RADCOM LTD
Form 20-F
April 18, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from __________ to __________

OR

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

Date of event requiring this shell company report ____________

Commission file number 0-29452

RADCOM LTD.

(Exact Name of Registrant as Specified in its Charter)

N/A

(Translation of Registrant's Name into English)

Israel

(Jurisdiction of Incorporation or Organization)

24 Raoul Wallenberg Street, Tel-Aviv 69719, Israel

(Address of Principal Executive Offices)

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24 Raoul Wallenberg Street, Tel Aviv 69719, Israel

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

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

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

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: As of December 31, 2018, there were 13,699,727 ordinary shares, NIS 0.20 par value per share, outstanding.

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

Yes No

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

Yes No

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

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

Large Accelerated Filer   Accelerated Filer   Non-Accelerated Filer
Emerging Growth Company

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

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

U.S. GAAP

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

Other

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

Item 17

Item 18

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

Yes   No

INTRODUCTION

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

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

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

Omni-Q® is our only registered trademark. A trademark for the term “RADCOM” is pending before the United States Patent and Trademark Office, or USPTO. All other trademarks and trade names appearing in this Annual Report are owned by their respective holders.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

In some cases, forward-looking statements are identified by terminology such as “may,” “will,” “could,” “should,” “expects,” “plans,” “anticipates,” “believes,” “intends,” “estimates,” “predicts,” “potential,” or “continue” or the negative of these terms o 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, 2018, 2017, and 2016 and the selected consolidated balance sheet data as of December 31, 2018 and 2017 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, 2015 and 2014 and the selected consolidated balance sheet data as of December 31, 2016, 2015 and 2014, have been derived from audited consolidated financial statements not included in this Annual Report. We prepare our consolidated financial statements in accordance with U.S. generally accepted accounting principles, or U.S. GAAP.

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

Statement of Operations Data:	Year Ended December 31, (in thousands of U.S. dollars, except share and per share data)				
	2018	2017	2016	2015	2014
Revenues:					
Products and related services	$13,529	$7,457	$8,642	$15,500	$18,342
Projects	12,218	26,179	17,534	622	2,205

Warranty and Support	8,303	3,597	3,334	2,551	3,089
	34,050	37,233	29,510	18,673	23,636
Cost of revenues:					
Products and related services	4,851	4,680	5,603	3,924	7,863
Projects	2,825	5,321	2,902	117	487
Warranty and Support	1,190	487	477	285	343
	8,866	10,488	8,982	4,326	8,693
Gross profit	25,184	26,745	20,528	14,347	14,943
Operating expenses:					
Research and development	15,503	10,562	8,047	6,071	5,812
Less - royalty-bearing participation	1,648	1,599	1,693	1,582	1,664
Research and development, net	13,855	8,963	6,354	4,489	4,148
Sales and marketing, net	11,426	10,996	8,528	7,834	7,295
General and administrative	3,391	4,191	4,523	2,393	2,262
Total operating expenses	28,672	24,150	19,405	14,716	13,705
Operating income (loss)	(3,488)	2,595	1,123	(369)	1,238
Financial income (expenses), net	1,136	389	816	(433)	(332)
Income (loss) before taxes on income	(2,352)	2,984	1,939	(802)	906
Taxes on income	(63)	(83)	(24)	(121)	(180)
Net income (loss)	$(2,415)	$2,901	$1,915	$(923)	$726
Basic net income (loss) per ordinary share	$(0.18)	$0.24	$0.18	$(0.11)	$0.09
Weighted average number of ordinary shares used to compute basic net income (loss) per ordinary share	13,630,793	12,039,176	10,406,897	8,572,681	8,088,974
Diluted net income (loss) per ordinary share	$(0.18)	$0.23	$0.18	$(0.11)	$0.08
Weighted average number of ordinary shares used to compute diluted net income (loss) per ordinary share	13,630,793	12,351,566	10,779,547	8,572,681	8,592,387
Balance Sheet Data:					
Working capital	$76,860	$74,842	$38,854	$9,643	$10,062
Total assets	$89,531	$91,909	$54,568	$20,135	$20,318
Shareholders’ equity	$78,480	$76,396	$40,143	$9,863	$10,262
Share capital	$643	$628	$523	$372	$361

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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)
April (through April 15, 2019)	3.626	3.561
March 2019	3.636	3.600
February 2019	3.662	3.604
January 2019	3.746	3.642
December 2018	3.781	3.718
November 2018	3.743	3.668
October 2018	3.721	3.620
September 2018	3.627	3.564

