

RADCOM LTD
Form 20-F/A
November 02, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F/A

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, 2009

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)

Jonathan Burgin: (+972) 3 645 5055 (tel), (+972) 3 647 4681 (fax)
24 Raoul Wallenberg Street, Tel Aviv 69719, Israel
(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

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

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

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

None.

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

None.

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the closing of the period covered by the annual report: As of December 31, 2009, there were 5,102,778 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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 x

EXPLANATORY NOTE

We are filing this Amendment No. 1 (this "Amendment No. 1") to the Annual Report on Form 20-F (the "Original Filing") in response to comments received from the staff of the Securities and Exchange Commission (the "SEC").

Specifically, Amendment No. 1 is being filed for the sole purpose of amending rule references included in Item 16F – Change in Registrant's Certifying Accountant and to include the Report of Independent Registered Public Accounting Firm for the year as of December 31, 2008 and the two-year period ended December 31, 2008, which was inadvertently omitted in the Original Filing.

In addition, pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, the certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 ("SOX"), and the certifications pursuant to Section 906 of SOX have been re-executed as of the date of, and are re-filed as part of, this Amendment No. 1 as Exhibits 12.1, 12.2, 13.1 and 13.2.

Other than expressly set forth herein, this Amendment No. 1 does not, and does not purport to, amend or restate any other information contained in the Original Filing nor does this Amendment No. 1 reflect any events that have occurred after the Original Filing was filed.

ITEM 16F.

CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

(a) Previous independent registered public accounting firm.

On December 9, 2009, the Company dismissed Somekh Chaikin, Certified Public Accountants (Israel), a member firm of KPMG International, as the independent registered public accounting firm for the Company. This action was approved by our shareholders following the recommendation by the Board of Directors and the Audit Committee.

The reports of Somekh Chaikin on the Company's consolidated financial statements for the fiscal years ended December 31, 2008 and December 31, 2007 did not contain any adverse opinion or a disclaimer of opinion, nor were the reports qualified or modified as to uncertainty, audit scope or accounting principles.

During the Company's fiscal years ended December 31, 2008 and December 31, 2007 and through December 9, 2009, there were no disagreements with Somekh Chaikin on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Somekh Chaikin, would have caused it to make reference thereto in its reports on the Company's financial statements for such fiscal years.

During the Company's fiscal years ended December 31, 2008 and December 31, 2007 and through December 9, 2009, there were no reportable events as described in Item 16F(a)(1) of Form 20-F.

The Company provided Somekh Chaikin with a copy of this Annual Report Form 20-F/A prior to its filing with the SEC and requested that Somekh Chaikin furnish a letter addressed to the SEC stating whether Somekh Chaikin agrees with the statements made by the Company in response to this Item 16F and set forth above (the "Letter"). A copy of the Letter, dated November 2, 2010, from Somekh Chaikin to the SEC is attached as Exhibit 15.4 to this Form 20-F/A.

(b) New independent registered public accounting firm.

On December 9, 2009, Kost Forer Gabbay & Kasierer, A Member of Ernst and Young Global, was engaged as the independent registered public accounting firm for the Company. The engagement of Kost Forer Gabbay & Kasierer was approved by our shareholders following the recommendation by the Board of Directors and the Audit Committee. During the Company's fiscal years ended December 31, 2008 and December 31, 2007 and through December 9, 2009, the Company did not consult with Kost Forer Gabbay & Kasierer regarding any of the matters or events set forth in Item 16F(a)(2) of Form 20-F.

ITEM 18.

FINANCIAL STATEMENTS

Our consolidated financial statements and the report of independent registered public accounting firm in connection therewith are filed as part of this Annual Report, as noted below:

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ITEM 19.

EXHIBITS

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

| Exhibit No. | Description |
|-------------|--|
| 1.1 | Memorandum of Association(1) |
| 1.2 | Articles of Association, as amended(14) |
| 2.1 | Form of ordinary share certificate(1) |
| 4.1 | 2000 Share Option Plan(2) |
| 4.2 | 1998 Employee Bonus Plan(3) |
| 4.3 | 1998 Share Option Plan(4) |
| 4.4 | International Employee Stock Option Plan(5) |
| 4.5 | Directors Share Incentive Plan (1997)(6) |
| 4.6 | Key Employee Share Incentive Plan (1996)(7) |
| 4.7 | 2001 Share Option Plan(8) |
| 4.8 | 2003 Share Option Plan(9) |
| 4.9 | Lease Agreement, dated November 15, 2000, among Vitalgo Textile Industries Ltd., Zisapel Properties (1992) Ltd., Klil and Michael Properties (1992) Ltd. and |

RADCOM Ltd. (English summary accompanied by Hebrew original)(10)

- 4.10 Lease Agreement, dated March 1, 2001, among Zisapel Properties (1992) Ltd., Klil and Michael Properties (1992) Ltd. and RADCOM Ltd. (English summary accompanied by Hebrew original)(10)
- 4.11 Lease Agreement, dated August 12, 1998, between RAD Communications Ltd. and RADCOM Ltd. (English summary accompanied by Hebrew original)(10)
- 4.12 Lease Agreement, dated December 1, 2000, among Zohar Zisapel Properties, Inc., Yehuda Zisapel Properties, Inc. and RADCOM Equipment, Inc.(10)

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- 4.13 Lease Agreement, dated January 22, 2002, between Regus Business Centre and RADCOM Ltd.(11)
- 4.14 Software License Agreement, dated as of January 13, 1999, between RADVision, Ltd. and RADCOM Ltd., and Supplement No. 1 thereto, dated as of January 24, 2001(10)
- 4.15 Share and Warrant Purchase Agreement, dated as of March 17, 2004, by and between RADCOM Ltd. and the purchasers listed therein(12)
- 4.16 Form of Warrant(12)
- 4.17 Share and Warrant Purchase Agreement, dated as of December 19, 2007, by and between RADCOM Ltd. and the purchasers listed therein(13)
- 4.18 Form of Warrant - Share and Warrant Purchase Agreement dated December 19, 2007(13)
- 4.19 Loan Agreement, dated as of April 1, 2008, by and between RADCOM Ltd., Plenus Management (2004) and the other parties thereto(13)
- 4.20 Fixed Charge Agreement, dated as of April 1, 2008, by and between RADCOM Ltd., Plenus Management (2004) and the other parties thereto(13)
- 4.21 Floating Charge Agreement, dated as of April 1, 2008, by and between RADCOM Ltd., Plenus Management (2004) and the other parties thereto(13)
- 4.22 Security Agreement, dated as of April 1, 2008, by and between RADCOM Equipment Inc., Plenus Management (2004) and the other parties thereto(13)
- 4.23 Form of Warrant – Loan Agreement, dated as of April 1, 2008(13)
- 8.1 List of Subsidiaries(14)
- 11.1 Code of Ethics(12)
- 12.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(15)
- 12.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(15)
- 13.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(15)
- 13.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(15)
- 15.1 Consent of Somekh Chaikin, a member firm of KPMG International, dated March 25, 2010(14).
- 15.2

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Consent of Kost Forer Gabbay & Kasierer, A Member of Ernst and Young Global, dated March 25, 2010(14).

15.3 Letter of Somekh Chaikin, a member firm of KPMG International, dated March 25, 2010.(14)

15.4 Letter of Somekh Chaikin, a member firm of KPMG International, dated November 2, 2010.(15)

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- (1) Incorporated herein by reference to the Registration Statement on Form F-1 of RADCOM Ltd. (File No. 333-05022), filed with the SEC on June 12, 1996.
- (2) Incorporated herein by reference to the Registration Statement on Form S-8 of RADCOM Ltd. (File No. 333-13244), filed with the SEC on March 7, 2001.
- (3) Incorporated herein by reference to the Registration Statement on Form S-8 of RADCOM Ltd. (File No. 333-13246), filed with the SEC on March 7, 2001.
- (4) Incorporated herein by reference to the Registration Statement on Form S-8 of RADCOM Ltd. (File No. 333-13248) filed with the SEC on March 7, 2001.
- (5) Incorporated herein by reference to the Registration Statement on Form S-8 of RADCOM Ltd. (File No. 333-13250), filed with the SEC on March 7, 2001.
- (6) Incorporated herein by reference to the Registration Statement on Form S-8 of RADCOM Ltd. (File No. 333-13254), filed with the SEC on March 7, 2001.
- (7) Incorporated herein by reference to the Registration Statement on Form S-8 of RADCOM Ltd. (File No. 333-13252), filed with the SEC on March 7, 2001.
- (8) Incorporated herein by reference to the Registration Statement on Form S-8 of RADCOM Ltd. (File No. 333-14236), filed with the SEC on December 28, 2001.
- (9) Incorporated herein by reference to the Registration Statement on Form S-8 of RADCOM Ltd. (File No. 333-111931), filed with the SEC on January 15, 2004.
- (10) Incorporated herein by reference to the Form 20-F of RADCOM Ltd. for the fiscal year ended December 31, 2000, filed with the SEC on June 29, 2001.
- (11) Incorporated herein by reference to the Form 20-F of RADCOM Ltd. for the fiscal year ended December 31, 2001, filed with the SEC on March 27, 2002.
- (12) Incorporated herein by reference to the Form 20-F of RADCOM Ltd. for the fiscal year ended December 31, 2003, filed with the SEC on May 6, 2004.
- (13) Incorporated herein by reference to the Form 20-F of RADCOM Ltd. for the fiscal year ended December 31, 2007, filed with the SEC on June 30, 2008.
- (14) Incorporated herein by reference to the Original Filing.
- (15) Filed herewith.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

RADCOM LTD.

