exhibit 1.2, respectively, to this Annual Report. The information called for by this Item is set forth in Exhibit 2.2 to this Annual Report and is incorporated by reference into this Annual Report.

C. MATERIAL CONTRACTS

On March 29, 2019, we entered into a series of agreements with AT&T relating to the sale of our solutions and services to AT&T. The AT&T agreements include:

- **Software and Professional Services Agreement**, or SPSA – a three-year framework agreement with two additional one-year options which establishes general terms and conditions for the delivery of products and services. Such terms include, among others, terms relating to ordering procedures; AT&T site, privacy, and security requirements; terms related to the licensing of intellectual property to AT&T; change in control provisions permitting AT&T's termination of the agreement under certain circumstances; intellectual property infringement indemnity; insurance requirements; and limitations of liability. The SPSA provides the structure pursuant to which the parties may enter into supplemental agreements for purposes of effectuating specific orders. With regard to such orders, the terms of any supplemental agreements take precedence over the terms of the SPSA.
- **Supplement Agreement** – a three-year agreement with two additional one-year options governing the sale of our solutions and related professional services to AT&T. The Supplement Agreement provides the detailed technical scope for our solutions and the prices applicable to such solutions. Pursuant to the Supplement Agreement, AT&T has committed to issue certain orders related to the continuing enhancement of existing solutions for the first two years of the agreement and to the expansion of license use rights during the first year of the agreement and retains options to issue certain additional orders over the three-year term of the agreement.
- **Supplemental Support & Maintenance Agreement** – a three-year agreement for our performance of support and maintenance services for our solutions deployed on AT&T's network. This agreement defines the technical aspects of support including error severity levels, response times, and method of interface, as well as the annual fee for such services.

We entered into a series of agreements with Rakuten relating to the sale of our solutions and services to Rakuten. The Rakuten Agreements include:

- **Master Software and Professional Services Agreement**, or MSPSA – a multi-year framework agreement effective May 21, 2019, establishing general terms and conditions for the delivery of software and services. Such terms include, among others, terms relating to ordering procedures, intellectual property, confidentiality, indemnity, and limitations of liability. The MSPSA provides the structure pursuant to which the parties may enter into additional statements of work, or SOWs, for purposes of effectuating specific orders. The SOWs establish the scope of services, technical specifications, and certain other terms with regard to each particular order. The terms of any SOWs take precedence over the terms of the MSPSA.
- **Statement of Work No. 1**, or SOW No. 1 – a multi-year agreement effective May 22, 2019, governing the delivery of our solution and services as a managed service to Rakuten and providing the detailed technical scope for the managed services and the prices applicable to such services. SOW No. 1 establishes a multi-year commitment with certain additional renewal periods.

Additionally, we have entered and from time to time may enter into additional SOWs with Rakuten providing for additional products and or services complementary to the services provided under SOW No. 1.

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 upon 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 that benefit 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

Taxable income of the Company is subject to the Israeli corporate tax at the rate as follows: 2017 – 24%, 2018 and 2019 – 23%.

Tax benefits under the Law for the Encouragement of Capital Investments, 1959 ,or the Encouragement of Capital Investments Law:

In August 2013, the Israeli Parliament enacted the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 which includes Amendment 71 thereto, or Amendment 71. Per Amendment 71, the tax rate on preferred income from a preferred enterprise in 2014-2016 will be 9% in certain areas in Israel designated as Development Area A and 16% in other areas. In 2017, the tax rate for Development Area A was reduced to 7.5%.

We may claim the tax benefits offered by Amendment 71 in our tax returns, provided that our facilities meet the criteria for tax benefits set out by the amendment. We are also entitled to approach the Israeli Tax Authorities for a pre-ruling regarding their eligibility for benefits under Amendment 71 (and in some cases are required to apply for such approval).

In December 2016, the Israeli Parliament enacted the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which includes Amendment 73 thereto, or Amendment 73. Amendment 73, which came into effect in January 2017, prescribes special tax tracks for Preferred Technological Enterprises, granting such enterprises a tax rate of 7.5% in Development Area A and 12% in other areas, and granting a tax rate of 6% for enterprises that qualify as a Special Preferred Technological Enterprise.

Under Amendment 73, any dividends distributed to “foreign companies”, as defined in the Economic Efficiency Law, by companies having over 90% foreign (*i.e.*, non-Israeli) ownership, deriving from income from the Preferred Technological Enterprises will be subject to tax at a rate of 4%.

In order to be eligible for the reduced tax rate, a company must meet certain criteria as set forth in Amendment 73 including that R&D expenses and employee level remain at a certain rate.

We have yet to claim the tax benefits offered under Amendment 73 and accordingly such reduced taxes were not considered in the computation of the deferred taxes and valuation allowance as of December 31, 2019.

Capital Gains Tax on Sales of Our Ordinary Shares

Generally, as to Israeli residents, the Israeli tax law imposes a capital gains tax on the gain from the sale of any capital assets by Israeli residents, whether such gain was sourced in Israel or abroad. As to non-Israeli residents, the Israeli tax law generally imposes a capital gains tax on the sale of assets, including shares, by non-Israeli residents, if those assets are either (a) located in Israel; (b) located outside of Israel and are a direct or indirect right to an asset or inventory located in Israel; (c) are shares or rights to shares in an Israeli resident corporation; or (d) are rights in a foreign resident corporation (non-Israeli corporation) that holds, directly or indirectly, 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. Under the Israeli Income Tax Ordinance [New Version], 1961, there is a distinction between a 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.

The income tax rate applicable to real gain derived by an Israeli individual from the sale of shares which had been purchased after January 1, 2012, whether listed on a stock exchange or not, is 25%. However, if such shareholder is considered a “Substantial Shareholder” (a person who holds, alone or together with a family relative or with a person who is not a relative where the person has a permanent cooperation agreement with such non-relative) 10% or more of the company’s issued share capital or of voting rights in it) at the time of sale or at any time during the preceding 12-month period, such gain will be taxed at the rate of 30%. As of January 1, 2016, an additional tax at a rate of 2% will be imposed on high earners whose annual income or gains exceed NIS 803,520. As of January 1, 2017, an additional income tax at a rate of 3% will be imposed on high earners whose annual taxable income or gain exceeds NIS 640,000. As of January 1, 2018, an additional income tax at a rate of 3% will be imposed on high earners whose annual taxable income or gain exceeds NIS 641,880 (including, but not limited to, dividends, interest and capital gain).

Moreover, capital gains derived by a shareholder who is a dealer or trader in securities, or to whom such income is otherwise taxable as ordinary business income, are taxed in Israel at ordinary income rates (for fiscal year 2017, 2018 and 2019, up to 50% for individuals and for Israeli resident corporations, the corporate tax rate is 24%, 23% and 23%, respectively).

Non-Israeli resident shareholders are generally exempt from Israeli capital gains tax on any gains derived from the sale, exchange or disposition of our ordinary shares purchased after January 1, 2009, provided that such gains were not derived from a permanent establishment or business activity of such shareholders in Israel. However, non-Israeli corporations shareholders will not be entitled to the foregoing exemptions if an Israeli resident (i) has a controlling interest of more than 25% in such non-Israeli corporation or (ii) is the beneficiary of or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

Regardless of whether shareholders may be liable for Israeli income tax on the sale of our ordinary shares, the payment of the consideration may be subject to withholding of Israeli tax at the source. Accordingly, shareholders may be required to demonstrate that they are exempt from tax on their capital gains in order to avoid withholding at source at the time of sale.

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 (a) 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 (b) 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. However, where a shareholder is exempt from Israeli taxation as described in the "Item 10.E—Additional Information—Taxation—Capital Gains Tax on Sales of Our Ordinary Shares", such exemption takes precedence over the U.S.-Israel Tax Treaty.

Taxation of Non-Residents on Dividends

Non-Israeli residents are generally subject to Israeli withholding income tax on the receipt of dividends paid on our Shares at the rate of 25% (or 30% for individuals, if such individual is a Substantial Shareholder at the time receiving the dividend or on any date in the 12 months preceding such date), which tax will be withheld at source, unless a tax certificate is obtained from the Israeli Tax Authority authorizing withholding-exempt remittances or a reduced rate of tax pursuant to an applicable tax treaty.

A "substantial shareholder" is generally a person who alone or together with such person's relative or another person who collaborates with such person on a permanent basis, holds, directly or indirectly, at least 10% of any of the "means of control" of the corporation. "Means of control" generally include the right to vote, receive profits, nominate a director or an executive officer, receive assets upon liquidation, or order someone who holds any of the aforesaid rights how to act, regardless of the source of such right.

A non-Israeli resident who receives dividends from which tax was withheld is generally exempt from the duty to file tax returns in Israel in respect of such income.

For example, under the U.S.-Israel Tax Treaty, Israeli withholding tax on dividends paid to a U.S. resident for treaty purposes may not, in general, exceed 25%, or 15% in the case of dividends paid out of the profits of an Approved Enterprise, subject to certain conditions. Where the recipient is a U.S. corporation owning 10% or more of the outstanding shares of the voting stock of the paying corporation during the part of the paying corporation's taxable year, which precedes the date of payment of the dividend and during the whole of its prior taxable year (if any) and not more than 25% of the gross income of the paying corporation for such prior taxable year (if any) consists certain interest or dividends, the Israeli tax withheld may not exceed 12.5%, subject to certain conditions.

Israeli Transfer Pricing Regulations

Section 85A and the regulations thereunder contain elaborate transfer pricing provisions which include the arm's-length principle, that apply to any international transaction in which there is a special relationship between the parties to the transaction and for which a price was settled on for property, a right, a service, or credit.

According to the arm's length, such international transaction shall be reported in accordance with the market price and conditions and tax shall be due accordingly. 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 the field of activity, the type of the asset or service, the contractual conditions of the international transaction, the risks taken by each party and according to additional terms and conditions specified in the regulations.

United States Federal Corporate Income Tax Considerations

RADCOM US is taxed under United States federal and state tax rules. Income tax is calculated at a federal tax rate of 21% rate.

United States Federal Income Tax Considerations for U.S. Holders

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, or 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, or 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 or value;
- 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. A U.S. Holder, other than certain U.S. Holders that are U.S. corporations, 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 “Medicare Tax” 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 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, other than certain U.S. Holders that are corporations, may 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. 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. Subject to the discussion below under “Medicare Tax,” 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.

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 our 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 24%) 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 its taxpayer identification number, certifies to its foreign status, or otherwise establishes an exemption.

The amount of any backup withholding may 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.

Certain individuals who are U.S. Holders may be required to file a Form 8938 to report their ownership of specified foreign financial assets, which may include our ordinary shares, if the total value of those assets exceed certain thresholds. U.S. Holders are urged to consult their tax advisors regarding their tax reporting obligations, including the requirement to file a Form 8938.

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 on the SEC's website (www.sec.gov). We generally make available on our own website (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 regarding changes in interest rates relates primarily to our cash, cash equivalents, and short-term bank deposits and to loans we may take that are based on a floating/fixed interest rate. Our cash and cash equivalents and short-term bank deposits are held mainly in U.S. dollars with financial banks and bear annual average interest range of approximately 1.60-3.08%. For the purposes of specific risk analysis, we use a 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 our annual average range 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, BRLs or in euros 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 BRL. Based on our budget for 2020, we expect that (i) an increase of ten percent (10%) in the exchange rate of the NIS to U.S. dollar will decrease our operating expenses expressed in dollar terms by approximately \$1.9 million per year and vice versa and (ii) an increase of ten percent (10%) in the exchange rate of the BRL to U.S. dollar will decrease our operating expenses expressed in dollar terms by approximately \$99 thousand per year 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, together with the chief executive officer and chief financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures of our financial reporting (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act), as of December 31, 2019. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that, as of December 31, 2019, 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 the 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, 2019, based on the 2013 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, 2019, the Company’s internal control over financial reporting was effective.

c. Attestation Report of the Registered Public Accounting Firm

Our independent registered public accounting firm, Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global independently assessed the effectiveness of our internal control over financial reporting and has issued an attestation report, which is included elsewhere in this Annual Report.

d. Changes in Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the year ended December 31, 2019 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 Oren Most 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 Mr. Most’s professional and educational background, see “Item 6.A—Directors, Senior Management and Employees—Directors and Senior Management.” Mr. Most qualifies as an “independent” director under the Nasdaq Listing Rules.

ITEM 16B. CODE OF ETHICS

Our Code of Ethics and Business Conduct which applies to all our directors, officers and employees, including our Chief Executive Officer and our Chief Financial Officer, as may be amended from time to time, is publicly available on our website at <http://www.radcom.com>. Future amendments to our Code of Ethics will be posted on our website.

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 2019 and 2018 were, respectively:

	2019	2018
Audit Fees	\$ 234,500	\$ 234,500
Audit Related Fees	\$ 3,000	\$ 3,000
Tax Fees	\$ 20,718	\$ 31,334
All Other Fees	\$ 0	\$ 0
Total	<u>\$ 258,218</u>	<u>\$ 268,834</u>

Audit fees included fees associated with the annual audit, the reviews of our quarterly financial statements, audit fees related to our internal control over financial reporting, statutory audits required internationally, consents and assistance with and review of documents filed with the SEC.

Audit related fees included fees associated with the annual report for the IIA.

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, transactions, 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 ensure 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 the 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 the 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 the Nasdaq's corporate governance requirements. The Nasdaq Listing Rules provide that foreign private issuers may follow their 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 submits to Nasdaq in advance a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws and discloses that it does not follow such listing requirement and describes the home country practice followed in its reports filed with the SEC. In addition, a foreign private issuer must disclose in its annual reports filed with the SEC each such requirement that it does not follow and describe the home county practice followed by the issuer instead of any such requirement. Accordingly, our shareholders may not be afforded the same protection as provided under Nasdaq's corporate governance rules.

In accordance with Israeli law and practice and subject to the exemption set forth in Rule 5615 of the Nasdaq Listing Rules, we have elected to follow the provisions of the Israeli Companies Law, rather than the Nasdaq Listing Rules, with respect to the following requirements:

- Distribution of periodic reports to shareholders; proxy solicitation. As opposed to the Nasdaq Listing Rules, which require listed issuers to make such reports available to shareholders in one of a number of specific manners, Israeli law does not require us to distribute periodic reports directly to shareholders, and the generally accepted business practice in Israel is not to distribute such reports to shareholders but to make such reports available through a public website. In addition to making such reports available on a public website, we currently make our audited financial statements available to our shareholders at our offices and will only mail such reports to shareholders upon request. As a foreign private issuer, we are generally exempt from the SEC's proxy solicitation rules.
- Compensation of officers. Israeli law and our amended and restated articles of association do not require that the independent members of our Board of Directors (or a compensation committee composed solely of independent members of our Board of Directors) determine an executive officer's compensation, as is generally required under the Nasdaq Listing Rules with respect to the Chief Executive Officer and all other executive officers. Instead, compensation of executive officers is determined and approved by our Compensation Committee and our Board of Directors, and in certain circumstances by our shareholders, either in consistency with our office holder compensation policy or, in special circumstances in deviation therefrom, taking into account certain considerations stated in the Israeli Companies Law.

- Shareholder approval is generally required for executive officer compensation in the event (i) approval by our Board of Directors and our Compensation Committee is not consistent with our office holders compensation policy, or (ii) compensation required to be approved is that of our chief executive officer who is not a director or an executive officer who is also the controlling shareholder of our company (including an affiliate thereof). Such shareholder approval shall require a majority vote of the shares present and voting at a shareholders meeting, provided either (i) such majority includes a majority of the shares held by non-controlling shareholders who do not otherwise have a personal interest in the compensation arrangement that are voted on at the meeting, excluding for such purpose any abstentions of disinterested shareholders, or (ii) the total shares held by non-controlling and disinterested shareholders voted against the arrangement does not exceed 2% of the voting rights in our company.
- Additionally, approval of the compensation of an executive officer, who is also a director, shall generally require a simple majority vote of the shares present and voting at a shareholders meeting, if consistent with our office holders compensation policy. Our Compensation Committee and Board of Directors may, in special circumstances, approve the compensation of an executive officer (other than a director, a chief executive officer or a controlling shareholder) or approve the compensation policy despite shareholders' objection, based on specified arguments and taking shareholders' objections into account. Our Compensation Committee may further exempt an engagement with a nominee for the position of chief executive officer, who meets the non-affiliation requirements set forth for an external director, from requiring shareholders' approval, if such engagement is consistent with our office holders compensation policy and our Compensation Committee determines based on specified arguments that presentation of such engagement to shareholders' approval is likely to prevent such engagement. To the extent that any such transaction with a controlling shareholder is for a period extending beyond three years, approval is required once every three years.
- A director or executive officer may not be present when the board of directors of a company discusses or votes upon the terms of his or her compensation, unless the chairman of the board of directors determines that he or she should be present to present the transaction that is subject to approval.
- *Shareholder approval.* We will seek shareholder approval for all corporate actions requiring such approval under the requirements of the Israeli Companies Law, rather than seeking approval for corporation actions in accordance with Nasdaq Listing Rule 5635. In particular, under this Nasdaq rule, shareholder approval is generally required for: (i) an acquisition of shares/assets of another company that involves the issuance of 20% or more of the acquirer's shares or voting rights or if a director, officer or 5% shareholder has greater than a 5% interest in the target company or the consideration to be received; (ii) the issuance of shares leading to a change of control; (iii) adoption/amendment of equity compensation arrangements; and (iv) issuances of 20% or more of the shares or voting rights (including securities convertible into, or exercisable for, equity) of a listed company via a private placement (and/or via sales by directors/officers/5% shareholders) if such equity is issued (or sold) below a specific minimum price. By contrast, under the Israeli Companies Law, shareholder approval is required for, among other things: (i) transactions with directors concerning the terms of their service or indemnification, exemption and insurance for their service (or for any other position that they may hold at a company), for which approvals of the compensation committee, board of directors and shareholders are all required, (ii) extraordinary transactions with controlling shareholders of publicly held companies, which require the special approval described below under "Approval of Related Party Transactions under Israeli Law – Disclosure of personal interests of controlling shareholders," and (iii) terms of employment or other engagement of the controlling shareholder of the Company or such controlling shareholder's relative, which require the special approval described below under "Approval of Related Party Transactions under Israeli Law – Disclosure of personal interests of a controlling shareholder and approval of transactions." In addition, under the Israeli Companies Law, a merger requires approval of the shareholders of each of the merging companies.