On April 15, 2019, the daily representative rate of exchange between the NIS and U.S. dollar as published by the Bank of Israel was NIS 3.561 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)
2019 (through April 15, 2019)	3.638
2018	3.597
2017	3.600
2016	3.841
2015	3.884
2014	3.577

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

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

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

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

Risks Related to Our Business and Our Industry

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

Our business is dependent on a limited number of significant customers. For example, our two largest customers accounted for approximately 66% of our revenue in fiscal 2018 and 78% in fiscal 2017. The loss of any significant customer, a significant decrease in business from any such customer, or a reduction in customer revenue due to adverse changes in the terms of our contractual arrangements, market conditions, customer circumstances or other factors could have a material adverse effect on our results of operations and financial condition. Revenue from individual customers may fluctuate from time to time based on the commencement, scope and completion of projects or other engagements, the timing and magnitude of which may be affected by market or other conditions.

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

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

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

Our future success is dependent upon the continued growth of the telecommunications industry as well as the specific sectors that we target, which currently include NFV transformation, 4G cellular, Triple Play networks, VoLTE, 5G and Internet of Things, or IoT. During the last few years, some of the CSPs have experienced a reduction in their revenues from subscribers and lower profitability, which affected their spending budgets. This trend may continue. The global telecommunications industry and various sectors within the industry are evolving rapidly and it is difficult to predict its potential growth rate or future trends in technology development.

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

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

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

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

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

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

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

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

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

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

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

Large CSPs have substantial purchasing power and leverage in negotiating contractual arrangements with us. These customers may require us to develop additional features and may impose penalties on us for failure to deliver such features on a timely basis, or failure to meet performance standards. As we seek to increase our sales to large CSPs, we may be required to agree to unfavorable terms and conditions which may decrease our revenues and/or increase the time it takes to convert orders into revenues and could result in an adverse effect on our business, financial condition and results of operations. Similarly, some of our contracts may contain change in control provisions which may have an adverse effect on our business and results if exercised following a change in control transaction or, in the alternative, may act as an impediment to certain change in control transactions.

Global economic conditions may adversely affect our business.

Changes in global economic conditions could have a negative impact on business around the world and on the telecommunications sector. Conditions may be depressed, or may be subject to deterioration, which could lead to a reduction in consumer and customer spending overall and may in turn have an adverse impact on sales of our solutions. A disruption in the ability of our significant customers to access liquidity could cause serious disruptions or an overall deterioration of their businesses, which could lead to a significant reduction in their orders of our solutions and the inability or failure on their part, to meet their payment obligations to us, any of which could have an adverse effect on our business, financial condition, results of operations and liquidity. In addition, any disruption in the ability of our customers to access liquidity could require us to assume greater credit risk relating to our receivables or could limit our ability to collect receivables related to purchases by affected customers. As a result, we may have to defer recognition of revenues, our reserves for doubtful accounts and write-offs of accounts receivable may increase and we may incur losses.

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

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

Our expectation that the NFV market will gain momentum may not materialize.

We believe that most of the industry's leading CSPs will transform their network to NFV or are at the very least, evaluating their transformation to NFV. Our expectation is that the NFV market will materialize and gain momentum. 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 demand for NFV does not continue to grow, our business, financial condition and results of operations may suffer.

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

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

the variation in size and timing of individual purchases by our customers;

seasonal factors that may affect capital spending by customers, such as the varying fiscal year-ends of customers;

the relatively long sales cycles for our solutions;
the request for longer payment terms from us or long-term financing of customers' purchases from us, as well as additional conditions tied to such payment terms;
competitive conditions in our markets;
the timing of the introduction and market acceptance of new solutions or enhancements by us and by our customers, competitors and suppliers;
changes in the level of operating expenses relative to revenues;
quality problems;

supply interruptions;
changes in global or regional economic conditions or in the telecommunications industry;
delays in or cancellation of projects by customers;
changes in the product mix;
the size and timing of approval of grants from the Government of Israel; and
foreign currency exchange rates.

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

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

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

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

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

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

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

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

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

changes in customer, geographic or product mix;
increases in costs such as employment costs or third-party service or component costs;
changes in distribution channels;
losses on customer contracts; and
increases in warranty costs.