By: /s/ David Ripstein
Name: David Ripstein
Title: Chief Executive Officer
Date: November 2, 2010

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RADCOM Ltd.

(an Israeli Corporation)
and its Subsidiaries

Consolidated Financial Statements

As of December 31, 2009

RADCOM LTD. AND ITS SUBSIDIARIES
(AN ISRAELI CORPORATION)

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

RADCOM LTD.

We have audited the accompanying consolidated balance sheet of Radcom Ltd. (an Israeli Corporation) and its subsidiaries (collectively, the "Company") as of December 31, 2009 and the related consolidated statements of operations, shareholders' equity and cash flows for the year ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Radcom Ltd. and its subsidiaries at December 31, 2009 and the consolidated results of their operations and their cash flows for the year ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

Tel-Aviv, Israel
March 25, 2010

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Radcom Ltd.:

We have audited the accompanying consolidated balance sheet of Radcom Ltd. (an Israeli Corporation) and its subsidiaries (collectively, the "Company") as of December 31, 2008, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the two-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's Board of Directors and of its management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Radcom Ltd. and its subsidiaries as of December 31, 2008 and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

Somekh Chaikin
Certified Public Accountants (Isr.)
A Member Firm of KPMG International

Tel Aviv, Israel

June 17, 2009

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RADCOM LTD. AND ITS SUBSIDIARIES
(An Israeli Corporation)

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

| | December 31, | |
|--|------------------|------------------|
| | 2009 | 2008 |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 3,274 | \$ 3,513 |
| Trade receivables (net of allowances for doubtful accounts of \$ 1,004 and \$ 1,059 as of December 31, 2009 and 2008, respectively) (Note 3) | 3,610 | 7,118 |
| Inventories (Note 4) | 2,879 | 2,752 |
| Other current assets (Note 5) | 607 | 973 |
| Total current assets | 10,370 | 14,356 |
| SEVERENCE PAY FUND | 2,495 | 2,496 |
| PROPERTY AND EQUIPMENT, NET (Note 6) | 575 | 989 |
| Total assets | \$ 13,440 | \$ 17,841 |

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

RADCOM LTD. AND ITS SUBSIDIARIES
(An Israeli Corporation)

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands, except share data

| | December 31, | |
|---|------------------|------------------|
| | 2009 | 2008 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Trade payables | \$ 1,117 | \$ 2,121 |
| Deferred revenue | 478 | 1,057 |
| Current maturities of long-term loan (Note 8) | 1,022 | 1,167 |
| Other payables and accrued expenses (Note 7) | 4,781 | 3,817 |
| Total current liabilities | 7,398 | 8,162 |
| LONG-TERM LIABILITIES: | | |
| Deferred revenue | 85 | 277 |
| Long-term loan net of current maturities (Note 8) | 170 | 1,152 |
| Warrants related to long term loan (Note 8) | 248 | - |
| Accrued severance pay | 2,899 | 3,265 |
| Total long-term liabilities | 3,402 | 4,694 |
| Total liabilities | 10,800 | 12,856 |
| COMMITMENTS AND CONTINGENCIES (Note 10) | | |
| SHAREHOLDERS' EQUITY (Note 12): | | |
| Share capital: | | |
| Ordinary shares of NIS 0.20 par value: 9,997,670 shares authorized at December 31, 2009 and 2008; 5,102,778 and 5,081,426 shares issued and outstanding at December 31, 2009 and 2008, respectively | 177 | 176 |
| Additional paid-in capital | 51,544 | 51,474 |
| Accumulated deficit | (49,081) | (46,665) |
| Total shareholders' equity | 2,640 | 4,985 |
| Total liabilities and shareholders' equity | \$ 13,440 | \$ 17,841 |

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

RADCOM LTD. AND ITS SUBSIDIARIES
(An Israeli Corporation)

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands, except share data

| | Year ended December 31, | | |
|---|-------------------------|-------------------|-------------------|
| | 2009 | 2008 | 2007 |
| Revenues (Note 14a): | | | |
| Products | \$ 9,190 | \$ 12,480 | \$ 10,158 |
| Services | 2,728 | 2,758 | 3,339 |
| | 11,918 | 15,238 | 13,497 |
| Cost of revenues : | | | |
| Products | 3,469 | 5,523 | 4,927 |
| Services | 590 | 502 | 466 |
| | 4,059 | 6,025 | 5,393 |
| Gross profit | 7,859 | 9,213 | 8,104 |
| Operating expenses: | | | |
| Research and development | 4,223 | 6,506 | 7,378 |
| Less - royalty-bearing participation (Note 10a1) | 1,633 | 2,113 | 2,096 |
| Research and development, net | 2,590 | 4,393 | 5,282 |
| Selling and marketing | 5,835 | 7,486 | 9,279 |
| General and administrative | 1,643 | 2,818 | 2,391 |
| Total operating expenses | 10,068 | 14,697 | 16,952 |
| Operating loss | (2,209) | (5,484) | (8,848) |
| Financial income (expenses), net (Note 14b): | (440) | (309) | 265 |
| Net loss | \$ (2,649) | \$ (5,793) | \$ (8,583) |
| Net loss per share: | | | |
| Basic and diluted net loss per Ordinary Share | \$ (0.52) | \$ (1.16) | \$ (2.10) |
| Weighted average number of Ordinary Shares used to compute basic and diluted net loss per Ordinary Share | | | |
| | 5,081,986 | 4,995,586 | 4,084,789 |

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

RADCOM LTD. AND ITS SUBSIDIARIES
(An Israeli Corporation)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

| | Share capital | | Additional | | Accumulated | Total |
|--|---------------------|--------|--------------------|-------------|-------------|---------|
| | Number of shares | Amount | paid-in capital | deficit | | |
| Balance as of January 1, 2007 | 4,058,069 | \$ 120 | \$ 47,542 | \$ (32,289) | \$ | 15,373 |
| Net loss | - | - | - | (8,583) | | (8,583) |
| Share-based compensation | - | - | 564 | - | | 564 |
| Exercise of options | 33,153 | 2 | 222 | - | | 224 |
| Balance as of December 31, 2007 | 4,091,222 | 122 | 48,328 | (40,872) | | 7,578 |
| Net loss | - | - | - | (5,793) | | (5,793) |
| Issuance of shares and warrants, net of issuance expenses of \$ 96 | 976,563 | 54 | 2,350 | - | | 2,404 |
| Issuance of a warrant related to long-term loan (Notes 8 and 12) | - | - | 266 | - | | 266 |
| Share-based compensation | - | - | 530 | - | | 530 |
| Exercise of options | 13,641 | *) - | - | - | | - |
| Balance as of December 31, 2008 | 5,081,426 | 176 | 51,474 | (46,665) | | 4,985 |
| Net loss | - | - | - | (2,649) | | (2,649) |
| Cumulative-effect adjustment upon adoption of ASC 815-40 relating warrants | - | - | (266) | 233 | | (33) |
| Share-based compensation | - | - | 272 | - | | 272 |
| Exercise of options | 1,039 | *) - | *)- | *)- | | *)- |
| Exercise of warrants | 20,313 | 1 | 64 | - | | 65 |
| Balance as of December 31, 2009 | 5,102,778 | \$ 177 | \$ 51,544 | \$ (49,081) | \$ | 2,640 |

*) Less than \$ 1.

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

RADCOM LTD. AND ITS SUBSIDIARIES
(An Israeli Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

| | Year ended December 31, | | |
|--|-------------------------|------------|------------|
| | 2009 | 2008 | 2007 |
| Cash flows from operating activities: | | | |
| Net loss | \$ (2,649) | \$ (5,793) | \$ (8,583) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation | 481 | 610 | 687 |
| Loss from property and equipment | - | 88 | - |
| Share-based compensation | 272 | 530 | 564 |
| Provision for doubtful accounts | - | 460 | 2 |
| Amortization of discount on long-term loan | 40 | 85 | - |
| Increase (decrease) in severance pay, net | (365) | 9 | 51 |
| Decrease (increase) in trade receivables | 3,508 | (1,704) | 3,834 |
| Decrease (increase) in other current assets | 366 | 130 | (195) |
| Decrease (increase) in inventories | (167) | 584 | (1,141) |
| Increase (decrease) in trade payables | (1,004) | 865 | (1,099) |
| Increase (decrease) in other payables and accrued expenses | 937 | (788) | 378 |
| Increase in value of warrants | 215 | - | - |
| Decrease (increase) of interest on short-term bank deposits and long-term loan | 27 | (63) | 73 |
| Increase (decrease) in deferred revenue | (771) | 31 | (589) |
| Net cash provided by (used in) operating activities | 890 | (4,956) | (6,018) |
| Cash flows from investing activities: | | | |
| Investment in short-term deposits | - | - | (2,515) |
| Proceeds from short-term deposits | - | - | 10,502 |
| Purchase of property and equipment | (27) | (120) | (437) |
| Net cash provided by (used in) investing activities | (27) | (120) | 7,550 |
| Cash flows from financing activities: | | | |
| Issuance of a warrant related to long-term loan | - | 266 | - |
| Proceeds from issuance of long-term loan net of issuance expenses \$ 78 | - | 2,156 | - |
| Payments of long term loan | (1,167) | - | - |
| Proceeds from issuance of ordinary shares and warrants, net of issuance expenses of \$ 96 thousand | - | 2,404 | - |
| Exercise of warrants | 65 | - | - |
| Exercise of options | *) - | *) - | 224 |

| | | | |
|---|----------|----------|----------|
| Net cash (used in) provided by financing activities | (1,102) | 4,826 | 224 |
| Increase (decrease) in cash and cash equivalents | (239) | (250) | 1,756 |
| Cash and cash equivalents at beginning of year | 3,513 | 3,763 | 2,007 |
| Cash and cash equivalents at end of year | \$ 3,274 | \$ 3,513 | \$ 3,763 |

*) Less than \$ 1.

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

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RADCOM LTD. AND ITS SUBSIDIARIES
(An Israeli Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

| | Year ended December 31, | | |
|--|-------------------------|--------|--------|
| | 2009 | 2008 | 2007 |
| (a) Non-cash investing activities: | | | |
| Purchase of property and equipment on credit | \$ - | \$ 1 | \$ 12 |
| Inventories capitalized as property and equipment, net | \$ 40 | \$ 118 | \$ 362 |
| (b) Cash paid for interest | | | |
| | \$ 258 | \$ 118 | \$ - |

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

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RADCOM LTD. AND ITS SUBSIDIARIES
(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 1:- GENERAL

a. Radcom Ltd. (the "Company") is an Israeli corporation that operates in one business segment of communication networks. The Company provides innovative network test and service monitoring solutions for communications service providers and equipment vendors. The Company specializes in Next Generation Wireless and Wireline technologies for Voice, Data and Video. The Company's products facilitate fault management, network service performance monitoring and analysis, troubleshooting and pre-mediation. Radcom's shares are listed on the NASDAQ Capital.

The Company has a wholly-owned subsidiary in the United States, Radcom Equipment, Inc. (the "US Subsidiary"), which was incorporated in 1993 under the laws of the State of New Jersey. The US Subsidiary is primarily engaged in the selling and marketing of the Company's products in North America.

b. The Company generated significant losses attributable to its operations. The Company has managed its liquidity during this time through a series of cost reduction initiatives, including reduction in workforce, expansion of its sales into new markets, private placement transactions and a venture capital loan. The Company believes that its existing capital resources and cash flows from operations will be adequate to satisfy its expected liquidity requirements expected through the calendar year 2010. The Company's foregoing estimate is based, among others, on its current backlog and on the positive trends demonstrated in most of the markets in which it operates during the latter part of 2009. There is no assurance that, if required, the Company will be able to raise additional capital or reduce discretionary spending to provide the required liquidity in order to continue as a going concern.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared according to United States generally accepted accounting Principles ("US GAAP").

a. Use of estimates:

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars ("dollar" or "dollars"):

Most of the Company's revenues and costs are denominated in U.S. dollars. Therefore, the Company's management believes the currency of the primary economic environment in which the operations of the Company are conducted is the United States dollar, which is used as the functional currency of the Company.

RADCOM LTD. AND ITS SUBSIDIARIES
(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Transactions and balances originally denominated in dollars are presented at their original amounts. Transactions and balances in other currencies are remeasured into dollars in accordance with the principles set forth in Statement of Accounting Standards Codification ("ASC") 830 "Foreign Currency Matters".

All exchange gains and losses from remeasurement of monetary balance sheet items denominated in non-dollar currencies are reflected in the consolidated statement of operations when they arise.

Amounts in the financial statements representing the dollar equivalent of balances denominated in other currencies do not necessarily represent their real or economic value and such amounts may not necessarily be exchangeable for dollars.

c. Principles of consolidation:

The consolidated financial statements include the financial statements of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

d. Cash equivalents:

The Company considers all highly liquid deposit instruments with an original maturity of three months or less at the date of purchase to be cash equivalents.

e. Concentration of credit risk:

Financial instruments that may subject the Company to significant concentration of credit risk consist mainly of cash and cash equivalents, severance pay fund and trade receivables.

Cash and cash equivalents are maintained with major financial institutions mainly in Israel. Assets held for severance benefits are maintained with major insurance companies and financial institutions in Israel. Such deposits are not insured. However, management believes that such financial institutions are financially sound, and accordingly, low credit risk exists with respect to these investments.

The Company grants credit to customers without generally requiring collateral or security. The Company performs ongoing credit evaluations of the financial condition of its customers. The risk of collection associated with trade receivables is reduced by geographical dispersion of the Company's customer base. The Company establishes an allowance for doubtful accounts based on historical experience, credit quality, the age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay. Allowance for doubtful accounts amounted to \$1,004 and \$1,059 as of December 31, 2009 and 2008, respectively. The Company charges off receivables when they are deemed uncollectible. Actual collection experience may not meet expectations and may result in increased bad debt expense. Bad debt expense amounted to \$0, \$460 and \$2 in 2009, 2008 and 2007, respectively. Total write offs during 2009, 2008 and 2007 amounted to \$55, \$89 and \$4, respectively.

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RADCOM LTD. AND ITS SUBSIDIARIES
(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Inventories:

Inventories are stated at the lower of cost or market value. Cost is determined on a "moving average" basis. Inventory write-downs are provided to cover technological obsolescence, excess inventories and discontinued products.

Inventory write-down is measured as the difference between the cost of the inventory and market based upon assumptions about future demand, and is charged to the cost of sales. At the point of the loss recognition, a new, lower-cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

The Company implements ASC 330-10-30 "Inventory Overall-Initial Measurement". ASC 330-10-30 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) requiring that those items be recognized as current-period charges. In addition, ASC 330-10-30 requires that allocation of fixed production overheads be based on the normal capacity of the production facilities.

Total write offs during 2009, 2008 and 2007 amounted to \$ 200, \$ 15 and \$ 227, respectively.

g. Property and equipment:

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

Equipment used for research and development (unless no alternative future use exists) and demonstration equipment are capitalized at cost or, when applicable, at production costs.

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

Annual rates of depreciation are as follows:

| | % |
|------------------------------------|---------|
| Demonstration and rental equipment | 33 |
| Research and development equipment | 25 - 50 |
| Manufacturing equipment | 15 - 33 |
| Office furniture and equipment | 7 - 33 |
| Leasehold improvements | (*) |

*) At the shorter of the lease period or useful life of the leasehold improvement.

h. Impairment of long-lived assets:

The Company's long-lived assets are reviewed for impairment in accordance with ASC 360 "property, plants and equipment", whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of an asset to be held and used is assessed by a comparison of the carrying amount of the asset to the future undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. During 2009, 2008 and 2007, no impairment losses were identified.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Revenue recognition:

1. Revenue from product sales is recognized in accordance with ASC 985-605, "Software Revenue Recognition", when the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred, (3) the vendor's fee is fixed or determinable and (4) collectability is probable. In instances where final acceptance of the product, system, or solution is specified by the customer, revenue is deferred until all acceptance criteria have been met. Amounts received from customers prior to product shipments are classified as advances from customers.
2. Most of the Company's revenues are generated from sales to independent distributors. The Company has a standard contract with its distributors. Based on this contract, sales to distributors are final and distributors have no rights of return or price protection. The Company is not a party to the agreements between distributors and their customers.
3. The Company also generates sales through independent representatives. These representatives do not hold any of the Company's inventories, and they do not buy products from the Company. The Company invoices the end-user customers directly, collects payment directly and then pays commissions to the representative for the sales in its territory.
4. With its products, the Company provides a one-year warranty, which includes bug fixing and a hardware warranty ("Warranty"). The Company records an appropriate provision for Warranty in accordance with ASC 450 "Contingencies". After the Warranty period initially provided with the Company's products, the Company may sell extended warranty contracts on a standalone basis, which includes bug fixing and a hardware warranty. In such cases, revenues attributable to the extended warranty are deferred at the time of the initial sale and recognized ratably over the extended contract warranty period.
5. As required by ASC 985-605, the Company determines the value of the product component of its multiple-element arrangements (generally when selling product with extended warranty contracts) using the residual method when vendor specific objective evidence (VSOE) of fair value exists for the undelivered elements. VSOE is based on the price charged when an element is sold separately or renewed. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.
6. Deferred revenues represent mainly the unrecognized fees collected for extended warranty services.

j. Share-based compensation:

The Company accounts for share-based compensation in accordance with ASC 718. ASC 718 requires companies to estimate the fair value of share-based payment awards on the grant date using an option-pricing model.

The Company recognizes compensation expenses for the value of its awards granted based on the straight line method over the requisite service period of each of the awards, net of estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those

estimates. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

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RADCOM LTD. AND ITS SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The fair value of stock-based compensation awards granted were estimated using the Black-Scholes option pricing model with the following assumptions:

1. The current price of the share on the grant date is the market value of such date;
2. The dividend yield is zero percent for all relevant years;
3. Risk free interest rates are as follows:

%

| | |
|------------------------------|-----------|
| Year ended December 31, 2009 | 1.6 - 2.7 |
| Year ended December 31, 2008 | 2.4 - 3.5 |
| Year ended December 31, 2007 | 3.9 - 4.9 |

4. Each option granted has an expected life of 4 - 5.5 years (as of the date of grant); The Company currently uses simplified method until sufficient historical exercise data will support using expected life assumptions; and
5. Expected annual volatility is 93% - 111%, 71% - 79% and 73% - 85% for the years ended December 31, 2009, 2008 and 2007, respectively. This is a measure of the amount by which a price has fluctuated or is expected to fluctuate. Actual historical changes in the market value of the Company's share were used to calculate the volatility assumption, as management believes that this is the best indicator of future volatility.

k. Derivative Instruments

Beginning January 1, 2009 the Company accounts for the Warrant issued to Plenus (see note 8) in accordance with ASC 815-40, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock". This Topic provides guidance on the determination of whether such instruments are classified in equity or as a derivative instrument.

Following the adoption of ASC 815-40, certain previously granted warrants with price adjustment mechanism which were considered equity under prior guidance were reclassified from shareholders' equity to liability and marked to market at each reporting date.

As the transition guidance of ASC 815-40 requires cumulative effect to be recognized as an adjustment to opening balance of retained earnings, the adoption of ASC 815-40 resulted in a reclassification between accumulated deficit and additional paid in capital.

RADCOM LTD. AND ITS SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Allowance for product warranty:

The Company's policy is to grant a product warranty for a period of up to 12 months on its products. The provision for warranties for all periods through December 31, 2009, is determined based upon the Company's past experience.

The followings are the changes in the liability for product warranty from January 1, 2007 to December 31, 2009:

| | |
|--|--------|
| Balance at January 1, 2007 | \$ 355 |
| Accrual for warranties issued during the year | 193 |
| Reduction for payments and costs to satisfy claims | (328) |
| Balance at December 31, 2007 | 220 |
| Accrual for warranties issued during the year | 108 |
| Reduction for payments and costs to satisfy claims | (192) |
| Balance at December 31, 2008 | 136 |
| Accrual for warranties issued during the year | 299 |
| Reduction for payments and costs to satisfy claims | (210) |
| Balance at December 31, 2009 | \$ 225 |

m. Research and development costs:

Research and development costs are charged to the statement of operations as incurred. ASC 985-20 "Software - Costs of Computer Software to be Sold, Leased or Otherwise Marketed", requires capitalization of certain software development costs subsequent to the establishment of technological feasibility.

Based on the Company's product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working models and the point at which the products are ready for general release has been insignificant. Therefore, all research and development costs have been expensed.

n. Government grants:

The Company receives royalty-bearing participation, which represents participation of the Government of Israel (specifically, the Office of the Chief Scientist - the "OCS") in approved programs for research and development. These amounts are recognized on the accrual basis as a reduction of research and development costs as such costs are incurred. Royalties to the OCS are recorded in cost of sales, when the related sales are recognized. See also Note 10a.

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RADCOM LTD. AND ITS SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Loss per share:

Basic and diluted loss per ordinary share are presented in conformity with ASC 260 "Earnings Per Share", for all years presented. Basic loss per ordinary share is computed by the dividing net loss for each reporting period by the weighted average number of ordinary shares outstanding during the period. Diluted loss per ordinary share is computed by dividing net loss for each reporting period by the weighted average number of ordinary shares outstanding during the period plus any additional ordinary shares that would have been outstanding if potentially dilutive securities had been exercised during the period, calculated under the treasury stock method.

Certain securities were not included in the computation of diluted loss per share since they were anti-dilutive. The total number of shares related to the outstanding options and warrants excluded from the calculation of diluted net loss per share was 1,350,349 - as of December 31, 2009 (2008 - 1,243,339 and 2007 - 773,889).

p. Income taxes:

The Company accounts for income taxes in accordance with ASC 740 "Income Taxes". Deferred tax asset and liability account balances are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforward. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of operations in the period that includes the enactment date. The Company provides a valuation allowance to reduce deferred tax assets to the extent it believes it is more likely than not that such benefits will not be realized.

q. Income tax uncertainties:

Beginning with the adoption of ASC 740 "Income Taxes" (formally FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes") as of January 1, 2008, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Prior to the adoption of ASC 740, the Company recognized the effect of income tax positions only if such positions were probable of being sustained. The Company accounts for interest and penalties related to unrecognized tax benefits as a component of income tax expense.

r. Cost of revenues:

Cost of products is comprised of cost of hardware production, packaging, license fees paid to third parties, and royalties paid to the OCS.

Cost of services is comprised of cost of post sale customer support.

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U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Severance pay:

The Company's liability for severance pay for its Israeli employees is calculated pursuant to Israeli severance pay law based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date. After completing one full year of employment, the Company's Israeli employees are entitled to one month's salary for each year of employment or a portion thereof. The Company's liability is partially provided by monthly deposits with severance pay funds, insurance policies and by an accrual. The liability for employee severance pay benefits included in the balance sheet represents the total liability for such severance benefits, while the assets held for severance benefits included in the balance sheet represent the current redemption value of the Company's contributions made to severance pay funds and to insurance policies.

Severance pay expenses for the years ended December 31, 2009, 2008 and 2007 amounted to \$ 168, \$ 704 and \$ 766, respectively.

The carrying value of deposited funds includes profits (losses) accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli severance pay law or labor agreements.

t. Recently issued accounting pronouncements:

In October 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-13, "Multiple-Deliverable Revenue Arrangements." This ASU establishes the accounting and reporting guidance for arrangements including multiple revenue-generating activities. This ASU provides amendments to the criteria for separating deliverables, and measuring and allocating arrangement consideration to one or more units of accounting. The amendments in this ASU also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor's multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. This guidance also requires providing information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. This guidance is effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010 or on a retrospective basis. Early application is permitted. We are currently evaluating this new ASU.

In October 2009, the FASB issued ASU No. 2009-14, "Certain Revenue Arrangements That Include Software Elements." This ASU changes the accounting model for revenue arrangements that include both tangible products and software elements that are "essential to the functionality," and scopes these products out of current software revenue guidance. The new guidance includes factors to help companies determine the software elements that are considered "essential to the functionality." The amendments will now subject software-enabled products to other revenue guidance and disclosure requirements, such as guidance surrounding revenue arrangements with multiple-deliverables. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010 or on a retrospective basis. Early application is permitted. We

are currently evaluating this new ASU.

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RADCOM LTD. AND ITS SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 3:- TRADE RECEIVABLES, NET

The following table reflects the changes in allowance for doubtful accounts:

| | |
|------------------------------|----------|
| Balance at January 1, 2007 | \$ 690 |
| Additions during 2007 | 2 |
| Deductions during 2007 | (4) |
| Balance at December 31, 2007 | 688 |
| Additions during 2008 | 460 |
| Deductions during 2008 | (89) |
| Balance at December 31, 2008 | 1,059 |
| Additions during 2009 | - |
| Deductions during 2009 | (55) |
| Balance at December 31, 2009 | \$ 1,004 |

NOTE 4:- INVENTORIES

| | 2009 | December 31, 2008 |
|-----------------------|----------|----------------------|
| Raw materials | \$ 497 | \$ 725 |
| Work in process | 588 | 627 |
| Finished products (*) | 1,794 | 1,400 |
| | \$ 2,879 | \$ 2,752 |

(*) Includes amounts of \$ 1,637 and \$ 824 for 2009 and 2008, respectively, with respect to inventory delivered to customers but for which revenue will be recognized in the future.

NOTE 5:- OTHER CURRENT ASSETS

| | 2009 | December 31, 2008 |
|---------------------------------------|------|----------------------|
| Value Added Tax authorities | \$ - | \$ 81 |
| Government of Israel - OCS receivable | 112 | 260 |
| Prepaid expenses | 343 | 424 |

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| | | |
|--------|--------|--------|
| Others | 152 | 208 |
| | \$ 607 | \$ 973 |

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RADCOM LTD. AND ITS SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 6:- PROPERTY AND EQUIPMENT, NET

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

| | December 31, | |
|------------------------------------|--------------|----------|
| | 2009 | 2008 |
| Cost: | | |
| Demonstration and rental equipment | \$ 2,092 | \$ 2,067 |
| Research and development equipment | 3,667 | 3,647 |
| Manufacturing equipment | 1,165 | 1,156 |
| Office furniture and equipment | 1,040 | 1,042 |
| Leasehold improvements | 411 | 398 |
| | 8,375 | 8,310 |
| Accumulated depreciation: | | |
| Demonstration and rental equipment | 2,007 | 1,918 |
| Research and development equipment | 3,467 | 3,215 |
| Manufacturing equipment | 1,070 | 984 |
| Office furniture and equipment | 964 | 939 |
| Leasehold improvements | 292 | 265 |
| | 7,800 | 7,321 |
| | \$ 575 | \$ 989 |

NOTE 7:- OTHER PAYABLES AND ACCRUED EXPENSES

| | December 31, | |
|--------------------------------------|--------------|----------|
| | 2009 | 2008 |
| Employees and employee institutions | \$ 1,741 | \$ 2,068 |
| Advances from customers | 1,512 | 228 |
| Royalties - OCS payable | 364 | 363 |
| Commissions payable | 216 | 365 |
| Allowance for product warranty | 225 | 136 |
| Government of Israel tax authorities | 127 | 59 |
| Others | 596 | 598 |
| | \$ 4,781 | \$ 3,817 |

RADCOM LTD. AND ITS SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 8:-

LONG-TERM VENTURE LOAN

On April 1, 2008, the Company entered into a \$ 2,500 venture loan agreement with Plenus, an Israeli venture-lending firm. The loan is for a period of three years, and bears interest at the rate of 10% per annum, paid quarterly commencing April 2009. In May 2009, the Company paid \$ 500 of the principal of the loan. Following this payment the remaining balance of the loan is repayable in monthly installments of approximately \$ 83 commencing May 2009 through April 2011. As part of the loan agreement, the Company granted Plenus a fixed charge over its intellectual property assets and a floating charge over its assets, the US subsidiary granted Plenus a security interest over its assets, and the Company's subsidiaries provided Plenus with guaranties with respect to the loan (see Note 10d). The agreement also limits the Company's ability to assume additional debt or perform certain transactions without the consent of Plenus.

The loan agreement included financial covenants which related to the level of revenues, operating income and cash balances of the Company during the period ended December 2009. Under these covenants, there was a minimum cash balance requirement. As long as the Company's available cash was equal to or greater than twice the outstanding loan balance, the Company was not required to comply with any additional financial covenants, otherwise the company needed to comply with two financial covenants according to which: (1) the Company's revenues or bookings commencing from the date of receiving the loan needed to be at least \$ 2,500 per quarter (\$ 3,000 commencing Q1 2009), and (2) the Company's operating loss per quarter could not exceed \$ 1,000. Notwithstanding the foregoing, the Company was not deemed to be in breach of this operating loss financial covenant if during any of the quarters its operating loss exceeded \$ 1,000, if the Company's cumulative operating losses during such quarter and the immediately preceding and immediately ensuing financial quarter were less than \$ 3,000 in the aggregate. As of December 31, 2009, the Company complied with the applicable financial covenants.

In connection with the venture loan, the Company granted Plenus a warrant to purchase up to 175,781 Ordinary shares with an exercise price of \$ 2.56 per Ordinary share for a total amount of \$ 450. The warrant is exercisable for a period of five years. The Company also granted Plenus registration rights in respect of the shares underlying the warrant. In August 2008, the Company filed a registration statement with the SEC. The loan agreement stipulates certain conditions for the Company to maintain the effectiveness of the registration statement.

The exercise price (and consequently the number of shares to be issued) is subject to certain adjustments should the Company issue additional shares or convertible securities of the Company at an effective price per share which is lower than the exercise price ("the Down-Round Protection"). Other adjustments to the exercise price include M&A transactions, payment or distribution of certain dividends, subdivision or combination of outstanding shares. As of December 31, 2009, the warrant was not exercised.

The Company accounted for the transaction in accordance with ASC 470-20, "Accounting for Convertible debt and debt issued with stock purchase warrants". As such, the proceeds from the issuance of the loan with detachable share purchase warrants were allocated between the two instruments based on relative fair values. As of December 31, 2008 in accordance ASC 815-40 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the warrants met the criteria for equity classification and were presented in the balance sheet in equity. The loan is being accreted to its face value (\$ 2,500) through finance expense.

RADCOM LTD. AND ITS SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 8:- LONG-TERM VENTURE LOAN (Cont.)

As a result of the adoption of the new guidance under ASC 815-40 on January 1, 2009 and due to the Down Round Protection of the warrant as described above, the warrant was separately accounted for as a derivative under ASC 815 and is no longer recorded as an equity item, but rather a liability.

The Company initially applied by recording a cumulative-effect adjustment to accumulated deficit as of January 1, 2009, for the effect of accounting for the warrant as a liability. From January 1, 2009 the warrant is marked to market and changes in its fair value are included in the consolidated statement of operations under financial expenses. The Company utilized an option price model assisted by third party and estimates and assumptions provided by management. The value was determined in accordance with ASC 820 "Fair Value Measurements and Disclosures", and was \$ 248 as of December 31, 2009 and is considered as Level 3. The change in the value from January 1, 2009 was charge to statement of operations.

The Company incurred financing costs of \$ 78 paid to third parties in connection with the loan. The costs are amortized over the term of the loan using the effective interest method.

NOTE 9:- RELATED PARTY BALANCES AND TRANSACTIONS

- a. The Company carries out transactions with related parties as detailed below. Certain principal shareholders of the Company are also principal shareholders of affiliates known as the RAD-BYNET Group. The Company's transactions with related parties are carried out on an arm's-length basis.
1. Certain premises occupied by the Company and the US subsidiary are rented from related parties (see Note 10b). The US subsidiary also sub-leases certain premises to a related party. The aggregate net amounts of lease payments were \$ 497, \$ 517 and \$ 521 in 2009, 2008 and 2007, respectively.
 2. Certain entities within the RAD-BYNET Group provide the Company with administrative services. Such amounts expensed by the Company are disclosed in c below as "Cost of sales, Sales and marketing, General and administrative expenses". Additionally, certain entities within the RAD-BYNET Group perform research and development on behalf of the Company. Such amounts expensed by the Company are disclosed in c below as "Research and development".
 3. The Company purchases from certain entities within the RAD-BYNET Group software packages included in the Company's products and is thus incorporated into its product line. Such purchases by the Company are disclosed in c as "Cost of sales" and as "Research and development".
 4. The Company is party to a distribution agreement with Bynet Electronics Ltd. ("BYNET"), a related party, giving BYNET the exclusive right to distribute the Company's products in Israel.

Revenues related to this distribution agreement are included in c below as "revenues". The remainder of the amount of "revenues" included in c below is comprised of sales of the Company's products to entities within RAD-BYNET Group.

RADCOM LTD. AND ITS SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 9:- RELATED PARTY BALANCES AND TRANSACTIONS (Cont.)

b. Balances with related parties:

| | December 31, | |
|-------------------------------------|--------------|--------|
| | 2009 | 2008 |
| Receivables: | | |
| Trade | \$ 453 | \$ 88 |
| Other current assets | \$ 42 | \$ 54 |
| Accounts payable: | | |
| Trade | \$ 31 | \$ 37 |
| Other payables and accrued expenses | \$ 280 | \$ 167 |

c. Expenses to or income from related parties:

| | Year ended December 31, | | |
|----------------------------|-------------------------|--------|--------|
| | 2009 | 2008 | 2007 |
| Revenues | \$ 383 | \$ 188 | \$ 407 |
| Expenses: | | | |
| Cost of sales | \$ 16 | \$ 246 | \$ 104 |
| Operating expenses: | | | |
| Research and development | \$ 197 | \$ 235 | \$ 222 |
| Sales and marketing | \$ 209 | \$ 218 | \$ 196 |
| General and administrative | \$ 62 | \$ 78 | \$ 88 |

d. Acquisition of fixed assets from related parties amounted to \$ 1, \$ 39 and \$ 24 in the years ended December 31, 2009, 2008 and 2007, respectively.

NOTE 10:- COMMITMENTS AND CONTINGENCIES

a. Royalty commitments:

1. The Company receives research and development grants from the OCS. In consideration for the research and development grants received from the OCS, the Company has undertaken to pay royalties as a percentage of revenues from products developed from research and development projects financed. Royalty rates were 3.5% in 2004 and subsequent years. If the Company will not generate sales of products developed with funds provided by the OCS, the Company is not obligated to pay royalties or repay the grants.

Royalties are payable from the time of commencement of sales of all of these products until the cumulative amount of the royalties paid equals 100% of the dollar-linked amounts of the grants received, without interest for projects

authorized until December 31, 1998. For projects authorized since January 1, 1999, the repayment bears interest at the LIBOR rate.

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RADCOM LTD. AND ITS SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 10:- COMMITMENTS AND CONTINGENCIES (Cont.)

The total research and development grants that the Company has received from the OCS as of December 31, 2009 were \$ 30.7 million. The accumulated interest as of December 31, 2009 was \$ 4.7 million. As of December 31, 2009, the accumulated royalties paid to the OCS were \$ 8.1 million. Accordingly, the Company's total commitment with respect to royalty-bearing participation received or accrued, net of royalties paid or accrued, amounted to \$ 27.3 million as of December 31, 2009.

Royalties expenses relating to the OCS grants included in cost of sales for the years ended December 31, 2009, 2008 and 2007 were \$ 380, \$ 533 and \$ 412, respectively.

2. According to the Company's agreements with the Israel - US Bi-National Industrial Research and Development Foundation ("BIRD-F"), the Company is required to pay royalties at a rate of 5% of sales of products developed with funds provided by the BIRD-F, up to an amount equal to 150% of BIRD-F's grant (linked to the United States Consumer Price Index) relating to such products. The last funds from the BIRD-F were received in 1996. In the event the Company does not generate sales of products developed with funds provided by BIRD-F, the Company is not obligated to pay royalties or repay the grants.

The total research and development funds that the Company has received from the BIRD-F as of December 31, 2009, were \$ 340. Accordingly, as of December 31, 2009, the Company is required to pay royalties up to an amount of \$ 509, plus linkage to the United States Consumer Price Index in the amount of \$ 115 or a total of \$ 624. As of December 31, 2009, the accumulated royalties paid to the BIRD-F were \$ 296. Accordingly, the Company's total commitment with respect to royalty-bearing participation received or accrued, net of royalties paid or accrued, amounted to approximately \$ 328 as of December 31, 2009.

Royalties expenses relating to the BIRD-F grants included in cost of sales for the years ended December 31, 2009, 2008 and 2007 were less than \$ 1 for each of these years.

b. Operating leases:

1. Premises occupied by the Company and the US Subsidiary are rented under various rental agreements part of which are with related parties (see Note 9) .

The rental agreements for the premises in Tel Aviv, Israel, Beijing, China and New Jersey, United States, expire up to December 31, 2012. Minimum future gross rental and maintenance payments due under the above agreements, at exchange rates in effect on December 31, 2009, were as follows:

Year ended December 31

| | | |
|------|----|-----|
| 2010 | \$ | 596 |
| 2011 | \$ | 477 |
| 2012 | \$ | 481 |

Rental and maintenance expenses (net of sublease income from premises under sublease agreements) amounted to \$ 686, \$ 753 and \$ 740 for the years ended December 31, 2009, 2008 and 2007, respectively.

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RADCOM LTD. AND ITS SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 10:- COMMITMENTS AND CONTINGENCIES (Cont.)

2. The Company leases motor vehicles under operating leases. The leases typically run for an initial period of three years with an option to renew the leases after that date.

As of December 31, 2009, non-cancelable operating rentals for motor vehicles were payable as follows:

Year ended December 31

| | |
|------|-----|
| 2010 | 327 |
| 2011 | 262 |
| 2012 | 173 |
| 2013 | 34 |

During 2009, 2008 and 2007, an amount of \$ 385, \$ 511 and \$ 565, respectively, was recognized as an expense in the consolidated statement of operations in respect of operating leases for motor vehicles.

c. Bank guarantee:

The Company has granted bank performance guarantees in favor of two of its customers in the amount of \$ 341 which expire on December 31, 2010 and another guarantee in the amount of \$ 26 which expires on April 30, 2010.

d. Guarantees and charges - Plenus:

As part of the long-term venture loan agreement (see Note 8), the Company granted a fixed charge over its intellectual property asset and a floating charge over its assets, the US subsidiary granted Plenus a security interest over its assets, and the Company's subsidiaries provided Plenus with guarantees with respect to the loan.

NOTE 11:- INCOME TAXES

a. Israel Tax Reform:

In July 25, 2005, the Knesset (Israeli Parliament) approved the Law of the Amendment of the Income Tax Ordinance (No. 147) 2005, which prescribe, among others, a gradual decrease in the corporate tax rate in Israel to the following tax rates: 2007 - 29%, 2008 - 27%, 2009 - 26% and 2010 and thereafter - 25%.

In July 2009, the Knesset passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010) which prescribes, among others, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax, commencing 2011, to the following rates: 2011 – 24%, 2012 – 23%, 2013 – 22%, 2014 – 21%, 2015 – 20%, 2016 and thereafter – 18%.

RADCOM LTD. AND ITS SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 11:-

INCOME TAXES (Cont.)

b. Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959:

1. The Law for the Encouragement of Capital Investments, 1959, ("the Law"), provides that a capital investment in eligible facilities may, upon application to the Investment Center of the Ministry of Industry and Commerce of the State of Israel, be designated as an "Approved Enterprise".

Each certificate of approval for an Approved Enterprise relates to a specific investment program delineated both by its financial scope, including its capital sources, and by its physical characteristics (e.g., the equipment to be purchased and utilized pursuant to the program). Under the Approved Enterprise programs, a company is eligible for governmental grants, but may elect to receive an alternative package comprised of tax benefits (Alternative Track). Under the alternative package, a company's undistributed income derived from an Approved Enterprise is exempt from corporate tax for an initial period (two to ten years, depending on the geographic location of the Approved Enterprise within Israel). The exemption begins in the first year that the company realizes taxable income from the Approved Enterprise. After expiration of the initial tax exemption period, the company is eligible for a reduced corporate tax rate of 10% to 25% (rather than the regular corporate tax rates) for a period of seven years commencing with the year in which the Approved Enterprise first generated taxable income (the "Benefit Period"). The Benefit Period is limited to 12 years from commencement of production or 14 years from the year of receipt of approval, whichever is earlier and, under certain circumstances, may be extended to a maximum of ten years from the commencement of the Benefit Period.

On April 1, 2005, an amendment to the Law came into effect (the "Amendment") and has significantly changed the provisions of the Law (the "Old Law"). Generally, an investment program that have already obtained approval for an Approved Enterprise by the Israeli Investment Center will continue to be subject to the Old Law's provisions. On the Alternative Package the Amendment enacted major changes in the manner in which tax benefits are awarded under the Law so that companies are no longer required to obtain Investment Center approval in order to qualify for tax benefits. Such an enterprise is a "Privileged Enterprise", rather than the previous terminology of Approved Enterprise.

The period of tax benefits for a new Privileged Enterprise commences in the "Year of Commencement". This year is the later of: (1) the year in which taxable income is first generated by the company, or (2) the Year of Election. If a company requested the Alternative Package of benefits for an Approved Enterprise under the Law, it was precluded from filing a Privileged Enterprise status for three years after the year in which the Approved Enterprise was activated ("Cooling Period"). In November 2008 the law was amended to shorten the Cooling Period to two years.

RADCOM LTD. AND ITS SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 11:- INCOME TAXES (Cont.)

The benefits available to an Approved Enterprise and a Privileged Enterprise relate only to taxable income attributable to the specific investment program and are conditioned upon terms stipulated in the Investment Law and the related regulations and the criteria set forth in the applicable certificate of approval (for an Approved Enterprise). If the Company does not fulfill these conditions, in whole or in part, the benefits can be cancelled and the Company may be required to refund the amount of the benefits, linked to the Israeli consumer price index plus interest. In the event of distribution of dividends from the above mentioned tax-exempt income, the amount distributed will be subject to the same reduced corporate tax rate that would have been applied to the Approved Enterprise's and Privileged Enterprise's income.

2. Programs:

The Company had an approved enterprise program with two approved expansions for which the period of benefits expired in 2006. In December 2005, based on the changes to the Law, the Company notified the Israeli Income Tax Authorities that the Company chose the 2004 fiscal year as the elected year for an additional expansion of its Approved Enterprise.

The Company has not utilized any benefits with respect to these programs.

c. Measurement of results for tax purposes under the Israeli Inflationary Adjustments Law, 1985 (the "Inflationary Adjustments Law"):

Results for tax purposes are measured in terms of earnings in NIS after certain adjustments for increases in Israel's Consumer Price Index ("CPI") until the end of 2007. As explained in Note 2b, the financial statements are measured in U.S. dollars. The difference between the annual change in Israel's CPI and in the NIS/dollar exchange rate causes a difference between taxable income and the income before taxes shown in the financial statements. In accordance with ASC 740, the Company has not provided deferred income taxes in respect of the difference between the functional currency and the tax bases of assets and liabilities. In February 2008, the inflation adjustment law was cancelled.

d. Tax assessments:

The Company received final tax assessments for all years up to and including the tax year ended December 31, 2004.

e. Tax loss carryforward:

The Company's tax loss carryforward were approximately \$ 41,477 as of December 31, 2009. Such losses can be carried forward indefinitely to offset any future taxable income of the Company.

RADCOM LTD. AND ITS SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 11:-

INCOME TAXES (Cont.)

f. US subsidiary:

1. The US subsidiary is taxed under United States federal and state tax rules.
2. The US subsidiary's tax loss carry forward amounted to approximately \$ 11,021 as of December 31, 2009 for federal and state tax purposes. Such losses are available to offset any future US taxable income of the US subsidiary and will expire in the years 2010-2027 for federal tax purpose and in the years 2010-2014 for state tax purpose.
3. The US subsidiary has not received final tax assessments since incorporation. In accordance with the tax laws, tax returns submitted up to and including the 2004 tax year can be regarded as final.

g. Deferred taxes:

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

| | December 31 | |
|---------------------------------|-------------|-----------|
| | 2009 | 2008 |
| Deferred tax assets: | | |
| Carryforward tax losses | \$ 12,004 | \$ 13,782 |
| Allowance for doubtful accounts | 253 | 263 |
| Severance pay | 73 | 192 |
| Vacation pay | 222 | 272 |
| Research and development | 440 | 495 |
| Other | 1 | 52 |
| | 12,993 | 15,056 |
| Less - valuation allowance | (12,993) | (15,056) |
| Net deferred tax assets | \$ - | \$ - |

The net change in the total valuation allowance for each of the years ended December 31, 2009, 2008 and 2007, was a decrease of \$ 2,063, increase of \$ 1,373 and a decrease of \$ 3,480, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences and tax loss carryforward are deductible. Management considers the projected taxable income and tax-planning strategies in making this assessment. In consideration of the Company's accumulated losses and the uncertainty of its ability to utilize its deferred tax assets in the future, management currently believes that it is more likely than not that the Company will not realize its deferred tax assets and accordingly recorded a valuation allowance to fully offset all the deferred tax assets.

RADCOM LTD. AND ITS SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 11:-

INCOME TAXES (Cont.)

- h. The components of loss before income taxes are as follows:

| | Year ended December 31, | | |
|--------------------------|-------------------------|------------|------------|
| | 2009 | 2008 | 2007 |
| Israel | \$ (2,721) | \$ (5,876) | \$ (8,694) |
| US | 72 | 83 | 111 |
| Loss before income taxes | \$ (2,649) | \$ (5,793) | \$ (8,583) |

- i. Reconciliation of the theoretical tax benefit and the actual tax expense:

| | Year ended December 31, | | |
|---|-------------------------|------------|------------|
| | 2009 | 2008 | 2007 |
| Loss before income taxes, as reported in the statements of operations | \$ (2,649) | \$ (5,793) | \$ (8,583) |
| Statutory tax rate in Israel | 26% | 27% | 29% |
| Theoretical tax benefit | \$ (689) | (1,564) | (2,489) |
| Increase (decrease) in income taxes resulting from: | | | |
| Tax rate differential on US subsidiary | 10 | 11 | (99) |
| Non-deductible share-based compensation and other operating expenses | 94 | 182 | 246 |
| Losses and timing differences for which no deferred taxes were recorded | 598 | 1,340 | 2,966 |
| Utilization of tax losses in respect of which deferred tax assets were not recorded in prior years | - | (35) | (31) |
| Differences in taxes arising from differences between Israeli currency income and dollar income, net *) | (13) | 66 | (593) |
| Income taxes | \$ - | \$ - | \$ - |

*)In 2007 difference also resulted from differences between the changes in the Israeli CPI (the basis for computation of taxable income of the Company) and the exchange rate of Israeli currency relative to the dollar. Refer to c above.

RADCOM LTD. AND ITS SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 11:- INCOME TAXES (Cont.)

i. Accounting for uncertainty in income taxes:

As of January 1, 2007, 2008 and 2009 and for the twelve-month periods ended December 31, 2008 and 2009, the Company did not have any unrecognized tax benefits and no interest and penalties related to unrecognized tax benefits had been accrued. The Company does not expect that the amount of unrecognized tax benefits will change significantly within the next 12 months.

The Company and its subsidiaries file income tax returns in Israel and in the US. The Israeli tax returns of the Company are open to examination by the Israeli Tax Authorities for the tax years beginning in 2005. The US tax returns of the US subsidiary remain subject to examination by the US tax authorities for the tax years beginning in 2006.

NOTE 12:- SHAREHOLDERS' EQUITY

a. Share capital:

1. The Company's share capital is comprised of the following:

| | December 31, 2009 | | |
|---|-------------------|--------------|--------------|
| | Authorized | Issued | Outstanding |
| | Number of shares | | |
| Ordinary shares of NIS 0.20 par value (i) | 9,997,670 | *) 5,102,778 | *) 5,102,778 |
| | | | *) |
| | December 31, 2008 | | |
| | Authorized | Issued | Outstanding |
| | Number of shares | | |
| Ordinary shares of NIS 0.20 par value (i) | 9,997,670 | *) 5,081,426 | *) 5,081,426 |

*) This number does not include 5,189 Ordinary shares, which are held by a subsidiary, and 30,843 Ordinary shares which are held by the Company.

(i) Ordinary shares confer all rights to their holders, e.g. voting, equity and receipt of dividend. In March and April 2001, the Company purchased 30,843 shares of the Company's Ordinary shares in the over-the-counter market. This purchase was approved by the Tel Aviv-Jaffa District Court.

2. On February 3, 2008, the Company entered into a private placement transaction (the "PIPE 2008"). Under the PIPE investment, the Company issued 976,563 Ordinary shares to investors (investors in the PIPE 2008 included certain existing shareholders and directors of the Company) at an aggregate purchase price of \$ 2,500 or \$ 2.56 per Ordinary share. The Company also issued to the investors warrants to purchase one Ordinary share for every three

Ordinary shares purchased by each investor in the PIPE 2008 (up to 325,520 shares) for an exercise price of \$ 3.20 per Ordinary share. The warrants are exercisable for three years from the closing of the PIPE 2008. As at December 31, 2009, 20,313 warrants were exercised.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

3. On April 1, 2008, in connection with the venture loan, the Company granted Plenus warrants to purchase up to 175,781 Ordinary shares with an exercise price of \$ 2.56 per Ordinary share for a total amount of \$ 450. As more fully explained in Note 8 the proceeds from the issuance of the loan were allocated between the debt and the warrants instrument based on relative fair value. As of December 31, 2008 in accordance with 815-40-25 "Derivative and Hedging", the warrants met the criteria for equity classification and were presented in the balance sheet in equity.

As a result of the adoption of 815-40-15 effective January 1, 2009 and due to the Down Round Protection of the warrant as described above, the warrant is to be separately accounted for as a derivative under ASC 815 and will no longer be recorded in equity, but rather a liability.

4. On May 6, 2008, the Company's shareholders approved a one-to-four reverse share split. The purpose of the reverse share split was to enable the Company to continue to comply with the minimum \$ 1.00 bid price of the Nasdaq Capital Market. The reverse share split became effective on June 16, 2008. Immediately after the reverse share split, the total number of Ordinary shares was reduced from 20,303,638 to 5,076,174. Share and per share amounts for all periods herein have been restated in order to reflect the impact of such reverse share split.

b. Share option plans:

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

a) The Radcom Ltd. 1998 Share Option Plan (the "Radcom 3(9) Plan"):

Under this plan, the Company grants options to purchase Ordinary shares. The plan is made pursuant to the provisions of section 3(9) of the Israeli Income Tax Ordinance.

b) The Radcom Ltd. International Employee Stock Option Plan (the "International Plan"):

The plan grants options to purchase Ordinary shares for the purpose of providing incentives to officers, directors, employees and consultants of its non-Israeli subsidiaries.

c) The 2000 Share Option Plan:

The 2000 Share Option Plan (the "2000 Share Option Plan") grants options to purchase Ordinary shares. These options are granted pursuant to the 2000 Share Option Plan for the purpose of providing incentives to employees, directors, consultants and contractors of the Company. These options are granted pursuant to Section 3(9) of the Income Tax Ordinance (New Version), 1961.

RADCOM LTD. AND ITS SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

d) The 2001 Share Option Plan:

The 2001 Share Option Plan (the "2001 Share Option Plan") grants options to purchase Ordinary shares. These options are granted pursuant to the 2001 Share Option Plan for the purpose of providing incentives to employees, directors, consultants and contractors of the Company. These options are granted pursuant to Section 3(9) of the Income Tax Ordinance (New Version) - 1961.

e) The 2003 Share Option Plan:

The 2003 Share Option Plan (the "2003 Share Option Plan") grants options to purchase Ordinary shares. These options are granted pursuant to the 2003 Share Option Plan for the purpose of providing incentives to employees, directors, consultants and contractors of the Company.

In accordance with Section 102 of the Income Tax Ordinance (New Version) - 1961, the Company's Board of Directors (the "Board") elected the "Capital Gains Route".

2. Grants in 2009, 2008 and 2007 were at exercise prices equal to the market value of the Ordinary shares at the date of grant.

3. Following is the stock option data as of December 31, 2009 and 2008, by plan:

| | December 31, 2009 | | | | |
|------------------------|-----------------------------|-------------------------------|-------------------------|----------------------------|---|
| | Vested Number of options | Unvested Number of options | Exercise price \$ | Vesting period Years | Expiration (from resolution date) Years |
| International Plan | 62,398 | 37,930 | 0 - 11.9 | 3 - 4 | 7 - 10 |
| 2000 Share Option Plan | 29,500 | - | 0 - 24.5 | 3 | 10 |
| 2001 Share Option Plan | 6,563 | - | 7.4 | 4 | 10 |
| 2003 Share Option Plan | 161,641 | 571,329 | 0.5 - 8.7 | 3 - 4 | 7 - 10 |
| | 260,102 | 609,259 | | | |
| | December 31, 2008 | | | | |
| | Vested | Unvested | Exercise price | Vesting period | Expiration (from resolution) |

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| | Number of options | | \$ | Years | date) |
|------------------------|-------------------|---------|------------|-------|--------|
| Radcom 3(9) Plan | 28,750 | - | 12.5 - 23 | 3 - 6 | 10 |
| International Plan | 57,114 | 29,402 | 0 - 11.9 | 3 - 4 | 7 - 10 |
| 2000 Share Option Plan | 49,714 | - | 0 - 24.5 | 3 | 10 |
| 2001 Share Option Plan | 37,688 | - | 5.8 - 7.4 | 3 - 4 | 10 |
| 2003 Share Option Plan | 235,772 | 303,598 | 0.9 - 18.3 | 2 - 4 | 7 - 10 |
| | 409,038 | 333,000 | | | |