Approval of Related Party Transactions under Israeli Law***Disclosure of personal interests of a controlling shareholder and approval of transactions***

The Israeli Companies Law also requires that a controlling shareholder promptly disclose to the company any personal interest that he or she may have and all related material information or documents relating to any existing or proposed transaction by the company. A controlling shareholder's disclosure must be made promptly and in any event no later than the first meeting of the board of directors at which the transaction is considered. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, including a private placement in which a controlling shareholder has a personal interest, and the terms of engagement of the company, directly or indirectly, with a controlling shareholder or a controlling shareholder's relative (including through a corporation controlled by a controlling shareholder), regarding the company's receipt of services from the controlling shareholder, and if such controlling shareholder is also an office holder of the company, regarding his or her terms of employment, require the approval of each of (i) the audit committee or the compensation committee with respect to the terms of the engagement of the company, (ii) the board of directors and (iii) the shareholders, in that order. In addition, the shareholder approval must fulfill one of the following requirements:

- a majority of the shares held by shareholders who have no personal interest in the transaction and are voting at the meeting must be voted in favor of approving the transaction, excluding abstentions; or
- the shares voted by shareholders who have no personal interest in the transaction who vote against the transaction represent no more than 2% of the voting rights in the company.

In addition, any extraordinary transaction with a controlling shareholder or in which a controlling shareholder has a personal interest with a term of more than three years requires the abovementioned approval every three years; however, such transactions not involving the receipt of services or compensation can be approved for a longer term, provided that the audit committee determines that such longer term is reasonable under the circumstances.

The Israeli Companies Law requires that every shareholder that participates, in person, by proxy or by voting instrument, in a vote regarding a transaction with a controlling shareholder, must indicate in advance or in the ballot whether or not that shareholder has a personal interest in the vote in question. Failure to so indicate will result in the invalidation of that shareholder's vote.

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:

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ITEM 19. EXHIBITS

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

Exhibit No.	Description
1.1	Memorandum of Association, as amended (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, (ii) Form 6-K of RADCOM Ltd., filed with the SEC on April 1, 2008 and (iii) Exhibit 99.2 to Form 6-K of RADCOM Ltd., filed with the SEC on November 23, 2015).
1.2	Amended and Restated Articles of Association, as amended (incorporated herein by reference to the Form 20-F of RADCOM Ltd. for the fiscal year ended December 31, 2016, filed with the SEC on March 30, 2017).
2.1	Form of ordinary share certificate (incorporated herein by reference to the Form 20-F of RADCOM Ltd. for the fiscal year ended December 31, 2012, filed with the SEC on April 22, 2013).
2.2	Description of rights of the Company's Ordinary Shares.
4.1	2013 Share Option Plan, as amended (incorporated herein by reference to the Form 20-F of RADCOM Ltd. for the fiscal year ended December 31, 2014, filed with the SEC on March 26, 2015).
4.2	RADCOM Compensation Policy for Executive Officers and Directors, as amended on July 11, 2019. (incorporated herein by reference to the Form 6-K of RADCOM Ltd., filed with the SEC on June 6, 2019).
4.3	Software and Professional Services Agreement, dated March 29, 2019, by and between AT&T Services, Inc. and the Company (incorporated herein by reference to the Form 20-F of RADCOM Ltd. for the fiscal year ended December 31, 2018, filed with the SEC on April 18, 2019).*

- 4.4 [Supplement Agreement, dated March 29, 2019, by and between AT&T Services, Inc. and the Company \(incorporated herein by reference to the Form 20-F of RADCOM Ltd. for the fiscal year ended December 31, 2018, filed with the SEC on April 18, 2019\).](#) *
- 4.5 [Supplemental Support & Maintenance Agreement, dated March 29, 2019, by and between AT&T Services, Inc. and the Company \(incorporated herein by reference to the Form 20-F of RADCOM Ltd. for the fiscal year ended December 31, 2018, filed with the SEC on April 18, 2019\).](#) *
- 4.6 [Master Software and Professional Services Agreement, dated May 21, 2019, by and between Rakuten Mobile, Inc. and the Company.](#)*
- 4.7 [Statement of Work No. 1, dated May 22, 2019, by and between Rakuten Mobile, Inc. and the Company.](#)*
- 8.1 [List of Subsidiaries \(incorporated herein by reference to the Form 20-F of RADCOM Ltd. for the fiscal year ended December 31, 2018, filed with the SEC on April 18, 2019\).](#)
- 12.1 [Certification of the Chief Executive Officer pursuant to Rule 13a-14\(a\) \(filed herewith\).](#)
- 12.2 [Certification of the Chief Financial Officer pursuant to Rule 13a-14\(a\) \(filed herewith\).](#)
- 13.1 [Certification of the Chief Executive Officer pursuant to Rule 13a-14\(b\) \(furnished herewith\).](#)
- 13.2 [Certification of the Chief Financial Officer pursuant to Rule 13a-14\(b\) \(furnished herewith\).](#)
- 15.1 [Consent of Kost Forer Gabbay & Kasierer, a member of Ernst and Young Global, dated April 18, 2019 \(filed herewith\).](#)
- 101 The following financial information from RADCOM Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2019 formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017; (ii) Consolidated Statement of Comprehensive Income (Loss) for the years ended December 31, 2019, 2018 and 2017 (iii) Consolidated Balance Sheets at December 31, 2019 and 2018; (iv) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2019, 2018 and 2017; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017; and (vi) Notes to Consolidated Financial Statements (filed herewith).

* Certain identified information in the exhibit has been excluded from the exhibit because it is both (i) not material and (ii) would likely cause competitive harm to RADCOM if publicly disclosed.

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/ Amir Hai

Name: Amir Hai

Title: Chief Financial Officer

Date: March 31, 2020

RADCOM LTD. AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2019

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of RADCOM Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of RADCOM Ltd. and its subsidiaries (the "Company") as of December 31, 2019 and 2018 and the related consolidated statements of operations, statements of comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019 and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 31, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Kost Forer Gabbay and Kasierer
Kost Forer Gabbay and Kasierer
A Member of Ernst & Young Global

We have served as the Company's auditor since 2009.

Tel-Aviv, Israel
March 31, 2020



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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of RADCOM Ltd.

Opinion on Internal Control over Financial Reporting

We have audited RADCOM Ltd. and its subsidiaries internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the “COSO Criteria”). In our opinion, RADCOM Ltd. and its subsidiaries (“the Company”) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018 and the related consolidated statements of operations, statements of comprehensive income (loss), shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2019 and the related notes and our report dated March 31, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Kost Forer Gabbay and Kasierer
Kost Forer Gabbay and Kasierer
A Member of Ernst & Young Global

Tel-Aviv, Israel
March 31, 2020

RADCOM LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,201	\$ 61,988
Short-term bank deposits	63,080	-
Trade receivables (net of allowances for doubtful accounts amounted to \$9 and \$19 as of December 31, 2019 and 2018, respectively)	11,039	20,381
Inventories	1,356	251
Other accounts receivable and prepaid expenses	<u>1,536</u>	<u>1,766</u>
<u>Total</u> current assets	<u>83,212</u>	<u>84,386</u>
NON- CURRENT ASSETS:		
Severance pay fund	3,365	2,967
Other long-term receivables	2,314	346
Property and equipment, net	1,669	1,832
Operating lease right-of-use assets	<u>5,842</u>	<u>-</u>
<u>Total</u> non-current assets	<u>13,190</u>	<u>5,145</u>
<u>Total</u> assets	<u>\$ 96,402</u>	<u>\$ 89,531</u>

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

RADCOM LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 2,452	\$ 1,559
Employees and payroll accruals	4,132	3,420
Deferred revenues and advances from customers	828	266
Operating lease liabilities	1,263	-
Other liabilities and accrued expenses	4,050	2,281
Total current liabilities	12,725	7,526
NON-CURRENT LIABILITIES:		
Deferred revenues	100	100
Accrued severance pay	3,904	3,425
Operating lease liabilities	4,967	-
Other liabilities and accrued expenses	836	-
Total non-current liabilities	9,807	3,525
Total liabilities	\$ 22,532	\$ 11,051
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Share capital:		
Ordinary Shares of NIS 0.20 par value: Authorized: 20,000,000 shares at December 31, 2019 and 2018; 13,822,185 and 13,735,759 shares issued and 13,786,153 and 13,699,727 shares outstanding at December 31, 2019 and 2018, respectively	\$ 648	\$ 643
Additional paid-in capital	137,969	135,730
Accumulated other comprehensive loss	(2,634)	(2,612)
Accumulated deficit	(62,113)	(55,281)
Total shareholders' equity	73,870	78,480
Total liabilities and shareholders' equity	\$ 96,402	\$ 89,531

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

RADCOM LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2019	2018	2017
Revenues:			
Products	\$ 16,382	\$ 13,529	\$ 7,457
Services	16,300	8,303	3,597
Projects	328	12,218	26,179
	<u>33,010</u>	<u>34,050</u>	<u>37,233</u>
Cost of revenues:			
Products	4,811	4,851	4,680
Services	5,022	1,190	487
Projects	84	2,825	5,321
	<u>9,917</u>	<u>8,866</u>	<u>10,488</u>
Gross profit	<u>23,093</u>	<u>25,184</u>	<u>26,745</u>
Operating expenses:			
Research and development	18,578	15,503	10,562
Less - royalty-bearing participation	<u>1,838</u>	<u>1,648</u>	<u>1,599</u>
Research and development, net	<u>16,740</u>	<u>13,855</u>	<u>8,963</u>
Sales and marketing, net	10,514	11,426	10,996
General and administrative	<u>3,674</u>	<u>3,391</u>	<u>4,191</u>
<u>Total operating expenses</u>	<u>30,928</u>	<u>28,672</u>	<u>24,150</u>
Operating income (loss)	(7,835)	(3,488)	2,595
Financial income, net	<u>1,172</u>	<u>1,136</u>	<u>389</u>
Income (loss) before taxes on income	(6,663)	(2,352)	2,984
Taxes on income	<u>(169)</u>	<u>(63)</u>	<u>(83)</u>
Net income (loss)	<u>\$ (6,832)</u>	<u>\$ (2,415)</u>	<u>\$ 2,901</u>
Basic net income (loss) per Ordinary Share	<u>\$ (0.50)</u>	<u>\$ (0.18)</u>	<u>\$ 0.24</u>
Diluted net income (loss) per Ordinary Share	<u>\$ (0.50)</u>	<u>\$ (0.18)</u>	<u>\$ 0.23</u>
Weighted average number of Ordinary Share used in computing basic net income (loss) per Ordinary Share	<u>13,779,885</u>	<u>13,630,793</u>	<u>12,039,176</u>
Weighted average number of Ordinary Share used in computing diluted net income (loss) per Ordinary Share	<u>13,779,885</u>	<u>13,630,793</u>	<u>12,351,566</u>

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

RADCOM LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

U.S. dollars in thousands

	<u>Year ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net income (loss)	\$ (6,832)	\$ (2,415)	\$ 2,901
Other comprehensive income (loss):			
Foreign currency translation adjustments	<u>(22)</u>	<u>(92)</u>	<u>39</u>
Total other comprehensive income (loss)	<u>(22)</u>	<u>(92)</u>	<u>39</u>
Comprehensive income (loss)	<u>\$ (6,854)</u>	<u>\$ (2,507)</u>	<u>\$ 2,940</u>

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

RADCOM LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Number of shares	Share capital amount	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total shareholders' equity
Balance as of January 1, 2017	11,586,228	\$ 523	\$ 98,283	\$ (2,559)	\$ (56,104)	\$ 40,143
Issuance of Ordinary Shares, net of issuance costs of \$2,194, upon follow-on public offering	1,661,536	95	30,111	-	-	30,206
Share-based compensation and RSUs	-	-	2,216	-	-	2,216
Exercise of options into Ordinary Shares	109,487	7	884	-	-	891
RSUs vested	52,724	3	(3)	-	-	-
Net income	-	-	-	-	2,901	2,901
Other comprehensive income	-	-	-	39	-	39
Balance as of December 31, 2017	13,409,975	\$ 628	\$ 131,491	\$ (2,520)	\$ (53,203)	\$ 76,396
Cumulative effect of changes in accounting principles (ASC 606)	-	-	-	-	337	337
Share-based compensation and RSUs	-	-	2,121	-	-	2,121
Exercise of options into Ordinary Shares	215,542	11	2,122	-	-	2,133
RSUs vested	74,210	4	(4)	-	-	-
Net loss	-	-	-	-	(2,415)	(2,415)
Other comprehensive loss	-	-	-	(92)	-	(92)
Balance as of December 31, 2018	13,699,727	\$ 643	\$ 135,730	\$ (2,612)	\$ (55,281)	\$ 78,480
Share-based compensation and RSUs	-	-	2,228	-	-	2,228
Exercise of options into Ordinary Shares	2,250	*	16	-	-	16
RSUs vested	84,176	5	(5)	-	-	-
Net loss	-	-	-	-	(6,832)	(6,832)
Other comprehensive loss	-	-	-	(22)	-	(22)
Balance as of December 31, 2019	13,786,153	\$ 648	\$ 137,969	\$ (2,634)	\$ (62,113)	\$ 73,870

*) Represent an amount lower than \$1.

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

RADCOM LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	<u>Year ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Cash flows from operating activities:</u>			
Net income (loss)	\$ (6,832)	\$ (2,415)	\$ 2,901
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	752	657	537
Share-based compensation and RSUs	2,228	2,121	2,216
Change in:			
Severance pay, net	81	(63)	42
Trade receivables, net	9,303	13	(15,865)
Other account receivables and prepaid expenses	(1,753)	658	(520)
Inventories	(1,135)	901	(560)
Trade payables	998	(182)	(1,150)
Employees and payroll accruals	717	(622)	524
Other liabilities and accrued expenses	2,694	(848)	1,385
Deferred revenue and advances from customers	562	(2,169)	(109)
Operating lease right-of-use assets and liabilities, net and effect of exchange rate differences	388	-	-
Accrued interest on short-term bank deposits	(1,163)	-	-
Net cash provided by (used in) operating activities	<u>6,840</u>	<u>(1,949)</u>	<u>(10,599)</u>
<u>Cash flows from investing activities:</u>			
Repayment of (investment in) short-term bank deposits	(61,917)	40,000	(40,000)
Purchase of property and equipment	(699)	(662)	(790)
Net cash provided by (used in) investing activities	<u>(62,616)</u>	<u>39,338</u>	<u>(40,790)</u>
<u>Cash flows from financing activities:</u>			
Proceeds from issuance of Ordinary Shares, net of issuance costs upon follow-on public offering	-	-	30,206
Exercise of options into Ordinary Shares	16	2,133	891
Net cash provided by financing activities	<u>\$ 16</u>	<u>\$ 2,133</u>	<u>\$ 31,097</u>

RADCOM LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2019	2018	2017
Foreign currency translation adjustments on cash and cash equivalents	\$ (27)	\$ (145)	\$ (15)
Increase (decrease) in cash and cash equivalents	(55,787)	39,377	(20,307)
Cash and cash equivalents and restricted bank deposit at beginning of the period	61,988	22,611	42,918
Cash and cash equivalents and restricted bank deposit at end of the period	<u>\$ 6,201</u>	<u>\$ 61,988</u>	<u>\$ 22,611</u>
 (a) <u>Non-cash investing activities:</u>			
Purchase of property and equipment	\$ 47	\$ 152	\$ 239
Operating lease right-of-use assets	<u>\$ 1,133</u>	<u>\$ -</u>	<u>\$ -</u>
 (b) <u>Cash paid during the year for:</u>			
Taxes on income	<u>\$ 118</u>	<u>\$ 25</u>	<u>\$ 83</u>

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

RADCOM LTD. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data****NOTE 1: - GENERAL**

- a. RADCOM Ltd. (the “Company”), an Israeli corporation, is a leading provider of NFV and 5G-ready service assurance, cloud-native network intelligence solutions for Communication Service Providers (“CSPs”). The Company’s solutions include RADCOM Service Assurance, a cloud-native, 5G-ready, fully virtualized service assurance solutions which allows telecom operators to gain end-to-end network visibility and customer experience insights across NFV and hybrid network; RADCOM Network Visibility, a cloud-native network packet broker and filtering solution that allows CSPs to manage network traffic at scale across multiple cloud environments and control the visibility layer to perform dynamic, on-demand analysis of select datasets; and RADCOM Network Insights, a business intelligence solution offering smart insights for multiple use cases, enabled by data captured and correlated through RADCOM Network Visibility and RADCOM Service Assurance. The Company specializes in solutions for next-generation mobile and fixed networks, including 5G, LTE, VoLTE, VoWifi, IMS, VoIP, and UMTS. The Company’s shares (the “Ordinary Shares”) are listed on the Nasdaq Capital Market under the symbol “RDCM”.