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

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

In parallel to our increased sales focus going forward in North America, Western Europe and additional developed markets, 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.

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

We derive all of our revenues from the sale of solutions and related services for CSPs. As common practice in our industry, our solutions generally undergo a lengthy evaluation process before we can sell them. In recent years, our customers have been conducting a more stringent and detailed evaluation of our solutions and decisions are subject to additional levels of internal review. As a result, the sales cycle may be longer than anticipated. The following factors, among others, affect the length of the approval process:

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

If customers delay project approval or extend anticipated decision-making timelines, or if continued delays result in the eventual cancellation of any sale opportunities, it may have a material adverse effect on our business, financial condition and results of operations.

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

During 2016, 2017, and 2018 we increased the size of our workforce and we may continue to do so, during 2019, in order to enable us to meet our obligations, continue enhancing our products and solutions, and grow our business. There is no guarantee that these efforts to increase our work force will have a positive effect on our business. Future growth may place a significant strain on our managerial, operational and financial resources.

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

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

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

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

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

Our non-competition agreements with our employees may not be enforceable under Israeli law. If any of these employees leaves us and joins a competitor, 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 depend 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.

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

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

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

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

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

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

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

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

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

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

Our success and ability to compete depend in large part upon protecting our proprietary technology. We rely upon a combination of contractual rights, software licenses, trade secrets, copyrights, non-disclosure agreements and technical measures to establish and protect our intellectual property rights in our solutions and technologies. In addition, we sometimes enter into non-competition, non-disclosure and confidentiality agreements with our employees, distributors, sales representatives and certain suppliers with access to sensitive information. We currently have one registered patent, five pending patent applications and we are in the process of filing additional patent applications. However, these measures may not be adequate to protect our technology from third-party infringement. Additionally, effective intellectual property protection may not be available in every country in which we offer, or intend to offer, our solutions.

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

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

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

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

If we implement our growth strategy by acquiring other businesses, and this disrupts our operations, our business, financial condition and results of operations could be adversely affected. As of the date of this Annual Report, we have not proceeded with such acquisitions.

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

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

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

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

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

We have received an aggregate of $44.8 million in royalty-bearing grants from the IIA for certain research and development activities pursuant to an incentive program. Accordingly, we are obligated to pay royalties to the IIA on revenues from products developed pursuant to the program or deriving therefrom. In addition, under the terms of the program our ability to transfer any resulting know-how, especially to parties outside of Israel, is subject to certain terms and conditions. The Law for the Encouragement of Research, Development and Technological Innovation in the Industry, 1984-5744, or the R&D Law, generally requires a grant recipient and its controlling shareholders to notify the IIA of changes in the ownership of the recipient company and to undertake to the IIA to observe the laws governing the grant programs.

Additionally, in May 2010, we received a notice from the IIA regarding alleged miscalculations in the amount of royalties paid by us to the IIA for the years 1992 through 2009 and the revenues on which the Company must pay royalties. During 2011, we reviewed with the IIA these alleged miscalculations. We believe that all royalties due to the IIA from the sale of products developed with funding provided by the IIA during such years were properly paid or were otherwise accrued as of December 31, 2018. However, we cannot be sure that the IIA will accept our arguments mentioned above, which, if not accepted, may result in the expenditure of financial resources.

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

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

Zohar Zisapel and Yehuda Zisapel beneficially own, in the aggregate, approximately 24% of our ordinary shares and therefore have significant influence over the outcome of matters requiring shareholder approval including the election of directors.

As of April 15, 2019, Zohar Zisapel (the former Chairman of our Board of Directors) and Yehuda Zisapel, who are brothers, may be deemed to beneficially own an aggregate of 3,226,481 ordinary shares, including options exercisable for 14,000 ordinary shares that are exercisable within 60 days of April 15, 2019, representing approximately 24% of our outstanding ordinary shares. As a result, despite the fact that each one of them, to our knowledge, operates independently from the other with respect to his respective shareholding of our shares, Zohar Zisapel and Yehuda Zisapel have significant influence over the outcome of various actions that require shareholder approval including the election of our directors. In addition, Zohar Zisapel and Yehuda Zisapel may be able to delay or prevent a transaction in which shareholders might receive a premium over the prevailing market price for their shares and prevent changes in control or in management.

