RADCOM LTD
Form 20-F
March 30, 2017

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, 2016

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)

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(Address of Principal Executive Offices)

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

Title of Each Class	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, 2016, there were 11,586,228 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 x Non-Accelerated Filer o

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

U.S. GAAP x

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

Other o

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

INTRODUCTION

Except for the historical information contained herein, the statements contained in this annual report on Form 20-F, or this Annual Report, are forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements are based on current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management.

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

Omni-Q® is our only registered trademark. All other trademarks and trade names appearing in this Annual Report are owned by their respective holders.

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

GLOSSARY OF TECHNICAL INDUSTRY TERMS

3G	3G (also known as UMTS) is the third generation of wireless mobile telecommunications technology. This is based on a set of standards used for mobile devices and mobile telecommunications use services and networks that comply with the International Mobile Telecommunications -2000 (IMT-2000) specifications by the International Telecommunication Union.
4G	4G (also known as LTE) is the fourth generation of wireless mobile telecommunications technology, succeeding 3G. In March 2008, the International Telecommunications Union-Radio communications sector (ITU-R) specified a set of requirements for 4G standards, named the International Mobile Telecommunications Advanced (IMT-Advanced) specification. On December 6, 2010, ITU-R recognized that other technologies that go beyond-3G technologies that do not fulfill the IMT-Advanced requirements, could be considered "4G", provided they represent forerunners to IMT-Advanced compliant versions and "a substantial level of improvement in performance and capabilities with respect to the initial third generation systems now deployed."
CEM	Customer Experience Management. A solution to support the strategy that focuses the operations and processes of a business around the needs of the individual customer.
CSP	Communication Service Provider. Includes all service providers offering telecommunication services or some combination of information and media services, content, entertainment and applications services over communication networks. CSPs include the following categories: Telecommunications carrier and cable service provider.
CDR	Call Detail Record is a data record containing metadata that describe a specific instance of a telecommunication transaction, but does not include the content of that transaction. A call detail record can include such data as the phone numbers of both the calling and receiving parties, the start time, and duration of that call.

GSM	Global System for Mobile Communications is a standard developed by the European Telecommunications Standards Institute (ETSI) to describe the protocols for second-generation (2G) digital cellular networks used by mobile phones, first deployed in Finland in July 1991.
HSPA	High-Speed Packet Access. An amalgamation of two mobile protocols, High Speed Downlink Packet Access (HSDPA) and High Speed Uplink Packet Access (HSUPA), that extends and improves the performance of existing 3G mobile telecommunication networks using the WCDMA protocols. A further improved 3GPP standard, Evolved High Speed Packet Access (also known as HSPA+), was released late in 2008.
IMS	IP Multimedia Subsystem. An internationally recognized standard defining a generic architecture for offering Voice Over IP and multimedia services to multiple-access technologies.
IoT	Internet of Things. Internet of things is the internetworking of physical devices, vehicles (also referred to as "connected devices" and "smart devices"), buildings, and other items—embedded with electronics, software, sensors, actuators, and network connectivity that enable these objects to collect and exchange data. IoT is expected to offer advanced connectivity of devices, systems, and services that goes beyond machine-to-machine (M2M) communications and covers a variety of protocols, domains, and applications
IP	Internet Protocol. The Internet Protocol is the method or protocol by which data is sent from one computer to another on the Internet.
KPI	Key Performance Indicators. A set of quantifiable measures that a company uses to gauge its performance over time.
KQI	Key Quality Indicators are used to gauge the quality of service and can relate to both customer service and technological issues.
LTE	Long Term Evolution. LTE is a set of enhancements to the UMTS which was introduced in 3rd Generation Partnership Project (3GPP) Release 8. Much of 3GPP Release 8 focuses on adopting 4G mobile communications technology, including an all-IP flat networking architecture.
LTE-A	Long Term Evolution – Advanced. A mobile communication standard and a major enhancement of the LTE standard. LTE-A is a standard for high-speed wireless communication for mobile phones and data terminals, based on the GSM/EDGE and UMTS/HSPA technologies.
M2M	Machine-2-Machine. Direct communication between devices using any communications channel, including wired and wireless. Typically, M2M refers to isolated instances of device-to-device communication, and IoT refers to a grander scale, synergizing software stacks to automate and manage communications between multiple devices.
NFV	Network Function Virtualization. NFV is a software-centric design approach for building complex information technology (IT) networks and applications, particularly for use by CSPs. NFV virtualizes entire classes of network functions into building blocks that may be connected, or chained together to create services in software-based, virtualized network environments. NFV offers a new way to design, deploy and manage networking services. NFV decouples network functions, such as network address translation (NAT), firewalling, intrusion detection, domain name service (DNS), caching, etc., from proprietary hardware appliances, so that these functions can run as virtualized software applications. It is designed to consolidate and deliver the networking components needed to support a fully virtualized infrastructure – including virtual

servers, storage and even other networks. It utilizes standard IT virtualization technologies that run on high-volume service, switch and storage hardware to virtualize network functions. It is applicable to any data plane processing or control plane function in both wired and wireless network infrastructures.

