RADCOM LTD
Form 20-F
March 29, 2012

UNITED STATES
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, 2011

OR

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

For the transition period from __________ to __________

OR

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 0-29452

RADCOM Ltd.
(Exact Name of Registrant as Specified in its Charter)

N/A

(Translation of Registrant's Name into English)

Israel
(Jurisdiction of Incorporation or Organization)

24 Raoul Wallenberg Street, Tel-Aviv 69719, Israel
(Address of Principal Executive Offices)

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Israel
(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

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

Title of Each Class	Name of Each Exchange on Which Registered
Ordinary Shares, NIS 0.20 par value per share	NASDAQ Capital Market

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

None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None.

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: As of December 31, 2011, there were 6,415,698 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 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 x No o

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

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer x

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 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

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INTRODUCTION

Except for the historical information contained herein, the statements contained in this annual report on Form 20-F (this "Annual Report") are forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, with respect to our business, financial condition and results of operations. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including all the risks discussed in "Item 3—Key Information—Risk Factors" and elsewhere in this Annual Report.

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

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

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

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PART I

ITEM 1.IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2.OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A.SELECTED FINANCIAL DATA

We have derived the following selected consolidated financial data as of December 31, 2011 and 2010 and for each of the years ended December 31, 2011, 2010 and 2009 from our consolidated financial statements and notes included in this Annual Report. The selected consolidated financial data as of December 31, 2009, 2008 and 2007 and for the years ended December 31, 2008 and 2007 have been derived from previously published audited consolidated financial statements not included in this Annual Report. We prepare our consolidated financial statements in accordance with U.S. generally accepted accounting principles.

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

	Year Ended December 31, (in thousands of U.S. dollars – except weighted average number of ordinary shares, and basic and diluted income (loss) per ordinary share)				
	2011	2010	2009	2008	2007
Statement of Operations Data:					
Revenues:					
Products	$19,199	$16,770	$9,190	$12,480	$10,158
Services	2,788	2,403	2,728	2,758	3,339
	21,987	19,173	11,918	15,238	13,497
Cost of revenues:					
Products	6,074	6,052	3,469	5,523	4,927
Services	606	434	590	502	466
	6,680	6,486	4,059	6,025	5,393
Gross profit	15,307	12,687	7,859	9,213	8,104
Operating expenses:					
Research and development	5,866	4,310	4,223	6,506	7,378
Less - royalty-bearing participation	1,235	1,424	1,633	2,113	2,096
Research and development, net	4,631	2,886	2,590	4,393	5,282
Sales and marketing	9,962	6,971	5,835	7,486	9,279
General and administrative	2,234	1,538	1,643	2,818	2,391
Total operating expenses	16,827	11,395	10,068	14,697	16,952
Operating (loss) income	(1,520)	1,292	(2,209)	(5,484)	(8,848)
Financing income (expenses), net	(384)	(722)	(440)	(309)	265
Net (loss) income	(1,904)	570	(2,649)	(5,793)	(8,583)
Basic net (loss) income per ordinary share	$(0.30)	$0.11	$(0.52)	$(1.16)	$(2.10)
Weighted average number of ordinary shares used to compute basic net income (loss) per ordinary share	6,367,560	5,373,515	5,081,986	4,995,586	4,084,789
Diluted net (loss) income per ordinary share	$(0.30)	$0.10	$(0.52)	$(1.16)	$(2.10)
Weighted average number of ordinary shares used to compute diluted net (loss) income per ordinary share	6,367,560	5,947,310	5,081,986	4,995,586	4,084,789
Balance Sheet Data:					
Working capital	$10,670	$11,144	$2,972	$6,194	$7,224
Total assets	$21,345	$21,386	$13,440	$17,841	$18,056
Shareholders' equity	$10,392	$10,903	$2,640	$4,985	$7,578

Share capital	$250	$234	$177	$176	$122

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 2012 (through March 26)	3.814	3.734
February 2012	3.803	3.700
January 2012	3.854	3.733
December 2011	3.821	3.727
November 2011	3.800	3.650
October 2011	3.763	3.602
September 2011	3.725	3.574

On March 26, 2012 the daily representative rate of exchange between the NIS and U.S. dollar as published by the Bank of Israel was NIS 3.734 to $1.00.

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

Year	Average (NIS)
2012 (through March 26)	3.744
2011	3.582
2010	3.732
2009	3.927
2008	3.568
2007	4.085

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

B.CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C.REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D.RISK FACTORS

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

Risks Related to Our Business and Our Industry

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

Although in 2010 we generated net income, in 2011 and in the years 2009, 2008 and 2007, we incurred losses of $1.9 million, $2.6 million, $5.8 million and $8.6 million, respectively. We may not be profitable in the future, which could materially affect our cash and liquidity and could adversely affect the value and market price of our shares.

A slowdown in the telecommunications industry generally, or in the sectors of the industry that we target (currently primarily 3G and 4G cellular and triple-play networks), could materially adversely affect our revenues and results of operations.

Our future success is dependent upon the continued growth of the telecommunications industry as well as the specific sectors that we target, which currently include 3G and 4G cellular and triple-play networks. The global telecommunications industry, as well as the various sectors within the industry, is evolving rapidly, and it is difficult to predict its potential growth rate or future trends in technology development. The deregulation, privatization and economic globalization of the worldwide telecommunications market that have resulted in increased competition and escalating demand for new technologies and services may not continue in a manner favorable to us or our business strategies. In addition, the growth in demand for Internet and data services and the resulting need for high speed or enhanced telecommunications equipment may not continue at its current rate or at all.

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

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

During adverse conditions in the business environment for telecommunications companies, service providers often need to control operating expenses and capital investment budgets, which can affect our business. For example, the recent business climate for communication companies resulted in slowed customer buying decisions and price pressures that increased pressure on our ability to generate revenue. During 2009, and to a lesser extent during 2010 and 2011, these adverse market conditions had a negative impact on our business by decreasing new customer engagements and the size of initial spending commitments under those engagements, as well as by decreasing the level of discretionary spending under contracts with existing customers. In addition, the slowdown in the buying decisions of service providers has extended our sales cycle period and limited our ability to forecast our flow of new contracts. In addition, weakness in the end-user market could negatively affect the cash flow of our distributors and resellers who could, in turn, delay paying their obligations to us. This would increase our credit risk exposure and cause delays in our recognition of revenues on future sales to these customers. Any of these events would likely harm our business, operating results and financial condition. If global economic and market conditions, or economic conditions in our key markets, as well as the sectors that we target, deteriorate, we may experience material impacts on our business, operating results, and financial condition.

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

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

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

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

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

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

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

- the variation in size and timing of individual purchases by our customers;
- the absence of long-term customer purchase contracts;
- seasonal factors that may affect capital spending by customers, such as the varying fiscal year-ends of customers and the reduction in business during the summer months, particularly in Europe;
- the relatively long sales cycles for our products;
- the request for longer payment terms from us or long-term financing of customers' purchases from us as well as additional conditions tied to such payment terms;
- competitive conditions in our markets;
- the timing of the introduction and market acceptance of new products or product enhancements by us and by our customers, competitors and suppliers;
- changes in the level of operating expenses relative to revenues;
- product quality problems;
- supply interruptions;
- changes in global or regional economic conditions or in the telecommunications industry;
- delays in or cancellation of projects by customers;
- changes in the mix of products sold;
- the size and timing of approval of grants from the Government of Israel; and
- foreign currency exchange rates.

Except for our cost of revenues, most of our operating costs, including personnel and facilities costs, are relatively fixed at levels based on anticipated revenue. We believe, therefore, that period-to-period comparisons of our operating results should not be relied upon as a reliable indication of future performance.

Our revenues in any period generally have been, and may continue to be, derived from a relatively small number of orders with relatively high average revenues per order. Therefore, the loss of any order or a delay in closing a transaction could have a more significant impact on our quarterly revenues and results of operations than on those of companies with relatively high volumes of sales or low revenues per order. Our products generally are shipped within 15 to 30 days after orders are received. Although we had a substantial backlog of orders at the end of 2011, this has not always been the case in the past and there is no assurance that this will continue to be the situation in future quarters.