The Company has wholly-owned subsidiaries in the United States and Brazil, that are primarily engaged in the sales, marketing, deployment and customer support of the Company’s products in United States and Brazil. The Company also has a wholly-owned subsidiary in India, that primarily provides customer support and development services worldwide. Additionally, the Company has a wholly-owned subsidiary in Israel solely established for the purpose of making various investments, including securities purchases.

- b. The Company depends on a limited number of customers for selling its solution. Such customers accounted for 83% of the Company’s revenues for the year ended December 31, 2019. If these customers become unable or unwilling to continue to buy the Company’s solution, it could adversely affect the Company’s results of operations and financial position (see also Note 12b).

The loss of any major customer, a significant decrease in business from any such customer or a reduction in customer revenue due to adverse changes in the market, economic or competitive conditions or other factors could have a material adverse effect on the Company’s business, results of operations and financial condition.

- c. Follow-on Public Offerings:

In October 2017, the Company closed a follow-on public offering (as further described in Note 11b) for a total consideration of approximately \$30,206, net of underwriting discounts, commissions and other offering expenses of \$2,194 payable by the Company.

RADCOM LTD. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data****NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES**

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. GAAP 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 revenues of the Company and its subsidiaries, other than the Company’s subsidiary in Brazil, are denominated in U.S. dollars. Financing activities are made in U.S. dollars. Therefore, the Company’s management believes that the currency of the primary economic environment in which the operations of the Company and its subsidiaries are conducted is the dollar, which is used as the functional currency.

Transactions and balances originally denominated in dollars are presented at their original amounts. Transactions and balances in other currencies are re-measured 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.

RADCOM LTD. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data****NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

For the Company's subsidiary in Brazil, whose functional currency has been determined to be its 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 the shareholders' equity.

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 and 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. Short-term bank deposits:

Short-term bank deposits are deposits with maturities of more than three months but less than one year and which do not meet the definition of cash equivalents. Such deposits include annual interest rate ranging between 2.35%-3.27% resulting in accrued interest of \$1,163 as of December 31, 2019. The deposits are presented according to their terms.

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 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.

RADCOM LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The 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 as of December 31, 2018 amounted to \$19. During the year ended December 31, 2019, the Company collected \$10 of the allowance for doubtful accounts balance. No additional allowances for doubtful accounts were recorded during the year ended December 31, 2019. No bad debt expenses were recorded during the years ended December 31, 2019, 2018 and 2017.

g. Inventories:

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a “moving average” basis. Inventory write-offs are provided to cover technological obsolescence, excess inventories and discontinued products.

Inventory write-off is measured as the difference between the cost of the inventory and net realizable value based upon assumptions about future demand and is charged to the cost of revenues. 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 total inventory write-offs during the years ended 2019 and 2017 amounted to \$14 and \$369, respectively.

No inventory write-offs were recorded during the year ended December 31, 2018.

h. Property and equipment:

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

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

Annual rates of depreciation are as follows:

	%
Computers and electronic equipment	15 - 33
Office furniture and equipment	6 - 33
Leasehold improvements	At the shorter of the lease period or useful life of the leasehold improvement

RADCOM LTD. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data****NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

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 at the amount by which the carrying amount of the asset exceeds its fair value. During the years ended December 31, 2019, 2018 and 2017, no impairment losses were identified.

j. Leases

On January 1, 2019 the Company adopted ASC 842, "Leases", using the modified retrospective transition approach, by applying the new standard to all leases existing at the date of initial application. Results and disclosure requirements for reporting periods beginning after January 1, 2019 are presented under ASC 842, while prior period amounts have not been adjusted and continue to be reported in accordance with the historical accounting under ASC 840.

The Company elected the package of practical expedients permitted under the standard related to treating lease and non-lease components as a single lease component for all equipment leases as well as electing a policy exclusion permitting leases with an original lease term of less than one year to be excluded from the operating lease right-of-use ("ROU") assets and operating lease liabilities.

Upon adoption of ASC 842 on January 1, 2019, the Company recorded both operating lease ROU assets and operating lease liabilities of \$5,936. The adoption did not impact the Company's retained earnings, or prior year consolidated statements of comprehensive loss and statements of cash flows.

Under ASC 842, the Company determines if an arrangement is a lease at inception. The Company's assessment is based on: (1) whether the contract includes an identified asset, (2) whether the company obtains substantially all of the economic benefits from the use of the asset throughout the period of use, and (3) whether the Company has the right to direct how and for what purpose the identified asset is used throughout the period.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and operating lease liabilities are recognized at commencement date based on the present value of remaining lease payments over the lease term. For this purpose, the Company consider only payments that are fixed and determinable at the time of commencement. The Company uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of the lease payments.

RADCOM LTD. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data****NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Several of the Company's leases include options to extend the lease and some have termination options that are factored into the Company's determination of the lease payments when appropriate. For purposes of calculating lease liabilities, lease terms include options to extend or terminate the lease when it is reasonably certain that the Company will exercise such options. The Company's lease agreements do not contain any material residual value guarantees.

A portion of the Company's real estate leases is generally subject to annual changes in the Consumer Price Index ("CPI"). The changes to the CPI are treated as variable lease payments and recognized in the period in which the obligation for those payments was incurred.

Operating lease expenses are recognized on a straight-line basis over the lease term.

For all short-term leases which are less than 12 months and existing short-term leases of those assets in transition, the Company does not recognize operating lease ROU assets or operating lease liabilities, but recognizes lease expenses over the lease term on a straight-line basis.

See Note 9 for further information on leases.

k. Revenue recognition:

The Company's solution is sold to customers directly, through resellers and to lesser extent through distributors. Sales through resellers are considered final sales per revenue recognition criteria.

The Company recognizes revenues in accordance with ASC No. 606, "Revenue from Contracts with Customers" ("ASC No. 606"). As such, the Company identifies a contract with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to each performance obligation in the contract and recognizes revenues when (or as) the Company satisfies a performance obligation as follows:

a) Identify the contract with a customer:

The Company generally considers either agreements or purchase orders, which in some cases are governed by master agreements, to be contracts with customers. In evaluating the contract with a customer, the Company analyzes the customer's intent and ability to pay the amount of promised consideration (credit risk) and considers the probability of collecting substantially all of the consideration.

RADCOM LTD. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data****NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)****b) Identify the performance obligations in the contract:**

At a contract's inception, the Company assesses the goods or services promised in a contract with a customer and identifies the performance obligations.

The main performance obligations usually are the provisions of the following:

License for the Company's software solutions (which may include significant customization), professional services, managed services, service type warranty and post-contract customer support, each of which are distinct, to be the identified performance obligations.

c) Determine the transaction price:

The transaction price is the amount of consideration to which the Company is entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Generally, the Company doesn't grant its customers a right to return the products sold. However, in some cases, the arrangements may include refunds, liquidated damages, penalties or other damages if the Company fails to deliver future goods or services or if the goods or services fail to meet certain specifications to acceptance criteria. All of the above are accounted for as variable considerations, which may be considered as adjustments to the transaction price.

The Company includes estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The Company's estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the Company's anticipated performance and all information (historical, current and forecasted) that is reasonably available.

As the Company's standard payment terms are less than one year, the contracts have no significant financing component. In instances of contracts which revenue recognition differs from the timing of invoicing, the Company determined that those contracts generally do not include a significant financing component. The primary purpose of the invoicing terms is to provide customers with simplified and predictable ways of purchasing the Company's products and services, not to receive or provide financing.

RADCOM LTD. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data****NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**d) Allocate the transaction price to the performance obligations in the contract:

The Company's selling price is highly variable. Each contract is different by its scope and price. The standalone selling prices of software licenses are typically estimated using the residual approach. Standalone selling prices of services are typically estimated based on observable transactions when these services are sold on a standalone basis. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis.

e) Recognize revenue when a performance obligation is satisfied:

Revenue is recognized when or as performance obligations are satisfied by transferring control of a promised good or service to a customer. Control is either transferred over time or at a point in time, which affects the revenue recognition schedule.

Products: Revenues from software solutions which include customer acceptance or software license only contracts which do not include significant customization, are recognized at a point in time of the acceptance of the solution or the point in time the software license is delivered.

Services: Revenues related to managed services, service type warranty and post-contract customer support are recognized over time on a straight-line basis.

Projects: Revenues from software solutions which include software license with significant customization are usually recognized over time during the customization period based on Man Months ("MM") incurred to date in ratio to total estimated MM which represent an input method that best depicts the transfer of control over the performance obligation to the customer. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

Deferred revenues represent unrecognized fees collected as well as other advances and payments received from customers, for which revenue has not yet been recognized. Deferred revenues are classified as short-term and long-term deferred revenues based on the period in which revenues are expected to be recognized.

See also Note 3 for other required disclosures.

RADCOM LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Cost of revenues:

Cost of revenues is comprised of cost of third-party hardware and software license fees, maintenance fees related to such third-party hardware and software, employees' salaries and related costs, shipping and handling costs, subcontractors, inventory write-offs, indirect taxes, importation taxes and royalties to the Israel Innovation Authority (the "IIA").

m. Share-based compensation:

The Company accounts for share-based compensation in accordance with ASC 718, "Compensation — Stock Compensation", which 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. The Company selected the Black-Scholes option-pricing model as the most appropriate fair value method for its share-options awards. The option-pricing model requires a number of assumptions, of which the most significant are the expected share price volatility and the expected option term. Expected volatility was calculated based upon actual historical share price movements over the most recent periods ending on the grant date, equal to the expected option term. The expected term was generated by running the Monte Carlo model pursuant to which historical post-vesting forfeitures and suboptimal exercise factor are estimated by using historical option exercise information. The suboptimal exercise factor is the ratio by which the share price must increase over the exercise price before employees are expected to exercise their share options. The expected term of the options granted is derived from the output of the options valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term to the expected term of the options. Forfeitures account as they occur. Historically the Company has not paid dividends and in addition has no foreseeable plans to pay dividends, and therefore uses an expected dividend yield of zero in the option-pricing model.

No options were granted in 2019 and 2018. The fair value for options granted in 2017 is estimated at the date of grant with the following weighted average assumptions:

	<u>2017</u>
Dividend yield	0%
Expected volatility	46.4%-55.9%
Risk-free interest	1.6%-2.1%
Expected life (in years)	3.43-4.76

RADCOM LTD. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data****NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

n. Research and development costs:

Research and development costs are charged to the statement of operations as incurred except for royalty-bearing participation from the IIA as described in Note 2o.

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 have been insignificant. Therefore, all research and development costs have been expensed.

o. Government grants:

The Company receives royalty-bearing grants, which represent participation of the IIA in approved programs for research and development. These amounts are recognized on the accrual basis as a reduction of research and development costs as such costs are incurred. Royalties to the IIA are recorded under cost of revenues, when the related sales are recognized (see also Note 8a1).

During the years 2012 to 2017, the Company also received grants from the Israeli Ministry of Economy (the "MOE"), up to 50% of relevant marketing expenses. These grants were presented as a reduction of marketing expenses (see also Note 8a2).

p. Income (loss) per share:

Basic and diluted income (loss) per Ordinary Share is 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 weighted average number of shares related to the outstanding options and restricted share units ("RSUs") excluded from the calculation of diluted net income (loss) per share was, 802,159, 731,542 and 70,801 as of December 31, 2019, 2018 and 2017, respectively.

RADCOM LTD. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data****NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

q. 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 carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of operations in the period that includes the enactment date. Accounting Standards Update ("ASU") No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, requires a reporting entity to classify all deferred tax assets and liabilities as noncurrent in a classified balance sheet.

The Company provides a full valuation allowance to reduce deferred tax assets to the extent it believes it is more likely than not that such benefits will be realized.

r. Income tax uncertainties:

In accordance with ASC 740, the Company recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% of the amount likely to be realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. When applicable, the Company accounts for interest and penalties related to unrecognized tax benefits as a component of income tax expense. As of December 31, 2019 and 2018, no liability for unrecognized tax benefits was recorded.

s. Severance pay:

The Company's liability for severance pay is recorded mainly with respect to its Israeli employees and 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.

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.

RADCOM LTD. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data****NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

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 provides that the Company's contributions to the 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 recorded as part of the balance sheet, as the Company is legally released from its severance obligation to employees once the amounts have been deposited, and the Company has no further legal ownership of the amounts deposited.

Severance expenses for the years ended December 31, 2019, 2018 and 2017 amounted to \$1,150, \$1,065, and \$1,007, respectively.

t. Fair value of financial instruments:

The financial instruments of the Company consist mainly of cash and cash equivalents, short-term bank deposits, trade receivables, trade payables and other liabilities and accrued expenses. The fair values of the Company cash and cash equivalents, account receivables, and account payables approximate their carrying amounts due to their short-term nature.

The Company follows the provisions of ASC No. 820, "Fair Value Measurement", which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In determining a fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset or liability, based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect assumptions that market participants would use in pricing an asset or liability, based on the best information available under given circumstances.

The hierarchy is broken down into three levels, based on the observability of inputs and assumptions, as follows:

Level 1 - Observable inputs obtained from independent sources, such as quoted prices for identical assets and liabilities in active markets.

Level 2 - Other inputs that are directly or indirectly observable in the market place.

Level 3 - Unobservable inputs which are supported by little or no market activity.

RADCOM LTD. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data****NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

u. Legal contingencies:

From time to time, the Company may be involved in various claims and legal proceedings. The Company reviews the status of each matter and assesses its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a liability for the estimated loss. The Company's estimations and related accruals if any are reviewed at least quarterly and adjusted to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events relating to a particular matter.

v. Comprehensive income:

The Company accounts for comprehensive income in accordance with ASC 220, "Comprehensive Income", which establishes standards for the reporting and displays of comprehensive income and its components in a full set of general-purpose financial statements. Comprehensive income generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders. The Company determined that its only item of other comprehensive income relates to foreign currency translation adjustment and gains or losses on intercompany foreign currency transactions that are of a long-term investment nature in connection with its subsidiary in Brazil.

w. Recently issued and adopted accounting standards:

On January 1, 2019, the Company adopted ASC 842, as amended, which supersedes the lease accounting guidance under ASC 840, and generally requires lessees to recognize operating and financing lease liabilities and corresponding ROU assets on the balance sheet and to provide enhanced disclosures surrounding the amount, timing and uncertainty of cash flows arising from leasing arrangements. The Company adopted the new guidance using the modified retrospective transition approach by applying the new standard to all leases existing at the date of initial application and not restating comparative periods. For information regarding the impact of ASC 842 adoption and enhances disclosure, see Note 9 and 2(j).

x. New accounting standards not yet effective:

1. In January 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, "Financial Instruments – Credit Losses on Financial Instruments," which requires that expected credit losses relating to financial assets be measured on an amortized cost basis and available-for-sale debt securities be recorded through an allowance for credit losses. ASU 2016-13 limits the amount of credit losses to be recognized for available-for-sale debt securities to the amount by which carrying value exceeds fair value and also requires the reversal of previously recognized credit losses if fair value increases. The new standard will be effective for interim and annual periods beginning after January 1, 2020, and early adoption is permitted. The Company does not expect that this new guidance will have a material impact on the Company's consolidated financial statements.
2. In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes", which simplifies the accounting for income taxes. ASU 2019-12 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2020. The Company is currently evaluating the impact of the new guidance on the Company's consolidated financial statements.

RADCOM LTD. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data****NOTE 3: - REVENUES**

Revenue is recognized when or as performance obligations are satisfied by transferring control of a promised good or service to a customer. Control is either transferred over time or at a point in time, which affects the revenue recognition schedule.

Costs to obtain contracts:

The Company capitalizes an asset for the incremental costs of obtaining a contract whenever such expenses are expected to be recovered. Capitalized costs derive primarily from sales commissions or incentives granted to employees and partners. The Company's contracts with customers include performance obligations related to products and services, some of which are satisfied at a point in time and others over time. Commission costs related to performance obligations satisfied at a point in time are expensed at the time of sale, which is when revenue is recognized. Commission costs related to long-term service contracts and performance obligations satisfied over time are deferred and recognized on a systematic basis that is consistent with the transfer of the products or services to which the asset relates. Amortization expense is included in sales and marketing expenses in the accompanying consolidated statements of income (loss).

Deferred commission costs capitalized are periodically reviewed for impairment. As of December 31, 2019 and 2018, the deferred commission costs capitalized included within other long-term receivables in the consolidated balance sheets were \$2,098 and \$35, respectively. During the year ended December 31, 2019, the Company created new contract acquisition assets in the amount of \$3,609 and amortized \$1,546 of capitalized contract acquisition costs into sales and marketing expense. No impairment losses were recognized during such period.

Contract balances:

The Company receives payments from customers based upon contractual payment schedules. Trade receivables are recorded when the right to consideration becomes unconditional, and an invoice is issued to the customer. Unbilled receivables include amounts related to the Company's contractual right to consideration for completed performance obligations not yet invoiced. As of December 31, 2019 and 2018, unbilled receivables balances amounted to \$1,497 and \$419, respectively and are included within trade receivables balance in the Company's balance sheets.

As of December 31, 2019, the Company had \$49,687 of remaining performance obligations not yet satisfied or partly satisfied related to revenues. The Company expects to recognize approximately 61% of this amount as revenues during the next 12 months and the rest thereafter.

