RADVISION LTD
Form 10-Q
May 10, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2004

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ____to ___

Commission file number: 000-29871

RADVISION LTD.
(Exact Name of Registrant as Specified in Its Charter)

Israel	N/A
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

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

972-3-645-5220
(Registrant's Telephone Number, Including Area Code)

N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Yes [X] No [ ]

As of May 5, 2004 the Registrant had 19,661,767 Ordinary Shares, par value NIS 0.1 per share, outstanding.

Preliminary Notes: RADVision Ltd. is incorporated in Israel and is a

"foreign private issuer" as defined in Rule 3b-4 under the Securities Exchange Act of 1934 (the "1934 Act") and in Rule 405 under the Securities Act of 1933. As a result, it is eligible to file this quarterly report on Form 6-K (in lieu of Form 10-Q) and to file its annual reports on Form 20-F (in lieu of Form 10-K). However, RADVision Ltd. elects to file its interim reports on Forms 10-Q and 8-K and to file its annual reports on Form 10-K.

Pursuant to Rule 3a12-3 regarding foreign private issuers, the proxy solicitations of RADVision Ltd. are not subject to the disclosure and procedural requirements of Regulation 14A under the 1934 Act, and transactions in its equity securities by its officers and directors are exempt from Section 16 of the 1934 Act.

RADVISION LTD.

INDEX

		Page
Part I - Financial Information:		
Item 1.	Condensed Consolidated Balance Sheets as of March 31, 2004 and December 31, 2003	4
	Condensed Consolidated Statements of Operations - for the Three Months ended March 31, 2004 and 2003	5
	Condensed Consolidated Statements of Cash Flows - for the Three Months ended March 31, 2004 and 2003	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3.	Quantitative and Qualitative Disclosure About Market Risk	28
Item 4.	Controls and Procedures	29
Part II - Other Information:		
Item 1.	Legal Proceedings	30
Item 2.	Changes in Securities and Use of Proceeds	30
Item 3.	Defaults Upon Senior Securities	31
Item 4.	Submission of Matters to a Vote of Security Holders	31
Item 5.	Other Information	31
Item 6.	Exhibits and Reports on Form 8-K	31

Signatures...32

RADVISION LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands, except share and per share data

	March 31, 2004	December 31, 2003
	Unaudited	Audited
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 26,914	$ 16,433
Short-term bank deposits	8,022	13,574
Short-term marketable securities	11,645	21,403
Trade receivables (net of allowance for doubtful accounts of $ 1,234 and $1,704 as of March 31, 2004 and December 31, 2003, respectively)	8,462	8,685
Other receivables and prepaid expenses	3,424	2,704
Inventories	1,187	969
Total current assets	59,654	63,768
LONG-TERM ASSETS:		
Long-term bank deposits	10,403	4,004
Long-term marketable securities	45,285	44,497
Severance pay fund	2,205	2,171
Total long-term assets	57,893	50,672
PROPERTY AND EQUIPMENT, NET	2,558	2,572
Total assets	$ 120,105	$ 117,012
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 2,825	$ 1,270
Deferred revenues	7,718	6,047
Accrued expenses and other accounts payable	9,830	13,101
Total current liabilities	20,373	20,418
ACCRUED SEVERANCE PAY	3,332	3,353

Total liabilities	23,705	23,771
SHAREHOLDERS' EQUITY:		
Ordinary shares of NIS 0.1 par value: Authorized - 25,000,000 shares as of March 31, 2004 and December 31, 2003; Issued - 20,152,045 shares as of March 31, 2004 and December 31, 2003; Outstanding - 19,623,566 shares as of March 31, 2004 and 19,344,849 shares as of December 31, 2003	187	187
Additional paid-in capital	104,663	104,663
Deferred stock compensation		
Treasury stock, at cost (528,479 and 807,196 Ordinary shares of NIS 0.1 par value as of March 31, 2004 and December 31, 2003, respectively)	(3,320)	(5,075)
Accumulated deficit	(5,130)	(6,534)
Total shareholders' equity	96,400	93,241
Total liabilities and shareholders' equity	$ 120,105	$ 117,012