MANO	NFV Management and Orchestration (MANO) is the ETSI-defined framework for the management and orchestration of all resources in the cloud network. This includes computing, networking, storage and virtual machine (VM) resources.
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.
OSSii	Operations Support Systems interoperability initiative. The initiative has Ericsson, Huawei and Nokia as initiating parties. A system enabling easier interoperability between OSS systems, reducing overall OSS integration costs and enabling shorter time-to-market.
Protocol	A specific set of rules, procedures or conventions governing the format, means and timing of transmissions between two devices.
QoE	Quality of Experience. A measure of a customer's experiences with a service (web browsing, phone call, TV broadcast, call to a call center), focuses on the entire service experience, and is a more holistic evaluation than the more narrowly focused user experience (focused on a software interface) and customer-support experience (support focused).
Session	A lasting connection between a user (or a 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.
SDN	Software-Defined Networking. An approach to computer networking that allows network administrators to programmatically initialize, control, change, and manage network behavior dynamically via open interfaces and abstraction of lower-level functionality.
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.

TCP	Transmission Control Protocol. 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 IP Suite. TCP is one of the two original components of the suite (the other being 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.
Triple Play	A marketing term for the provisioning of the three services: high-speed Internet, television (Video on Demand or regular broadcasts) and telephone service over a single broadband connection.
UMTS	Universal Mobile Telecommunications Service. A third-generation digital high-speed wireless technology for packet-based transmission of text, digitized voice, video, and multimedia that is the successor to GSM.
VM-to-VM	Virtual Machine-to-Virtual Machine. communications. In a physical network the communications between functions are between a physical element. In a software-defined network, functions such as network elements are virtual machines. VM-to-VM communication is the line of communication between the different VMs.
VoIP	Voice over Internet Protocol (Voice over IP, VoIP and IP telephony) is a methodology and group of technologies for the delivery of voice communications and multimedia sessions over IP networks, such as the Internet.
VoLTE	Voice over Long Term Evolution. VoLTE is GSM's adoption of the "One Voice" initiative, which describes standard configurations for carrying (packet) voice over LTE. VoLTE eliminates the need for 2G/3G voice, the whole problem of multiple networks, certain extra components and costs of devices by carrying the voice over the LTE channel using adaptive multi rate (AMR) coding. Using IMS specifications developed by 3GPP as its basis, GSM has expanded upon the original scope of One Voice work to address the entire end-to-end voice and short message service (SMS) ecosystem by also focusing on roaming and interconnect interfaces, in addition to the interface between customer and network.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- our plans to become the market leader for service assurance to leading CSPs and increase our sales;
- our plans to focus our expansion efforts in tier 1 and other leading CSPs in the North American, European, and Asian markets and our success in doing so;
- our ability to leverage our technology leadership and our cumulative experience to implement one of the largest and most comprehensive NFV deployments;
- our expectations to maintain our technological advantage over our competitors;
- Our failure to meet any guidance we may give to the public from time to time
- delivering and implementing successfully our solutions to AT&T;
- our ability to identify, market and sell our solutions to CSPs migrating to the NFV, LTE, VoLTE and 5G;
- our expectation that the NFV market will continue gaining momentum during 2017;
- mobile data services to become a significant revenue source for CSPs; and
- increased spending by CSPs of next-generation services and increased usage of such services and increase of the potential need for service assurance solutions.

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

We have derived the following selected consolidated statements of operations data for the years ended December 31, 2016, 2015 and 2014 and the selected consolidated balance sheet data as of December 31, 2016 and 2015 from our audited consolidated financial statements and notes included in this Annual Report. Our selected consolidated statements of operations data for the years ended December 31, 2013 and 2012 and the selected consolidated balance sheet data as of December 31, 2014, 2013 and 2012, have been derived from audited consolidated financial statements not included in this Annual Report. We prepare our consolidated financial statements in accordance with U.S. generally accepted accounting principles, or U.S. GAAP.