During the year ended December 31, 2019, the Company recognized \$266 that was included in deferred revenues (short-term contract liability) balance at January 1, 2019.

For disaggregation of revenues please see Note 12b.

RADCOM LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4: - INVENTORIES

	December 31,	
	2019	2018
Finished products (*)	\$ 1,356	\$ 251
	<u>\$ 1,356</u>	<u>\$ 251</u>

(*) Includes amounts of \$1,074 and \$35 as of December 31, 2019 and 2018, respectively, with respect to inventory delivered to customers but for which revenue criteria have not been met yet.

NOTE 5: - OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2019	2018
Indirect taxes	\$ 620	\$ 667
Prepaid expenses and advances to suppliers	790	752
Others	126	347
	<u>\$ 1,536</u>	<u>\$ 1,766</u>

NOTE 6: - PROPERTY AND EQUIPMENT, NET

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

	December 31,	
	2019	2018
Cost:		
Computers and electronic equipment	\$ 3,531	\$ 3,122
Office furniture and equipment	361	294
Leasehold improvements	264	169
	<u>4,156</u>	<u>3,585</u>
Accumulated depreciation:		
Computers and electronic equipment	2,325	1,640
Office furniture and equipment	121	93
Leasehold improvements	41	20
	<u>2,487</u>	<u>1,753</u>
	<u>\$ 1,669</u>	<u>\$ 1,832</u>

Depreciation expenses for the years ended December 31, 2019, 2018 and 2017 amounted to \$752, \$657 and \$537, respectively.

RADCOM LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 7: - OTHER CURRENT LIABILITIES AND ACCRUED EXPENSES

	December 31,	
	2019	2018
Royalties - IIA payable	\$ 938	\$ 761
Commissions to third parties	1,748	430
Accrued expenses	<u>1,364</u>	<u>1,090</u>
	<u>\$ 4,050</u>	<u>\$ 2,281</u>

NOTE 8: - COMMITMENTS AND CONTINGENCIES

a. Royalty commitments:

- The Company receives research and development grants from the IIA. In consideration for the research and development grants received from the IIA, the Company has undertaken to pay royalties as a percentage of revenues from products developed from research and development projects financed. If the Company does not generate sales of products developed with funds provided by the IIA, the Company is not obligated to pay royalties or repay the grants.

Royalties are payable at the rate of 3% from the time of commencement of sales of all of the Company's products until the cumulative amount of the royalties paid equals 100% of the dollar-linked amounts of the grants received, plus interest at LIBOR.

As of December 31, 2019, the Company's total commitment with respect to royalty-bearing participation received or accrued, net of royalties paid or accrued, amounted to \$51,008. The total research and development grants that the Company has received from the IIA as of December 31, 2019 were \$46,660. The accumulated interest as of December 31, 2019, was \$20,064 and the accumulated royalties paid to the IIA were \$15,716.

Royalty expenses relating to the IIA grants included in cost of revenues during the years ended December 31, 2019, 2018 and 2017 were \$990, \$922 and \$1,303, respectively.

In May 2010, the Company received a notice from the IIA regarding alleged miscalculations of the amount of royalties paid by the Company to the IIA for the years 1992-2009 and the revenues basis on which the Company had to pay royalties. The Company believes that all royalties due to the IIA from the sale of products developed with funding provided by the IIA during such years were properly paid or were otherwise accrued. During 2011, the Company reviewed with the IIA the alleged miscalculations. The Company assessed the merits of the aforesaid arguments raised by the IIA and recorded a liability for an estimated loss.

RADCOM LTD. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data****NOTE 8: - COMMITMENTS AND CONTINGENCIES (Cont.)**

2. In April 2012 and in April 2014, the MOE approved the Company's application for participation in funding the setting up of the Company's India subsidiary and China branch as part of a designated grants plan for setting up and establishing a marketing agency in India and China. The grant was intended to cover up to 50% from the costs of the office establishment, logistics expenses and hiring employees and consultants in India and China, based on the approved budget for the plan over a period of three years. The Company is currently in the process of winding down its operations at the China office. The total marketing grants that the Company had received from the MOE as of December 31, 2017 were in the amount of \$668. No further grants are expected to be received from such plans.

The Company is obligated to pay to the MOE royalties of 3% on the increased sales in the target market, with respect to the year during which the grant was approved over a period of five years but not more than the total linked amount of the grant received.

During the year ended December 31, 2018, the Company paid an aggregate amount of \$9 of royalties to the MOE. No royalties were paid during the year ended December 31, 2019.

3. 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 the BIRD-F's grant, linked to the United States CPI 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 the BIRD-F, the Company is not obligated to pay royalties or repay the grants.

The total research and development funds that the Company has received from the BIRD-F were \$340 (CPI linked amount of \$578). According to the above, as of December 31, 2019, the total royalties commitment the Company may be required to pay is an amount of up to \$867 out of which \$477 was paid by the Company in previous years. The remaining commitment with respect to royalty-bearing participation received, net of royalties paid or accrued, amounted to \$390 as of December 31, 2019.

Since 2003, the Company has not generated sales of products developed with the funds provided by the BIRD-F. Therefore, the Company has not been obligated to pay royalties or repay the grant since such date.

b. Bank guarantee:

As of December 31, 2019, the Company issued a bank guarantee to one of the Company's customers that amounted to \$271, which will expire on March 2, 2020 and to the Israeli Customs Authority that amounted to \$36, which will expire on April 30, 2020.

RADCOM LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 9: - LEASES

The Company has entered into various operating lease agreements for certain of its offices and car leases with original lease periods expiring between 2020 and 2028. Most of the lease agreements include one or more options to renew. The Company does not assume renewals in determination of the lease term unless the renewals are deemed to be reasonably assured at lease commencement.

Lease payments included in the measurement of the operating lease liability comprise the following: the fixed non-cancelable lease payments and payments for optional renewal periods where it is reasonably certain the renewal period will be exercised. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

As of December 31, 2019, the Company's assessment for the remaining lease term range between 0.9 years to 8.3 years, including options to extend part of the lease agreements for an additional 2 years and up to 5 years.

The following table represents the weighted-average remaining lease term and discount rate:

	December 31, 2019
Weighted average remaining lease term	2.83 years
Weighted average discount rate	3.75%

The components of lease expense for the year ended December 31, 2019 were as follows:

	Year ended December 31, 2019
Operating lease	\$ 1,325
Short-term lease	\$ 79
Total lease expense	<u>\$ 1,404</u>

Cash paid for amounts included in the measurement of operating lease liabilities was \$1,252 during the year ended December 31, 2019.

RADCOM LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 9: - LEASES (Cont.)

The following is a schedule, by years, of maturities of lease liabilities as of December 31, 2019:

	<u>Operating Leases</u>
2020	1,410
2021	1,384
2022	1,313
2023	1,168
2024 and thereafter	1,445
Total operating lease payments	<u>\$ 6,720</u>
Less: imputed interest	<u>490</u>
Present value of lease liabilities	<u>\$ 6,230</u>

NOTE 10: - TAXES ON INCOME

a. Israeli taxation:

Taxable income of the Company is subject to the Israeli corporate tax at the rate as follows: 2017 - 24% 2018 and 2019 – 23%.

Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (“the Law”):

In August 2013, the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 which includes Amendment 71 to the Law (“Amendment 71”) was enacted. Per Amendment 71, the tax rate on preferred income from a preferred enterprise in 2014-2016 will be 9% in certain areas in Israel (“Development Area A”) and 16% in other areas. In 2017, the tax rate at Development Area A was reduced to 7.5%.

The Company may claim the tax benefits offered by Amendment 71 in its tax returns, provided that its facilities meet the criteria for tax benefits set out by Amendment 71. A company is also granted a right to approach the Israeli Tax Authorities for a pre-ruling regarding its eligibility for benefits under Amendment 71 (and in some cases is required to apply for such approval).

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which includes Amendment 73 to the Law (“Amendment 73”) was published. Amendment 73, which came into effect in January 2017, prescribes special tax tracks for technological enterprises, granting such enterprises a tax rate of 7.5% (in Development Area A) and 12% (in other areas).

RADCOM LTD. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data****NOTE 10: - TAXES ON INCOME (Cont.)**

Under Amendment 73, any dividends distributed to “foreign companies”, as defined in such law, by companies having over 90% foreign (i.e., non-Israeli) ownership, deriving from income from the technological enterprises will be subject to tax at a rate of 4%.

In order to comply with the new track determined in Amendment 73, a company must meet certain criteria defined within law (among others R&D expenses and employees at a certain rate).

The Company has yet to claim the above-mentioned tax benefits offered and accordingly such reduced taxes were not considered in the computation of the deferred taxes and valuation allowance as of December 31, 2019.

In accordance with the tax laws, tax returns submitted up to and including the 2014 tax year can be regarded as final. As of December 31, 2019, no final tax assessments have been received for such years.

Tax loss carryforward:

As of December 31, 2019, the Company’s estimated tax loss carryforward and capital loss were \$33,659 and \$893, respectively. Such losses can be carried forward indefinitely to offset any future taxable income of the Company.

The Company’s research and development expenses carryforward for tax purposes in Israel amounted to approximately \$11,810.

b. Foreign subsidiaries:

U.S. subsidiary:

1. The U.S. subsidiary is taxed under United States federal and state tax rules. Income tax is calculated based on a U.S. federal tax rate of 21%.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was signed into law making significant changes to U.S. income tax law. Changes include, but are not limited to, a U.S. federal corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017.

2. The U.S. subsidiary’s estimated federal tax loss carryforward amounted to \$6,246 as of December 31, 2019. Such losses are available to offset any future U.S. taxable income of the U.S. subsidiary and will expire in the years 2020-2026 for federal tax purposes.

RADCOM LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10: - TAXES ON INCOME (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 2015 tax year can be regarded as final.

Brazilian subsidiary:

- The Brazilian subsidiary is taxed under Brazilian tax rules. Income tax is calculated based on a 34% rate.
- The Brazilian subsidiary's tax loss carryforward amounted to \$3,265 as of December 31, 2019, for tax purposes. Tax losses may be carried forward indefinitely but can only be offset up to 30% of the subsidiary's taxable income for a tax period.
- The Brazilian subsidiary has not received final tax assessments since incorporation. In accordance with the tax laws, tax returns submitted up to and including the 2014 tax year can be regarded as final.

Indian subsidiary:

- The Indian subsidiary is taxed under Indian tax rules. Income tax is calculated based on a 22% rate.
- The Indian subsidiary has not received final tax assessments since incorporation. In accordance with the tax laws, tax returns submitted up to and including the 2017 tax year can be regarded as final.

c. 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	
	2019	2018
Deferred tax assets:		
Carryforward tax losses	\$ 10,369	\$ 10,096
Research and development credit	2,716	2,032
Accrued social benefits and other	425	472
	13,510	12,600
Less - valuation allowance	(13,510)	(12,600)
Net deferred tax assets	\$ -	\$ -

RADCOM LTD. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data****NOTE 10: - TAXES ON INCOME (Cont.)**

The net change in the total valuation allowance for the year ended December 31, 2019 was an increase of \$910. In assessing the realization 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.

- d. Taxes on income are comprised from state tax accrual with regards to the U.S. subsidiary, withholding taxes that were deducted by the Company's customers as well as tax expenses of the Indian subsidiary.
- e. The components of income (loss) before income taxes are as follows:

	<u>Year ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Domestic	\$ (7,107)	\$ (2,372)	\$ 4,751
Foreign	444	20	(1,767)
Income (loss) before income taxes	<u>\$ (6,663)</u>	<u>\$ (2,352)</u>	<u>\$ 2,984</u>

RADCOM LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10: - TAXES ON INCOME (Cont.)

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

	Year ended December 31,		
	2019	2018	2017
Income (loss) before income taxes, as reported in the statements of operations	\$ (6,663)	\$ (2,352)	\$ 2,984
Statutory tax rate in Israel	23%	23%	24%
Theoretical tax benefit	\$ (1,532)	\$ (541)	\$ 716
Increase (decrease) in income taxes resulting from:			
Tax rate differential on foreign subsidiaries	12	(55)	(166)
Non-deductible expenses and other permanent differences	473	446	987
Differences in taxes arising from foreign currency exchange, net	42	208	(856)
Changes in carry forward tax losses and other temporary differences for which valuation allowance was provided	910	(20)	(554)
Withholding taxes that were deducted by the Company's customers	-	10	32
Other	264	15	(76)
Income taxes	\$ 169	\$ 63	\$ 83

g. Accounting for uncertainty in income taxes:

For the years ended December 31, 2019, 2018 and 2017, the Company did not have any unrecognized tax benefits and no interest and penalties related to unrecognized tax benefits have been accrued. The Company does not expect that its position related to unrecognized tax benefits will change significantly within the next 12 months.

RADCOM LTD. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data****NOTE 11: - SHAREHOLDERS' EQUITY**

- a. The number of Ordinary Shares outstanding at December 31, 2019 and 2018 does not include 5,189 Ordinary Shares issued, which are held by a subsidiary, and 30,843 Ordinary Shares issued which are held by the Company.

Ordinary Shares confer all rights to their holders, e.g. voting, equity and receipt of dividends.

- b. Follow-on public offering:

On October 20, 2017, the Company entered an underwriting agreement related to a follow-on public offering of 1,444,814 Ordinary Shares, at an offering price of \$19.50 per share for gross proceeds that amounted to \$28,174, before underwriting discounts and commissions and other offering expenses that amounted to \$1,940 (the "2017 Public Offering").

Under such agreement, the Company granted the underwriters an option, exercisable for 30 days, to purchase up to an additional 216,722 Ordinary Shares at \$19.50 per share.

On October 25, 2017, upon the closing of the 2017 Public Offering, the Company issued 1,661,536 Ordinary Shares, including 216,722 shares sold pursuant to full exercise of the underwriters' option to purchase additional shares, for a total consideration of approximately \$30,206, net of issuance costs of \$2,194.

- c. Share option plan:

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

- a) The 2013 Share Option Plan:

On April 3, 2013, the Company approved a new Share Option Plan (the "2013 Share Option Plan"). The 2013 Share Option Plan provides for the grant of options to purchase Ordinary Shares to provide 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".

On February 19, 2015, the Board adopted an amendment to the 2013 Share Option Plan pursuant to which the Company may grant options to purchase its Ordinary Shares and RSUs to its employees, directors, consultants and contractors. The 2013 Share Option Plan expires on April 2, 2023.

RADCOM LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11: - SHAREHOLDERS' EQUITY (Cont.)

- b) During the year ended December 31, 2018, the Company's Board approved the grant of 32,700 RSUs to certain employees and officers of the Company. Such RSUs have vesting schedules of four years, commencing as of the date of grant.
- c) During the year ended December 31, 2019, the Company's Board approved the grant of 388,020 RSUs to certain employees, officers and directors of the Company. Such RSUs have vesting schedules of up to four years, commencing as of the date of grant.

As of December 31, 2019, the total number of shares reserved under the 2013 Share Option Plan, is 2,450,000, out of which 614,475 Ordinary Shares are still available for future grants under the 2013 Share Option Plan as of that date.

2. Stock options for the year ended December 31, 2019 under the Company's plans are as follows:

	<u>Number of options</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual term (in years)</u>	<u>Aggregate intrinsic value</u>
Outstanding as of January 1, 2019	415,510	\$ 14.62	2.69	\$ 3
Granted	-	-		
Exercised	(2,250)	6.00		
Expired and forfeited	(31,350)	15.30		
Outstanding as of December 31, 2019	<u>381,910</u>	<u>\$ 14.62</u>	<u>1.64</u>	<u>\$ -</u>
Vested and expected to vest at December 31, 2019	<u>381,910</u>	<u>\$ 14.62</u>	<u>1.64</u>	<u>\$ -</u>
Exercisable as of December 31, 2019	<u>274,008</u>	<u>\$ 13.85</u>	<u>1.44</u>	<u>\$ -</u>

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the deemed fair value of the Company's Ordinary Shares on the last day of fiscal 2019 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2019. This amount is impacted by the changes in the fair market value of the Company's Ordinary Shares.

As of December 31, 2019, all the outstanding and exercisable options are out-of-the-money.

RADCOM LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11: - SHAREHOLDERS' EQUITY (Cont.)

3. As of December 31, 2019, stock options under the 2013 Share Option Plan are as follows:

Exercise price \$	Options outstanding at December 31, 2019			Options exercisable at December 31, 2019		
	Number outstanding	Weighted average exercise price \$	Weighted average remaining contractual life In years	Number exercisable	Weighted average exercise price \$	Weighted average remaining contractual life In years
11.12-14.52	243,358	11.90	1.17	202,533	11.90	1.10
18.90-19.85	138,552	19.39	2.46	71,475	19.38	2.40
	<u>381,910</u>			<u>274,008</u>		

4. RSUs for the year ended December 31, 2019 under the Company's 2013 Share Option Plan are as follows:

	Number of RSUs	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding as of January 1, 2019	168,869	1.40	\$ 1,253
Granted	388,020		
Vested	(84,176)		
Cancelled	(23,900)		
Outstanding as of December 31, 2019	<u>448,813</u>	<u>1.53</u>	<u>\$ 3,824</u>

RADCOM LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11: - SHAREHOLDERS' EQUITY (Cont.)