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

4

RADVISION LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

U.S. dollars in thousands, except per share data

	Three months ended March 31,	
	2004	2003
	Unaudited	
Revenues	$ 14,261	$ 11,053
Cost of revenues	3,097	2,360
Gross profit	11,164	8,693
Operating costs and expenses:		
Research and development	3,780	3,564
Marketing and selling	5,837	4,732
General and administrative	1,240	948
Restructuring income	(1,061)	-
Total operating costs and expenses	9,796	9,244

Operating income (loss)	1,368	(551)
Financial income, net	412	566
Net income	$ 1,780	$ 15
Basic net earnings per Ordinary share	$ 0.09	$ -
Diluted earnings per Ordinary share	$ 0.08	$ -

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

RADVISION LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Three months ended March 31,	
	2004	2003
	Unaudited	
Cash flows from operating activities:		
Net income	$ 1,780	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	530	
Accrued interest and amortization of premium on held-to-maturity marketable securities and bank deposits	832	
Severance pay, net	(55)	
Amortization of deferred stock-based compensation	-	
Decrease in trade receivables, net	223	4,
Decrease (increase) in other receivables and prepaid expenses	(634)	
Decrease (increase) in inventories	(218)	
Increase (decrease) in trade payables	1,555	(2,
Increase in deferred revenues	1,671	
Decrease in other payables and accrued expenses	(3,271)	(1,
Net cash provided by operating activities	2,413	2,
Cash flows from investing activities:		

Proceeds from redemption of held-to-maturity marketable securities	20,380	14,
Purchase of held-to-maturity marketable securities	(11,906)	(4,
Proceeds from withdrawal of bank deposits	11,735	2,
Purchase of bank deposits	(12,919)	
Purchase of property and equipment	(516)	(
Net cash provided by investing activities	6,774	11,
Cash flows from financing activities:		
Issuance of Ordinary shares and treasury stock for cash upon exercise of options	1,294	
Exercise of options by employees	-	
Net cash provided by financing activities	1,294	
Increase in cash and cash equivalents	10,481	14,
Cash and cash equivalents at the beginning of the period	16,433	13,
Cash and cash equivalents at the end of the period	$ 26,914	$ 28,
Supplemental disclosure of non-cash flow from investing and financing activities:		
Issuance of Ordinary shares upon sale of Treasury stock	$ 86	$
Loss on issuance of Ordinary shares upon sale of Treasury stock	$ 375	$

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

NOTE 1:- GENERAL

Radvision Ltd. ("the Company"), an Israeli corporation, designs, develops and supplies products and technology that enable real-time voice, video and data communications over packet networks, including the Internet and other networks based on the Internet protocol.

The Company's products and technology are used by its customers to develop systems that enable enterprises and service providers to use packet networks for real-time IP ("Internet Protocol") communications.

The Company operates under two reportable segments: 1) the "networking" business unit (or "NBU"), which focuses on a networking product and is responsible for developing networking products for IP-centric voice, video and data conferencing services; and 2) the "technology" business unit (or "TBU"), which focuses on creating developer toolkits for the underlying IP communication protocols and testing tools needed for real-time voice and video over IP.

The Company has four wholly-owned subsidiaries: Radvision Inc., in the United States, Radvision B.V., in the Netherlands, Radvision HK in Hong Kong, and Radvision U.K. in the United Kingdom. The subsidiaries are primarily engaged in the sale and marketing of the Company's products and technology.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2003 are applied consistently in these financial statements.

a. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

b. For further information, refer to the consolidated financial statements as of December 31, 2003.

c. Accounting for stock-based compensation:

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and FASB No. Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" ("FIN No. 44") in accounting for its employee stock option plans. Under APB No. 25, when the exercise price of the Company's stock options is less than the market price of the underlying shares on the date of grant, compensation expense is recognized.