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

We are engaged in, and expect to continue to be engaged in, numerous transactions with companies controlled by Zohar Zisapel and/or Yehuda Zisapel. We believe that such transactions are beneficial to us and are generally conducted upon terms that are no less favorable to us than would be available from unaffiliated third parties. Nevertheless, these transactions may result in a conflict of interest between what is best for us and the interests of the other parties in such transactions. Furthermore, in some cases we may compete, or buy third party components from other companies who compete, with companies controlled by Zohar Zisapel and/or Yehuda Zisapel.

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

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

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

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

While we are headquartered in Israel, approximately 98% of our sales in 2018, 90% of our sales in 2017, and 98% of our sales in 2016 were generated outside of Israel. Our international sales will be limited if we cannot continue to establish and maintain relationships with international distributors and resellers, set up additional foreign operations, expand international sales channel management, hire additional personnel, develop relationships with international CSPs and operate adequate after-sales support internationally.

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

- legal, language and cultural differences in the conduct of business;
- challenges in staffing and managing foreign operations due to the limited number of qualified candidates and due to employment laws and business practices in foreign countries;
- our inability to comply with import/export, environmental and other trade compliance and other regulations of the countries in which we do business including additional labor laws, particularly in Brazil and India, together with unexpected changes in such regulations;
- insufficient measures to ensure that we design, implement, and maintain adequate controls over our financial processes and reporting in the future;
- our failure to adhere to laws, regulations, and contractual obligations relating to customer contracts in various countries;
- our inability to maintain a competitive list of distributors and resellers for indirect sales;
- tariffs and other trade barriers;
- economic and political instability in foreign markets;
- wars, acts of terrorism and political unrest;
- lack of integration of foreign operations;
- currency fluctuations;
- variations in effective income tax rates among countries where we conduct business;
- potential foreign and domestic tax consequences and withholding taxes that limit the repatriation of earnings;
- technology standards that differ from those on which our solutions are based, which could require expensive redesign and retention of personnel familiar with those standards;
- laws and business practices favoring local competitors;
- longer accounts receivable payment cycles and possible difficulties in collecting payments; and
- failure to meet certification requirements.

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

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

We sell in markets throughout the world and most of our revenues are generated in U.S. dollars. We also generate revenues in Brazilian real, or BRL, euro and other currencies. Financing activities are also made in U.S. dollars. Accordingly, we consider the U.S. dollar to be our functional currency. However, a significant portion of our expenses is in NIS, mainly related to employee expenses. Therefore, fluctuations in exchange rates between the NIS and the U.S. dollar as well as between other currencies and the U.S. dollar may have an adverse effect on our results of operations and financial condition. As of today, we have not entered into any hedging transactions in order to mitigate these risks.

Moreover, as our revenues are currently denominated primarily in U.S. dollars, devaluation in the local currencies of our customers relative to the U.S. dollar could cause customers to default on payment. Also, as a portion of our revenues is denominated in BRL, devaluation in this currency may cause financial expenses related to our intercompany short-term balances. In the future, additional revenues may be denominated in currencies other than U.S. dollars, thereby exposing us to gains and losses on non-U.S. currency transactions.

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

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

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

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

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

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

Risks Related to our Ordinary Shares

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

Between January 1, 2018 and April 15, 2019, our ordinary shares have traded on the Nasdaq Capital Market, or the Nasdaq, as high as $21.50 and as low as $7.10 per share. As of April 15, 2019, the closing price of our ordinary shares on Nasdaq was $7.93 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 those risks identified in "Item 3.D-Risk Factors".

In addition, the stock market in general, and the market for Israeli and technology companies in particular, has been highly volatile. Many of these factors are beyond our control and may materially adversely affect the market price of our ordinary shares, regardless of our performance. Shareholders may not be able to resell their ordinary shares following periods of volatility because of the market's adverse reaction to such volatility.

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

From time to time we may choose to raise funds in connection with our operations and growth strategy. We do not know whether additional financing will be available when needed, or whether it will be available on terms favorable to us. Any such financings may dilute the ownership of existing shareholders and could adversely affect the market price of our ordinary shares. In addition, if adequate financing is not available on terms favorable to us or to our shareholders, our operations and growth strategy may be affected.

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

Our shares have been traded at low volumes in the past and may be traded at low volumes in the future for reasons related or unrelated to our performance. This low trading volume may result in lesser liquidity and lower than expected market prices for our ordinary shares, and our shareholders may not be able to resell their shares for more than they paid for them. This low trading volume may also result in greater share price volatility as result of short trading activities or the acquisition or disposition of shares by any single larger or institutional shareholder.