5. No options were granted during the years ended December 31, 2019 and 2018. The weighted average fair value of options granted during the year ended December 31, 2017 was \$8.08. Grants of options in 2017 were at exercise prices equal to the market value of the Ordinary Shares at the date of grant.
6. The weighted average fair values of RSUs granted during the years ended December 31, 2019, 2018 and 2017 were \$7.86, \$19.68 and \$19.52 per share, respectively.
7. The following table summarizes the department allocation of the Company's share-based compensation charges:

	Year ended December 31,		
	2019 (*)	2018 (*)	2017 (*)
Cost of revenues	\$ 204	\$ 112	\$ 189
Research and development, net	729	808	473
Sales and marketing, net	638	698	499
General and administrative	657	503	1,055
	<u>\$ 2,228</u>	<u>\$ 2,121</u>	<u>\$ 2,216</u>

(*) Including \$1,887, \$1,359 and \$1,335 of compensation cost related to RSUs for the years ended December 31, 2019, 2018 and 2017, respectively.

8. As of December 31, 2019, there are \$2,187 of total unrecognized costs related to non-vested share-based compensation and RSUs that are expected to be recognized over a weighted average period of 1.04 years.

RADCOM LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12: - SELECTED STATEMENTS OF OPERATIONS DATA

- a. The Company applies ASC 280, "Segment Reporting". The Company operates in one reportable segment (see also Note 1 for a brief description of the Company's business).
- b. The following table presents total revenues for the years ended December 31, 2019, 2018 and 2017 and property and equipment, net as of December 31, 2019 and 2018:

1. Revenues by geographic region are as follows:

	Year ended December 31,		
	2019	2018	2017
North America	\$ 14,500	\$ 22,164	\$ 25,157
Asia*	14,146	7,158	4,874
Latin America	2,653	3,579	2,666
Other	1,711	1,149	4,536
	<u>\$ 33,010</u>	<u>\$ 34,050</u>	<u>\$ 37,233</u>

(*). Includes Japan and the Philippines which each of them accounted for more than 10% of Company's revenues in 2019.

Total revenues are attributed to geographic areas based on the location of the end-customer.

In 2019, 2018 and 2017, the amount of export revenues represented 96%, 98% and 90% of the Company's total revenues.

2. Major customer data as a percentage of total revenues:

	Year ended December 31,		
	2019	2018	2017
A	41	48	66
B	20	18	12
C	22	-	-
D	-	15	-
	<u>83%</u>	<u>81%</u>	<u>78%</u>

3. Property and equipment, net, by geographic areas:

	Year ended December 31,	
	2019	2018
Israel	\$ 1,240	\$ 1,535
United States	246	230
Other	183	67
	<u>\$ 1,669</u>	<u>\$ 1,832</u>

RADCOM LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12: - SELECTED STATEMENTS OF OPERATIONS DATA (Cont.)

c. Financial income, net:

	Years ended December 31,		
	2019	2018	2017
Financial Income:			
Interest income	\$ 1,775	\$ 1,455	\$ 572
Foreign currency exchange gain	338	784	215
	<u>2,113</u>	<u>2,239</u>	<u>787</u>
Financial expenses:			
Bank charges	(16)	(15)	(58)
Foreign currency exchange loss	(925)	(1,088)	(340)
	<u>(941)</u>	<u>(1,103)</u>	<u>(398)</u>
	<u>\$ 1,172</u>	<u>\$ 1,136</u>	<u>\$ 389</u>

d. Net income (loss) per Ordinary Share:

The following table sets forth the computation of basic and diluted net income (loss) per Ordinary Share:

	Years ended December 31,		
	2019	2018	2017
Numerator:			
Numerator for basic net income (loss) per Ordinary Share	\$ (6,832)	\$ (2,415)	\$ 2,901
Effect of dilutive securities:			
Share-based compensation granted	-	-	-
Numerator for dilutive net income (loss) per Ordinary Share	<u>\$ (6,832)</u>	<u>\$ (2,415)</u>	<u>\$ 2,901</u>
Denominator:			
Denominator for dilutive net income (loss) per Ordinary Share - weighted average number of Ordinary Shares	<u>13,779,885</u>	<u>13,630,793</u>	<u>12,039,176</u>
Effect of dilutive securities:			
Share-based compensation granted	-	-	312,390
Denominator for diluted net income (loss) per Ordinary Share - adjusted weighted average number of Ordinary Shares	<u>13,779,885</u>	<u>13,630,793</u>	<u>12,351,566</u>

RADCOM LTD. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data****NOTE 13: - RELATED PARTY BALANCES AND TRANSACTIONS**

- a. The Company carries out transactions with related parties as detailed below.
1. The Company is a party to a reseller agreement with Allot Communications Inc, (“Allot”) giving Allot the right to distribute the Company’s products. Until January 2019, Zohar Zisapel, a member of the Company’s Board held an interest in Allot, making it a related party. As of January 2019, Mr. Zisapel divested all of his interest in Allot and therefore Allot is no longer a related party.

Revenues related to this reseller agreement are included in Note 13f below as “Revenues”. For the years ended December 31, 2018 and 2017, revenues aggregated to \$73 and \$31, respectively.
 2. Certain premises occupied by the Company and its U.S. subsidiary are rented from related parties in which Mr. Zisapel holds an interest (see also Note 9). The U.S. subsidiary sub-leased certain premises to a related party until April 30, 2017. The aggregate net amounts of lease and maintenance expenses were \$912, \$967 and \$843 in 2019, 2018 and 2017, respectively. The amount presented in “Capital expenditures” in Note 13f below refers to \$40 reimbursement of expenses in connection with the renovation of the U.S subsidiary office during the year ended December 31, 2018. Following the adoption of ASC 842 commencing January 1, 2019, the Company also recorded operating lease right-of use assets and operating lease liabilities related to such lease and maintenance expenses which are presented in Note 13e below.
 3. Mr. Zisapel also holds an interest in and serves as director for various entities known as the RAD-BYNET Group. Certain entities within the RAD-BYNET Group provide the Company and its U.S. subsidiary with administrative and IT services. The aggregate amounts of administrative and IT services provided were \$49, \$32 and \$39 in 2019, 2018 and 2017, respectively. Such amounts expensed by the Company are disclosed in Note 13f below as part of “Expenses” and “Capital expenses”.
 4. From time to time, the Company also purchases certain products and services from members of the RAD-BYNET Group. No such purchases were made in 2019, however, in 2018 and 2017, the aggregate amounts of such purchases were approximately \$2 and \$15 respectively. Such amounts expensed by the Company are disclosed in Note 13f below as part of “Expenses”.

RADCOM LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13: - RELATED PARTY BALANCES AND TRANSACTIONS (Cont.)

- b. The executive chairman of the Board, Ms. Rachel (Heli) Bennun (the “Executive Chairman”) is, among other things, Mr. Zisapel’s life partner. The Executive Chairman is entitled to a fixed monthly salary. During the years ended December 31, 2019, 2018 and 2017 the Company recorded salary expenses with respect to the Executive Chairman in the amount of \$108, \$108 and \$183, respectively. Such amounts expensed by the Company are disclosed in Note 13f below as part of “Expenses”.
- c. Between 2015 and March 2019, the Company entered into several agreements with Amdocs Software Systems Limited (“Amdocs”) for the sale of the Company’s solutions and services. Until January 31, 2019, Mr. Zisapel served as a member of the board of directors of Amdocs. As of January 31, 2019, Amdocs is no longer considered a related party.

Revenues related to this reseller agreement are included in Note 13f below as “Revenues”. For the years ended December 31, 2018 and 2017, revenues aggregated to \$16,296 and \$24,528, respectively.

- d. The Company’s current Chief Financial Officer is a member of the board of directors and chairman of the audit committee of Matrix IT Ltd. (“Matrix”). Accordingly, as of October 2018, Matrix is considered a related party. The Company has entered into certain limited term engagements with Matrix or its affiliated companies in connection with specific development projects and/or use of software platform. The aggregate amount of services provided by Matrix or its affiliates, as a related party, aggregated to \$288 and \$4 during the years ended December 31, 2019 and 2018, respectively. Such amount expensed by the Company is disclosed in Note 13f below as part of “Expenses”.
- e. Balances with related parties:

	December 31,	
	2019	2018
Assets:		
Trade receivables, net	\$ -	\$ 13,596
Other accounts receivable and prepaid expenses	\$ 37	\$ -
Operating lease right-of-use assets	\$ 4,499	\$ -
Liabilities:		
Trade payables	\$ 105	\$ 81
Other liabilities and accrued expenses	\$ 31	\$ 12
Operating lease liabilities - current	\$ 816	\$ -
Operating lease liabilities – non-current	\$ 4,016	\$ -

RADCOM LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13: - RELATED PARTY BALANCES AND TRANSACTIONS (Cont.)

f. Transactions with related parties:

	Year ended December 31,		
	2019	2018	2017
Revenues	\$ -	\$ 16,369	\$ 24,559
Expenses:			
Cost of revenues	\$ 297	\$ 163	\$ 201
Operating expenses:			
Research and development, net	\$ 716	\$ 507	\$ 371
Sales and marketing, net	\$ 155	\$ 212	\$ 217
General and administrative	\$ 177	\$ 191	\$ 293
Capital expenses	\$ 12	\$ 40	\$ 9

NOTE 14: - SUBSEQUENT EVENTS

- In February 2020, the Company's issued, with the approval of its Board of Directors, 279,000 RSUs to certain employees and officers out of which 40,000 RSUs are subject to the approval of the shareholders. Such RSUs have vesting schedules of up to four years, commencing as of the date of grant.
- The ongoing coronavirus outbreak has resulted in increased travel restrictions and extended disruptions to business activities globally. Such restrictions and disruptions, and any potential future travel restrictions, quarantine requirements, government ordered shutdowns or similar actions in countries in which the Company or its customers operate could interfere with its ability to deliver products and solutions, impact potential customers' procurement decisions, and have other additional negative impacts on the Company's operations and business.

DESCRIPTION OF SECURITIES

Type and Class of Securities

As of March 25, 2020, RADCOM LTD.'s (the "Company") authorized share capital consisted of 20,000,000 ordinary shares, NIS 0.20 par value per share ("Ordinary Shares"), of which 13,883,538 shares were outstanding as of such date. All of the Company's outstanding Ordinary Shares have been validly issued, are fully paid and non-assessable.

Objectives and Purposes

We were first registered by the Israeli Registrar of Companies on July 5, 1985, as a private company under the name Big Blue Catalogue Ltd. and changed our name to RADCOM Ltd. in 1989. 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 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 resolutions 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 to do so; 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 determined from time to time by resolutions of our shareholders. On July 11, 2019, our shareholders determined that the number of directors on our Board of Directors would be up to seven.

Election of Directors

Directors, other than external directors (if applicable), 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.

Remuneration of Directors

Directors' remuneration is subject to our compensation policy and to compensation committee, Board of Directors and shareholder approval.

Powers of the Board of Directors

Our Board of Directors may resolve to take action at a meeting when a quorum is present, and resolutions 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 who are lawfully entitled to participate in the meeting but shall not be less than two.

Our Board of Directors may elect one director to serve as Chairman of the 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.

Subject to the provisions of the Israeli Companies Law 5759-1999 (the "Israeli 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 of otherwise transact any business with any third party in which contract or business a director has a personal interest, directly or indirectly.

No person shall be disqualified to serve as a director by reason of his not holding shares in the Company.

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.

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.

The term "office holder" is defined in the Israeli Companies Law as a general manager, chief business manager, deputy general manager, vice general manager, any other person assuming the responsibilities of any of these positions regardless of that person's title, a director and any other manager directly subordinate to the general manager. Under the Israeli Companies Law, all arrangements as to compensation of office holders who are not directors, or controlling parties, require approval of the compensation committee to the extent that it complies with the statutory requirements which apply to the compensation committee, and the Board of Directors. Arrangements regarding the terms of employment and compensation of directors also require approval by the compensation committee, the Board of Directors and the shareholders.

Approval of Officeholder Compensation

The Israeli Companies Law imposes 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. 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; Extraordinary Transactions with Controlling 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, any arrangement between a company and one of the company's office holders must be approved by the company's compensation committee and the board of directors. The approval of the company's shareholders is required with respect to the compensation of a company's directors (including a director that also serves as an executive officer) and the chief executive officer.

Additionally, a special majority of the shareholders is required for the approval of the compensation of the chief executive officer, and in the event that the compensation to an office holder is not consistent with the company's compensation policy.

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, as well as 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, but only if the transaction is in the best interests of the company. 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.

Amending the Rights of 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 a class 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. We may provide notice of our general meetings by publishing such notice, either (1) on our website and/or (2) in one international wire service and/or (3) in any other common form of electronic dissemination. 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.

Duties of Shareholders; Extraordinary Transactions with Controlling 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:

- a majority 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.

It is the responsibility of the audit committee to determine whether or not a transaction is extraordinary. In addition, the audit committee must also establish: (i) procedures for the consideration of any transaction with a controlling shareholder, even if it is not extraordinary, such as a competitive process with third parties or negotiation by independent directors; and (ii) approval requirements for controlling shareholder transactions that are not material.

Agreements and extraordinary transactions with a duration exceeding three years are subject to re-approval once every three years by the audit committee (or compensation committee, in certain circumstances under applicable law), 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 is reasonable under the circumstances.

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 nevertheless 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;
- a financial obligation imposed on him in favor of another person; and
- reasonable litigation expenses, including attorneys' fees, incurred by the office holder as a result of administrative enforcement proceedings 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, or 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 Israeli Securities Law, including reasonable legal expenses, which term includes attorneys' 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, and expenses that the office holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Israeli 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 compensation committee and the Company's board of directors and, if the beneficiary is a director or the chief executive officer, 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 by approving the purchase of a directors and officers liability insurance policy. We currently maintain directors' and officers' liability insurance policy limited to \$23 million, at an annual premium of \$200,000.

Anti-Takeover Provisions; Mergers and Acquisitions

The Israeli Companies Law regulates acquisitions of shares through tender offers, requires special approvals for transactions involving shareholders holding 25% or more of the company's capital, and regulates other matters that may be relevant to these types of transactions. These provisions of Israeli law could have the effect of delaying or preventing a change in control and may make it more difficult for a third party to acquire us, even if doing so would be beneficial to our shareholders. These provisions may limit the price that investors may be willing to pay in the future for our ordinary shares. Furthermore, Israeli tax considerations may make potential transactions undesirable to us or to some of our shareholders.

Delivery of Financial Statements

Our articles of association provide 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.

CERTAIN IDENTIFIED INFORMATION HAS BEEN EXCLUDED FROM THIS EXHIBIT BECAUSE IT IS BOTH (i) NOT MATERIAL AND (ii) WOULD LIKELY CAUSE COMPETITIVE HARM TO RADCOM LTD. IF PUBLICLY DISCLOSED. OMISSIONS ARE DENOTED IN BRACKETS THROUGHOUT THIS EXHIBIT.

Master Software and Professional Services Agreement

This Master Software and Professional Services Agreement (“**this Agreement**”) is entered into as of May 21, 2019.

BETWEEN: **RAKUTEN MOBILE, INC.**, a corporation formed under the laws of Japan (“**Company**”);

AND: **RADCOM Ltd.**, a corporation formed under the laws of Israel (“**Service Provider**”).

(each of Company and Service Provider a “**Party**”, and collectively the “**Parties**”)

WHEREAS:

- A. Company intends to contract the Service Provider for the delivery of certain software (the “**Software**”) and the performance of certain related professional services (the “**Services**”);
- B. The Service Provider has the resources and capability to deliver the Software and provide the Services and wishes to do so for Company.

NOW THEREFORE, in consideration of the promises and the mutual covenants and agreements hereinafter contained, the sufficiency of which each party hereto affirms, it is agreed by and between the parties hereto as follows:

Article 1 (Services and Statement of Works)

- 1. Company shall contract the Service Provider for delivery of the Software and the performance of the Services and the Service Provider shall undertake the delivery of the Software and the performance of such Services.
- 2. specifications, content, deadlines, delivery sites, deliverables, pricing, acceptance criteria, payment milestones and methods and other required matters with respect to the Software and the Services shall be set forth in statements of work (“**SOW**”) to be entered into separately for each Service.
 - a) Unless explicitly stated in a given SOW, this Agreement shall govern all SOWs entered into between Company and the Service Provider during the effective period of the Agreement.
 - b) SOWs must be concluded in writing.
- 3. Service Provider shall, upon request from Company, provide timely reports to Company on the Services, including progress, performance conditions, or issues of concern.

Article 2 (Access to Company's Place of Work, Handling of Fixtures and Equipment)

1. In the event that the Service Provider's officers or employees are permitted entrance to, or stationed at, Company's place of work in connection with performance of the Services, the Service Provider shall ensure those officers and employees conform to all Company regulations.
2. In the event Company lends personal computers, fixtures, equipment, or other materials ("Lent Items") to the Service Provider for use in performing the Services, the Service Provider shall use such Lent Items with the due care of a prudent manager and shall immediately return Lent Items to Company when the service period has ended, when they are no longer needed to perform the Services, when the lending period has ended, or when Company has requested their return.
3. The Service Provider shall be responsible for any damages caused by the Service Provider's officers or employees while using Company's facilities and/or Lent Items.

Article 3 (Sub-Contracting)

1. The Service Provider shall not sub-contract the Services, whether wholly or in part, to any third parties, without the prior written consent of Company, it being acknowledged that Service Provider's subcontracting of any Software or product development shall not be deemed subcontracting for purposes of this Agreement.
2. In the event it conducts sub-contracting in accordance with the preceding paragraph, the Service Provider shall impose upon its subcontractor obligations substantially similar to those that the Service Provider has to Company, to the extent commercially possible. Furthermore, in such event, the Service Provider shall remain responsible to Company for performance of the Services and shall be liable for any damages caused by the subcontractor.