You should read the selected consolidated financial data together with "Item 5—Operating and Financial Review and Prospects" and our consolidated financial statements and related notes included elsewhere in this Annual Report. All references to "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.

Statement of Operations Data:	Year Ended December 31, (in thousands of U.S. dollars except share and per share data)				
	2016	2015	2014	2013	2012
Revenues:					
Products and related services	$8,642	$15,500	$18,342	$17,917	$12,480
Projects	17,534	622	2,205		
Warranty and Support	3,334	2,551	3,089	2,565	3,306
	29,510	18,673	23,636	20,482	15,786
Cost of revenues:					
Products and related services	5,603	3,924	7,863	7,540	5,765
Projects	2,902	117	487	-	-
Warranty and Support	477	285	343	350	417
	8,982	4,326	8,693	7,890	6,182
Gross profit	20,528	14,347	14,943	12,592	9,604
Operating expenses:					
Research and development	8,047	6,071	5,812	5,615	6,102
Less - royalty-bearing participation	1,693	1,582	1,664	1,537	1,567
Research and development, net	6,354	4,489	4,148	4,078	4,535
Sales and marketing, net	8,528	7,834	7,295	7,592	8,515
General and administrative	4,523	2,393	2,262	2,051	2,107
Total operating expenses	19,405	14,716	13,705	13,721	15,157
Operating income (loss)	1,123	(369)	1,238	(1,129)	(5,553)
Financial income (expenses), net	816	(433)	(332)	(291)	(314)
Income (loss) before taxes on income	1,939	(802)	906	(1,420)	(5,867)
Taxes on income	(24)	(121)	(180)	---	(120)
Net income (loss)	1,915	(923)	726	(1,420)	(5,987)
Basic net income (loss) per ordinary share	$0.18	$(0.11)	$0.09	$(0.19)	$(0.93)
Weighted average number of ordinary shares used to compute basic net income (loss) per ordinary share	10,406,897	8,572,681	8,088,974	7,340,056	6,442,068
Diluted net income (loss) per ordinary share	$0.18	$(0.11)	$0.08	$(0.19)	$(0.93)
Weighted average number of ordinary shares used to compute diluted net income (loss) per ordinary share	10,779,547	8,572,681	8,592,387	7,340,056	6,442,068
Balance Sheet Data:					
Working capital	$38,854	$9,643	$10,062	$7,762	$5,194
Total assets	$54,568	$20,135	$20,318	$19,645	$19,867
Shareholders' equity	$40,143	$9,863	$10,262	$7,499	$4,997
Share capital	$523	$372	$361	$335	$251

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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 (through March 24, 2017)	3.693	3.614
February 2017	3.768	3.659
January 2017	3.860	3.769
December 2016	3.867	3.787
November 2016	3.876	3.799
October 2016	3.856	3.778
September 2016	3.786	3.746

On March 24, 2017, the daily representative rate of exchange between the NIS and U.S. dollar as published by the Bank of Israel was NIS 3.646 to $1.00.

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

Year	Average (NIS)
2017 (through March 24, 2017)	3.740
2016	3.841
2015	3.884
2014	3.577
2013	3.609
2012	3.858

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

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

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

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

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Risks Related to Our Business and Our Industry

Our business is dependent on a limited number of significant customers, and the loss of our significant customers could harm our results of operations.

Our business is dependent on a limited number of significant customers. For example, our two largest customers accounted for approximately 79% of our revenue in fiscal 2016 and 57% in fiscal 2015. The loss of any significant customer, a significant decrease in business from any such customer or a reduction in customer revenue due to adverse changes in the terms of our contractual arrangements, market conditions, customer circumstances or other factors could harm our results of operations and financial condition. Revenue from individual customers may fluctuate from time to time based on the commencement, scope and completion of projects or other engagements, the timing and magnitude of which may be affected by market or other conditions.

A reduction in some CSPs' revenues and profitability, which could lead them to decrease their investment in capital equipment and infrastructure, may in turn affect our revenues and results of operations. A continued slowdown in our customers' investment in capital equipment and infrastructure might materially and adversely affect our revenues and results of operations.

Our future success is dependent upon the continued growth of the telecommunications industry as well as the specific sectors that we target, which currently include NFV transformation, 4G cellular, Triple Play networks, VoLTE, 5G and IoT. During the last few years, some of the CSPs have experienced a reduction in their revenues from subscribers and lower profitability, which affected their spending budget, and this trend may continue. 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.