We may experience a delay in generating or recognizing revenues for a number of reasons and based on revenue recognition accounting requirements. While we are usually able to ship orders within 15-30 days of a customer's order, in order to recognize revenue from an order, we need to pass customer acceptance, which may take 6 to12 months. Therefore, a major part of the revenue of a fiscal quarter is derived from the backlog of shipped orders and generally is not tied to the date of a customer's order or the shipment date.

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

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

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

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

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

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

- increased price competition;
- local sales taxes which may be incurred for direct sales;
- increased industry consolidation among our customers, which may lead to decreased demand for and downward pricing pressure on our products;
- changes in customer, geographic or product mix;
- our ability to reduce and control production costs;

- increases in material or labor costs;
- excess inventory and inventory holding costs;
- obsolescence charges;
- reductions in cost savings due to changes in component pricing or charges incurred due to inventory holding periods if parts ordering does not correctly anticipate product demand;
- changes in distribution channels;
- losses on customer contracts; and
- increased warranty costs.

Our failure to sustain or improve our recent level of gross margins, due to these or other factors, may have a material adverse effect on our results of operations.

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

The telecommunications market for our products is characterized by rapidly changing technology, changing customer requirements, evolving industry standards and frequent new product introductions, certain changes of which could reduce the market for our products or require us to develop new products. For example, the new LTE (Long Term Evolution) network required us to develop a new product which was launched in 2011, our Omni-Q for LTE networks, in order to keep current with customer requirements.

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

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

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

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

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

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

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

Our inventory may become obsolete or unusable.

We make advance purchases of various component parts in relatively large quantities to ensure that we have an adequate and readily available supply. Our failure to accurately project our needs for these components and the demand for our products that incorporate them, or changes in our business strategy or technology that reduce our need for these components, could result in these components becoming obsolete prior to their intended use or otherwise unusable in our business. This would result in a write-off of inventories for these components. In addition, a substantial portion of our inventory is located at customers as it has not yet been accepted in accordance with the terms of their orders and therefore has not yet been recognized as revenue, making the control of such inventory more difficult.

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

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

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

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

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

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

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

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

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

We continue to reorganize and transform our business to realign resources and achieve desired cost savings in an increasingly competitive market. Although during 2011 and 2010 we increased our work force, during 2007, 2008 and 2009, we undertook a series of reorganizations of our operations involving, among other things, the reduction of our workforce. If we reduce our workforce in the future, we may incur additional reorganization and related expenses, which could have a material adverse effect on our business, financial condition or results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

Our seven largest distributors accounted for a total of approximately 43.9% of our sales in 2011, 41.8% of our sales in 2010 and 44.3% of our sales in 2009. No individual distributer accounted for more than 10% of the total respective consolidated revenues. If we terminate or lose any of our distributors or if they downsize significantly, we may not be successful in replacing them on a timely basis, or at all. Any changes in our distribution and sales channels, particularly the loss of a major distributor or our inability to establish effective distribution and sales channels for new products, will impact our ability to sell our products and result in a loss of revenues.

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

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

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

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

We could be subject to claims under our warranties and extended maintenance agreements and product recalls, which could be very expensive and harm our financial condition.

Products as complex as ours sometimes contain undetected errors. These errors can cause delays in product introductions or require design modifications. In addition, we are dependent on other suppliers for key components that are incorporated in our products. Defects in systems in which our products are deployed, whether resulting from faults in our products or products supplied by others, due to faulty installation or any other cause, may result in customer dissatisfaction, product returns and, potentially, product liability claims being filed against us. Our warranties permit customers to return defective products for repair. The warranty period is mostly for one year but could be extended either in the initial purchase of our product or after the initial warranty period ends ("extended maintenance agreements"). During the past few years, customer returns have not been substantial. Any failure of a system in which our products are deployed (whether or not our products are the cause), any product recall or product liability claims with any associated negative publicity, could result in the loss of, or delay in, market acceptance of our products and harm to our business. In addition under the warranty and extended maintenance agreements we need to meet certain service levels and if we fail to meet them we may be exposed to penalties.

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

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

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

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

- Delays in delivery or shortages in components could interrupt and delay manufacturing and result in cancellations of orders for our products.

- Suppliers could increase component prices significantly and with immediate effect.

- We may not be able to locate alternative sources for product components.

- Suppliers could discontinue the manufacture or supply of components used in our products. This may require us to modify our products, which may cause delays in product shipments, increased manufacturing costs and increased product prices.

- We may be required to hold more inventory than would be immediately required in order to avoid problems from shortages or discontinuance.

We have experienced delays and shortages in the supply of components on more than one occasion in the past. This resulted in delays in our delivering products to our customers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Yehuda Zisapel and Zohar Zisapel beneficially own, in aggregate, approximately 41.2% 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 26, 2012, Yehuda Zisapel and Zohar Zisapel (the Chairman of our Board of Directors), who are brothers, may be deemed to beneficially own an aggregate of 2,718,213 ordinary shares, including options and warrants exercisable for 148,986 ordinary shares that are exercisable within 60 days of March 26, 2012, representing approximately 41.2% of our outstanding ordinary shares. As a result, despite the fact that each one of them, to our knowledge, operates independently from the other with respect to his respective shareholding of our shares, Yehuda Zisapel and Zohar Zisapel have significant influence over the outcome of various actions that require shareholder approval, including the election of our directors. In addition, Yehuda Zisapel and Zohar Zisapel may be able to delay or prevent a transaction in which shareholders might receive a premium over the prevailing market price for their shares and prevent changes in control or in management.

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

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

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

While we are headquartered in Israel, approximately 98% of our sales in 2011, 95.0% of our sales in 2010 and 96.6% of our sales in 2009 were generated outside of Israel, including in North America, Europe, Asia, South America and Australia. Our international sales will be limited if we cannot establish and maintain relationships with international distributors, set up additional foreign operations, expand international sales channel management, hire additional personnel, develop relationships with international service providers and operate adequate after-sales support internationally.

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

· challenges in staffing and managing foreign operations due to the limited number of qualified candidates, employment laws and business practices in foreign countries, any of which could increase the cost and reduce the efficiency of operating in foreign countries;
· our inability to comply with import/export, environmental and other trade compliance and other regulations of the countries in which we do business, together with unexpected changes in such regulations;
· insufficient measures to ensure that we design, implement and maintain adequate controls over our financial processes and reporting in the future;

- our failure to adhere to laws, regulations and contractual obligations relating to customer contracts in various countries;
- our inability to maintain a competitive list of distributors for indirect sales;
- tariffs and other trade barriers;
- economic instability in foreign markets;
- wars, acts of terrorism and political unrest;
- language and cultural barriers;
- lack of integration of foreign operations;
- currency fluctuations;
- potential foreign and domestic tax consequences;
- technology standards that differ from those on which our products are based, which could require expensive redesign and retention of personnel familiar with those standards;
- longer accounts receivable payment cycles and possible difficulties in collecting payments, which may increase our operating costs and hurt our financial performance; and
- failure to meet certification requirements.

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

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

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

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

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

We are subject to the reporting requirements of the United States Securities and Exchange Commission (the "SEC"). The SEC, as directed by Section 404 ("Section 404") of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), adopted rules requiring public companies to include a report of management on the company's internal control over financial reporting in its annual report on Form 10-K or Form 20-F, as the case may be, that contains an assessment by management of the effectiveness of the company's internal control over financial reporting. In addition, if the public float of our shares were to exceed $75 million, the Company's independent registered public accountants would be required to attest to and report on the effectiveness of the Company's internal control over financial reporting. Our management may not conclude that our internal controls over financial reporting are effective. Any of these possible outcomes could result in a loss of investor confidence in the reliability of our financial statements, which could negatively impact the market price of our shares. Further, we may identify material weaknesses or significant deficiencies in our assessments of our internal controls over financial reporting. Failure to maintain effective internal controls over financial reporting could result in investigation or sanctions by regulatory authorities and could have a material adverse effect on our operating results, investor confidence in our reported financial information and the market price of our ordinary shares.