Risks Related to Our Location in Israel

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

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

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

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

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

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

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

The Israeli Companies Law, 5759-1999, or the Israeli Companies Law, regulates acquisitions of shares through tender offers, requires special approvals for transactions involving shareholders holding 25% or more of the company's capital, and regulates other matters that may be relevant to these types of transactions. These provisions of Israeli law could have the effect of delaying or preventing a change in control and may make it more difficult for a third party to acquire us, even if doing so would be beneficial to our shareholders. These provisions may limit the price that investors may be willing to pay in the future for our ordinary shares. Furthermore, Israeli tax considerations may make potential transactions undesirable to us or to some of our shareholders.

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

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

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

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

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

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

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

In 1993, we established a wholly-owned subsidiary in the United States, currently named RADCOM, Inc. In 1996, we incorporated a wholly-owned subsidiary in Israel, RADCOM Investments (96) Ltd., or RADCOM Investments, located at our office in Tel Aviv, Israel. In 2010, we established a wholly-owned subsidiary in Brazil, RADCOM do Brasil Comercio, Importacao e Exportacao Ltda., or RADCOM Brazil. In 2012, we incorporated a wholly-owned subsidiary in India, RADCOM Trading India Private Limited, or RADCOM India.

In the years ended December 31, 2018, 2017 and 2016, our capital expenditures were approximately $662 thousand, $790 thousand, and $1.3 million, respectively, and were spent primarily on computers and electronic equipment. We have no current significant commitments for capital expenditures.

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

B. BUSINESS OVERVIEW

Overview

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

Our RADCOM Network Intelligence portfolio of solutions includes:

RADCOM Service Assurance (formerly known as MaveriQ) – a "first to market" fully virtualized, on-demand service assurance solution that integrates an automated, and efficient data acquisition layer of virtual probes with a smart mediation layer thus providing critical customer and service insights for operators in the form of RADCOM Network Insights;

RADCOM Network Visibility – a cloud-native network packet broker and filtering solution that allows operators to manage network traffic at scale across multiple cloud environments and control the visibility layer to perform dynamic, on-demand analysis of select datasets; and

RADCOM Network Insights – a business intelligence solution offering smart insights for multiple use cases, enabled by data captured and correlated through RADCOM Network Visibility and RADCOM Service Assurance. With RADCOM Network Insights we are able to offer a comprehensive CEM solution to CSPs.

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Since 2016, we have adapted our solutions to meet the highest-level requirements of AT&T, the first CSP launching a full NFV eco-system. We built on that success in 2017 and 2018 with our selection as NFV solution provider to additional tier 1 CSPs and the expansion of our footprint with existing customers by supporting them in their transition to NFV. As new and existing customers seek to manage their existing networks while evaluating and deploying NFV-based architectures, we believe we are well positioned with our advanced cloud-native solutions and our growing industry track record.

We specialize in solutions for next-generation mobile and fixed networks, including LTE, LTE-A VoLTE, IMS, VoIP, WiFi, VoWiFi, UMTS/GSM, mobile broadband, and 5G.

Our portfolio enables CSPs to smoothly transition their networks to NFV and 5G by monitoring and assuring both physical network and NFV-based network and consequentially, 'hybrid' networks from tapping point to network insights. With the rate of transition between physical and virtualized networks taking place gradually, CSPs will need to manage 'hybrid' networks for the foreseeable future. As a result, service assurance solutions that provide service and network performance visibility in both physical and virtual environments are expected to become an important step in CSPs' NFV transition.

CSPs across the globe use our solutions to deliver high quality services, reduce churn, manage network performance, analyze traffic and enhance customer care. Our solutions incorporate cutting-edge technologies and a wealth of knowledge acquired by partnering with many of the industry's leading CSPs for over two decades. Our carrier-grade solutions support both mobile and fixed networks and scale to terabit data bandwidths to enable big data analytics.