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RADCOM LTD. AND ITS SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

4. Stock options under the Radcom plans are as follows for the periods indicated:

| | Number of options | Weighted average exercise price \$ | | |
|---|----------------------|--|---|---------------------------------------|
| Options outstanding as of January 1, 2007 | 667,455 | 9.9 | | |
| Granted | 248,515 | 5.5 | | |
| Exercised | (33,153) | 6.7 | | |
| Expired | (58,606) | 16.96 | | |
| Forfeited | (50,322) | 8.2 | | |
| Options outstanding as of December 31, 2007 | 773,889 | 8.17 | | |
| Granted | 175,377 | 2.7 | | |
| Exercised | (13,641) | - | | |
| Expired | (35,000) | 9.5 | | |
| Forfeited | (158,587) | 10.7 | | |
| Options outstanding as of December 31, 2008 | 742,038 | 6.9 | | |
| Granted | 551,264 | 0.8 | | |
| Exercised | (1,039) | - | | |
| Expired | (10,000) | 12.3 | | |
| Forfeited | (412,902) | 6.4 | | |
| Options outstanding as of December 31, 2009 | 869,361 | 3.2 | | |
| | Number of options | Weighted average exercise price \$ | Weighted average remaining contractual life In years | Aggregate intrinsic value \$ |
| Vested and expected to vest at December 31, 2009 | 761,829 | 1.3 | 6.2 | 389 |

(1)

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At December 31, 2009, 2008 and 2007, the number of options exercisable was 260,102, 409,038 and 436,702 respectively, and the total number of shares available for future grants as of December 31, 2009 was 883,304.

(2) The aggregate intrinsic value of options exercised during 2009, 2008 and 2007 was approximately \$ 2, \$ 8 and \$ 147, respectively.

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RADCOM LTD. AND ITS SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

5. Stock options under the Radcom plans are as follows for the periods indicated:

| Exercise price \$ | Options outstanding at December 31, 2009 | | | Options exercisable at December 31, 2009 | | |
|----------------------|---|--|---|---|--|---|
| | Number outstanding | Weighted average exercise price \$ | Weighted average remaining contractual life In years | Number outstanding | Weighted average exercise price \$ | Weighted average remaining contractual life In years |
| 0.00 | 9,687 | - | 0.6 | 9,687 | - | 0.6 |
| 0.5 - 0.7 | 456,851 | 0.7 | 6.1 | - | - | - |
| 1.57 - 4.88 | 193,400 | 3.0 | 5.3 | 76,735 | 3.8 | 4.4 |
| 5.08-8.72 | 171,923 | 7.1 | 4.9 | 138,367 | 7.3 | 4.9 |
| 10.52 - 11.88 | 17,500 | 11.2 | 4.4 | 15,313 | 11.1 | 4.5 |
| 24.5 | 20,000 | 24.5 | 0.6 | 20,000 | 24.5 | 0.6 |
| | 869,361 | | | 260,102 | | |

The aggregate intrinsic value of options outstanding at December 31, 2009 was approximately \$ 475. The aggregate intrinsic value of options exercisable at December 31, 2009 was approximately \$ 17.

6. The weighted average fair values of options granted during the years ended December 31, 2009, 2008 and 2007 were:

| | Year ended December 31, | | |
|--|-------------------------|------|------|
| | 2009 | 2008 | 2007 |
| Weighted average fair values on grant date | 0.6 | 1.7 | 3.6 |

7. The following table summarizes the departmental allocation of the Company's share-based compensation charge:

| | Year ended December 31, | | |
|----------------------------|-------------------------|--------|--------|
| | 2009 | 2008 | 2007 |
| Cost of sales | \$ 16 | \$ 18 | \$ 18 |
| Research and development | 53 | 114 | 123 |
| Selling and marketing | 86 | 177 | 203 |
| General and administrative | 117 | 221 | 220 |
| | \$ 272 | \$ 530 | \$ 564 |

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RADCOM LTD. AND ITS SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

c. Share-based compensation:

The unrecognized balance of the compensation expenses according to ASC Topic 718 in respect of these stock options amounted to \$ 308 as of December 31, 2009, of which \$ 207 will be recognized in the year ended December 31, 2010 and \$ 101 will be recognized in accordance with the vesting period of the options by the end of fiscal 2013.

On February 1, 2009 the Company's board of directors approved cancelation and reissuance of 216,014 options granted to part of the employees, which were out-of-the-money. The exercise price was changed to the share price on the day of the approval. These related options granted in the past to these employees (both vested and unvested) were canceled and the new options were granted with a vesting period of four years, 25% each year. The Company accounted for the cancelation and reissuance of shares as a modification and measured an incremental value of US\$ 57 to be recognized over the new vesting period.

NOTE 13:- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a. Concentrations of business risk:

Although the Company generally uses standard parts and components for products, certain key components used in the products are currently available from only one source, and others are available from a limited number of sources. The Company believes that it will not experience delays in the supply of critical components in the future. If the Company experiences such delays and there is an insufficient inventory of critical components at that time, the Company's operations and financial results would be adversely affected.

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

The Company's revenues in any period generally have been, and may continue to be, derived from relatively small numbers of sales with relatively high average revenues per order. Therefore, the loss of any orders or delays in closing such transactions could have an adverse effect on the Company's operations and financial results.

b. Monetary balances in non-dollar currencies:

| December 31, 2009 | | |
|--------------------------|----------------------|---------------------|
| Israeli currency | Other | |
| Not linked to the dollar | Linked to the dollar | Non-dollar currency |

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| | | | | | | |
|---------------------|----|-------|----|-----|----|-------|
| Current assets | \$ | 616 | \$ | - | \$ | 1,816 |
| Current liabilities | \$ | 1,767 | \$ | 364 | \$ | 45 |

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RADCOM LTD. AND ITS SUBSIDIARIES
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NOTE 13:- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont.)

| | December 31, 2008 | | |
|---------------------|-----------------------------|-------------------------|------------------------|
| | Israeli currency | | Other |
| | Not linked to the dollar | Linked to the dollar | Non-dollar currency |
| Current assets | \$ 958 | \$ - | \$ 1,858 |
| Current liabilities | \$ 2,583 | \$ 363 | \$ 243 |

The tables above reflect, at the balance sheet dates, the exposure of the Company's monetary balances in non-dollar currencies to the effect of changes in the rate of exchange of the NIS or other non-dollar currencies, to the dollar at the indicated balance sheet dates.

c. Fair value of financial instruments:

The financial instruments of the Company consist mainly of cash and cash equivalents, trade receivables, trade and other accounts payable, loans and accrued expenses. Due to the short-term nature of such financial instruments, their fair value approximates their carrying value. The long term loan as of December 31, 2009 is presented at carrying value that does not materially differ from its fair value.

NOTE 14:- SELECTED STATEMENTS OF OPERATIONS DATA

a. Revenues:

1. Classified by geographical destination:

| | Year ended December 31, | | |
|---------------|-------------------------|-----------|-----------|
| | 2009 | 2008 | 2007 |
| North America | \$ 2,765 | \$ 2,480 | \$ 4,315 |
| Europe | 5,857 | 6,256 | 5,685 |
| Far East | 2,152 | 2,385 | 1,541 |
| South America | 712 | 3,835 | 1,248 |
| Other | 432 | 282 | 708 |
| | \$ 11,918 | \$ 15,238 | \$ 13,497 |

The amount of the Company's export sales was \$ 11,500, \$ 15,000 and \$ 13,000 in 2009, 2008 and 2007, respectively.

2. Major customers:

In North America, the Company sells its products directly to end-users or through independent manufacturers' representatives. Outside North America the Company sells its products primarily through a global network of

independent distributors for resale to end-users.

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RADCOM LTD. AND ITS SUBSIDIARIES
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U.S. dollars in thousands, except share data

NOTE 14:- SELECTED STATEMENTS OF OPERATIONS DATA (Cont.)

In 2009, the Company did not have any customer whose purchases contributed to more than 10% of the total consolidated revenues each; In 2008, the Company had two customers whose purchases contributed to more than 10% of the total consolidated revenues each; one distributor in South America whose purchases contributed \$ 2,860 to the total consolidated revenues and another customer in Europe which contributed \$ 1,891. During 2007, no customer had purchases of more than 10%.

3. Substantially all Company's long-lived assets are located in Israel.

b. Financial income (expenses), net:

| | Year ended December 31, | | |
|--|-------------------------|-----------------|---------------|
| | 2009 | 2008 | 2007 |
| Financial income: | | | |
| Exchange translation Income | \$ 23 | \$ - | \$ - |
| Interest from banks | 4 | 109 | 280 |
| | 27 | 109 | 280 |
| Financial expenses: | | | |
| Interest and bank charges on short- term bank credit | (16) | (11) | (15) |
| Interest and accretion of discount on long-term loan | (236) | (266) | - |
| Valuation of Fair Value of Warrant | (215) | - | - |
| Exchange translation loss | - | (141) | - |
| | (467) | (418) | (15) |
| Financial income (expenses), net | \$ (440) | \$ (309) | \$ 265 |