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

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

As more fully described below in "Item 10—Additional Information—Taxation—United States Federal Income Tax Considerations—Taxation of U.S. Holders of Ordinary Shares—Passive Foreign Investment Company Status," if for any taxable year 75% or more of our gross income is passive income, or at least 50% of the fair market value of our assets, averaged quarterly over our taxable year, that produce (or are held for the production of) passive income, we may be characterized as a passive foreign investment company ("PFIC") for U.S. federal income tax purposes. The market capitalization approach has generally been used to determine the fair market value of the assets of a publicly traded corporation, although the U.S. Internal Revenue Service and the courts have accepted other valuation methods in certain valuation contexts. If we are classified as a PFIC, our U.S. shareholders could suffer adverse United States tax consequences, including gain on the disposition of our ordinary shares being treated as ordinary income and any resulting U.S. federal income tax being increased by an interest charge. Rules similar to those applicable to dispositions generally will apply to certain "excess distributions" in respect of our ordinary shares. For our 2011 taxable year, we believe that we should not be classified as a PFIC. However, there are no assurances that the IRS will agree with our conclusion or that we will not become a PFIC in subsequent taxable years. U.S. shareholders should consult with their own U.S. tax advisors with respect to the U.S. tax consequences of investing in our ordinary shares.

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

From January 1, 2011 to March 28, 2012, our ordinary shares have traded on the NASDAQ as high as $14.71 and as low as $3.03 per share. As of March 28, 2012, the closing price of our ordinary shares on the NASDAQ was $5.24 per share. The market price of our ordinary shares has been and is likely to continue to be highly volatile and could be subject to wide fluctuations in response to numerous factors, including the following:

- market conditions or trends in our industry and the economy as a whole;
- political, economic and other developments in the State of Israel and worldwide;
- actual or anticipated variations in our quarterly operating results or those of our competitors;
- announcements by us or our competitors of technological innovations or new and enhanced products;
- changes in the market valuations of our competitors;
- introductions of new products or new pricing policies by us or our competitors;
- trends in the communications or software industries, including industry consolidation;
- acquisitions or strategic alliances by us or others in our industry;
- changes in estimates of our performance or recommendations by financial analysts;
- changes in our shareholder base; and
- additions or departures of key personnel.

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

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

From time to time we may be required to raise financing in connection with our operations and growth strategy. We do not know whether additional financing will be available when needed, or whether it will be available on terms favorable to us. This may prove even more challenging due to the recent global economic downturn. If adequate funds are not available on terms favorable to us or to our shareholders, our operations and growth strategy will be materially adversely affected.

We may not satisfy the NASDAQ Capital Market's requirements for continued listing. If we cannot satisfy these requirements, NASDAQ could delist our ordinary shares.

Our ordinary shares are listed on the NASDAQ Capital Market under the symbol RDCM. To continue to be listed on the NASDAQ Capital Market, we need to satisfy a number of conditions, including a minimum of $2.5 million in shareholders' equity and a minimum bid price of at least $1.00 per share. On November 9, 2009, we received a NASDAQ Staff deficiency letter informing us that, as of September 30, 2009, our shareholders' equity was $63,000 below the NASDAQ Capital Market minimum requirement for continued listing. On November 17, 2009, Mr. Zohar Zisapel, our Chairman of the Board and largest shareholder, exercised warrants to purchase 20,313 ordinary shares at an exercise price of $3.20 per share for an aggregate purchase price of $65,000. Following Mr. Zisapel's warrant exercise, our shareholders' equity was above the $2.5 million minimum requirement. The NASDAQ Staff informed us that it will continue to monitor our ongoing compliance with the minimum shareholders' equity requirement. Our shareholders' equity as of December 31, 2011 was $10.4 million, and we believe that, as of the date of this Annual Report, our shareholders' equity remains above the $2.5 million minimum requirement for continued listing.

In addition, beginning on November 17, 2008 our share price decreased below the $1.00 minimum bid price per share. However, due to the extraordinary market conditions, NASDAQ implemented a temporary suspension on the enforcement of the minimum $1.00 bid price listing requirement for continued listing until July 20, 2009. Our share price continued to be below the $1.00 minimum bid price per share until September 9, 2009. Since September 9, 2009, and as of the date of this Annual Report, our share price has continued to be above the minimum $1.00 bid price. As of March 28, 2012, the closing price of our ordinary shares on the NASDAQ was $5.24 per share.

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

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

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

Risks Related to Our Location in Israel

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

We are incorporated under Israeli law and our principal offices and manufacturing and research and development facilities are located in the State of Israel. Political, economic and military conditions in Israel directly affect our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. We could be adversely affected by hostilities involving Israel, the interruption or curtailment of trade between Israel and its trading partners, a significant increase in inflation, or a significant downturn in the economic or financial condition of Israel. Since October 2000, there has been a marked increase in hostilities between Israel and the Palestinians, which has adversely affected the peace process and has negatively influenced Israel's relationship with several Arab countries. Also, the political and security situation in Israel may result in certain parties with whom we have contracts claiming that they are not obligated to perform their commitments pursuant to force majeure provisions of those contracts. In January 2006, Hamas, an Islamic movement responsible for many attacks against Israelis, won the majority of the seats in the Parliament of the Palestinian Authority. The election of a majority of Hamas-supported candidates posed a major obstacle to relations between Israel and the Palestinian Authority, as well as to the stability in the Middle East as a whole. During the third quarter of 2006, Israel was engaged in war with the Hezbollah in Lebanon; however, the war did not materially affect the Company's results. There have been extensive hostilities along Israel's border with the Gaza Strip since June 2007 when Hamas effectively took control of the Gaza Strip. Following seizing control over the Gaza Strip, Hamas has launched hundreds of missiles from the Gaza Strip against Israeli population centers, disrupting day-to-day civilian life in southern Israel. This led to an armed conflict between Israel and Hamas during December 2008 and January 2009, and at the beginning of 2011, a party identified with the Hezbollah took control over the Lebanese government. In addition, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. Furthermore, while Israel has entered into peace agreements with both Egypt and Jordan, Israel has not entered into peace arrangements with any other neighboring countries and the numerous uprisings in North Africa and the Middle East, including in Egypt, Syria and Jordan which border Israel, have introduced additional uncertainty in the region. This and further deterioration could have an adverse effect on the relations between Israel and Egypt, which have been parties to a peace treaty since the late 1970s. Ongoing violence between Israel and the Palestinians, as well as tension between Israel and terror organizations and other countries in the Middle East and continued political or economic uncertainty, or violence, in the region, may have a material adverse effect on our business, financial condition and results of operations.

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

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

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

All male adult citizens and permanent residents of Israel under the age of 51 are, unless exempt, obligated to perform military reserve duty annually. Additionally, these residents are subject to being called to active duty at any time under emergency circumstances. Some of our officers and employees are currently obligated to perform military reserve duty from time to time. In the event of a military conflict, including the ongoing conflict with the Palestinians, these persons could be required to serve in the military for extended periods of time and on very short notice. The absence of a number of our officers and employees for significant periods could disrupt our operations and harm our business. Given these requirements, we believe that we have operated relatively efficiently since beginning our operations. However, we cannot assess what the full impact of these requirements on our workforce or business would be if the situation with the Palestinians or any other adversaries changes, and we cannot predict the effect on our business operations of any expansion or reduction of these military reserve requirements.

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

We currently receive grants under Government of Israel programs. At December 31, 2011, our contingent liability to the Chief Scientist in respect of research grants received was approximately $28.6 million. In order to maintain our eligibility for these programs, we must continue to meet specific conditions and pay royalties with respect to grants received. In addition, some of these programs restrict our ability to manufacture particular products outside of Israel or to transfer particular technology. If we fail to comply with these conditions in the future, the benefits received could be canceled and we could be required to refund any payments previously received under these programs. These programs may be discontinued or curtailed in the future. If we do not receive these grants in the future, we will have to allocate funds to product development at the expense of other operational costs. If the Government of Israel discontinues or curtails these programs, our business, financial condition and results of operations could be materially adversely affected. For more information, see "Item 4—Information on the Company—Business Overview—Israeli Office of the Chief Scientist."