7

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Under Statement of Financial Accounting Standard No. 123 "Accounting for Stock-Based Compensation ("SFAS No. 123"), pro forma information regarding net income and net earnings per share is required, and has been determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No. 123. The fair value for these options is amortized over their vesting period and estimated at the date of grant using a Black - Scholes Option Valuation Model with the following weighted-average assumptions for the three months ended March 31, 2004 and 2003:

	Three months ended March 31,	
	2004	2003
	Unaudited	

Risk free interest	2.47%	2%
Dividend yields	0%	0%
Volatility	0.438	0.44
Expected life	4	4
Pro forma information under SFAS No. 123:		
Net income as reported	$ 1,780	$ 15
Add: stock based compensation expense determined under APB 25	$ -	$ 22
Deduct: stock-based compensation expense determined under fair value method for all awards	$ 870	$ 867
Pro forma net loss	$ 910	$ (830
Basic earnings per share, as reported	$ 0.09	$ -
Diluted earnings per share, as reported	$ 0.08	$ -
Pro forma basic net income (loss) per share	$ 0.05	$ (0.04
Pro forma diluted net income (loss) per share	$ 0.04	$ (0.04

8

NOTE 3:- UNAUDITED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2004 are not necessarily indicative of the results of operations that may be expected for the year ended December 31, 2004.

NOTE 4:- INVENTORIES

	March 31, 2004	December 31, 2003
	Unaudited	Audited

Raw materials	$ 435	$ 361
Work in progress	648	490
Finished products	104	118
	$ 1,187	$ 969

NOTE 5:- ACCRUED EXPENSES AND OTHER ACCOUNTS PAYABLE

Employees and employee accruals	$ 2,144	$ 2,415
Accrued expenses	7,686	10,686
	$ 9,830	$ 13,101

NOTE 6:- RESTRUCTURING INCOME

In January 2001, the Company entered into an agreement with related parties to lease approximately 24,000 square feet of office space in Paramus, New Jersey for a period of 5 years, which space the Company subsequently surrendered. The parties have a dispute with respect to damages caused by this action, if any. In December 2003, the parties proceeded to binding arbitration. The presiding arbitrator issued his final ruling on February 12, 2004 stating the amount owed by the Company is $ 400. The Company recorded an amount of $ 1,061 as restructuring income, representing the surplus of its accruals in former periods.

NOTE 7:- SEGMENTS AND CUSTOMER INFORMATION

	Three months ended March 31,	
	2004	2003
	Unaudited	
Revenues:		
Product sales	$ 10,166	$ 7,686
Software sales	4,095	3,367
Total revenues	$ 14,261	$ 11,053
Cost of revenues:		
Product sales	$ 2,827	$ 2,353
Software sales	270	7
Total cost of revenues	$ 3,097	$ 2,360

NOTE 8:- EARNINGS PER SHARE

The following table sets forth the calculation of basic and diluted earnings per share:

	Three months ended March 31,	
	2004	2003
	Unaudited	
Numerator:		
Net income	$ 1,780	$ 15
Diluted earnings per share - income	$ 1,780	$ 15
Number of shares:		
Denominator:		
Denominator for basic earnings per share - weighted average of Ordinary shares	19,484,208	18,331,538
Effect of dilutive securities:		
Employee stock options and unvested restricted shares	2,082,575	993,035
	21,566,783	19,324,573

10

NOTE 9:- SIGNIFICANT EVENTS

During the first quarter of 2004, certain of the Company's employees exercised their options to purchase the Company's shares, which were included as Treasury stock. As a result of this transaction, the Company has recorded a loss in the amount of approximately $ 375 as an addition to accumulated deficit.

- - - - - - - - - - - -

11

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This information should be read in conjunction with the condensed consolidated

financial statements and notes included in Item 1 of Part I of this Quarterly Report and the audited financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2003 contained in our 2003 Annual Report on Form 10-K. The discussion and analysis which follows may contain trend analysis and other forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to future events and financial results. These include statements regarding our earnings, projected growth and forecasts, and similar matters that are not historical facts. We remind shareholders that forward-looking statements are merely predictions and therefore are inherently subject to uncertainties and other factors that could cause the future results to differ materially from those described in the forward-looking statements. These uncertainties and other factors include, but are not limited to, the uncertainties and factors included in the section entitled "Risk Factors" and elsewhere in this Quarterly Report.