Our solutions deliver specialized capabilities for virtualized infrastructure and next-generation networks, such as LTE, LTE-A, VoLTE, IMS, VoIP, WiFi, VoWiFi, UMTS/GSM, mobile broadband and 5G and allow CSPs to monitor and proactively improve quality of experience for their subscribers. The key benefits of our solutions are:

- advanced software-based architecture;
- ease of deployment and management;
- improved customer retention;
- reduced subscriber churn rates;
- improved service availability and quality;
- ability to correlate session information and provide an end-to-end view of the customer experience;
- full ability to install the solution as a virtual network function for seamless integration into all NFV infrastructures;
- on-demand monitoring capabilities;
- scalability for next-generation services;

enhanced ability to collect all network packets for a complete and comprehensive view of the network and the customer experience;
increased operational efficiency and lower costs;
support for multiple protocols for end-to-end network coverage;
the existence of both network-wide views and drilldown to an individual subscriber level and down to each session;
support for the largest scale multi-market networks;
accelerated deployment and migration to NFV and 5G; and
real-time capabilities.

Our fully cloud-native solutions enable CSPs to manage both existing physical networks and next-generation, NFV-based architectures. We recognized that CSPs would require a new approach for service assurance and CEM solutions in order to monitor huge volumes of data and support NFV-based network deployments. In February 2014, we launched our service assurance solution which incorporates software-based probes, and which subsequently replaced our OmniQ hardware-based solution. During 2015 and 2016, we launched and substantially enhanced our NFV solution for service assurance and our CEM solution.

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During 2017 and 2018, we improved our NFV capabilities to meet the stringent requirements of top tier CSPs having a large subscriber base and a high level of expertise. We have also continued the development and enhancement of our solutions to meet the complicated needs of monitoring 5G networks and to offer a smart mediation layer which allows us to offer a full end-to-end customer and service view which addresses CSPs' requirements for a smart CEM solution.

In December 2015, our service assurance solution was selected by AT&T for its next-generation virtualized network environment. AT&T's deployment represents the first NFV networks of scale in the industry. During 2017 we continued the deployment of our software-based NFV solution with AT&T and commenced deployment with an additional tier 1 CSP following its selection of our solution. We are leveraging this experience and success in discussions with other CSPs that are looking to manage existing networks while evaluating their transformation to the next-generation NFV architectures. In 2018 we further expanded our solutions to support existing customers in their transition to NFV and meeting their initial requirements for 5G.

Industry Background

Our Customers and the Markets for Our Solutions

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

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

Similar to how virtualization has become widely deployed in many data centers and large enterprises, many CSPs are looking to reduce costs and become more agile by transitioning from physical network elements to software-centric, virtualized NFV architectures. As NFV enables CSPs to replace dedicated physical network elements with software-based solutions that run-on standard, non-proprietary, third-party hardware, this creates an increasing demand for NFV solutions such as ours. However, it also results in downward pressure on NFV and service assurance solution pricing in order to allow the CSPs to obtain cost reduction objectives. Although the pace of NFV transformation is uncertain, major CSPs are currently evaluating and/or moving parts of their network to support NFV. NFV and software-defined networking, or SDN, are expected to play an important role in 5G networks. For instance, 5G will support diverse use cases optimized by dynamic network slicing using SDN and NFV architectures and is expected to lead to an acceleration in NFV transformations.

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

Our Strategy

Our objective is to be the market leader for virtualized network intelligence solutions both for virtualized and hybrid networks. We plan to increase sales by leveraging our leadership and innovation around NFV and cloud-based solutions, as well as take advantage of the experience gained from implementing the largest, most advanced NFV deployment to date (with AT&T) and another NFV implementation with a top tier CSP. In addition, we also offer our solutions and expertise to new and existing tier 1 CSPs in our targeted geographical regions. We plan to maintain our technical advantage over competitors by further extensively investing in our NFV and cloud-based solutions.

Key elements of our strategy include:

Targeting CSPs who are evaluating and/or migrating to NFV and 5G. Most of the industry's largest CSPs are either evaluating NFV or have started deploying virtualized solutions for their network functionality. The introduction of 5G networks also is expected to drive a greater transition to NFV and necessitate real cloud-native network intelligence solutions. We believe that our solutions are significantly more advanced than competitors' offerings and that we are better positioned than competitors who lack the experience deploying in virtualized environments or do not offer true cloud-native solutions that can be deployed at large scale. In order to transition to NFV, CSPs generally need to replace or upgrade their service assurance and CEM solutions with software that can support legacy, NFV-based architectures and 5G use cases. Our solution, which monitors both existing networks and NFV, ensures a smooth migration and enables CSPs to future-proof their investment in a network intelligence solution. The deployment of our solutions with AT&T has been noted by many CSPs. As a result, we believe we are well positioned to leverage our vast experience in true cloud-native and fully virtualized network intelligence in order to successfully expand our deployment base to other CSPs.