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

The Israeli Companies Law, 5759-1999 (the "Israeli Companies Law") generally requires that a merger be approved by a company's board of directors and by a majority of the shares voting on the proposed merger. Unless a court rules otherwise, a statutory merger will not be deemed approved if shares representing a majority of the voting power present at the shareholders meeting, and which are not held by the potential merger partner (or by any person who holds 25% or more of the shares of capital stock or the right to appoint 25% or more of the directors of the potential merger partner or its general manager), vote against the merger. Upon the request of any creditor of a party to the proposed merger, a court may delay or prevent the merger if it concludes that there is a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy its obligations. In addition, a merger may generally not be completed unless at least (i) 50 days have passed since the filing of the merger proposal with the Israeli Registrar of Companies by each of the merging companies, and (ii) 30 days have passed since the merger was approved by the shareholders of each of the parties to the merger.

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

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

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

We are incorporated in Israel. None of our executive officers or directors named in this Annual Report is a resident of the United States. A substantial portion of our assets and the assets of such persons are located outside of the United States. Therefore, it may be difficult to enforce a judgment obtained in the United States against us or any of those persons or to effect service of process upon those persons. It may also be difficult to enforce civil liabilities under U.S. federal securities laws in original actions instituted in Israel.

ITEM 4.INFORMATION ON THE COMPANY

A.HISTORY AND DEVELOPMENT OF THE COMPANY

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

In 1993, we established a wholly-owned subsidiary in the United States, RADCOM Equipment, Inc. ("RADCOM Equipment"), a New Jersey corporation, which serves as our agent for service of process in the United States. RADCOM Equipment is located at 6 Forest Avenue, Paramus, New Jersey 07652, and its telephone number is (201) 518-0033. In 1996, we incorporated a wholly-owned subsidiary in Israel, RADCOM Investments (1996) Ltd. ("RADCOM Investments"), an Israeli company, located at our office in Tel Aviv, Israel; its telephone number is the same as ours (972-3-645-5055). In 2001, we established a wholly-owned subsidiary in the United Kingdom, RADCOM (UK) Ltd., a United Kingdom corporation. This company was dissolved on December 2, 2008. In 2010, we established a wholly-owned subsidiary in Brazil, RADCOM do Brasil Comercio, Importacao E Exportacao Ltda., ("RADCOM Brazil"). RADCOM Brazil is located at 46 Rua Calcada Antares, Alphaville, Santana de Parnaiba, Sao Paulo, and its telephone number is 55(11) 41537430.

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

B.BUSINESS OVERVIEW

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

GLOSSARY

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

that they can be heard and understood.

CDMA2000 1X (EV-DO)	A third-generation digital high-speed wireless technology for packet-based transmission of text, digitized voice, video, and multimedia that is the successor to CDMA.
Global System for Mobile Communications (GSM)	A digital wireless technology that is widely deployed in Europe and, increasingly, in other parts of the world.
General Packet Radio Service (GPRS)	A packet-based digital intermediate speed wireless technology based on GSM (2.5 generation)
IP Multimedia Subsystem (IMS)	An internationally recognized standard defining a generic architecture for offering Voice over IP and multimedia services to multiple-access technologies.
Internet Protocol TV (IPTV)	Transmitting video in IP packets. Also called "TV over IP," IPTV uses streaming video techniques to deliver scheduled TV programs or video on demand (VOD).
Long Term Evolution (LTE)	LTE is a set of enhancements to the Universal Mobile Telecommunications System (UMTS) which was introduced in 3rd Generation Partnership Project (3GPP) Release 8. Much of 3GPP Release 8 focuses on adopting 4G mobile communication's technology, including an all-IP flat networking architecture.
Network-Attached Storage (NAS)	File-level computer data storage connected to a computer network providing data access to heterogeneous network clients. NAS systems contain one or more hard disks, often arranged into logical, redundant storage containers or RAID arrays (redundant arrays of inexpensive/independent disks).
NGN – Next Generation Network	General term for packet-based networks, whether wireline (Voice Over IP, Video Over IP, etc.) or 3G networks.
OSS	Operational Support System. A suite of programs that enables the enterprise to monitor, analyze and manage a network system. Used in general to mean a system that supports an organization’s network operations.
Protocol	A specific set of rules, procedures or conventions governing the format, means and timing of transmissions between two devices.
Session	A lasting connection between a user (or user agent) and a peer, typically a server, usually involving the exchange of many packets between the user’s computer and the server. A session is typically implemented as a layer in a network protocol.
Radio Access Network (RAN)	A part of a mobile telecommunication system. It implements a radio access technology. Conceptually, it sits between the mobile phone, and the core network.

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Single Board Computer (SBC)	A complete computer built on a single circuit board. The design is centered on a single or dual microprocessor with RAM, I/O and all other features needed to be a functional computer on the one board. The term "Single Board Computer" now generally applies to an architecture where the Single Board Computer is plugged into a backplane to provide for I/O cards Single board computers are most commonly used in industrial situations in rack mount format for process control or embedded within other devices to provide control and interfacing.
SIGTRAN	The name, derived from signaling transport, of a defunct Internet Engineering Task Force (IETF) working group that produced specifications for a family of protocols that provide reliable datagram service and user layer adaptations for Signaling System 7 (SS7) and ISDN communications protocols. The SIGTRAN protocols are an extension of the SS7 protocol family and are used today together with IMS.
Session Initiation Protocol (SIP)	A simple application layer signaling protocol for VoIP implementations. It is a textual client server based protocol and provides the necessary mechanisms so that end user systems and proxy servers can provide various different services.
Transmission Control Protocol (TCP)	Is defined in IETF RFC793. TCP provides a reliable stream delivery and virtual connection service to applications through the use of sequenced acknowledgment with retransmission of packets when necessary. It is one of the core protocols of the Internet Protocol Suite. TCP is one of the two original components of the suite (the other being Internet Protocol, or IP), so the entire suite is commonly referred to as TCP/IP. Whereas IP handles lower-level transmissions from computer to computer as a message makes its way across the Internet, TCP operates at a higher level, concerned only with the two end systems, for example a Web browser and a Web server.
Time Division Synchronous Code Division Multiple Access (TD-SCDMA)	A 3G mobile telecommunications standard, being pursued in the People’s Republic of China by the Chinese Academy of Telecommunications Technology (CATT).
Triple Play	A marketing term for the provisioning of the three services: high-speed Internet, television (Video on Demand or regular broadcasts) and telephone service over a single broadband connection.
Universal Mobile Telecommunications Service (UMTS)	A third-generation digital high-speed wireless technology for packet-based transmission of text, digitized voice, video, and multimedia that is the successor to GSM.

Voice Over IP (VoIP)	A telephone service that uses the Internet as a global telephone network.
Wireless Application Protocol (WAP)	Aims to provide Internet content and advanced telephony services to digital mobile phones, pagers and other wireless terminals. The protocol family works across different wireless network environments and makes web pages visible on low-resolution and low-bandwidth devices. WAP phones are "smart phones" allowing their users to respond to e-mail, access computer databases and to empower the phone to interact with Internet-based content and e-mail.

Overview

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

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

During 2011 we continued a trend from 2008 of an increase in the relative portion of medium-to-large sized deals, reflecting our success in creating business relations with more Tier-I and Tier-II operators.

We currently offer the following solutions:

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

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

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

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

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

Industry Background

Service providers deploy unified, packet-based platforms with broadband 3G and 4G technologies to enhance the value proposition of converged networks. These technologies allow service providers to offer new types of revenue-enhancing services, such as voice calls, video calls and mobile broadband, video streaming, music downloading and messaging solutions. Mainstream deployment of converged networks has begun and equipment vendors are under pressure to develop and improve the required technologies. Both types of our main market players (both equipment vendors and service providers) need sophisticated monitoring solutions.

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

For example, analysis from the OSS Observer in 2010 states that the service assurance probe system market is the most mature segment within the service assurance marketplace but continues to show strong growth to support new services as communication service providers migrate from circuit switched to IP technologies. Mobile data services are a rapidly growing field, whose growth is accelerated by the wide use of smartphones and mobile broadband.

Our Customers and the Markets for Our Solutions

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

For Service Providers/Enterprises:

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

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

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

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

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

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

Our Strategy

Our objective is to continue expanding our sales by offering tailored solutions to service providers in targeted geographical regions, by continuing to pursue our goal of becoming the industry’s "Number One in Customer Satisfaction," and by extending our partnering and channeling activities. Key elements of our strategy include:

- In emerging regions, targeting cellular and VoIP operators. In many regions of Latin America, Eastern Europe, Africa and Asia, service providers continue to roll out cellular and VoIP networks. We believe this represents a significant opportunity for RADCOM. In 2011, approximately 69% of our sales were derived from these regions, compared to approximately 63% of our sales in 2010, and we expect these regions to continue to make significant contributions to our revenues in the future. To improve our ability to reach and support customers in emerging markets, we continue to expand our distributor network and to provide comprehensive support and also formed a new subsidiary in Brazil in 2010.

- In developed regions, targeting service providers migrating to LTE and IMS. In Europe and North America, we have begun to benefit from the migration of top-tier service providers to LTE and IMS activities and deployments, despite the fact that this market has been developing more slowly than initially expected. We are seeing the growing deployment of hybrid IMS/NGN networks, whose greater complexity dictates a need for more sophisticated monitoring solutions. We believe that our ability to secure initial customers with deployments of our solution in live LTE and IMS operational networks positions us to benefit from this trend in the future.

- Continuous investment in the RADCOM brand as the industry’s "Number One in Customer Satisfaction." Customer satisfaction is difficult to achieve in the network monitoring business because of the technology challenges inherent in monitoring complex multi-service, multi-technology, interconnected networks, and our pursuit of this goal is a differentiating advantage. We believe that our efforts to assure customer satisfaction have contributed to the growth of our sales to existing customers, and, in some cases, have helped us to replace competitors’ systems. These efforts include enhancement of on-site support, customer-oriented product development and support of our representatives and distributors, each as further described below.

- Continued investment in the technological excellence of our solutions. RADCOM’s products have always been differentiated by their advanced technology and their ability to offer comprehensive solutions in response to the industry’s most difficult problems. We intend to continue a high level of investment to maintain our technological edge in a dynamic environment. This includes hiring of skilled personnel and investing significant resources in training, retention and motivation of high quality personnel. Training programs cover areas such as technology, applications, development methodology and programming standards.

Products and Solutions

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

The Omni-Q Network Monitoring Solution

The Omni-Q is a unique, comprehensive, next-generation probe-based service assurance solution designed to enable telecommunications carriers to carry out end-to-end voice and data quality monitoring and to manage their networks and services.

The Omni-Q solution consists of a powerful and user-friendly central management server and a broad range of intrusive and non-intrusive probes covering various networks and services, including IMS, VoIP, UMTS, CDMA, LTE and data. These probes are based on RADCOM's R70S probe and Performer family platforms, enabling the Omni-Q to deliver full visibility at the session and application level (and not only at the single packet or message level), with full 7-layer analysis. The R70S probe platform consists of an embedded Linux platform based on our GearSet technology. The GearSet is a technology extension of our successful GEAR chip technology which allows full session tracing and analysis in a chip set while permitting wirespeed analysis of network services.

The Omni-Q is designed to enable service providers and vendors to succeed in their efforts to address significant technology challenges, including:

- deployment of next-generation networks such as UMTS, CDMA2000 and Triple Play;
- integration of new architectures such as high-speed downlink packet access ("HSDPA"), high-speed uplink packet access ("HSUPA"), long-term evolution ("LTE"), IMS, UMTS Release 6 and CDMA Rev' A or evolution data voice ("EVDV");
- migration of the network core to IP technology using IMS or SIGTRAN;
- successful delivery of advanced, complex services such as VoIP, IPTV and video conferencing; and
- proactive management of call quality on existing and next-generation service providers' production networks, along with maintenance of high-availability, high-quality voice services over packet telephony.

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

- Troubleshooting – the Omni-Q enables service providers to "drill down" to identify the source of specific problems, using tools ranging from call or session tracing to a full decoding of the call flow.

- Performance monitoring – service providers use Omni-Q to analyze the behavior of network components and customer network usage to understand trends, performance level and optimization, with the goal of identifying faults before they compromise the end-user experience.

- Fault detection – service providers use Omni-Q's automatic fault detection and service KPIs to alert them to network problems as they arise.

- Pre-Mediation – Omni-Q generates CDRs needed to feed third-party OSSs or other solutions.

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

By monitoring sessions that are meaningful to the end user, such as complete HTTP page downloads and large HTTP file downloads, the Omni-Q provides valuable insight into the customer experience (CEM) for mobile broadband and "walled garden" WAP portals. A large number of TCP metrics are measured for each TCP packet for all HTTP sessions and for all subscribers constantly. By analyzing these measurements in real time and applying business intelligence, the Omni-Q provides realistic insight not only into the quality of the end user's experience but also into the corresponding quality of the Service Provider's TCP/IP network.

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The QVIP application, described below, ensures SLA troubleshooting, from services to session view. It can be used by various departments in an enterprise.

QVIP provides:

- Statistical reports for individual subscribers and groups of subscribers;
- Quality of Service experienced by the subscriber over time and location;
- Aggregated statistics for long periods of time; and
- Alerts when thresholds are crossed.

The Omni-Q is comprised of the following components:

Omni-Q Central Management Module: this component consolidates the information gathered by the Omni-Q monitoring and analysis platform into a comprehensive, integrated view that maximizes visibility while facilitating fault detection, performance and troubleshooting.

Omni-Q Wireline Monitoring Solution: this component gives service providers, incumbent local exchange carriers ("ILEC"s) and cable/multi-system operators ("MSO"s) complete visibility into voice, video and/or TV service running over the network, enabling early-stage fault detection, pre-emptive maintenance and optimization, and drill-down troubleshooting as needed for quick and easy fault resolution.

Omni-Q GSM/UMTS/CDMA2000/LTE Network Monitoring Solution: this component gives cellular service providers complete visibility into their networks, enabling real-time traffic analysis, fault detection, troubleshooting and data collection, as well as the identification of long-term trends. The system monitors and analyzes the performance of Radio Access, Core Signaling and Core IP components. It provides extensive and flexible KPIs and KQIs analysis with real-time alarms that allow operators to detect faults before their customers experience problems.

The Performer Family

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

The Performer's architectural advantages include:

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

- Scalable: Our solution is fully scalable, can be migrated quickly for use with new applications, and can be easily integrated with third-party applications; and

- Distributed system: Our solution's usage of GPS synchronization technology, IP connectivity and management console/server architecture makes it ideal for distributed environments.

Performer family solutions are used primarily by the following users:

- converged service providers – for post-deployment quality management solutions and troubleshooting.

- vendors of converged network solutions – for pre-deployment, predictive test systems.

Our system solutions are critical for the successful rollout of next-generation 3G and 3.5G cellular networks, Voice over IP and Video over IP technologies. Our solutions have the ability to troubleshoot connectivity problems and to analyze network performance, helping equipment vendors and service providers ensure a trouble-free network environment and a high-quality user experience. In addition, our ability to provide highly cost-effective solutions has been a critical asset in this competitive market.

Network Protocol Analyzer

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

The Cellular Performer

The Cellular Performer is an application that runs on our Performer platform. It performs a multi-layer session-level analysis of applications and services that gives users a simple, intuitive and powerful troubleshooting tool. Used for drilling down to each interface within a cellular network, the Cellular Performer enables users to trace a call over a whole network, and identify the source of network problems. This allows users to quickly pinpoint specific problems, and to smooth out the performance of highly complex networks. The product supports all major 2.5G and 3G networks, including GPRS, UMTS, CDMA2000, and Enhanced Data Rates for Global Revolution Standard (Edge) and TD-SCDMA.

The Network Consultant is an advanced cellular network analysis application that enables mobile operators to quickly verify subscriber connectivity and proactively monitor end-to-end network performance. It gathers and processes data from multiple server links from the Radio Access Network, Core signaling, and Core IP. It enables full drill-down analysis capabilities of the call session, voice calls and video calls. Using the Network Consultant, customers can zoom in and view the signaling and procedures on each interface separately, whether from an online or offline vantage point. Both RANalysis and eDiamond are different tools within the Cellular Performer applications family, each being deployed for different purposes.

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

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

The Voice-over-IP Performer

The Voice-over-IP Performer is designed to support pre-deployment testing of current and emerging convergence technologies, such as NGN VoIP and IMS networks.

The following are the primary modules within the Voice-over-IP Performer product family:

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

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

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

The following table shows the breakdown of our consolidated sales for the fiscal years 2011, 2010 and 2009 by product line:

	Year ended December 31,		
	2011	2010	2009
	(in thousands of U.S. dollars)		
The Omni-Q family	$ 20,949	$ 17,489	$ 9,050
The Performer family and others	$ 1,038	$ 1,684	$ 2,868
Total	$ 21,987	$ 19,173	$ 11,918

Sales and Marketing Organization

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

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

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

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

Direct channels: In North America we operate through our wholly-owned U.S. subsidiary, RADCOM Equipment, which primarily sells our products to end-users directly or, in certain instances, through independent representatives. Although our Omni-Q network monitoring solution is also sold on a non-exclusive basis by sales representatives, for the most part it is sold directly by RADCOM Equipment. The independent representatives are compensated by us on a commission basis. The activities of our representatives and our other sales and marketing efforts in North America are coordinated by RADCOM Equipment's employees, who also provide product support to our North American customers. The independent representatives do not hold any of our inventory, and they do not buy products from us. Our representatives locate customers, provide a demo if needed (in which case they use our demo equipment), and in some cases provide training to the end-users. The customers submit orders directly to RADCOM Equipment, which invoices the end-user customers and collects payment directly, and then pays commissions to the representatives for the sales in their territories. The commission ranges between 7.5% and 15%, depending on the agreement RADCOM Equipment has with the individual representative.

Since 2008 we have been increasing our sales through a new direct channel, whereby our customers (the end-users) can enter into an agreement directly with us. In these situations, we sell directly to customers and collect payment directly from them. If a distributor is engaged in the sale, we pay the distributor a commission, which is normally calculated as a percentage of the sale price. During 2011 this direct channel was used in certain markets, mainly in South America, Central America and Asia. In Brazil this activity was performed by our wholly-owned subsidiary RADCOM Brazil. We expect its use to continue to grow in future years, as direct agreements are increasingly required by our customers.

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

	Year ended December 31, (in millions of U.S. dollars)			Year ended December 31, (in percentages)					
	2011	2010	2009	2011		2010		2009	
Europe	6.4	4.8	5.8	29.1	%	25.0	%	48.7	%
North America	3.2	3.0	2.8	14.5		15.6		23.5	
Asia	4.3	3.6	2.2	19.6		18.8		18.5	
South America (Excluding Brazil)	2.3	2.1	0.7	10.5		10.9		5.9	
Brazil	5.2	4.1	-	23.6		21.3		-	
Others	0.6	1.6	0.4	2.7		8.4		3.4	
Total revenues	22.0	19.2	11.9	100.0	%	100.0	%	100.0	%

Competition

The markets for our products are very competitive and we expect that competition will increase in the future, both with respect to products that we are currently offering and products that we are developing. Our principal competitors include JDSU (Agilent), Danaher (Tektronix), Tekelec, Astelia, Anritsu (Nettest), Accanto, Netscout, Osix, Exfo and Empirix. In addition to these competitors, we expect substantial competition from established and emerging communications, network management and test equipment companies. Many of these competitors have substantially greater resources than we have, including financial, technological, engineering, manufacturing, marketing and distribution capabilities, and some of them may enjoy greater market recognition than we do.

We believe that our competitive edge derives primarily from the advanced technology which underlies our probe-based solutions, and from our ongoing efforts to achieve superior customer satisfaction. In contrast with the solutions of most of our competitors, which were originally planned for the monitoring of legacy SS7 networks and then adapted to NGN IP-based architectures, our solutions were originally designed for NGN networks and the IP environment. Differentiated by the integration of high-performance active and non-intrusive probes with a relatively small footprint, our solution provides cost-effective, unified monitoring and analysis of high-capacity converged networks. In addition, we are investing significantly with the goal of achieving a differentiating high level of customer satisfaction (as described below) – a target that has proven to be difficult to achieve in our industry.

Customer Service and Support

We believe that providing a high level of customer service and support to end-users is essential to our success, and we have established a strategic goal of establishing RADCOM as the industry’s "Number One in Customer Satisfaction." Investments that we are making to achieve this goal include:

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

- Customer-oriented product development: with the goal of continuously enhancing our customer relationships, we meet regularly with customers, and use the feedback from these discussions to improve our products and guide our R&D roadmap.

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

Seasonality of Our Business

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

Manufacturing and Suppliers

Our manufacturing facilities, which are located in Tel Aviv, Israel, consist primarily of final assembly, testing and quality control. Electronic components and subassemblies are prepared by subcontractors according to our designs and specifications. Certain components used in our products are presently available from, or supplied by, only one source and others are only available from limited sources. In addition, some of the software packages that we include in our product line are being developed by unaffiliated subcontractors. The prices of the supplies we purchase from our vendors are relatively steady and not volatile. The manufacturing processes and procedures are generally ISO 9001: 2000 and ISO 14000 certified.

Research and Development

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

Our gross research and development costs were approximately $5.9 million in 2011, $4.3 million in 2010 and $4.2 million in 2009, representing 26.7%, 22.5% and 35.4 % of our sales, respectively. Aggregate research and development expenses funded by the Office of the Chief Scientist were approximately $1.2 million in 2011, $1.4 million in 2010 and $1.6 million in 2009. For more information on the Chief Scientist, see "Israeli Office of the Chief Scientist" below. We expect to continue to invest significant resources in research and development.

As of December 31, 2011, our research and development staff consisted of 56 employees, an increase of 12 employees compared to December 31, 2010. Research and development activities take place at our facilities in Tel Aviv. We occasionally use independent subcontractors for portions of our development projects.

Israeli Office of the Chief Scientist

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

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

In exchange, the recipient of such grants is required to pay the Chief Scientist royalties from the revenues derived from products developed pursuant such programs or deriving therefrom (including ancillary services in connection with such products), usually up to an aggregate of 100% of the dollar-linked value of the total grants received in respect of such program, plus interest. As of December 31, 2011, our royalty rate was 3.5%.

The R&D Law generally requires that the product developed under a program be manufactured in Israel. However, following notification to the Chief Scientist (provided that the Research Committee did not provide its objection), up to 10% of the manufacturing volume may be performed outside of Israel; furthermore, with the approval of the Chief Scientist, a greater portion of the manufacturing volume may be performed outside of Israel, in both cases provided that the grant recipient pays royalties at an increased rate, which may be substantial, and the aggregate repayment amount is increased, which increase might be up to 300% of the grant, depending on the portion of the total manufacturing volume that is performed outside of Israel. The R&D Law further permits the Chief Scientist to approve the transfer of manufacturing rights outside of Israel in exchange for an import of different manufacturing into Israel as a substitute, in lieu of the increased royalties. The R&D Law also allows as part of its approval of the program in cases in which the applicant declares that part of the manufacturing will be performed outside of Israel or by non-Israeli residents and the Research Committee is convinced that doing so is essential for the execution of the program. This declaration is a significant factor in the determination of the Chief Scientist as to whether to approve a program and the amount and other terms of benefits to be granted. An increased royalty rate and repayment amount will be required in such cases.

The R&D Law also provides that know-how developed under an approved research and development program may not be transferred to another person or entity in Israel without the approval of the Research Committee. Such approval is not required for the sale or export of any products resulting from such research or development. The R&D Law prohibits the transfer of Chief Scientist-funded know-how outside of Israel, absent Chief Scientist approval which may be granted under certain circumstances in the following cases: (a) if the subject company pays to the Chief Scientist a portion of the sale price paid in consideration of such funded know-how or in consideration for the sale of the grant recipient itself, as the case may be, the portion to be paid in respect of a sale of the grant recipient itself will change upon the applicable rules coming into effect; (b) if the subject company receives know-how from a third party in exchange for its funded know-how; (c) if such transfer of funded know-how arises in connection with certain types of cooperation in research and development activities; or (d) if such transfer of know-how arises in connection with a liquidation by reason of insolvency or receivership of the subject company.

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

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

The funds available for Chief Scientist grants made out of the annual budget of the State of Israel were reduced in 1998, and the Israeli authorities have indicated in the past that the government may further reduce or abolish the Chief Scientist grants in the future. Even if these grants are maintained, we cannot presently predict the amounts of future grants, if any, that we might receive. In each of the last ten fiscal years, we have received such royalty-bearing grants from the Chief Scientist. At December 31, 2011, our contingent liability to the Chief Scientist in respect of grants received was approximately $28.6 million.

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

Binational Industrial Research and Development Foundation

We received from the Israel-U.S. Binational Industrial Research and Development Foundation (the "BIRD Foundation") funding for the research and development of products. As of December 31, 2011, our contingent liability to the BIRD Foundation for funding received was approximately $342,000. We have not received grants from the BIRD Foundation since 1995.

Proprietary Rights

To protect our rights to our intellectual property, we rely upon a combination of trademarks, contractual rights, trade secret law, copyrights, non-disclosure agreements and technical measures to establish and protect our proprietary rights in our products and technologies. We own registered trademarks for the names Omni-Q, GearSet, and Wirespeed. In addition, we sometimes enter into non-disclosure and confidentiality agreements with our employees, distributors, sales representatives and manufacturer's representatives and with certain suppliers with access to sensitive information. However, we have no registered patents or trademarks (except for those listed above).

Employees

As of December 31, 2011, we had 101 employees located in Israel, 9 employees of RADCOM Equipment located in the United States, 11 employees of RADCOM Brazil located in Brazil and 11 employees in total located in Spain, Singapore, Guatemala, India and China, collectively. As of December 31, 2010, we had 91 employees located in Israel, 7 employees of RADCOM Equipment located in the United States and 11 employees in total located in Spain, Singapore, Brazil, India and China, collectively. As of December 31, 2011, of the 101 employees located in Israel, 56 were employed in research and development, 8 in operations (including manufacturing and production), 27 in sales and marketing and customer support and 10 in administration and management. Of the 9 employees located in the United States, 8 were employed in sales and marketing and 1 was employed in administration and management. Of the 11 employees located in the Brazil, 10 were employed in sales and marketing and 1 was employed in administration and management. Of the 11 employees located in Spain, Singapore, Guatemala, India and China, all were employed in sales and marketing. We consider our relations with our employees to be good and we have never experienced a strike or work stoppage. As of December 31, 2011, of our 132 employees located worldwide, 124 employees were permanent employees and 8 were temporary employees. All of our permanent employees have employment agreements and except in Brazil none of them are represented by labor unions. Our temporary employees (i.e., our employees who do not receive a monthly salary) are paid an hourly rate, have employment agreements and are not represented by a labor union.

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

In Israel, a general practice we follow is the contribution of funds on behalf of most of our permanent employees to an individual insurance policy known as "Managers' Insurance" or a pension fund. The contribution rates towards such Managers' Insurance are above and beyond the legal requirement. This policy provides a combination of savings plan, disability insurance and severance pay benefits to the insured employee. It provides for payments to the employee upon retirement or death and accumulates funds on account of severance pay, if any, to which the employee may be legally entitled upon termination of employment. Each participating employee contributes an amount equal to up to 7% of such employee's base salary, and we contribute between 13.3% and 15.8% of the employee's base salary. Full-time employees who are not insured in this way, if any, are entitled to a savings account, to which each of the employee and the employer makes a monthly contribution of 5% of the employee's base salary, and on top of such contributions we are required to contribute additional contributions for severance liability as provided by law (3.34% during 2011). We also provide our permanent employees with an Education Fund, to which each participating employee contributes an amount equal to 2.5% of such employee's base salary and we contribute an amount equal to 7.5% of the employee's base salary (generally up to a certain ceiling provided in the Israeli Income Tax Regulations). In the United States we provide benefits in the form of health, dental, vision and disability coverage, in an amount equal to 14.49% of the employee's base salary. All Israeli employers, including us, are required to provide certain increases in wages as partial compensation for increases in the consumer price index. The specific formula for such increases varies according to the general collective agreements reached among the Manufacturers' Association and the Histadrut. Israeli employees and employers also are required to pay pre-determined sums which include a contribution to national health insurance to the Israel National Insurance Institute, which provides a range of social security benefits.

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

C.ORGANIZATIONAL STRUCTURE

In January 1993, we established our wholly-owned subsidiary in the United States, RADCOM Equipment, which conducts the sales and marketing of our products in North America. In July 1996, we incorporated a wholly-owned subsidiary in Israel, Radcom Investments (1996) Ltd., for the purpose of making various investments, including the purchase of securities. In August 2001, we established a wholly-owned subsidiary in the United Kingdom, RADCOM (UK) Ltd., which was dissolved in 2008, but prior to its dissolution conducted the sales and marketing of our products in the United Kingdom. In 2002, we established a wholly-owned Representative Office in China, which conducts the marketing for our products in China. In 2010, we established RADCOM Brazil, our wholly-owned subsidiary in Brazil which conducts the sales and marketing of our products in Brazil. The following is a list of our subsidiaries, each of which is wholly-owned:

Name of Subsidiary	Jurisdiction of Incorporation
RADCOM Equipment, Inc.	New Jersey
RADCOM Investments (1996) Ltd.	Israel
RADCOM do Brasil Comercio, Importacao E Exportacao Ltda.	Brazil

Yehuda Zisapel and Zohar Zisapel are co-founders and principal shareholders of the Company. Individually or together, they are also founders, directors and principal shareholders of several other privately and publicly held high technology and real estate companies which, together with us and the other subsidiaries and affiliates, are known as the "RAD-BYNET Group." In addition to engaging in other businesses, members of the RAD-BYNET Group are actively engaged in designing, manufacturing, marketing and supporting data communications and telecommunications products. The Company has limited competition with Radvision Ltd., part of the RAD-BYNET Group, which supplies as part of its technology package a protocol simulation that may serve some of the needs of our customers for test equipment. Some of the products of members of the RAD-BYNET Group are complementary to, and have been and are currently used in connection with, our products. For more information, see "Item 7—Major Shareholders and Related Party Transactions—Related Party Transaction" below.

D.PROPERTY, PLANTS AND EQUIPMENT

We do not own any real property. We currently lease an aggregate of approximately 1,874 square meters of office premises in Tel Aviv, which includes approximately 1,795 square meters from affiliates of our principal shareholders. Our manufacturing facilities consist primarily of final assembly, testing and quality control of materials, wiring, subassemblies and systems. In 2011, aggregate annual lease and maintenance payments for the Tel Aviv premises were approximately $507,000, of which approximately $365,000 was paid to affiliates of our principal shareholders. We may, in the future, lease additional space from affiliated parties. We also lease office space in Paramus, New Jersey from an affiliate. In 2011, we leased approximately 4,604 square feet from an affiliate, approximately 517 square feet of which we now sub-lease to a related party. In 2011, aggregate annual lease payments for the premises were approximately $85,000 and we received $9,000 from the related party for those sub-leases. We also lease approximately 142 square meters of office space in Beijing. In 2011, our aggregate annual lease payments for such premises were approximately $33,000. We also lease approximately 105 square meters of office space and approximately 35 square meters of apartment space in Sao Paolo. In 2011, our aggregate annual lease payments for those premises were approximately $66,000. For more information, see "Item 7—Major Shareholders and Related Party Transactions—Related Party Transaction" below.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5.OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

This discussion contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements are based on current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," "continues," "may," variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements – including those identified below, as well as certain factors – including, but not limited to, those set forth in "Item 3—Key Information—Risk Factors" – are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Although we believe the expectations reflected in the forward-looking statements contained in this Annual Report are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. We assume no duty to update any of these forward-looking statements after the date of this Annual Report to conform our prior statements to actual results or revised expectations, except as otherwise required by law.

Overview

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

General

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

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

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

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

Our business has been improving since the middle of 2009 following the recovery after the severe impact of the global economic slowdown. As we evaluate our growth prospects and manage our operations for the future, we continue to believe that the leading indicator of our growth will be the deployment of 3G and 4G cellular, Voice over IP and Triple Play networks. During 2010 and 2011, we focused our sales efforts on targeted emerging markets, in which operators are rolling out 3G and 4G cellular and Voice over IP networks, and on developed markets currently introducing Triple Play services based on the IMS platform and mobile broadband services. These market segments continued to grow in 2011, after the global economic slowdown, and are expected to continue to grow in 2012 and beyond, helping us to continue to improve our business.

Throughout 2010 and 2011, we followed a three-pronged sales strategy designed to expand our sales pipeline and revenues:

- In emerging markets, including South America, Central America, Eastern Europe, Africa and Asia, our strategy has been to target customers rolling out cellular and Voice Over IP services.

- In developed markets, including Europe and North America, we have been targeting the IMS activities and deployments of top-tier wireline service providers, and the mobile broadband networks of wireless operators.

- To improve our ability to penetrate targeted customers in all regions, we have pursued strategic partnering relationships, including OEM partnerships and teaming agreements and distribution agreements.

During 2010 and 2011, we focused mainly on our concrete emerging markets and developed markets strategies and to a lesser extent on our collaboration efforts with third parties.

In parallel, we have been investing to achieve industry recognition for the RADCOM brand as the industry’s "Number One in Customer Satisfaction."

During 2011 we continued a trend, which started in 2008, of an increase in the relative portion of medium-to-large sized deals, reflecting our success in creating business relations with more Tier-I and Tier-II operators. As a result, the average deal size increased, payment terms became longer and our right to collect payment became subject to certain conditions, extending the time that elapsed between the date of an initial sale and full revenue recognition. These changes created fluctuations in our quarterly results as well.

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

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

RADCOM	Subcontractor
Planning	Purchasing component parts
Integration	Assembly
	Testing

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

Our gross profit is affected by several factors, including the introduction of new products, price erosion due to increasing competition, the number of people that we have in operations and in customer support, the bargaining power of larger clients, product mix and integration of other companies' solutions into our own. During the initial launch and manufacturing ramp-up of a new product, our gross profit is generally lower as a result of manufacturing inefficiencies during that period. As the difficulties in manufacturing new products are resolved and the volume of sales of such products increases, our gross profit generally improves. In addition, we attempt to implement engineering and other improvements to our solutions to reduce their cost. For example, in 2009 we announced the inclusion of new server technologies from Hewlett Packard in our monitoring solutions, an innovation which improves the performance and capacity of our solutions while reducing their cost. Most of our products consist of a combination of hardware and software. Following an initial purchase of a product, a customer can add additional functions by purchasing software packages. These packages may add functions to the product such as providing additional testing data or adding the ability to test equipment based on different transmission technologies. Since there are no incremental hardware costs associated with the sale of the add-on software, the gross margins on these sales are higher. Our strategy is to continue to increase our percentage of direct sales, such as in Brazil and India, as mentioned above.

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

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

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

Financial Expenses, Net. Financial expenses, net, in 2011, consist primarily of interest earned on bank deposits and gains and losses from the exchange rate differences of monetary balance sheet items denominated in non-dollar currencies. In 2010, Financial expenses, net, consist primarily of interest expenses on bank short-term loans and interest expenses paid on our venture lending loan from Plenus which was fully paid in 2010 (as described below under "Venture Loan from Plenus") and changes in the fair value of the warrant granted to Plenus.

Summary of Our Financial Performance in Fiscal Year 2011 Compared to Fiscal Year 2010

For the year ended December 31, 2011 our revenues were $22.0 million compared with $19.2 million in 2010, an increase of 15%. On an operating basis, the Company burned $3.3 million of cash from operating activities during 2011, compared to a burn of $2.5 million during 2010. The Company’s net loss for the year ended December 31, 2011 was $1.9 million compared with a $0.6 million net income for 2010. Although we increased our revenues in 2011, we incurred a net loss due to strategic investments in manpower and offices outside of Israel.

As of December 31, 2011, our cash and cash equivalents totaled $2.9 million, compared with $5.7 million as of December 31, 2010. The decrease reflected our strategic investment in expanding our direct sales capabilities by developing our offices in Singapore, India and Brazil, our investment in sales and R&D activities and a significant pay-out of import and other taxes in Brazil which was offset against relatively high receivables from customers.

After delivering very low revenue figures and operating results in the first quarter of 2009, as a result of the global economic crisis, the following three quarters showed steady sequential improvement, and during the fourth quarter of the year the Company returned to profitability for the first time since the fourth quarter of 2007. This trend continued through 2010 and the first, second and fourth quarters of 2011 as well. In the third quarter of 2011 we incurred a net loss due to fluctuations in revenue and the deferral of revenue recognition from the third quarter to the fourth quarter. During 2011 we continued a trend, which started in 2008, of an increase in the relative portion of medium-to-large sized deals, reflecting our success in creating business relations with more Tier-I and Tier-II operators.

Reportable Segments

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

A.OPERATING RESULTS

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

	Year Ended December 31,		
	2011	2010	2009
Sales	100.0 %	100.0 %	100.0 %
Cost of sales	30.4	33.8	34.1
Gross profit	69.6	66.2	65.9
Operating expenses:			
Research and development	26.7	22.5	35.4
Less royalty-bearing participation	5.6	7.4	13.7
Research and development, net	21.1	15.1	21.7
Sales and marketing	45.4	36.3	49.0
General and administrative	10.1	8.0	13.7
Total operating expenses	76.6	59.4	84.4
Operating income (loss)	(7.0)	6.8	(18.5)
Financial income (loss), net	(1.7)	(3.8)	(3.7)
Net income (loss)	(8.7)	3.0	(22.2)

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

Revenues

	Year Ended December 31, (in millions of U.S. dollars)			% Change 2011 vs. 2010	% Change 2010 vs. 2009
	2011	2010	2009		
The Omni-Q family	20.9	17.5	9.0	19	94
The Performer family and others	1.1	1.7	2.9	(35)	(41)
Total revenues	22.0	19.2	11.9	15	61

Revenues. In 2011, our revenues increased by 15% compared to 2010, reflecting the on-going recovery from the global economic slowdown and the increased pressure on the telecom networks felt by telecom companies in response to the increasing usage of mobile data applications as well as the explosion of smartphone traffic and its devastating effect on network quality. This caused higher demand for our products and the industry's recognition of our solutions as an effective response to service quality problems. The trend, which started in 2008, of increasing our average deal size from small deals to medium and large-sized deals continued in 2011. However, the increased complexity that characterizes larger deals led to longer sales cycles and an increase in conditional payment terms, which in turn led to longer time delays between the date of receiving orders and full revenue recognition, which is currently an average of 6 to 12 months.

In 2011, our revenues from warranty services increased by 16% compared to 2010. This increase is attributed mainly to the ongoing increases in sales over the last few years and an increase in customer warranty renewals.

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

	Year Ended December 31, (in millions of U.S. dollars)			Year Ended December 31, (as percentages)		
	2011	2010	2009	2011	2010	2009
Europe	6.4	4.8	5.8	29.1 %	25.0 %	48.7 %
North America	3.2	3.0	2.8	14.5	15.6	23.5
Asia	4.3	3.6	2.2	19.6	18.8	18.5
South America (Excluding Brazil)	2.3	2.1	0.7			