Overview

We are the industry's leading provider of high quality, scalable and easy-to-use products and technologies for videoconferencing, video telephony, and the development of converged voice, video and data over IP and 3G networks. We have approximately 450 customers worldwide including Alcatel, Cisco, FastWeb, NTT/DoCoMo, Philips, Panasonic, Samsung, Shanghai Bell, Siemens, Sony and Tandberg. Hundreds of thousands of end-users around the world today communicate over a wide variety of networks using products and solutions based on or built around our multimedia communication platforms and software development solutions.

In the beginning of 2001, we created two separate business units corresponding to our two product lines to enable our product development and product marketing teams to respond quickly to evolving market needs with new product introductions.

Our Networking Business Unit, or NBU, offers one of the broadest and most complete set of multimedia communication and videoconferencing network solutions for IP, ISDN, SIP and 3G-based networks, supporting most end points in the industry today. These products are sold primarily to resellers and OEMs who use this infrastructure to develop and install advanced IP and ISDN-based communication systems for enterprise customers. The NBU also provides service providers, both 3G wireless and wireline, with integrated solutions that enable the delivery of converged IP-based multimedia streaming and video telephony applications to corporate customers as a managed service, residential broadband customers, and 3G subscribers worldwide.

Our Technology Business Unit, or TBU, is a one-stop shop of voice and video over IP and 3G Development toolkits. The TBU provides protocol development tools and platforms, as well as associated solutions such as testing platforms and IP phone toolkits that enable equipment vendors and service providers to develop and deploy new IP and 3G-based converged networks, services, and technologies. Our TBU also provides professional services to our customers,

12

assisting them with integrating our technology into their products. RADVISION's TBU solutions include developer toolkits for SIP, MEGACO/H.248, MGCP, H.323, and 3G-324M. It also includes RADVISION's ProLab(TM) Test Management Suite and IP phone toolkit. Today you may find RADVISION toolkits implemented in a wide range of environments from chipsets to simple user devices like IP phones, and from integrated video systems through carrier class network devices like gateways,

switches, soft switches and 3G multimedia gateways.

Our Strategy

Our goal is to be the leading provider of innovative products and technologies that enable real-time multimedia collaboration (voice, video and data) communication over packet networks. We provide solutions at every level - protocol developer toolkits, professional services, network infrastructure, and even integrated solutions that compliment the communication solutions of other vendors such as those from Cisco and Microsoft. We believe that the combination of offering IP-centric networking products and software toolkits uniquely positions us as a key enabling vendor in the evolution of IP communication. Both of our product lines are essential for building IP networks that support real time voice and video communication with full interoperability with legacy ISDN/PSTN networks and technologies.

Critical Accounting Judgments

The preparation of financial statements in conformity with U.S. GAAP requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. The SEC has defined a company's critical accounting policies as the ones that are most important to the portrayal of the company's financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified the critical accounting policies and judgments addressed below. We also have other key accounting policies, which involve the use of estimates, judgments, and assumptions that are significant to understanding our results. For additional information, see Item 1 of Part I, "Financial Statements - Note 2 - Significant Accounting Policies," of this Quarterly Report on Form 10-Q and Item 8 of Part II, "Financial Statements and Supplementary Data - Note 2 - Significant Accounting Policies," of our Annual Report on Form 10-K for the year ended December 31, 2003. Although we believe that our estimates, assumptions, and judgments are reasonable, they are based upon information presently available. Actual results may differ significantly from these estimates under different assumptions, judgments, or conditions.

Critical Accounting Policies

Inventories. Inventories are stated at the lower of cost or market. Cost is determined by the moving average method, inventory write-offs and write-down provisions are provided to cover risks arising from slow-moving items or technological obsolescence.