Engaging Tier 1 Customers and CSPs actively transitioning to NFV. With our advanced deployment and our reputation as the NFV technology leader, we are focusing our sales and marketing activities on tier 1 and galaxy (multi-carrier) operators and other operators seeking to migrate or actively migrating to NFV.

Utilizing our industry leadership to introduce optimized costing models to the market. As a true software-based company we offer our existing and potential customers an appealing commercial model that combines both predictable spending on capital and operating expenditures with lower spending on service assurance and CEM solutions, in comparison to the appliance-based legacy solutions our competition continues to offer. With our optimized commercial model, we offer our customers several alternatives that enable them to grow their business and traffic on the network without impacting their spending with us.

Focusing our network insight capabilities to enhance the business value of our solution. RADCOM Network Insights is intended to meet the need for an end-to-end customer and service experience management solution. In addition to standard reporting and dashboards, this solution offers advanced capabilities which allow CSPs to gain real-time insights, discern trends, and develop forecasts which will allow them to improve core operations, enhance the customer experience, and improve marketing efficiency. Through the addition of new offerings such as those offered by Network Visibility, we aim to provide end-to-end network visibility from virtual tapping point to network insights.

Products and Solutions

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

RADCOM Service Assurance (formerly MaveriQ)

RADCOM Service Assurance is a class-leading cloud-native, fully virtualized (NFV), next-generation, probe-based service assurance solution. RADCOM Service Assurance integrates an automated and efficient data acquisition layer of virtual probes with a smart mediation layer which correlates and enriches probe-based data with network events to provide critical customer and service insights for operators. RADCOM Service Assurance is the first solution to support NFV networks and can be deployed, in its entirety, on virtualized and/or bare metal servers using the same software. This enables customers to use RADCOM Service Assurance on their physical and cloud infrastructures as they transition from legacy hardware-based networks to NFV-based virtualized networks.

RADCOM Service Assurance allows CSPs to carry out end-to-end data and voice quality monitoring and to manage their networks and services. RADCOM Service Assurance offers users a full array of analysis and troubleshooting tools, delivering a comprehensive, integrated network service view that facilitates performance monitoring, fault detection and network and service troubleshooting from tapping point to network insights.

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

RADCOM Service Assurance monitors multiple types of services such as voice, video and data, employing a comprehensive array of services and network performance and measurement methodologies to continuously analyze service performance and quality. With its enhanced correlation capabilities, RADCOM Service Assurance offers the service provider full end-to-end visibility of the network across technologies. RADCOM Service Assurance displays performance and quality measurements from both the signaling and the user planes, based on a broad range of passive software-based probes, which are installed on standard, non-proprietary third-party hardware that function together with RADCOM Service Assurance to deliver essential functionality.

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

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

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

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

Customer and Service Assurance

Troubleshooting – enables CSPs to "drill down" to identify the source of specific problems, using tools ranging from call or session tracing to a full decoding of the call flow.
Performance monitoring – allows CSPs to analyze and optimize network component performance levels and customer experience with the goal of identifying faults before they compromise the customer's experience.
Fault detection – automatic fault detection and service KPIs alert CSPs to network problems as they arise.
Pre-Mediation – generates call detail records needed to feed the solutions' smart mediation layer as well as third-party operations support systems and other solutions.

Roaming and Interconnect Analysis

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

Customer Experience Management, or CEM

We have developed and are constantly expanding and enhancing our solutions' CEM capabilities in line with CSPs' key business drivers. CSPs need to know what their customers are experiencing in order to retain their customers and maintain their profitability. Our solutions allow CSPs to optimize their customer experience, increase their revenues, and reduce their costs. Revenue-generating services require a well-managed network and mature service-delivery processes to meet the high service-level demands of CSPs' customers.

RADCOM Service Assurance provides the visibility and invaluable data for CSPs to manage both network and service performance and to ensure quality of experience for its subscribers. RADCOM Service Assurance monitors a wide range of measurement sessions that are meaningful to CSPs. By analyzing these measurements in real time and applying business intelligence, Service Assurance provides CSPs with insight not only into the customer quality of experience but also into the corresponding quality of the service provider's network.

RADCOM Network Visibility

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

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

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

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

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

RADCOM Network Insights

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

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

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

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

Sales and Marketing Organization

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

Direct channels: