RADVISION LTD
Form 20-F
April 26, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from __________ to __________

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

Date of event requiring this shell company report

Commission file number 0-29871

RADVISION LTD.
(Exact Name of Registrant as specified in its charter
and translation of Registrant's name into English)

Israel
(Jurisdiction of incorporation or organization)

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

Rael Kolevsohn, +972-3-7679394 (phone), +972-3-7679382 (fax)
24 Raoul Wallenberg Street, Tel Aviv 69719, Israel
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

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

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

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

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

Ordinary Shares, par value NIS 0.1 per share..............19,509,380

(as of December 31, 2009)

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

Yes o   No x

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

Yes o No x

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

Yes x No o

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

Yes o No o

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

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o

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

U.S. GAAP x	International Financial Reporting Standards as issued by the International Accounting Standards Board o	Other o

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

Item 17 o Item 18 o

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

Yes o No x

This report on Form 20-F is being incorporated by reference into our Registration Statements on Form S-8 File Nos. 333-127013, 333-141654, 333-155442, 333-155444 and 333-164091.

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INTRODUCTION

RADVISION Ltd., incorporated under the laws of the State of Israel, is a designer, developer and provider of products and technology that enable real-time voice, video and data communication over packet and mobile 3G (Third Generation) networks, including the Internet and other Internet Protocol, or IP, networks. We were incorporated in January 1992, commenced operations in October 1992 and commenced sales of our products in the fourth quarter of 1994. Since our initial public offering on March 14, 2000, our ordinary shares have been listed on the NASDAQ Global Market (symbol: RVSN) and our ordinary shares have also traded on the Tel Aviv Stock Exchange since October 20, 2002. We have 11 wholly-owned subsidiaries: RADVISION Inc. and its wholly-owned subsidiary RADVISION Government Services, Inc. in the United States, RADVISION (HK) Ltd. in Hong Kong, RADVISION (UK) Ltd. in the United Kingdom, RADVISION FRANCE S.A.R.L. in France, RADVISION Japan KK in Japan, RADVISION B.V. in the Netherlands, RADVISION GmbH in Germany and RADVISION ESPAÑA, S.R.L. in Spain, all of which are primarily engaged in the sale and marketing of our products and technology, and RADVISION Communication Development (Beijing) Co. Ltd. in China and RADVISION Italy S.r.l in Italy, both of which are primarily engaged in research and development and the sale and marketing of our products and technology. As used in this annual report, the terms “we,” “us” “our,” and “RADVISION” mean RADVISION Ltd. and its subsidiaries, unless otherwise indicated.

In February 2010, we acquired certain assets of Aethra Video Srl and Aethra SpA of Ancona, Italy, or Aethra, including certain intellectual property and technology for high definition, or HD, video conferencing endpoint systems. The agreements for the acquisition were incorporated into Aethra’s pre-insolvency plan that was filed and admitted by the Italian court on January 25, 2010. The acquisition also includes the purchase of additional fixed assets and selected commercial agreements, which remains subject to the approval of the Italian court. The agreements provide for an aggregate cash purchase price of approximately $10 million (approximately Euro 7 million) and the assumption of approximately $4.3 million (Euro 3 million) of liabilities. We intend to integrate Aethra’s HD video endpoint technology into our video network infrastructure and desktop solutions to offer a full video conferencing portfolio in response to customer demand created by rapid change and consolidation in the video marketplace. We also intend to use the Aethra technology to offer room conferencing systems. We believe that the addition of Aethra’s technology assets will enhance our existing video network infrastructure and desktop solutions to provide a more complete solution to enterprise customers.

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

Our consolidated financial statements appearing in this annual report are prepared in U.S. dollars and in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, and audited in accordance with the standards of the Public Company Accounting Oversight Board (United States) generally accepted in the United States. All references in this annual report to “dollars” or “$” are to U.S. dollars, all references in this annual report to “NIS” are to New Israeli Shekels and all references in this annual report to “Euro” or “€” are to the official currency of the European Union.

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

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following selected consolidated financial data for and as of the five years ended December 31, 2009, are derived from our audited consolidated financial statements which have been prepared in accordance with U.S. GAAP. The selected consolidated financial data as of December 31, 2008 and 2009 and for the years ended December 31, 2007, 2008 and 2009 have been derived from our audited consolidated financial statements and notes thereto included elsewhere in this annual report. The selected consolidated financial data as of December 31, 2005, 2006 and 2007 and for the years ended December 31, 2005 and 2006 have been derived from audited consolidated financial statements not included in this annual report. The selected consolidated financial data set forth below should be read in conjunction with and are qualified by reference to Item 5 “Operating and Financial Review and Prospects” and our audited consolidated financial statements and notes thereto included elsewhere in this annual report.

Consolidated Statement of Operations Data:

	Year Ended December 31,				
	2005	2006	2007	2008	2009
	(in thousands, except per share data)				
Revenues	$74,012	$91,023	$91,583	$84,747	$80,998
Cost of revenues	13,110	18,165	18,294	18,779	17,371
Gross profit	60,902	72,858	73,289	65,968	63,627
Operating expenses:					
Research and development	20,110	25,331	30,329	36,883	26,980
Marketing and selling	24,588	30,648	32,627	35,330	27,577
General and administrative	4,677	6,492	8,633	8,954	5,493
Acquisition-related costs	-	-	-	-	580
Patent settlement reserve	-	1,900	-	-	-
Total operating expenses	49,375	64,371	71,589	81,167	60,630
Operating income (loss)	11,527	8,487	1,700	(15,199)	2,997
	3,051	5,825	6,095	2,539	1,719

Financial income, net					
Income (loss) before taxes on income	14,578	14,312	7,795	(12,660)	4,716
Tax benefit (expense), net	112	936	1,790	(280)	(5,490)
Net income (loss)	$14,690	$15,248	$9,585	$(12,940)	$(774)
Basic net earnings (loss) per Ordinary share	$0.70	$0.69	$0.44	$(0.63)	$(0.04)
Weighted average number of Ordinary shares used to compute basic net earnings (loss) per share	21,122	22,077	21,951	20,472	19,474
Diluted net earnings (loss) per Ordinary share	$0.66	$0.67	$0.43	$(0.63)	$(0.04)
Weighted average number of Ordinary shares used to compute diluted net earnings (loss) per share	22,215	22,747	22,482	20,472	19,474

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Consolidated Balance Sheet
Data:

	As at December 31,				
	2005	2006	2007	2008	2009
Cash and cash equivalents	$32,927	$23,110	$45,370	$37,872	$40,289
Working capital	93,175	103,661	118,990	98,903	96,913
Total assets	156,748	182,559	175,040	162,188	161,997
Shareholders' equity	130,667	152,605	147,559	129,583	133,013
Capital stock	116,664	127,172	135,561	141,341	146,232

B.Capitalization and Indebtedness

Not applicable.

C.Reasons for the Offer and Use of Proceeds

Not applicable.

D.Risk Factors

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

Risks Relating to Our Business

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

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

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

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

Cisco (NASDAQ: CSCO) accounted for approximately 34%, 39% and 42% of our sales in 2007, 2008 and 2009, respectively. In October 2009, Cisco launched a voluntary cash offer to acquire TANDBERG (OSLO: TAA.OL), one of our principal competitors. In December 2009, Cisco announced that it has received acceptances for more than 90% of the outstanding shares of TANDBERG and it has been reported that the acquisition is expected to close in the first half of 2010. Our agreement with Cisco continues on a year to year basis and either party may terminate the relationship no later than 90 days prior to the expiration of the then current term. As a result of the acquisition, we expect that our Cisco sales will decline through 2010. If Cisco were to curtail or terminate its relationship with us, our sales would be materially adversely impacted and TANDBERG may become a stronger competitor.

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

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

Our agreements with our customers generally do not have minimum purchase requirements. If our customers cease to purchase or reduce their purchases of our products and technology, our revenues will decline.

Our agreements with our customers generally do not have minimum purchase requirements. If any or all of our customers cease to purchase or reduce their purchases of our products and technology at any time, our revenues will decline. Our customers may choose to independently develop for themselves, or purchase from others, products and technology similar to our products and technology. Moreover, if our customers do not successfully market and sell the systems and products into which they incorporate our products and technology, the demand of these customers for our products and technology will decline. Our customers' sales of systems and products containing our products and technology may be adversely affected by circumstances over which we have no control and over which our customers may have little, if any, control.

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

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

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

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

- timely identify new market trends; and
- develop, introduce and support new and enhanced products and technology on a successful and timely basis.

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

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

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

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

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

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

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

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

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

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

We may encounter difficulties in realizing the potential financial or strategic benefits of our acquisition of certain Aethra assets and from future acquisitions.

In February 2010, we acquired certain assets of Aethra Video Srl and Aethra SpA of Ancona, Italy, or Aethra, including certain intellectual property and technology for high definition, or HD, video conferencing endpoint systems. The agreements for the acquisition were incorporated into Aethra's pre-insolvency plan that was filed and admitted by the Italian court on January 25, 2010. The acquisition also includes the purchase of additional fixed assets and selected commercial agreements, which remains subject to the approval of the Italian court. We intend to integrate Aethra's HD video endpoint technology into our video network infrastructure and desktop solutions to offer a full video conferencing portfolio in response to customer demand created by rapid change and consolidation in the video marketplace. We also intend to use the Aethra technology to offer room conferencing systems. We may encounter difficulties in realizing the potential financial or strategic benefits of our acquisition of the assets of Aethra.

We may make additional acquisitions in the future. The pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating, and pursuing suitable acquisitions, whether or not they are consummated. In addition, if we acquire additional businesses or assets, such as the Aethra assets, we may not be able to integrate the acquired personnel, operations, and technologies successfully or effectively manage the combined business following the completion of the acquisition. We may also not achieve the anticipated benefits from the acquired business due to a number of factors, including:

- Unanticipated costs or liabilities associated with the acquisition;
- Incurrence of acquisition-related costs;
- Diversion of management's attention from other business concerns;
- Harm to our existing business relationships with manufacturers, distributors and customers as a result of the acquisition;
- The potential loss of key employees;
- Use of resources that are needed in other parts of our business;
- Use of substantial portions of our available cash to consummate the acquisition; and
- Unrealistic goals or projections for the acquisition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of December 31, 2009, we had $30.4 million in short and long-term marketable securities, net. The performance of the capital markets affects the values of funds that are held in marketable securities. These assets are subject to market fluctuations and will yield uncertain returns, which may fall below our projected return rates. The recent market turmoil resulted in immaterial impairments of the carrying value of certain of our investment assets. Continuing adverse market conditions may lead to additional impairments. Realized or unrealized losses in our investments or in our other financial assets may adversely affect our financial condition. We expect that market conditions will continue to fluctuate and that the fair value of our investments may be impacted accordingly.

In addition, bank failures or closings or further declines in the financial condition of U.S. or European banks or other financial institutions may adversely affect our normal financial operations, as well as our ability to secure additional credit facilities, if needed. The unavailability of additional credit may prevent us from executing our future business plans, including potential acquisitions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to Our Ordinary Shares

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

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

- quarterly variations in our operating results;
- operating results that vary from the expectations of securities analysts and investors;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- announcements of technological innovations or new products by us or our competitors;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in the status of our intellectual property rights;
- announcements by third parties of significant claims or proceedings against us;
- additions or departures of key personnel;
- future sales of our ordinary shares; and

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

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

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

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

Holders of our ordinary shares who are U.S. residents face income tax risks. There is a substantial risk that we are a passive foreign investment company, commonly referred to as PFIC. Our treatment as a PFIC could result in a reduction in the after-tax return to the holders of our ordinary shares and would likely cause a reduction in the value of such ordinary shares. For U.S. federal income tax purposes, we will be classified as a PFIC for any taxable year in which either (i) 75% or more of our gross income is passive income, or (ii) at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, cash is considered to be an asset, which produces passive income. As a result of our substantial cash position and the decline in the value of our stock, we believe that there is a substantial risk that we qualified as a PFIC during the taxable year ended December 31, 2009, under a literal application of the asset test described above, which looks solely to the market value. We believe that there is a substantial risk that we will also qualify as a PFIC during the taxable year ending December 31, 2010. If we are classified as a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. holders owning ordinary shares. Accordingly, you are urged to consult your tax advisors regarding the application of such rules. United States residents should carefully read “Item 10E. Additional Information - Taxation, United States Federal Income Tax Consequences” for a more complete discussion of the U.S. federal income tax risks related to owning and disposing of our ordinary shares.

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

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

Risks Relating to Our Location in Israel

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

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

Since the establishment of the State of Israel in 1948, Israel and its Arab neighbors have engaged in a number of armed conflicts. A state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. In an attempt to stop missile strikes from the Gaza Strip against Israel, in January 2009 Israel became engaged in an armed conflict with Hamas in the Gaza Strip, during which missile attacks aimed at populated areas in parts of southern Israel continued daily, disrupting most day-to-day civilian activity in these areas. These developments further strained relations between Israel and the Palestinians. Any on-going or future violence between Israel and the Palestinians, armed conflicts, terrorist activities, tension along Israel's northern borders, or political instability in the region would likely disrupt international trading activities in Israel and may materially and negatively affect our business conditions and those of our major contract manufacturers and could harm our results of operations.

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

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

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

Our operations expose us to risks associated with fluctuations in foreign currency exchange rates that could adversely affect our business

Most of our revenues are in dollars or are linked to the dollar, while a portion of our expenses, principally salaries and related personnel expenses, were incurred in other currencies, particularly in NIS and Euro. Therefore, our costs in such other currencies, as expressed in U.S. dollars, are influenced by the exchange rate between the U.S. dollar and the relevant currency. During 2007 and 2008, the NIS appreciated against the U.S. dollar, which resulted in a significant increase in the U.S. dollar cost of our operations in Israel. While the NIS/dollar exchange rate was approximately the same at December 31, 2008 and 2009, the NIS fluctuated against the U.S. dollar during 2009. We are also exposed to the risk that the rate of inflation in Israel will exceed the rate of depreciation of the NIS in relation to the dollar or that the timing of this depreciation lags behind inflation in Israel. This would have the effect of increasing the dollar cost of our operations. In the past, the NIS has devalued against foreign currencies, generally reflecting inflation rate differentials. We cannot predict any future trends in the rate of inflation in Israel or the rate of depreciation or appreciation of the NIS against the dollar. If the dollar cost of our operations in Israel increases, our dollar-measured results of operations will be adversely affected.

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

The Investment Center of the Ministry of Industry, Trade and Labor of the State of Israel has granted approved enterprise status to two investment programs at our manufacturing facility and two programs qualify as beneficiary enterprises. The portion of our income derived from any of our approved enterprise programs and beneficiary enterprise programs, commencing when we begin to generate net income from these programs, is exempt from tax for a period of two years and will be subject to a reduced tax rate for an additional five to eight years, depending on the percentage of our share capital held by non-Israelis. The benefits available to an approved enterprise program and a beneficiary enterprise program are dependent upon the fulfillment of conditions stipulated in applicable law and, for an approved enterprise, the conditions contained in the certificate of approval from the Investment Center, and for our beneficiary enterprises, a pre-ruling that we received from the Israeli Tax Authority in October 2007. If we fail to comply with one or more of these conditions, we may be required to pay additional taxes during the period in which we would have benefited from the tax exemption or reduced tax rates and would likely be denied these benefits in the future.

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

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

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

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

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

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

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

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

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

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

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

Our solutions provide a complete solution for the enterprise market, including video network infrastructure, desktop and endpoint products. In the enterprise market we sell to resellers, OEMs, and system integrators who use our products to develop and install advanced IP and ISDN-based visual communication systems for use in the company meeting room and on employee's desktops. We sell our products and platforms to major vendors, such as Alcatel-Lucent, Cisco and IBM which then integrate our solutions into their communications platforms and architectures. These integrated solutions enable the delivery of real-time interactive IP and 3G-based video telephony services over both broadband connections (such as cable and DSL) and 3G mobile networks. We have expanded our offerings to include a software desktop solution through our acquisition of First Virtual Communications, Inc., or FVC, and its wholly-owned subsidiary, CUseeMe Networks, Inc., in March 2005.

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

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

Our toolkits have been used by developers in a wide range of environments from chipsets to simple user devices like IP, video terminals and IADs (integrated access devices), and from integrated video systems through carrier class network devices like gateways, switches, soft switches and 3G multimedia gateways.

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

In 2008, we entered into a co-development effort with SAMSUNG Electronics to provide a high resolution desktop 24' monitor with integrated high definition video conferencing. We launched the product at the end of 2009.

In February 2010, we acquired certain assets of Aethra, including certain intellectual property and technology for HD video conferencing endpoint systems. We have had an OEM relationship with Aethra since 2005, through which our video infrastructure products and technology have been included in Aethra video solutions, allowing Aethra to offer the market a complete end-to-end solution. The agreements for the acquisition were incorporated into Aethra's pre-insolvency plan that was filed and admitted by the Italian court on January 25, 2010. The acquisition also includes the purchase of additional fixed assets and selected commercial agreements, which remains subject to the approval of the Italian court. The agreements provide for an aggregate cash purchase price of approximately $10 million (Euro 7 million) and the assumption of approximately $4.3 million (Euro 3 million) of liabilities. We intend to integrate Aethra's HD video endpoint technology into our video network infrastructure and desktop solutions to offer a full video conferencing portfolio in response to customer demand created by rapid change and consolidation in the video marketplace. We also intend to use the Aethra technology to offer room conferencing systems. We believe that the addition of Aethra's technology assets will enhance our existing video network infrastructure and desktop solutions to provide a more complete solution to enterprise customers.

Our capital expenditures for the years ended December 31, 2007, 2008 and 2009 were approximately $4.2 million, $3.0 million and $2.1 million, respectively. These expenditures were principally for research and development equipment, office furniture and equipment, leasehold improvements and implementation of an enterprise resource planning (ERP) system.

B. Business Overview

Overview and Strategy

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

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

Our goal is to develop and deliver market-leading technologies and products that drive widespread adoption and deployment of interactive unified visual communications over packet and next-generation networks. We provide solutions at every level – protocol developer toolkits, professional services, hardware-based network infrastructure, software-based desktop solutions, as well as fully integrated solutions that complement the unified communication solutions of other vendors such as those from Alcatel-Lucent, Cisco, Huawei, IBM, LifeSize, Microsoft and Sony. We believe that our offering combinations of IP-centric videoconferencing products along with software toolkits, positions us as a key enabling vendor in the evolution of V²IP communications (Video and Voice over IP). Key elements of our business strategy include the following:

- Maintain and extend our technology leadership. We believe that we have established ourselves as a technology leader in providing core-enabling technologies for a broad range of IP and 3G communication products and services. We provide support for high definition video conferencing including enabling IBM’s Lotus Sametime, Microsoft’s OCS Communicator and Alcatel-Lucent’s MyTeamWork with high definition video and connectivity to high definition video room conferencing systems. We continue to support Cisco’s Unified Communications architecture with our SCOPIA™ suite of products. During 2009, we announced several new solutions, including next generation SCOPIA™ Elite MCU, which we believe is the most powerful multi-point control unit, or MCU in the market today, the SCOPIA™ Desktop Pro conferencing client, which supports point to point calling with call initiation from a corporate directory, and the VC240, a fully integrated high resolution desktop monitor with integrated high definition video conferencing that was developed in cooperation with SAMSUNG. In February 2010, we announced that we would be adding advanced conference room solutions through technology that we acquired from the Aethra group of companies. We have accumulated extensive knowledge and expertise as designers and developers of commercial products and technologies for real-time packet-based communication. We continue to place considerable emphasis on research and development to expand the capabilities of our existing products, to develop new products and to improve our existing technology and capabilities. We believe that our future success will depend upon our ability to maintain our market reach and technological leadership; bring value to the communications solutions of our partners’ such as Alcatel-Lucent, Cisco, LifeSize, Microsoft, Panasonic, Samsung, Sony and others; enhance our existing products; and introduce on a timely basis new commercially viable products addressing the needs of our customers. We intend to continue to allocate significant resources to research and development to maintain our market leadership.

- Complement our portfolio to become an innovative end-to-end player with ground breaking solutions. We have acquired specific assets of Aethra that, along with our relationship with Samsung and similar companies, will allow us to complement our videoconferencing products portfolio and become an innovative player in the market introducing these solutions. In the area of desktop software for videoconferencing we own the Scopia Desktop client which leads the market in its category. We have recently introduced the VC240 developed in cooperation with Samsung for affordable personal HD communications, creating a new paradigm for this market niche. We intend to continue to develop innovative and potentially ground breaking products and bring those to the market based on the expertise we own and the technical assets acquired from Aethra.

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

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

- Provide ground breaking endpoints solutions that will revolutionize the market. We intend to continue our efforts to maintain our position as a key enabling solution provider for major vendors' to drive visual communication beyond the meeting room and onto the desktop. We intend to leverage our recent acquisition of certain assets of Aethra to introduce new and innovative endpoints to the market. We will also continue to work closely with our partners such as Samsung and others to bring innovative and potentially ground breaking endpoints providing exceptional value to the end customer. Collaboration with unified communications players such as Alcatel-Lucent, IBM, Microsoft and others will continue as well, integrating our desktop video technology into their unified communications offerings such as MyTeamwork, Sametime and Office Communicator.

Our Business

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

Networking Business Unit

Our NBU provides a comprehensive portfolio of visual communications solutions for the enterprise market that allow advanced voice, data and video conferencing. Our SCOPIA platform includes advanced network infrastructure solutions for multipoint conferencing, network connectivity and firewall traversal; endpoint solutions for board rooms, conference rooms, desktop and personal video conferencing and management software for scheduling, device and bandwidth management and directory services. All references in this annual report to “systems” and “solutions” refer to our video conferencing products sold through our NBU.

NBU Products

Our SCOPIA platform is a powerful combination of hardware and software products that enable the network platform, applications and endpoints to provide advanced video-based conferencing and collaboration on a customer’s network. Our solutions are standards-based and support the highest resolutions available in today’s videoconferencing solutions providing interoperability and interconnectivity between any video-enabled device, such as a telepresence system, a meeting room or a desktop videoconferencing end point, with other telephony and videoconferencing systems. Our solutions are used by institutions, enterprises, service providers and operators to create high quality, easy-to-use voice, video, and data communication, collaboration, and entertainment environments, regardless of the communication network/protocol - IP, SIP, 3G, H.323, ISDN, H.320 or next generation IMS (IP multimedia subsystem).

Our SCOPIA platform is the industry’s most comprehensive, robust video platform for visual communication solutions that delivers the scalability and seamless device support organizations need to leverage and protect current standards-based conferencing investments. As HD endpoints bring increased video quality to traditional room-based video conferencing systems and as unified communications and collaboration solutions extend video to the desktop and mobile arenas, our SCOPIA platform provides organizations the flexibility to cost-effectively adopt emerging HD and unified communications technologies.

The SCOPIA platform is a powerful combination of hardware and software that supports media processing for advanced room system devices and delivers high scalability and distributed processing for desktops and mobile deployments. Our complete solution includes all the components necessary to provide a complete video, voice, and data collaboration solution on a customer’s network. Key components of our solution include SCOPIA Video Infrastructure, SCOPIA Video Conferencing Clients and SCOPIA Management Solutions.

- SCOPIA Video Infrastructure. Reliable and highly scalable visual communication infrastructure solutions for enterprise and service provider environments, our SCOPIA Video Infrastructure offers the industry’s most technologically advanced and easy-to-use infrastructure for real-time conferencing over any network or protocol using any device. Easy to use, plug and play, functionality minimizes initial setup time and offers unmatched flexibility. With advanced features and technology including support for HD, scalable video coding, or SVC, support for bridging and interconnecting devices and networks, the SCOPIA Video Infrastructure products are at the core of an advanced video deployment.

  - SCOPIA Elite MCUs. The SCOPIA Elite 5000 Series is our next generation MCU architecture for high definition multiparty conferencing. Utilizing the latest in digital signal processing technology, SCOPIA Elite’s advanced media processing supports 1080p HD and provides connectivity, dynamic resource allocation, and individual video layouts per participant yielding uncompromised video experience. The new SCOPIA Elite 5000 Series can be configured from 10 to 30 ports of high definition continuous presence providing a line of systems to suit a variety of applications and budgets. Each system can also deliver four times the capacity by utilizing SCOPIA Elite’s dynamic resource allocation. This maximizes capacity for mixed endpoint environments without any system configuration changes. This flexible model offers significant value and fast return on investment with up to 120 video conferencing ports per system. SCOPIA Elite is the industry’s first standards-based MCU to natively support advanced H.264 SVC technology. Our SVC technology provides a high quality experience over unmanaged networks, such as the Internet, particularly benefiting desktop video conferencing users on the road or teleworkers from their home offices. Providing SVC on the MCU provides the benefits of high error resiliency between MCUs with video endpoints supporting SVC, while maintaining full interoperability and high quality with conferencing and telepresence systems not currently using SVC.

- o SCOPIA 100/400/1000 MCUs. The SCOPIA 100/400/1000 MCUs provide a very cost effective MCU solution for an enterprise network. These SCOPIA MCUs are optimized for support of standard definition (SD), endpoints but can also fully support HD endpoints as well. They can be used as cost effective deployment supporting mixed SD and HD deployments or can augment a deployment of SCOPIA Elite MCUs for cost effective support of SD endpoints in the network. The systems range in size from the SCOPIA 100 model supporting 12 or 24 ports up to the SCOPIA 1000 model, which is a carrier-grade chassis with full redundancy and support for 21 hot-swappable slots for a flexible configuration of MCU and gateway functions.

- o SCOPIA Network Gateways. SCOPIA Network Gateways provide seamless connectivity between different networks and standards to deliver feature-rich, reliable, multimedia conferencing and communications. The SCOPIA Network Gateways are ideal for connecting IP video conferencing networks with ISDN and PSTN networks allowing connectivity to ISDN endpoints or to telephones or cellular phones. Also offered are 3G video gateways that bridge 3G-324M-based mobile devices with IP-based video conferencing systems and infrastructure for the delivery of video services to a variety of handsets.

- o SCOPIA Enhanced Communication Server, or ECS, Gatekeeper. Our high-performance, standard-compliant H.323 ECS Gatekeeper provides advanced backbone management system for IP telephony and multimedia communication networks. The ECS Gatekeeper provides gatekeeper functionality and everything required to simply and easily define, control and manage voice, video and data traffic over IP networks, no matter how large or complex. The ECS Gatekeeper ensures optimal bandwidth utilization to deliver carrier-grade, best-quality call completion and video collaborative communications over any network and any protocol.

- o SCOPIA Pathfinder Firewall Traversal. SCOPIA PathFinder Firewall Traversal is a complete firewall and NAT traversal solution enabling secure connectivity between enterprise networks and remote sites. SCOPIA PathFinder maintains the security and advantages of firewall and NAT over heterogeneous video networks and allows seamless integration with existing video endpoints and infrastructure components.

- o SCOPIA Interactive Video Platform. The SCOPIA Interactive Video Platform (IVP) is a powerful general purpose media server with a flexible high-level API and service creation environment for generating a wide range of video services. With the SCOPIA IVP, service providers, enterprises and developers can easily create and reliably deploy interactive video services seamlessly integrated with existing networks. These real-time, video-based services offer a high revenue margin complement to traditional voice and data services for true added value.

- • SCOPIA Video Conferencing Clients. Advanced HD video conferencing endpoints for personal and group use at the desktop, on the road, in the conference room or the board room.

- o SCOPIA Desktop. SCOPIA Desktop is a software based client/server application that extends a room system conferencing application to remote and desktop users for voice, video and data communications. It includes the latest in video technology including support for HD video, SVC for unsurpassed error resiliency and HD H.264 for viewing both meeting participants and data collaboration. Its audio system provides echo cancellation, background noise suppression and is highly resilient to network errors common on the Internet. SCOPIA Desktop is a simple web browser plug-in that is centrally managed and deployed without complex licensing fees or installation issues. Users simply click on a link and in moments are connected to a conference. The system provides automatic firewall traversal to allow anyone to participate regardless of where they are.

- o SCOPIA Desktop Pro. SCOPIA Desktop Pro extends the functionality of SCOPIA Desktop by providing on a licensed per seat basis a video conferencing client that also supports point to point calling with call initiation from a presence based and corporate configured directory. This client supports authenticated users and advanced capabilities such as point to point calling and seamless escalation to multi participant calls.

- o SCOPIA VC240. The SCOPIA VC240 is high resolution desktop monitor with integrated HD video conferencing. It was jointly developed combining the best of breed technologies and capabilities of RADVISION and SAMSUNG to integrate our advanced video conferencing into a SAMSUNG high resolution multimedia LCD monitor. The SCOPIA VC240 can operate as a standalone desktop HD video conferencing device as well as a 24-inch- high resolution monitor. It is fully interoperable with our SCOPIA line of products and complements our other desktop video solutions.

- o SCOPIA XT1000 Room System. The SCOPIA XT1000 high definition video conferencing room system supports two streams of HD video each at 1080p resolution and 30 frames per second. The high end Pan-Tilt-Zoom camera supports 10x optical zoom and wide angle capability for viewing details as well as an entire group. The second 1080p video stream can be used with an additional 1080p camera for complete visual coverage or with a personal computer, or PC, for data sharing. When used for data collaboration, the system supports high resolution PC data sharing at 30fps so presentations and even video clips can be shared with zero loss of quality. The SCOPIA XT1000 comes with an available embedded HD MCU with support for high definition, continuous presence meetings with up to nine participants, which is the highest capacity embedded MCU in the industry today. The advanced audio system provides full band audio encoding to ensure high clarity audio transmission with no loss of quality. Beam forming technology is used in the 3-way microphone pod to put the focus on the speaker while isolating background noise.

- SCOPIA Management Solutions

- o SCOPIA Management Suite. SCOPIA Management Suite, or iVIEW, is a family of management, control and scheduling applications providing robust network management and easy-to-use conference scheduling.

The network management component provides enterprises with a single access point to managing all their video conferencing network devices, including the SCOPIA infrastructure devices (MCUs, gateways, firewall traversal appliances), through the call control software applications (gatekeeper, SIP agents) and to the various endpoint devices deployed in the network, including our endpoints and third party devices. Through the network management of iVIEW, administrators can detect and monitor their devices, remotely configure and control the devices and upgrade software/firmware to the various devices.

iVIEW's scheduling and resource component allows administrators and conferencing operators to conveniently schedule, manage and control their conferences from a single access point. iVIEW also provides scalability and redundancy capabilities of a large enterprise or application service provider's global deployment, with unique capabilities such as virtual MCU with automatic cascading for bandwidth preservation, least cost routing for cross-site communications cost savings, virtual room for ease-of-use and other features.

iVIEW also integrates with enterprises' existing applications such as Microsoft Active Directory or IBM Lotus Domino for easy user provisioning and Microsoft Outlook or IBM Lotus Notes for an easy and intuitive calendar application scheduling. iVIEW also provides the interface to market leading unified communication solutions such as IBM Lotus Sametime and Microsoft Office Communications Server.

- o SCOPIA Mobile. SCOPIA Mobile extends control to mobile devices by providing a free application for the control and management of video conf