Revenue Recognition. We recognize revenues in respect of products when, among other things, we have delivered the goods being purchased and we believe collectibility to be reasonably assured. We do not grant a right of return to our customers. We perform ongoing credit

evaluations of our customers' financial condition and we require collateral as deemed necessary. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make payments. In judging the adequacy of the allowance for doubtful accounts, we consider multiple factors including the aging of our receivables, historical bad debt experience and the general economic environment. Management applies considerable

judgment in assessing the realization of receivables, including assessing the probability of collection and the current creditworthiness of each customer. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Warranty Reserves. Upon shipment of products to our customers, we provide for the estimated cost to repair or replace products that may be returned under warranty. Our warranty period is typically 12 months from the date of shipment to the end user customer. For existing products, the reserve is estimated based on actual historical experience. For new products, the warranty reserve is based on historical experience of similar products until such time as sufficient historical data has been collected on the new product. Factors that may impact our warranty costs in the future include our reliance on our contract manufacturer to provide quality products and the fact that our products are complex and may contain undetected defects, errors or failures in either the hardware or the software. Warranty reserves amounted to $550,000 and $350,000 at December 31, 2003 and 2002, respectively.

Results of Operations

The following table presents, as a percentage of total revenues, condensed statements of operations data for the periods indicated:

	Three months ended March 31,	
	2004	2003
	%	%
Revenues		
Networking products	71.3	70.0
Technology products	28.7	30.0
Total revenues	100.0	100.0
Cost of revenues		
Networking products	19.8	21.3
Technology products	1.9	0.1
Total cost of revenues	21.7	21.4
Gross profit	78.3	78.6
Operating expenses		
Research and development	26.5	32.2
Marketing and selling	40.9	42.8
General and administrative	8.7	8.6
Total operating expenses	76.1	83.6
Operating income (loss), before restructuring income	2.2	(5.0)
Restructuring income	7.4	-
Operating income (loss)	9.6	(5.0)
Financial income	2.9	5.1
Net income	12.5	0.1

Three Months Ended March 31, 2004 Compared with Three Months Ended March 31, 2003

Revenues. We generate revenues from sales of our networking products that are primarily sold in the form of stand-alone products, and our technology products that are primarily sold in the form of software development kits, as well as related maintenance and support services. We generally recognize revenues from the sale of our products upon shipment and when collection is probable. Revenues generated from maintenance and support services are deferred and recognized ratably over the period of the term of service. We price our networking products on a per unit basis, and grant discounts based upon unit volumes. We price our software development kits on the basis of a fixed-fee plus royalties from products developed using the software development kits. We sell our products and technology through direct sales and various indirect distribution channels in North America, Europe, the Middle East and the Far East.

Our revenues increased from $11.1 million for the three months ended March 31, 2003 to $14.3 million for the three months ended March 31, 2004. This increase was due to a $2.5 million increase in sales of our networking products, and a $730,000 increase in sales of our technology products. The results reflect better than expected TBU product sales with especially strong sales in the U.S. and Asia Pacific. The results include on-target performance by our NBU, with better than forecast sales in the U.S. and EMEA, offsetting lower than expected Asia Pacific sales due to a slow start to the quarter in China.

Revenues from networking products increased from $7.7 million for the three months ended March 31, 2003 to $10.2 million for the three months ended March 31, 2004, an increase of $2.5 million or 32%. Revenues from sales of our ViaIP product lines increased from $5.3 million in the three months ended March 31, 2003 to $9.9 million in the three months ended March 31, 2004. This increase was offset in great measure by a decrease in revenues of $1.3 million from other product sales and $900,000 from our OnLan product line.