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

During the last few years, developments in the communications industry such as the impact of general global economic conditions, industry consolidation, emergence of new competitors, commoditization of voice services, the plans of CSPs to shift, transform and adapt their network operations to the NFV and changes in the regulatory environment, have had a material effect on our existing and/or potential customers, and may continue to have such an effect in the future. In the past, these conditions reduced the high growth rates that the communications industry had previously experienced, and caused the market value, financial results, prospects, and capital spending levels of many communications companies to decline. Over the last few years, 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.

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

We believe that our future success will depend to a significant extent on our ability to develop and maintain long-term relationships with successful CSPs who have the financial and other resources required to invest in significant ongoing Service Assurance and CEM solutions. If we are unable to develop sustainable customer relationships, our business may be harmed. In addition, if we are unable to meet customers’ expectations in providing solutions and related services, our business and results of operations could be harmed.

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

We may enter from time to time into long-term sales agreements with large customers. Agreements that we enter into with large customers may require us to sell products and services at fixed prices over the lives of the agreements, and some may in the future require, us to sell products and services that we would otherwise discontinue, thereby diverting our resources from developing more profitable or strategically important products. The costs we incur in fulfilling some of our sales agreements may vary substantially from our initial cost estimates. Any cost overruns that we cannot pass on to our customers could adversely affect our results of operations.

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

The recent economic environment may have 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 business, financial condition, results of operations and liquidity. In addition, any disruption in the ability of our customers to access liquidity could lead them 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, may 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 we may incur losses.

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

With the recognition of our technological leadership in the service assurance for NFV we have enhanced our presence in North America and Western Europe, where a significant share of the NFV activity is expected to take place. Although our selection in 2015 by AT&T Services, Inc., a top-tier leading North American mobile operator, or AT&T, is expected to significantly help open doors to a relatively untapped market for us, we may not be successful in expanding our business in said markets as we plan.

Our expectation that the NFV market will continue gaining momentum during 2017 and thereafter may not materialize.

We believe that the majority of the industry’s leading CSPs will transform their network to the NFV or are at the very least, evaluating their transformation to NFV. Our expectation is that the NFV market will continue to gain momentum during year 2017 and thereafter. However, our expectations may not be correct, and the actual pace of NFV transformation may take longer than we anticipate, or may not occur at all. If the NFV market does not continue to grow, our business, financial condition and results of operations may suffer.

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

We have a history of net losses. Although we were profitable in 2016 and in 2014, in 2015 we incurred a net loss of $0.9 million. We may not continue to be profitable in the future, which could materially affect our cash and liquidity and could adversely affect the value and market price of our shares.

The market for our products is characterized by changing technology, and its 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, network infrastructure, changing customer requirements, evolving industry standards and frequent new product introductions. These changes could reduce or shift the market for our products or require us to develop new products and to keep adapting them, in order to remain up to date with our customers' requirements. For example, in light of the development of the NFV, LTE, VoLTE and 3G networks, we developed and launched the MaveriQ in 2014, which replaced our previous OmniQ hardware-based solutions. In addition to that, we enhanced our solutions to support NFV as we saw during 2015 and 2016, an increased interest from CSPs using NFV-capable solutions for service assurance and CEM.

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 and market new and enhanced products successfully and on a timely basis, will be significant factors in our ability to remain competitive.

In addition, a 2014 cooperation agreement called OSSii aimed to facilitate interoperability between network management systems from different vendors. If this initiative succeeds, it could lead to a decreased need for our probe-based solutions, as network elements could supply the performance and quality measurements provided by our probe-based solutions. As a result, we cannot quantify the impact of new product introductions on our future operations.

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

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

Our costs of revenues consist of variable costs, which include hardware purchasing, packaging, royalties to the Israel Innovation Authority, or the Innovation Authority of the Israeli Ministry of Economy and Industry (the successor of the Office of Chief Scientist), or the MoE, license fees paid to third parties and import taxes, recurring and

non-recurring write-off of inventory, importation taxes, warranty expenses, subcontractors' expenses and of fixed costs which include facilities' payments, employees' salaries and related costs and overhead expenses. A major part of our costs of sales is relatively variable, and the costs are determined based on our anticipated revenue. We believe, therefore, that quarter-to-quarter comparisons of our operating results may not be a reliable indication of future performance.

Our revenues in any quarter generally have been, and may continue to be, derived from a relatively small number of orders with relatively high average revenues per order. Therefore, the loss of any order or a delay in closing a transaction could have a more significant impact on our quarterly revenues and results of operations, than on those of companies with relatively high volumes of sales or low revenues per order.