Article 4 (Inspection, Guarantees)

1. When the purpose of the Services is delivery of deliverables (other than Software), the Service Provider shall deliver the deliverables to Company at the location and by the deadline specified in the applicable PO along with any specified inspection and delivery materials (hereinafter, deliverables, inspection/delivery materials, etc. are collectively referred to as "Deliverables").
2. Within thirty (30) days of confirming receipt of the Deliverables, Company shall inspect the Deliverables, in accordance with criteria indicated by Company, and inform the Service Provider of its acceptance or rejection of the Deliverables.
3. In the event that Company determines, as a result of its inspection per the preceding paragraph, that the Deliverables do not meet the criteria, the Service Provider shall correct the Deliverables so as to meet the criteria and resubmit them in accordance with the terms of warranty applicable to such Deliverables. After resubmission, the process described in Paragraph 2 shall commence again.
4. When the purpose of the Services is the delivery of Software, the Service Provider shall deliver the Software as set forth in the applicable SOW.
5. Software shall be accepted in accordance with the applicable testing and acceptance criteria set forth in the SOW, it being acknowledged and agreed that if acceptance testing is delayed or prevented by Company, if testing reveals a non-material number of minor defects, or if Company refuses to issue an acceptance certificate following the conclusion of testing, the Software shall be deemed accepted. To the extent any defects or faults are discovered in the Software following acceptance, such defects shall be addressed in accordance with the applicable service level as set forth in Service Provider's service level agreement ("SLA")

6. Title to Deliverables (other than Software) shall be transferred to Company when the Deliverables have been accepted in accordance with Paragraph 2.
7. Software is provided subject to terms of use (as set forth in Article 5) and accordingly will remain the property of Service Provider.
8. The Service Provider represents and warrants that no Deliverables delivered to Company infringe upon any third-party copyrights, patent rights, or other Intellectual Property rights. The full terms of Service Provider's intellectual property indemnification shall be as set forth in Service Provider's Term's of Use (as defined in Article 5).
9. When the Deliverables (other than Software) delivered to Company are discovered to be defective or to not meet the relevant criteria within [**] of their delivery, the Service Provider shall, at Company's reasonable discretion (i) repair them or deliver substitutes at no cost to Company, or (ii) pay compensation to Company for such defects..

Article 5 (Intellectual Property Rights)

1. All copyright, trademark, trade secret and patent rights (collectively "**Intellectual Property Rights**") to materials Company makes available to Service Provider under this agreement is the exclusive property of Company. Company grants to Service Provider a limited, non-exclusive, non-sublicensable, revocable right to use said material solely and only to the extent necessary for Service Provider to perform the Services. Service Provider will, at Company's request, return or destroy all copies of Company's Intellectual Property.
2. The Parties acknowledge and agree that Software provided by Service Provider in connection with any Services shall not be sold and shall be used subject to specific terms of use which shall provide for a limited term . The Parties shall enter into a separate terms of use agreement (the "**Terms of Use**") containing reasonable and customary terms of use and shall provide, as applicable to the Products, at a minimum:
 - a. With respect to Deliverables other than Software, such as SOW/Product documentation and training materials, Service Provider shall grant to Company a [**].
 - b. With respect to Software (including Software contained within any equipment), Service Provider shall grant to Company [**].

- c. With respect to documentation, Service Provider shall grant to Company a [**].
 - d. With respect to such use rights as set forth above, the Parties acknowledge and agree that: (i) all use rights will be conditional on Company's payment of applicable service fees and revocable in the event of breach of the terms of use and/or non-payment of fees; (ii) all terms of use will be subject to reasonable and customary usage restrictions and shall specifically prohibit, among other things, reverse engineering, redistribution, modification, and use of development purposes; (iii) Software will be provided in object code form only and not in source code form; (iv) limited sublicensing to Company's authorized subcontractors who are not competitors of Supplier or are not subject to any international restrictions on trade or sanctions, will be permitted for purpose of effectuating the purpose of the service with which the software is provided; and (v) no ownership or similar title will be granted to Company in any of the materials, documentation, or Software provided or any Intellectual Property Rights therein and the only rights granted shall be limited use rights as set forth in the Terms of Use.
3. [Not Used]
4. In the event that third-party Intellectual Property rights are used in implementing the Services, the Service Provider shall assume responsibility and cost for securing the rights necessary for Company to use the Deliverables in its work consistent with the use rights granted to Company under the Terms of Use.
5. It is acknowledged and agreed that any and all inventions and other Intellectual Property or know-how developed by Service Provider in connection with implementation of the Services or the delivery of the Software ("Inventions"), shall be exclusively owned by Service Provider and Service Provider shall retain all patent rights and all other Intellectual Property rights (including the rights to obtain patent rights and other Intellectual Property rights) to such Inventions. Notwithstanding the foregoing, Company shall be entitled to use such Inventions in accordance with the Terms of Use.

Article 6 (Charges and Payment Method)

- 1. Pricing and payment methods for the Services shall be set forth in the applicable SOW, it being acknowledged, however, that all prices and payments shall be in U.S. Dollars.
- 2. The Service Provider shall invoice Company in accordance with the schedule set forth in each SOW. Unless otherwise provided in the applicable SOW, Company shall pay each invoice on a net thirty (30) basis from receipt of invoice. In the event of any valid dispute regarding an invoice, Company shall promptly pay all undisputed amounts and provide the Service Provider details as to the nature of the dispute no later than fifteen (15) days after receipt of invoice.

Article 7 (Agreement Term)

The effective term of the Agreement shall be [**] Notwithstanding the foregoing, this Agreement shall remain in full force and effect with respect to any purchase orders or SOWs issued under or pursuant to this Agreement prior to its termination and which remain incomplete at such termination until such time as the performance of the purchase orders or SOWs is complete.

Article 8 (Confidentiality)

1. Concerning any and all information, including without limitation, all technical, operational, commercial or product information including data processes, specifications, designs, drawings, computer software, algorithms, know-how, formulas, processes, ideas, inventions (whether patentable or not), schematics, contractual arrangements, future plans, financial, product development plans, actual or prospective customers, actual or prospective investors, forecasts, strategies, reports and any material bearing or incorporating such information and any compilation of otherwise public information in a form not publicly known, disclosed between or on behalf of the parties and irrespective of such information having been disclosed orally, in tangible or visible or machine readable form, or otherwise, belonging to a Party (the “**Disclosing Party**”) that the other Party (the “**Receiving Party**”) has obtained in connection with the Agreement (“**Confidential Information**”), the Receiving Party shall keep, manage, and utilize such Confidential Information only for the purpose of this Agreement. The Receiving Party shall not disseminate, disclose, or provide any Confidential Information to any third party without Disclosing Party's prior written consent.
2. Notwithstanding the provisions of the foregoing clause, Confidential Information shall not include any information which is:
 - a. known or available to the public at the time of the disclosure;
 - b. now or hereafter becomes generally known or available to the public without direct or indirect fault of the Receiving Party;
 - c. known to the Receiving Party at the time of the disclosure;
 - d. independently developed by the Receiving Party without using the Confidential Information; or
 - e. lawfully received by the Receiving Party without confidential or proprietary restriction from a third party.
3. The Receiving Party may disclose Confidential Information where compelled by applicable law or the mandatory rules or requirements of any regulatory authority, provided that any such disclosure is to the minimum amount necessary and that the Receiving Party shall give the Disclosing Party reasonable notice prior to such disclosure.
4. Receiving Party will only disclose Confidential Information to its officers and employees who need to know the Confidential Information in order, and only to the extent necessary, for the purpose of this Agreement.
5. In the event Receiving Party discloses Confidential Information to its officers, employees, or third parties in accordance with the terms set forth in this Agreement, it shall have said parties conform to Receiving Party's confidentiality obligations under this Article, and it shall assume full responsibility for any violation of those confidentiality obligations by said officers, employees, or third parties.
6. The Receiving Party shall protect the Confidential Information in the same manner and to the same extent it protects its own confidential information, but in no event using less than a reasonable degree of care.
7. The Receiving Party shall not duplicate or make copies of any Confidential Information, except to the limited extent necessary for the performance of the Services.

8. The Receiving Party shall not reverse engineer, disassemble, or make any other attempt to ascertain the composition or the properties and characteristics of any Confidential Information. Information derived from the Confidential Information and results obtained from any tests or evaluation performed on the Confidential Information shall constitute Confidential Information of the Disclosing Party and shall be subject to the obligations in this Article; the Receiving Party shall not incorporate such information into any patent application or other Intellectual Property instrument.

Article 9 (Return/Destroy of Confidential Information)

At any time, upon request by Disclosing Party, or after the termination of this Agreement, the Receiving Party shall promptly return or destroy all Confidential Information furnished under this Agreement, and any copies or extracts thereof, including any notes or analyses which are derived from or contain any Confidential Information, as specified by Disclosing Party.

Article 10 (Indemnities)

[**]

Article 11 (Severability)

In the event that any provision of this Agreement shall be held to any extent to be invalid or unenforceable, the remainder of this Agreement shall not be affected thereby, and each provision of this Agreement shall be valid and enforced to the fullest extent permitted by law.

Article 12 (Publicity)

Neither party shall, without the express written consent of the other, advertise, publicly announce or provide to any other person information relating to the existence or details of this Agreement or use the other party's name in any format for any promotion, publicity, marketing or advertising purpose.

Article 13 (Assignment)

The Service Provider shall not, without the Company's prior written consent, assign or provide as security all or a portion of its rights and obligations under this Agreement to a third party.

Article 14 (Termination)

1. When any of the following has occurred, either party may immediately terminate this Agreement without prior notice or demand:
 - a. When the other party is in breach of this Agreement or an SOW and such breach is not cured within thirty (30) days following a demand for rectification from the other party;
 - b. Company has outstanding fees owed to the Service Provider for more than two (2) consecutive months and has provided no acceptable reason for such delay to the Service Provider;
 - c. either party has received, or has issued a petition for commencement of bankruptcy proceedings, civil rehabilitation proceedings, corporate reorganization proceedings, special liquidation, or other insolvency proceedings;
 - d. merger which dissolves the Service Provider; or
 - e. Withdrawal of the business license of the Service Provider.
2. Company may terminate this Agreement at any time, after [**]; provided, however, that (i) any SOWs or purchase orders in place at the time of termination shall survive such termination until their completion; and (ii) such termination shall not absolve or waive Company's obligation to make any future purchases or procure any licenses committed to under any purchase order or SOW.
3. In the event that Company terminates this Agreement in accordance with the provisions of the foregoing clause, provided Service Provider is not in breach of this Agreement and that Service Provider has been performing the Services up to the time of termination, Company shall pay to the Service Provider all fees outstanding and due up until the time of termination. In no event will Company be entitled to a refund of amounts paid for Software or Services which have not yet been delivered at the time of termination, even if Company waives Service Provider's performance of such outstanding obligations.

Article 15 (Representations and Warranties)

1. Each party represents and warrants to the other that it has the power and authority to enter into and perform under this Agreement.
2. The Service Provider further represents and warrants that, throughout the term of this Agreement and, if applicable, beyond any termination thereof: a) it shall have obtained, secured, and maintains all consents, approvals, and licenses (including applicable, written third-party consents) required for it to perform the Services and for Company to use the Services and Deliverables; and (b) it shall have reported on and paid all fees, royalties, licenses, and other payments required to be paid to third parties for Company to be able to use the Services and Deliverables; and (c) its Services and Deliverables do not infringe or misappropriate the Intellectual Property rights of any person or entity.

Article 16 (Surviving Provisions)

Articles 5, 8, 9, 10, 11, 12, 13, 15, and 17 shall remain in effect even after the Agreement has ended.

Article 17 (Governing Law and Dispute Resolution)

The Agreement and SOWs shall be governed by Japanese law. The Parties agree that any dispute arising out of or in connection with this Agreement, including any question regarding its existence, validity or termination shall be settled by arbitration in Japan in accordance with the laws of Japan. Such arbitration shall be administered by the Japan Commercial Arbitration Association (JCAA) in accordance with its then current arbitration rule, which rules are deemed to be incorporated by reference in this clause. The Tribunal shall consist of three (3) arbitrators. The language of the arbitration shall be English. Notwithstanding the foregoing, the Parties acknowledge and agree that with respect to a breach of license or confidentiality the Parties may seek injunctive relief from any court having appropriate jurisdiction.

Article 18 (Consultation)

When uncertainty has arisen over the Agreement provisions, or provisions not defined in the text of the Agreement, the parties shall adhere to good faith principles and resolve their differences honestly through consultation.

In witness whereof, Company and the Service Provider shall execute the text of this Agreement in duplicate and, having affixed their signatures, shall retain one copy each.

RAKUTEN MOBILE, Inc.

By: /s/ Yoshihisa Yamada
Name: Yoshihisa Yamada
Title: President

Date: May 24, 2019

RADCOM Ltd.

By: /s/ Yaron Ravkaie
Name: Yaron Ravkaie
Title: CEO

By: /s/ Amir Hai
Name: Amir Hai
Title: CFO

Date: May 26, 2019

Exhibit 4.7

CERTAIN IDENTIFIED INFORMATION HAS BEEN EXCLUDED FROM THIS EXHIBIT BECAUSE IT IS BOTH (i) NOT MATERIAL AND (ii) WOULD LIKELY CAUSE COMPETITIVE HARM TO RADCOM LTD. IF PUBLICLY DISCLOSED. OMISSIONS ARE DENOTED IN BRACKETS THROUGHOUT THIS EXHIBIT.

Statement of Work No. 1

This Statement of Work ("**SOW**") is entered into by and between **Rakuten Mobile, Inc.** ("**Rakuten**") and **RADCOM Ltd.** ("**RADCOM**") (each of Rakuten and RADCOM a "**Party**" and collectively the "**Parties**") and made effective as of May 22, 2019 (the "**Effective Date**").

WHEREAS, the Parties have entered into that certain Master Software and Professional Services Agreement entered into by the Parties and dated May 21, 2019 ("**MSPSA**"); and

WHEREAS, Rakuten desires to procure and RADCOM desires to perform certain managed services as set forth herein and designed to assist Rakuten with the establishment and operation of its network utilizing RADCOM's human expertise and systems and solutions designed and implemented by RADCOM; and

WHEREAS, in furtherance thereof and pursuant to the MSPSA, the Parties desire to enter into this SOW.

NOW WHEREFORE, for good and valuable consideration the sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, the Parties agree as follows:

- Effect of MSPSA.** The Parties acknowledge and agree that this SOW is entered into pursuant to and subject to the MSPSA, which is hereby incorporated herein by reference and made a part hereof. Notwithstanding the foregoing, the Parties acknowledge and agree that in the event of a conflict between this SOW and the MSPSA, the terms and conditions of this SOW will govern.
- The Managed Services and Deliverables.** Subject to the terms and conditions of this SOW and the MSPSA, RADCOM shall provide to Rakuten the managed services (the "**Managed Services**") set forth in **Exhibit A** (the "**Scope of Services**") including all software, documentation, systems and other materials required in furtherance of the performance of the Managed Services and as described in the Scope of Services (collectively, the "**Service Deliverables**").
- Service Level Agreement.** The Managed Services shall be subject to the service level agreement attached hereto as **Exhibit B** ("**SLA**"). The Parties acknowledge that the SLA is provided from the Effective Date in lieu of any separate warranty.
- Rakuten Obligations.** Rakuten acknowledges that the performance of the Managed Services by RADCOM is conditioned on Rakuten's delivery and performance of its obligations as set forth in **Exhibit C** ("**Rakuten Obligations**").
- Consideration and Payment Terms.** As full and complete compensation for the performance of the Managed Services, Rakuten shall pay RADCOM the set-up and integration fee and the service fees set forth in **Exhibit D** ("**Service Fee and Payment Terms**") in accordance with the payment terms set forth therein.
- Purchase Orders.** Within Five (5) business days of execution of The MSPSA and this SOW, buyer shall issue a purchase order to Seller. The Parties acknowledge and agree that purchase orders are issued for administrative purposes only and that no additional terms shall be set forth in the purchase orders. In the event the purchase orders set forth any additional or conflicting terms or conditions, such terms shall be null and void.
- Use of Service Deliverables.** The Parties acknowledge and agree that the Service Deliverables contain intellectual property of RADCOM and/or its licensors. Rakuten agrees that it shall use the Services Deliverables solely in accordance with the terms of use set forth in **Exhibit E** (the "**Terms of Use**") and that Rakuten does not, by virtue of receiving or paying for the Managed Services, gain any right, title or interest to the Service Deliverables other than a right to use during the Term of this Agreement as set forth in the Terms of Use.

8. **Confidentiality.** The Parties hereby acknowledge and agree that Article 8 of the MSPSA applies hereto and that all Service Deliverables and information provided under this SOW shall be deemed Confidential Information thereunder. The Parties further agree that the obligations set forth in Article 8 shall survive the expiration or termination of this SOW for a period of three (3) years.
9. **Delivery.** Any Service Deliverables requiring physical delivery will be delivered to Rakuten on DDU (Incoterms © 2010) basis. Rakuten shall be solely responsible for any and all customs and duties incurred in connection with such delivery. Any Service Deliverables which can be delivered electronically shall be delivered by method mutually agreeable to the Parties.
10. **[**]**
11. **Term of SOW.**
- a. This SOW shall be effective on the Effective Date and shall continue until the date that is **[**]** thereafter unless earlier terminated in accordance with Paragraph (b) below (the “**Initial Term**”). This SOW shall thereafter renew automatically for **[**]** periods (each a “**Renewal Period**”) unless Rakuten provides written notice to RADCOM of its election not to renew the SOW at least **[**]** prior to the expiration of the Initial Term or the then effective Renewal Period, as applicable. The Initial Term plus all applicable Renewal Period is the “**Term**” of this SOW.
- b. The SOW may be terminated for cause by either Party as follows:
- i. In the event that the other Party is in breach of its obligations under this SOW or the MSPSA and has failed to cure such breach within thirty (30) days of notice thereof; provided that such notice period shall be reduced to seven (7) days in the event of a breach the Terms of Use or the other Party’s confidentiality obligations hereunder and under the MSPSA;
- ii. Immediately in the event of an impermissible assignment of this SOW by the other Party;
- iii. Immediately if the other Party makes any assignment for the benefit of creditors or a general arrangement with creditors or commits any act of bankruptcy or files a petition under any bankruptcy or insolvency law, or if such a petition filed against it is not dismissed within sixty (60) days or if the other Party discontinues business or adopts a resolution providing for dissolution or liquidation.
- c. If this SOW is terminated in accordance with Subsection 10.b., neither Party shall have any further obligations under this SOW; provided, however, that Rakuten shall be obligated to pay for any and all Managed Services performed prior to the termination.
12. **Liabilities.** EXCEPT FOR ITS INDEMNITY OBLIGATIONS, A BREACH OF CONFIDENTIALITY, A BREACH OF THE TERMS OR USE, WILFUL MISCONDUCT, BREACH OF LAWS, OR FRAUD, IN NO EVENT WILL EITHER PARTY BE LIABLE TO THE OTHER PARTY (OR THE INDEMNIFIED PARTIES OF SUCH PARTY) FOR: (A) ANY INDIRECT, INCIDENTAL, CONSEQUENTIAL, SPECIAL, PUNITIVE OR EXEMPLARY DAMAGES OR LOSSES, INCLUDING LOSS OF USE, LOSS OF OR

DAMAGE TO RECORDS OR DATA, OR LOST REVENUE AND/OR PROFITS, SUSTAINED OR INCURRED REGARDLESS OF THE FORM OF ACTION, WHETHER IN CONTRACT, TORT OR OTHERWISE, INCLUDING NEGLIGENCE, STRICT LIABILITY OR OTHERWISE, AND WHETHER OR NOT SUCH DAMAGES WERE UNFORESEEN AND REGARDLESS OF WHETHER SUCH PARTY HAD RECEIVED NOTICE, OR HAD BEEN ADVISED, OR KNEW OR SHOULD HAVE KNOWN OF THE POSSIBILITY OF SUCH DAMAGES OR LOSSES; OR (B) DIRECT DAMAGES IN EXCESS OF [**]. The Parties acknowledge that the limitation of liability as set out in this clause represents fair allocation of risk and has been taken into consideration in setting the consideration paid under this SOW.

13. Miscellaneous

- a. Entire agreement.** This SOW, including all exhibits and documents incorporated by reference, constitutes the final, complete, and exclusive expression of the Parties' agreement on the matters contained in this SOW. All prior written and oral negotiations and agreements, and all contemporaneous oral negotiations and agreements, between the Parties on the matters contained in this SOW are expressly superseded by this SOW. The Parties do not intend that the provisions of this SOW be explained, supplemented, or qualified through evidence of trade usage or any prior course of dealings or any course of performance under any prior agreement. There are no conditions precedent to the effectiveness of this SOW other than any expressly stated herein.
- b. Assignments.** Neither Party may transfer, assign, novate, mortgage or encumber any of its rights or obligations under this SOW to any third-party at any time whatsoever without the prior written consent of the other party save that each Party may transfer its rights and obligations as a whole to: (a) any third-party as a result of a merger or acquisition; or (b) to any of its wholly owned subsidiaries.
- c. Severability.** If any provision of this SOW shall be declared void by competent court, the validity of any other provision and of the entire SOW shall not be affected thereby. Where such a provision is held to be unenforceable, the Parties shall use commercially reasonable endeavors to negotiate and agree upon an enforceable provision which achieves to the greatest extent possible the economic, legal and commercial objectives of the unenforceable provision.
- d. Waiver.** The failure at any time of either Party to enforce any of the provisions of this SOW, or any right with respect thereto or to exercise any option herein provided, shall in no way be construed to be a waiver of such provisions, rights or options, or in any way to affect the validity of this SOW.
- e. Notices.** Any notices required or authorized to be given hereunder shall be served by hand delivery or by certified letter return receipt requested or by facsimile addressed to RADCOM or Rakuten (as the case may be), at the following addresses:

To RADCOM:

RADCOM Ltd.
24 Raoul Wallenberg Street
Tel Aviv 6971920
ISRAEL
Attention: General Counsel
Fax: [**]

To Rakuten:

Rakuten Mobile, Inc.
1-14-1 Tamagawa,
Rakuten Crimson House,
Setagaya, Tokyo 158-0094, Japan
Attention: Legal Department
E-mail: [**]

- f. No Third-Party Beneficiaries.** This SOW shall be to the benefit of RADCOM and Rakuten only.

g. Relationship of the Parties. Each Party acts as an independent contractor on its own account and responsibility. Each Party is in no way the agent or legal representative of the other Party and no employee of any Party shall be considered to be an employee of the other Party for any purposes whatsoever. Neither Party is authorized to, and it shall not, assume any obligation of any kind, express or implied, on behalf of the other Party, nor shall it make any representation to anyone contrary to the provisions of this paragraph. Nothing in this SOW is intended to or shall have the effect of constituting a joint venture, co-venture, co-develop agency, partnership, franchise or relationship between the Parties other than as expressly set forth herein.

h. Amendments. This SOW may not be changed, altered, or amended in any way except in writing signed by a duly authorized representative of each Party.

IN WITNESS WHEREOF, each Party has caused this Statement of Work No. 1 to be executed by its duly authorized representative.

RAKUTEN MOBILE, Inc.**By:** /s/ Yoshihisa Yamada**Name:** Yoshihisa Yamada**Title:** Representative Director and President**RADCOM Ltd.****By:** /s/ Yaron Ravkaie**Name:** Yaron Ravkaie**Title:** CEO**By:** /s/ Amir Hai**Name:** Amir Hai**Title:** CFO**Date:** May 24, 2019**Date:** May 26, 2019

EXHIBIT A:
SCOPE OF SERVICES

I. General

RADCOM shall provide, during the Term of this SOW, Managed Services which will enable Rakuten to monitor subscriber and network quality of services on Rakuten's [**] in Japan utilizing RADCOM's proprietary RADCOM Service Assurance and other platforms as set forth herein. The Managed Services shall consist of those activities set forth in Paragraph II below. In support of its performance of the Managed Services, RADCOM shall provide the Service Deliverables set forth in Paragraph II below.

II. Services

a. Set-Up and Integration

RADCOM shall perform set-up and integration services to enable the installation of the agreed scope of initial Service Deliverables to Rakuten's lab and production environments.

Set-up and integration shall be provided as follows, it being acknowledged that the headcount set forth below may be subject to adjustment by RADCOM from time to time as it deems reasonably necessary to ensure the completion of set-up and integration: [**]

b. Managed Services

RADCOM shall perform, during the Term of this SOW, the following Services: [**]

The objective of the Services shall be to enable Rakuten to implement the following use cases (the "**Use Cases**") (each, each as specifically described and at the phase set forth in the RADCOM Network Intelligence – Proposed Scope and Use Cases Document attached hereto as **Exhibit F**): [**]

c. Support Services

The Managed Services shall also include local on-site support services (the "**Support Services**") which may be provided directly, through subsidiaries, or through subcontractors and shall enable RADCOM to meet the SLA and consist of: [**]

Support Services shall be provided as follows, it being acknowledged that the headcount set forth below may be adjusted from time to time by RADCOM as determined necessary by RADCOM to meet the requirements of the Managed Services: [**]

III. Service Deliverables

In order to facilitate the implementation of the Use Cases, RADCOM will provide, the following but not limited to following, Service Deliverables. Title and ownership to such Service Deliverables shall remain at all times with RADCOM, provided, however, that during the performance of the Managed Services, Rakuten shall have the right to possess and use such Service Deliverables in accordance with the Terms of Use.

A. Documentation: []**

B. Software: []**

Note: the above list of Service Deliverables subject to update from time to time by RADCOM as determined necessary by RADCOM to meet the requirements of the Managed Services. Post Managed services contract RADCOM shall update/upgrade such deliverable under the “Annual Maintenance Contract (AMC)”.

EXHIBIT B:
SERVICE LEVEL AGREEMENT

Service Level Table

Please check the applicable Service Level; if no Service Level has been checked, the Services will be provided under the Service Level Silver

[**]

SERVICES TERMS AND CONDITIONS

These Maintenance and Support Services Terms and Conditions, shall be referred to collectively hereinafter, as this “**Agreement**”. Customer desires to receive certain maintenance and support services from RADCOM for the Product (the “**Services**”), all as set forth in this Agreement.

1. **Key Terms.** In this Agreement, the following key terms shall have the meaning below, unless the context specifically requires otherwise:

“**Business Day**” shall mean Monday to Friday during Service Hours, at the applicable Site’s local time, not including public and/or national holidays in the Sites’ territory;

“**Bug Fixes/Patch**” means any correction of an Error contained in a Product, including through a Software Update developed to alleviate or correct an Error;

“**Documentation**” means any documents, manuals or release notes concerning a Product that RADCOM provides to Customer;

“**Error**” a failure or malfunctioning of the Product which prevents it from functioning as specified in the relevant Product’s Documentation;

“**Intellectual Property Rights**” includes, throughout the world, any copyright, patent rights, trade or service mark, design, trade, business or company name, indication of source or appellation of origin, or other right that is the subject of the Berne Convention for the Protection of Literary and Artistic Works (1886), or any right to registration of such rights;

“**Operating Environment**” shall mean the Customer’s telecom network and/or communication environment, in connection with which the Product is operating;

“**Product**” means RADCOM’s hardware and/or software product;

“**Site(s)**” shall mean those service areas where the Product is deployed;

“**Service Hours**” means 9:00am to 5:00 pm Monday to Friday, not including public and/or national holidays in the Sites’ territory;

“**Service Level Table**” means the service level table set forth above;

“**Severity Level**” means each of the severity levels specified in Section 2.5 below;

“**Software Updates**” means new versions of the Products’ software made available by RADCOM, which contain Bug Fixes/Patches and/or minor enhancements or improvements, but do not contain significant new features or functionalities;

“**Workaround**” shall mean a temporary modification to the hardware or software, or a procedure which enables the Product to continue working.

2. **Scope of Maintenance and Support Services**

2.1. Services will be provided during the applicable support coverage window, specified in the Service Level Table.

2.2. RADCOM will use reasonable commercial efforts, to respond to a Support Incident/Case Response (as defined below), within the applicable response times set in the Service Level Table. Response time shall be measured as the lapsed time between the time Customer was assigned with a trouble ticket by the Customer Support System (as defined below), and the time RADCOM had commenced to support the Error.

2.3. RADCOM shall use reasonable commercial efforts to correct Errors, by any, or a combination, of the following: Workaround, Bug Fix/Patch, fix incorporated into a future release, answer to question is provided, certain acts are performed in connection with the Product’s physical connectivity and/or interoperability, including reconfiguration, reconnecting, resetting and re-start, and replacing and/or repairing hardware, as further set out in Section 5 below.

2.4. RADCOM shall use reasonable commercial efforts, to provide a Workaround within the applicable restoration times set in the Service Level Table, in order to restore the operation of the Product due to configuration and/or hardware Errors (database Errors excluded); Customer is aware, that restoration is subject to Customer maintaining at the applicable Sites spare parts, as agreed with RADCOM in advance.

Restoration time shall be measured as the lapsed time between the time RADCOM had commenced to support the Error and the time RADCOM provided the Workaround.

2.5. RADCOM's technical support will assess the severity of the request, and assign a Severity Level as described below:

Severity Level 1: An Error that makes it for Customer impossible to process calls, or if the traffic quality or control for subscriber's services are severely affected;

Severity Level 2: It is possible to operate the Product, but there is a severe decrease in the Product's capacity or its functionality, greatly impacting the operational efficacy of Customer's telecommunication network;

Severity Level 3: An Error that makes the performance or continued performance of one or more significant functions difficult, and that cannot be circumvented or avoided on a temporary basis by the Customer;

Severity Level 4: An Error that is not significant and/or that may be circumvented or avoided on a temporary basis by the Customer.

2.6. RADCOM shall make available to the Customer from time to time any Software Updates, Workarounds and Bug Fixes/Patch which are available to RADCOM, at no extra charge. If any implementation services will be required to implement such Software Updates they will be at extra charge.

2.7. RADCOM will provide the Customer with (a) unlimited access to RADCOM's telephone hot-line and electronic mail address set forth below (the "**Customer Support Center**"), that allow the Customer to report problems and Errors concerning the Product (the "**Support Incidents/Cases**") and (b) Documentation and technical information, which may be distributed periodically.

2.8. RADCOM shall provide the Customer with unlimited access to a 24/7 Web based online Support System (the "**Customer Support System**"), which enables the Customer to enter online the details regarding the Support Incident/Case. Customer shall be responsible for opening a Support Incident/Case via the Customer Support System, and for obtaining a trouble ticket; **any Support Incident/Case not opened by Customer through the Customer Support System and/or for which a trouble ticket was not assigned, will not be supported and/or serviced.** [**]

Errors categorized as Severity Level one and two must additionally, be telephoned into Customer Support Center.

2.9. Services will be provided by RADCOM from remote. In the event that Customer experiences problems related to the use and/or operation of a Product, and such problems cannot be resolved by RADCOM off-site (i.e. remotely), then subject to RADCOM's determining that there exists a need for on-site service, RADCOM shall dispatch a Field Service Engineer ("On-Site Engineer") to Customer's Site.

2.10. RADCOM shall use best efforts to provide services not included in the scope set herein, including dispatching an On-Site Engineer as mentioned in Section 2.9 above, based on Time and Material. Notwithstanding the above, On-Site-Engineer for Platinum Service Level shall be provided for no additional cost, such cost shall not include On-Site-Engineer's traveling and lodging expenses which Customer will reimburse RADCOM for such expenses.

3. Designated Personnel

- 3.1. Customer will identify those personnel as authorized on its behalf to address RADCOM for support. any request received from a person who is not a Designated Personnel, may not be answered and/or serviced.
- 3.2. Designated Personnel must be generally knowledgeable in the Operating Environment, and operation and/or usage of the Product.
- 3.3. Designated Personnel shall be responsible for collecting the information from the actual user of the Product on the relevant Site (the: “**End User**”). Designated Personnel will make reasonable efforts as much as practically possible, to diagnose and solve problems or questions for the Products(s), before contacting RADCOM.
- 3.4. Designated Personnel requests shall contain all End User’s information, including names, contacts, phone numbers and email addresses and any insights deduced by the Designated Personnel in their initial investigation of the Error.

4. Updates, Workarounds and Bug Fixes/Patch.

Software Updates, Workarounds and Bug Fixes/Patch will be generally made available to Customer electronically, from remote; RADCOM will provide instructions for the installation of such Software Updates, Workarounds and Bug Fixes/Patch, and the installation will be conducted by Customer. If any implementation services will be required to implement such Software Updates, Workarounds and Bug Fixes/Patch they will be at extra charge.

5. Responsibilities of the Customer

- 5.1. Customer shall provide RADCOM a remote access by VPN connection which has a two-factor authentication process to the Product, and to the extent necessary or appropriate, to the Operating Environment, in order to allow RADCOM to perform its obligations under this Agreement.
- 5.2. Customer will provide a dedicated server as a jump sever that will enable RADCOM to access the performance server and to perform all Services. Customer shall ensure the readiness of the Operating Environment and Authorized Personnel and shall ensure the appropriate conditions required to enable RADCOM to comply with its undertakings hereunder, are met.
- 5.3. Customer shall obtain, install and implement the software and related Software Updates and/or Bug Fixes/Patches, made available electronically by RADCOM, in a timely manner.
- 5.4. Customer shall provide reasonable assistance as necessary for the performance of the Services, including providing RADCOM with a detailed description of any problems encountered.
- 5.5. Customer will have if needed, an Authorized Personnel present and available, when RADCOM provides Services to the Product.
- 5.6. Customer shall maintain in good working order, the Operating Environment and any other third-party software and/or hardware required for the proper operation of the Product.
- 5.7. Neither the Customer nor anyone else but RADCOM’s authorized personnel shall, without the explicit written permission from RADCOM, under any circumstance (a) cause any damage, alteration or open the Product cover or attempt or replace any hardware, or (b) change, delete, revise or reverse engineer the software.
- 5.8. Customer hereby agrees to give RADCOM, such access and assistance as may be necessary, including from remote, for RADCOM to audit Customer’s actual use of the Product, wherever installed, to confirm compliance with the terms and conditions of his purchase agreement of the Product, including the applicable End User License Agreement.

In case Customer is not the end user customer of the Product, Customer shall obtain the written consent of the end user to the above.