Revenues from technology products increased from $3.4 million for the three months ended March 31, 2003 to $4.1 million for the three months ended March 31, 2004. Revenues from licenses and royalties increased from $1.3 million and $563,000 in the three months ended March 31, 2003 to $1.8 million and $900,000, respectively, in the three months ended March 31, 2004. Maintenance revenues declined from $1.3 million in the three months ended March 31, 2003 period to $1 million in the three months ended March 31, 2004, which decline was offset in part from increased revenue from professional services with respect to research and development, which activity accounted for $400,000 in revenues in the three months ended March 31, 2004 compared to $230,000 in the three months ended March 31, 2003.

Revenues from sales to customers in the United States increased from $4.4 million, or 39.6% of revenues, for the three months ended March 31, 2003 to $8.0 million, or 55.9% of revenues. For the three months ended March 31, 2004, an increase of $3.6 million, or 81.8%. This increase in sales to customers in the United States was primarily attributable to increased market demand for our networking products in this region.

Revenues from sales to customers in Europe and the Middle East increased from $3.7 million for the three month period ended March 31, 2003, or 33.3% of revenues, to $4.0 million, or 28.0% of revenues, for the three months ended March 31, 2004.

Revenues from sales to customers in the Asian Pacific region decreased from $3.0

million, or 27.0% of revenues, for the three months ended March 31, 2003 to $2.3 million, or 16.1% of revenues, for the three months ended March 31, 2004, a decrease of $700,000 or 23.3% due to a slow start in the quarter in China.

Cost of Revenues. Cost of revenues increased from $2.4 million for the three month period ended March 31, 2003 to $3.1 million for the three months ended March 31, 2004, an increase of $740,000, or 31.3%. Gross profit as a percentage of revenues decreased slightly from 78.6% for the three months ended March 31, 2003 to 78.3% for the three months ended March 31, 2004, due to the increased proportion of NBU product sales that have lower profit margins.

Research and Development. Research and development expenses increased from $3.6 million for the three months ended March 31, 2003 to $3.8 million for the three months ended March 31, 2004, an increase of $200,000 or 5.6%.

Marketing and Selling. Marketing and selling expenses increased from $4.7 million for the three months ended March 31, 2003 to $5.8 million for the three months ended March 31, 2004, an increase of $1.1 million or 23.4%. Marketing and selling expenses as a percentage of revenues decreased from 42.3% for the three months ended March 31, 2003 to 40.6% for the three months ended March 31, 2004. This increase was primarily attributable to an increase in personnel expenses.

General and Administrative. General and administrative expenses increased from $948,000 for the three months ended March 31, 2003 to $1.2 million for the three months ended March 31, 2004, an increase of $300,000 or 31.6%. This increase was primarily attributable to an increase in personnel expenses. General and administrative expenses as a percentage of revenues were 8.6% for the three months ended March 31, 2003 and 8.4% for the three months ended March 31, 2004.

Operating Gain (Loss). We recorded an operating gain of $307,000 before a restructuring income of $1.1 million, or $1.4 million including the restructuring income, for the three months ended March 31, 2004 as compared to a operating loss of $551,000 for the three months ended March 31, 2003. The restructuring income represents the surplus of accruals recorded in former periods relating to an arbitration involving our company and the related parties from whom we had leased office space that was subsequently surrendered.

Financial Income. We recorded financial income of $412,000 for the three months ended March 31, 2004 compared to $566,000 for the three months ended March 31, 2004. This income was principally derived from the investment of the proceeds of our March 2000 initial public offering and private placement. Our financial income declined principally as a result of lower prevailing interest rates.

16

Liquidity and Capital Resources

We generated $2.4 million from operating activities for the three months ended March 31, 2004 compared to $2.8 million in the same period in 2003. This amount was primarily attributable to higher net income of $1.8 million, a $220,000 decrease in trade receivables, an increase of $1.5 million in trade payables, and depreciation expenses of $530,000. These increases in cash generated by our operating activities were offset in part by a $1.6 million decrease in other payables, deferred revenues and accrued expenses. The increase in inventories for the three months ended March 31, 2004 was primarily due to increased revenues. Net cash provided by investing activities was approximately $6.8 million for the three months ended March 31, 2004. During the three months ended

March 31, 2004, $516,000 of cash used in investing activities was for purchases of property and equipment.

Our financing activities generated $1.3 million for the three months ended March 31, 2004 compared to $157,000 in the same period in 2003. This amount was primarily attributable to proceeds from the exercise of employee stock options.

Our capital requirements are dependent on many factors, including market acceptance of our products and the allocation of resources to our research and development efforts, as well as our marketing and sales activities. We plan to pursue strategic initiatives and make operating investments in 2004 as we position our company to realize on what we perceive to be increasing market opportunities in the coming years. We anticipate that our cash resources will be used primarily to fund our operating activities, as well as for capital expenditures. We do not believe that our capital expenditures and lease commitments will increase for the foreseeable future due to the anticipated slowdown in the growth of our operations, infrastructure and personnel. Nevertheless, we may establish additional operations as we expand globally.

We plan to pursue strategic initiatives and make operating investments in 2004 as we position our company to realize what we perceive to be increasing market opportunities in the coming years.

On February 28, 2001, we announced that our board of directors had authorized the repurchase of up to 10% of our outstanding shares in open market transactions from time to time at prevailing market prices. We completed the share repurchase program in the first fiscal quarter of 2002, having purchased 1,866,115 ordinary shares at a total cost of $11.8 million, or an average price of $6.30 per share. At the beginning of 2003, we began to reissue the repurchased shares upon exercise of employee stock options.

On August 28, 2002, we announced that our board of directors had authorized the repurchase of up to $10 million or 2 million of our ordinary shares in the open market from time to time at prevailing market prices. During April 2003, we started to repurchase our ordinary shares based on the instruction of our board of directors. As of March 31, 2004 we had purchased 14,000 ordinary shares at a total cost of $78,000, or an average price of $5.55 per share.

17

Off-Balance Sheet Arrangements

We are not a party to any material off-balance sheet arrangements. In addition, we have no unconsolidated special purpose financing or partnership entities that are likely to create material contingent obligations.

Contractual Obligations

The following table summarizes our contractual obligations and commercial commitments, including obligations of discontinued operations, as of March 31, 2004.

Contractual Obligations	Payments due by Period	
	less than	more than

	Total	1 year	1-3 Years	3-5 Years	5 years
Long-term debt obligations.....	-	-	-	-	-
Capital (finance) lease obligations	-	-	-	-	-
Operating lease obligations....	$2,974,000	$1,895,000	$980,000	$99,000	-
Purchase obligations...........	-	-	-	-	-
Other long-term liabilities reflected on the Company's balance sheet under U.S. GAAP	-	-	-	-	-
Total.........................	$2,974,000	$1,895,000	$980,000	$99,000	-

Second Quarter 2004 Guidance

- Second quarter net sales are expected to be approximately $15.2 million, an increase of approximately $3.6 million, or 31.0%, compared with the second quarter 2003.

- Net income is expected to increase to approximately $650,000 or $0.03 per share, a 358% increase compared with second quarter 2003.

These projections are subject to substantial uncertainty that could cause our future results to differ materially from the guidance we have provided.

Risk Factors

Risks Relating to Our Business

Until 2001, we had a history of losses and we cannot assure you that we will continue to operate profitably in the future.

Although we operated profitably in 2003 we cannot assure you that we will continue to operate profitably in the future. We incurred significant losses in every fiscal year from our inception until 1999, and we incurred operating losses in 2000 and 2001. As of December 31, 2003, our accumulated deficit was $6.5 million.

18

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

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

order backlog, which makes revenues in any quarter substantially dependent upon orders we deliver in that quarter. Because of these factors, our revenues and operating results in any quarter may not meet market expectations or be indicative of future performance and it may be difficult for investors to evaluate our prospects.

Unless our revenues grow in excess of our increasing expenses, we will not be profitable.

We expect that our operating expenses will increase significantly in the future, both to finance the planned expansion of our sales and marketing and research and development activities and to fund the anticipated growth in our revenues. However, our revenues may not grow apace or even continue at their current level. If our revenues do not increase as anticipated or if expenses increase at a greater pace than our revenues, we will not be profitable. Even if we achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis.