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

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

If our revenues in any quarter remain level or decline in comparison to any prior quarter, our financial results for that quarter could be adversely affected.

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

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

We may not be able to sustain or improve upon our recent level of gross margins. Our gross margins may be adversely affected by numerous factors, including:

- increased price competition;
- local sales taxes which may be incurred for direct sales;
- increased industry consolidation among our customers, which may lead to decreased demand for and downward pricing pressure on our 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
- increases in warranty costs.

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

Our actual 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 end of March 2018. However, if our actual sales and spending differ materially from our projections, we may be required to raise capital, borrow additional funds or reduce discretionary spending in order to provide the required liquidity. There is no assurance that if required, we will be able to raise such additional capital, borrow additional funds or reduce discretionary spending.

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

In parallel to our increased sales focus going forward in North America, Western Europe and additional developed markets, in 2017 we plan to continue to generate revenue from various emerging market countries. As these countries represent a portion of our existing business and our expected growth, economic or political turmoil in these countries could materially adversely affect our revenues and results of operations. Our investments in emerging market countries may also be subject to risks and uncertainties, including unfavorable taxation treatment, exchange rates, challenges in protecting our intellectual property rights, nationalization, inflation, currency fluctuations, or the absence of, or unexpected changes in, regulation as well as other unforeseeable operational risks.

Any reversal or slowdown in the 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 resolutions of these uncertainties.

Our inventory may become obsolete or unusable.

We hold some hardware equipment in inventory. Changes in our business 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 portion of our inventory is located on our customers' premises, either as spare parts or 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.

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

We derive all of our revenues from the sale of products and related services for CSPs. As common practice in our industry, 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. As a result, the sales cycle generally takes between three to six months for small transactions, and between nine to 18 months for large transactions. The following factors, among others, affect the length of the approval process:

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

If customers continue to delay project approval, delays are further lengthened, or such continued delays result in the eventual cancellation of any sale opportunities, it may have a material adverse effect on our business, financial condition and results of operations.

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

Throughout 2016, we substantially increased the size of our workforce and we may continue to increase our workforce, in North America and possibly in other regions during 2017 in order to enable us to meet our projections for 2017 and beyond. There is no guarantee that these efforts to increase our work force will have a positive effect on our business. Future growth or consolidation may place a significant strain on our managerial, operational and financial resources.

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

In addition, employees may seek future employment with our business partners, customers or competitors. We cannot assure you that the confidential nature of our proprietary information will not be compromised by any such employees who terminate their employment with us. Furthermore, we believe that our future success will largely depend upon our ability to attract, incentivize and retain highly skilled personnel.

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 service assurance and CEM solutions. We expect that competition will increase in the future, both with respect to products and solutions that we currently offer and products and

solutions that we are developing. Moreover, manufacturers of data communications and telecommunications equipment which are current and potential partners of ours, may in the future incorporate into their products capabilities similar to ours, which would reduce the demand for our products.

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

In July 2015, NetScout Systems Inc. announced that it had completed the acquisition of Danaher Corporation's communications business, which includes Tektronix Communications, enabling it to expand its network performance monitoring and security monitoring capabilities. This transaction resulted in NetScout Systems Inc. holding a very significant market share, making it a stronger competitor, and may as a result have a negative impact on our competitive environment.

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

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

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

Our future growth and success depends to an extent upon the continuing services of our executive officers and other key employees, including our Chief Executive Officer, Mr. Yaron Ravkaie, the Chief Executive Officer of our U.S. subsidiary, Radcom, Inc., or RADCOM US, Mr. Eyal Harari, and our Vice President of Research and Development, Mr. Hilik Itman. 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.

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

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

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

The complexity and scope of the solutions and services we provide to larger CSPs is increasing. The larger and more complex such projects are, the greater the operational risks associated with such projects. These risks include failure to deliver successfully our solution, the 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, such as the project we have for AT&T, 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.

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We could be subject to claims under our warranties and extended maintenance and support agreements which may affect 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, or the extended maintenance agreements. 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 under 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, financial condition and results of operations.

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

We currently obtain key components for our products from a limited number of suppliers. We have one long-term contract with a supplier of hardware and servers, which is a major supplier in its field. The agreement is scheduled to expire during 2017, with a one-year extension option. We do not have long-term supply contracts with any of our other existing suppliers. This presents the following risks:

- delays in delivery could interrupt and delay delivery 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; and
- suppliers could discontinue the supply of components used in our products. This may require us to modify our products, which may cause delays in product shipments and/or delivery, increased production costs and increased product prices.