6. Third Party.

Customer acknowledges that some of the Product's components (software and/or hardware) may be provided and/or manufactured by third party suppliers of RADCOM; the Services set herein with respect to such components shall be provided subject to the continuous and proper business operation of such suppliers, and subject to their end of life/end of support/end of sale policies (i.e. RADCOM may decide not to provide support services for products which are end of life).

7. Miscellaneous.

- 7.1. RADCOM agrees to provide the Services in a timely and professional manner, and without derogating from any other warranties explicitly stipulated in this Agreement provides no other warranty. RADCOM expressly disclaims any and all warranties concerning the services to be rendered hereunder, whether express or implied, including, without limitation, any warranty of merchantability or fitness for a particular purpose.
- 7.2. RADCOM's obligations herein and the Services, do not include and/or cover Errors, malfunctions, failures or defects which are and/or resulting from any of the following: (i) external to the Products, including if caused by the use of the Product in combination with any other product (software and/or hardware) not originally intended to be used together; (ii) the Product or any part, portion or module thereof is installed in an operating environment other than that originally agreed by RADCOM; (iii) Improper site preparation, or Site or environmental conditions that do not conform to RADCOM's site and/or Product's specifications; (iv) alteration, modification, service or repair to the Product, other than by RADCOM's and/or its authorized sub-contractors' personnel; (v) Virus, infection, worm or similar malicious code not introduced by RADCOM; (vi) The Products or any part, portion or module thereof, had been disassembled, decompiled, reverse compiled, reverse assembled, reverse engineered or otherwise altered by any party without RADCOM's prior approval; (vii) Putting the Products into good operating condition when caused by conditions that occurred at the elapse of the Products' initial warranty, as set in the relevant purchase agreement, or before the Products were covered under a service contract; (viii) Neglect, accident, misuse or abuse of the Customer or a third party, including failure by the Customer to follow RADCOM's installation, operation or maintenance instructions and specifications; (ix) Events not under RADCOM's control, including force majeure events, water spillage, corrosion, lightning strikes, theft, fire and electricity power; (x) failure of Customer to hold and maintain spare parts agreed between the parties (if and when); (xi) (a) Change in regulation, and/or (b) updates, upgrades, enhancements and changes in the Customer's network and/or infrastructure and/or Operating Environment.

8. Relocation and Modifications to the Product

- 8.1. If any Product is relocated from a Site, RADCOM will continue to provide the Services to the Product at the new location, if (i) the new location was approved in advance by RADCOM, and (ii) if the Product is re-installed by RADCOM/its authorized personnel (including sub-contractors) or with RADCOM's approval. The Customer will be invoiced separately for the cost of re-installation and inspection.
- 8.2. If Customer requests that modifications be made to the Product or that non-RADCOM's items or devices be added to the Product, then such modifications or additions and the terms of RADCOM's service responsibilities in connection therewith shall be subject to a separate agreement between RADCOM and the Customer.
- 8.3. Customer will notify RADCOM of any modification to any Product covered under this Agreement. If the modification creates a safety hazard or is likely to cause product malfunction, RADCOM may correct the malfunction at the Customers expense. If the malfunction cannot be corrected to RADCOM's satisfaction it will be removed from the list of Products serviced under this Agreement without further obligation on RADCOM's behalf. Notwithstanding anything to the contrary, Customer will bear sole and exclusive liability for any damage and cost with respect to any modification, act or omission performed by anyone other than RADCOM's authorized personnel.
- 8.4. Force Majeure Notwithstanding anything to the contrary, in any event, RADCOM shall not be liable for any failure, damage or cost with respect thereof, or delay in performance hereunder, if such damage, cost, delay or failure is caused by circumstances not subject to the control of RADCOM, including labor disputes, strikes, war, acts of the public enemies, riots, insurrection, civil commotion, statute, ordinance or regulation, governmental authorities, weather (including fire, flood and storm), accident, or any act of God, failure of suppliers or sub-contractors, customs and act or omission of Customer or anyone other than RADCOM's personnel.

EXHIBIT C:**RAKUTEN OBLIGATIONS**

In order to facilitate RADCOM's performance of the Managed Services, Rakuten shall provide and will be responsible for the following: [**]

EXHIBIT D:**SERVICE FEE AND PAYMENT TERMS****I. Set-up and Integration Fee**

Rakuten shall pay a one-time set-up and integration fee of [**] for services performed to enable the installation of the agreed scope of initial Service Deliverables to Rakuten's lab and production environments. The set-up and integration fee shall be invoiced in its entirety upon [**] and paid as follows. [**]

II. Managed Services Fee

The Service Fee for the Managed Services shall [**] per calendar year plus [**] per calendar year for Support Services. The fees set forth in this paragraph shall be, paid [**] year.

The flat Service Fee shall include the following:

- a. Performance of the services set forth in Paragraph II to Exhibit A;
- b. Delivery of the Service Deliverables set forth in Paragraph III to Exhibit A; and
- c. Updating of the Service Deliverables to current versions as required and, in particular with respect to any software, providing new versions of the Service Deliverables in accordance with RADCOM's roadmap.

Following is a breakdown of the Managed Services on a line item basis per Use Case. This breakdown is illustrative only. The total Service Fee set forth above assumes and is conditioned on the purchase of all Use Cases: [**]

III. Invoicing

The Service Fee will be invoiced [**]

IV. Payment Terms

Payment shall be in accordance with the following terms and conditions:

- (1) Payments shall be made [**]
- (2) Payments shall be made by wire transfer [**]
- (3) The Service Fee is net of all taxes.

EXHIBIT E:**TERMS OF USE**

These Terms of Use set forth the terms and conditions by which Rakuten may use the RADCOM's Service Deliverables supplied to Rakuten in connection with RADCOM's performance of the Managed Services. Use of the Service Deliverables, in any manner other than as specifically permitted herein is prohibited and shall be deemed a breach of the SOW by Rakuten.

Right to Use:

1. Subject to the terms and conditions of these Terms of Use, and in particular the restrictions set forth in Section 2 and the payment of the Service Fee set forth in the SOW, RADCOM hereby grants to Rakuten a [**]
2. Except as specifically permitted in these Terms of Use, Rakuten shall not and shall not allow any third-party to:
 - a. directly or indirectly, in whole or in part, modify, port, re-engineer, change, translate, reverse engineer, decrypt, decompile, disassemble, reprogram, make error corrections to, create derivative works based on, or otherwise attempt or create, or cause others to attempt or create, or discover, the source code or underlying ideas or algorithms of the Service Deliverables;
 - b. remove or alter any trademarks or other proprietary notices, legends, symbols or labels that appear on or in connection with the Service Deliverables including any third-party labels or notices;
 - c. use the Service Deliverables for development, or other than in accordance with the terms and conditions of these Terms of Use and for the Purpose;
 - d. transfer, assign, sell, market, rent, lease, license, distribute, disclose, pledge, grant or convey any other rights whatsoever in the Service Deliverables or any portion thereof to any third party;
 - e. reproduce or make any copy of the Service Deliverables or of any part, portion or module thereof, except for back up or installation purposes only;
 - f. use the Service Deliverables for purposes of providing a service bureau, including, without limitation, providing third-party, or third-party application integration or application service provider-type services, or any similar services;
 - g. use the Service Deliverables in a manner which competes with the products or services provided by RADCOM;
 - h. use, access, evaluate or view the Service Deliverables for the purpose of designing, modifying, or otherwise creating any software program which performs functions identical or similar to the functions performed by the Service Deliverables;
 - i. provide externally or to a third party any oral or written communication that describes or summarizes the features, functions or performance characteristics of the Service Deliverables or that compares the Service Deliverables with any of RADCOM's products or services or any third-party products or services; or
 - j. make a public performance or public display of the Service Deliverables.

3. RADCOM is hereby granted access and assistance, as may be reasonably necessary for RADCOM to audit Rakuten's actual use of the Service Deliverables, wherever installed, to confirm compliance with the terms and conditions of these Terms of Use; provided, however, that such audit by RADCOM shall be limited to one (1) time per any rolling twelve (12) month period..
4. Rakuten acknowledges it is aware that the Service Deliverables include software which may contains third-party software, including open source software (collectively, the "**Third-Party Code**"), and that RADCOM is obligated to license said Third-Party Code in addition to the terms of these Terms of Use under additional and/or different license terms, which shall be specified by RADCOM to Rakuten in writing from time to time. In the event of a contradiction between the terms and conditions of these Terms of Use and the licenses applicable to the Third-Party Code, such Third-Party Code licenses shall prevail with respect to the usage of the Third-Party Code; provided, however, that RADCOM shall not incorporate Third-Party Code whose licenses prevent Rakuten from using the Service Deliverables as intended.

Intellectual Property Rights

5. Rakuten acknowledges that its receipt of the Service Deliverables is solely for the purpose of Rakuten's deriving of benefit from the Managed Services. Rakuten acknowledges that such Service Deliverables contain intellectual property of RADCOM which is proprietary and copyrighted and is licensed under these Terms of Use.
6. RADCOM and its licensors own all right, Intellectual Property Rights, title and interest in the Service Deliverables, including any Updates, Upgrades, new versions and revisions thereof. For purposes hereof: (i) "**Intellectual Property Rights**" means all patents (including all reissues, divisions, continuations, and extensions thereof) and patent applications, trade names, trademarks, service marks, logos, trade dress, copyrights, trade secrets, mask works, rights in technology, know-how, rights in content (including performance and synchronization rights), or other intellectual property rights that are in each case protected under the laws of any governmental authority having jurisdiction; (ii) "**Updates**" means new versions of the Service Deliverables (including software) made available by RADCOM, which contain error corrections, bug fixes and/or patches; and (iii) "**Upgrades**" means new features or functions of the Service Deliverables (including software), whether contained in or designated as new versions.
7. The Use Right granted by RADCOM to Rakuten in these Terms of Use confers no title to or ownership interest in the Service Deliverables or in the Intellectual Property Rights thereof. There are no implied licenses in these Terms of Use. RADCOM's third-party licensors may protect their rights in the Service Deliverables in the event of any infringement or breach of these Terms of Use.

TERMINATION

8. The Use Right granted hereunder shall be effective as of the Effective Date of the SOW and for the Term thereof; provided, however, that the Use Right shall immediately terminate upon the expiration or termination of the SOW, including as a result of the causes set forth in Section 11 (b) to the SOW.
9. Upon termination of Use Right, for any reason whatsoever, Rakuten shall cease the use of the Service Deliverables and shall promptly deliver to RADCOM all copies thereof. Rakuten shall delete the Service Deliverables including all software and documentation from its systems and shall confirm in writing no later than seven (7) days following the termination of the Use Right that it no longer possesses the Service Deliverables or any part thereof.

LIMITED WARRANTIES AND LIMITATION OF LIABILITY

10. RADCOM hereby warrants and represents that it is lawfully entitled to grant the Use Right to the Service Deliverables under the terms of the SOW and these Terms of Use.
11. EXCEPT AS EXPRESSLY PROVIDED IN THIS SOW OR THESE TERMS OF USE, NO EXPRESS OR IMPLIED WARRANTY IS MADE WITH RESPECT TO ANY RADCOM SERVICE DELIVERABLE, INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE AND IN PARTICULAR RADCOM DOES NOT WARRANT THAT THE SOFTWARE SHALL OPERATE ERROR-FREE.

INDEMNITIES**12. Intellectual Property Indemnity.**

[**]

13. **Breach by Rakuten.** Rakuten shall be responsible for, and shall indemnify, defend and hold harmless RADCOM, its licensors and its affiliates from and against any and all Liabilities resulting from the failure of RADCOM or third-parties for whom it is responsible, whether by act or omission, to comply with these Terms of Use.

14. **RADCOM Data Security Indemnity.** RADCOM shall indemnify and hold Rakuten harmless from any and all Liabilities directly arising out of unauthorized and malicious access to Rakuten's customer data or network which results solely out of the negligent acts or omissions of RADCOM and/or anyone acting on RADCOM's behalf.
15. **Notice; Defense Settlement.** As a condition to a Party's indemnification obligations hereunder, the following provisions shall apply to all Liabilities for which an indemnifying Party is obligated to indemnify an indemnified Party under this Agreement (such Liabilities, an "**Indemnified Claim**"), including the indemnity obligations set forth in this Article 6 and/or addressed elsewhere under this Agreement.
- The indemnifying Party's obligations include payment of reasonable attorney fees (but only after a claim has been formally made by a third-party and the indemnifying Party has received written notice thereof) and direct costs incurred by the indemnified Party in connection with the defense and settlement of any Indemnified Claim.
 - The indemnified party shall, within fifteen (15) days after the receipt of notice of the commencement of any legal action or of any Indemnified Claim against such Party in respect of which indemnification shall be sought, notify the indemnifying Party with a notice thereof.
 - The indemnifying Party may, assume the defense thereof of a claim for which notice was provided in accordance with Subparagraph 15 (b). After notice from indemnifying Party to such indemnified Party of an election to assume the defense thereof, the indemnifying Party will not be liable to such indemnified Party under this Agreement for any attorney fees or expenses subsequently incurred by such indemnified Party in connection with the defense thereof so long as the indemnifying Party continues to provide such defense, subject to Subparagraph 15(d) below. The indemnified Party shall not prejudice, make any admissions or settle any Indemnified Claim over which the indemnifying Party has not been afforded the opportunity to assume the defense without such indemnifying Party's approval. The indemnifying Party hereunder shall control the settlement of all indemnified Claims over which it has assumed the defense.
 - The indemnified Party shall provide reasonable assistance to the indemnifying Party, at the indemnifying Party's expense, in connection with such legal action or Indemnified Claim. If the indemnifying Party assumes the defense of any such indemnified Claim or legal action, the indemnified Party shall have the right to employ separate counsel in such Indemnified Claim or legal action and participate therein, and the reasonable fees and expenses of such counsel shall be at the expense of such indemnified Party, except that such fees and expenses shall be for the account of the indemnifying Party if: (i) the employment of such counsel has been specifically authorized by the indemnifying Party; or (ii) the named parties to such action (including any impleaded parties) include both such indemnified Party and the indemnifying Party and representation of such indemnified Party and the indemnifying Party by the same counsel would, in the reasonable opinion of the indemnified Party's counsel, be inappropriate under applicable standards of professional conduct due to actual or potential conflicting interests between them. Notwithstanding anything to the contrary in this Subparagraph 15(d), the indemnified Party shall have the right, at its expense, to retain counsel to monitor and consult with the indemnifying Party's counsel in connection with any such legal action or Indemnified Claim.
 - The indemnifying Party shall not settle any Indemnified Claim without the prior consent of the indemnified Parties, which consent may be withheld if the settlement (i) does not completely discharge or release the Indemnified Claim against the indemnified Party, (ii) imposes any restraint or limitation on the applicable indemnified Party's operations or upon the operation or other use of the Software, or (iii) except with respect to indemnity under Paragraph 12, requires an admission of fault on the part of the Indemnified Party.
16. **Indemnifying Party's Failure to Defend Indemnified Parties.** If any Indemnified Claim arises as to which any indemnity provided for in these Terms of Use may apply, and the indemnifying Party fails to assume the defense of such Indemnified Claim after the receipt of notice as required hereunder, then the indemnified Party against which the Indemnified Claim is made, instituted or commenced may, at the indemnifying Party's expense, contest, or settle such Indemnified Claim, providing the indemnifying Party with reasonable advance notice of any settlement decision. All costs and expenses incurred by the indemnified Party in connection with any such contest, settlement or payment shall be reimbursed by the indemnifying Party to the indemnified Party promptly following, but not later than thirty (30) days following, the demand therefor.
17. **Limitation on Indemnification.** The indemnity, defense and hold harmless obligations set forth in this Agreement shall not apply to any Liabilities to the extent caused by the fault or negligence of the indemnified Party claiming such indemnification.

**EXHIBIT F:
RADCOM NETWORK INTELLIGENCE:
IMPLEMENTATION PHASES AND USE CASES**

[**]

EXHIBIT 12.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Eyal Harari, 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: March 31, 2020

/s/ Eyal Harari

Eyal Harari

Chief Executive Officer

EXHIBIT 12.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Amir Hai, 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: March 31, 2020

/s/ Amir Hai

Amir Hai

Chief Financial Officer

EXHIBIT 13.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 20-F of RADCOM Ltd. (the "Company") for the fiscal year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eyal Harari, 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: March 31, 2020

/s/ Eyal Harari

Eyal Harari

Chief Executive Officer

EXHIBIT 13.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 20-F of RADCOM Ltd. (the "Company") for the fiscal year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Amir Hai, 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: March 31, 2020

/s/ Amir Hai

Amir Hai

Chief Financial Officer

EXHIBIT 15.1**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements on Form S-8, (File No. 333-111931, No. 333-123981, No. 333-190207, No. 333-195465 No. 333-203087, No. 333-211628 and No. 333-215591) pertaining to the Radcom Ltd. 2003 Share Option Plan and the Radcom Ltd. 2013 Share Option Plan, and Form F-3 (File No. 333-170512 and No. 333-189111) of Radcom Ltd., and in the related prospectus, of our reports dated March 31, 2020 with respect to the consolidated financial statements of Radcom Ltd. and its subsidiaries and the effectiveness of internal control over financial reporting of Radcom Ltd. and its subsidiaries included in this Annual Report on Form 20-F for the year ended December 31, 2019.

Tel-Aviv, Israel
March 31, 2020

/s/ Kost Forer Gabbay and Kasierer
Kost Forer Gabbay and Kasierer
A Member of Ernst & Young Global