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

Our success and ability to compete depend in large part upon protecting our proprietary technology. We rely upon a combination of contractual rights, software licenses, trade secrets, copyrights, non-disclosure agreements and technical measures to establish and protect our intellectual property rights in our products and technologies. In addition, we sometimes enter into non-competition, non-disclosure and confidentiality agreements with our employees, distributors, sales representatives and certain suppliers with access to sensitive information. We currently

have two pending patent applications and we are in the process of filing additional patent applications. However, we have no registered patents and these measures may not be adequate to protect our technology from third-party infringement. Additionally, effective intellectual property protection may not be available in every country in which we offer, or intend to offer, our products.

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

Part of our growth strategy may be to selectively pursue partnerships and acquisitions that provide us access to complementary technologies and accelerate our penetration into new markets. The negotiation of acquisitions, investments or joint ventures, as well as the integration of acquired or jointly developed businesses or technologies, could divert our management's time and resources. Acquired businesses, technologies or joint ventures may not be successfully integrated with our 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, financial condition and results of operations could be adversely affected. As of the date of this Annual Report, we have not proceeded with such acquisitions.

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

We have received an aggregate of $40.1 million in royalty-bearing grants from the Innovation Authority (previously the Israeli Office of the Chief Scientist), for certain research and development activities pursuant to an incentive program. Accordingly, we are obligated to pay royalties to the Innovation Authority on revenues from products developed pursuant to the program or deriving therefrom . In addition, under the terms of the program our ability to transfer any resulting know-how, especially outside from Israel abroad, is limited. The Law for the Encouragement of Research, Development and Technological Innovation in the Industry, 1984-5744, or the R&D Law, generally requires a grant recipient and its controlling shareholders to notify the Innovation Authority of changes in the ownership of the recipient company and to undertake to the Innovation Authority to observe the laws governing the grant programs.

A recent amendment or Amendment No. 7, to the R&D Law the formation of the Innovation Authority, to replace the Chief Scientist. Pursuant to Amendment No. 7, the Innovation Authority may establish new guidelines and promulgate new regulations under the R&D Law. These changes in the structure of the Innovation Authority and the R&D Law may affect our existing or future Innovation Authority programs and incentives. At this stage, we cannot predict what changes, if any, the new authority may make. For more information, see "Item 4.B—Information on the Company—Business Overview—Israeli Innovation Authority."

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 Innovation Authority regarding alleged miscalculations in the amount of royalties paid by us to the Innovation Authority for the years 1992 through 2009 and the revenues on which the Company has to pay royalties. During 2011, we reviewed with the Innovation Authority these alleged miscalculations. We believe that all royalties due to the Innovation Authority from the sale of products developed with funding provided by the Innovation Authority during such years were properly paid or were otherwise accrued as of December 31, 2016. However, we cannot be sure that the Innovation Authority will accept our arguments mentioned above, which if not accepted, may result in the expenditure of significant financial resources.

Yehuda Zisapel and Zohar Zisapel beneficially own, in the aggregate, approximately 29% 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 24, 2017, Yehuda Zisapel and Zohar Zisapel (the former Chairman of our Board of Directors), who are brothers, may be deemed to beneficially own an aggregate of 3,348,192 ordinary shares, including options exercisable for 10,000 ordinary shares that are exercisable within 60 days of March 24, 2017, representing approximately 29% 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/or 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. Furthermore, in some cases we may compete, or buy third party components from other companies who compete, with some of these companies controlled by Zohar Zisapel and/or Yehuda Zisapel.

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

Our growing international presence exposes us to risks associated with varied and changing political, cultural, legal and economic conditions worldwide and if we fail to adapt appropriately to the challenges associated with operating internationally, the expected growth of our business may be impeded and our operating results may be affected.

While we are headquartered in Israel, approximately 98% of our sales in 2016, 93% of our sales in 2015 and 86% of our sales in 2014 were generated outside of Israel, including in North America, Europe, Asia and South America. Our international sales will be limited if we cannot continue to establish and maintain relationships with international distributors and resellers, set up additional foreign operations, expand international sales channel management, hire additional personnel, develop relationships with international CSPs and operate adequate after-sales support internationally.

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

- legal and cultural differences in the conduct of business;
- 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 including additional labor laws, particularly in Brazil and India, together with unexpected changes in such regulations;
- insufficient measures to ensure that we design, implement, and maintain adequate controls over our financial processes and reporting in the future;
-