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

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

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

The market for our products and technology is characterized by rapid technological change, new and improved product introductions, changes in customer requirements and evolving industry standards. Our future success will depend to a substantial extent on our ability to:

- timely identify new market trends; and

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

If we fail to develop and deploy new products and technology or product and technology enhancements on a successful and timely basis, we may lose market share to our competitors and our revenues may decline.

We are currently developing new products and technology and enhancements to our existing products and technology. We may not be successful in developing or introducing these or any other new products or technology to the market.

We have invested, and will continue to invest, in products and technology that comply with those industry standards that we believe have been, or will be,

broadly adopted. If one or more alternative standards were to gain greater acceptance than the standards that we believe have or will be broadly adopted, sales of our products and technology might suffer.

Currently, we offer networking products that comply with the H.323 industry standard for real-time voice, video and data communication over packet networks. During 2000, we expanded our enabling technology product family to include additional key IP protocols. Our current suite of IP communication protocol toolkits include H.323, SIP, MGCP, MEGACO and H.324M. We believe that IP networks will be designed with components built around each of these protocols. If these expectations ultimately prove to be incorrect, our investments may be of little or no value.

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

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

Competition in the markets for our products and technology is intense. We may not be able to compete effectively in these markets and we may lose market share to our competitors.

The markets for our products and technology are highly competitive and we expect competition to intensify in the future. We may not be able to compete effectively in these markets and we may lose market share to our competitors. The principal competitors in the market for our NBU products currently include Polycom Inc., which acquired Accord Networks Inc., First Virtual Communication, which merged with CUseeMe Networks Inc. (formerly known as White Pine Software Inc.). The principal competitors in the market for our TBU products currently include Hughes Software Systems, DynamicSoft, Dylithium, and in-house developers employed by

manufacturers of telecommunication equipment and systems. Additional competitors may enter each of our markets at any time. Moreover, our customers may seek to develop internally the products that we currently sell to them and compete with us.

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

We currently provide our technology to major solutions providers including Cisco, Siemens, Microsoft and Tanldberg. If these providers choose to develop their own technologies, acquire technologies from our competitors, or acquire such competitors, our financial condition and operating results could be

adversely impacted and we may face increased levels of competition from these major companies.

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

Both Vovida Networks, Inc. (part of Cisco Systems Inc.) and OpenH323 offer H.323 source code for free. In addition, Vovida offers MGCP and SIP source code for free. If our customers choose to use the free source code offered by these organizations instead of purchasing our technology, our revenues from the sale of our software development kits will decline. Other companies, including Microsoft, may offer similar development kits as part of their product offerings.

Most of our competitors have greater resources than we do. This may limit our ability to compete effectively with them and discourage customers from purchasing our products and technology.

Most of our competitors have greater financial, personnel and other resources than we do, which may limit our ability to compete effectively with them. These competitors may be able to respond more quickly to new or emerging technologies or changes in customer requirements. These competitors may also:

- benefit from greater economies of scale;
- offer more aggressive pricing; or
- devote greater resources to the promotion of their products.

Any of these advantages may discourage customers from purchasing our products and technology. If we are unable to compete successfully against our existing or potential competitors, our revenues and margins will decline.

Our agreements with our customers generally do not have minimum purchase requirements. If our customers decrease or cease purchasing our products and technology, our revenues will decline.

Our agreements with our customers generally do not have minimum purchase requirements nor do they require our customers to purchase any products from us. If any or all of our customers cease to purchase or reduce their purchases of our products and technology at any time, our revenues will decline. We cannot assure you that our customers will not choose to independently develop for themselves, or purchase from others, products and technology similar to our products

and technology. Moreover, if our customers do not successfully market and sell the systems and products into which they incorporate our products and technology, the demand of these customers for our products and technology will decline. Our customers' sales of systems and products containing our products and technology may be adversely affected by circumstances over which we have no control and over which our customers may have little, if any, control.

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

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

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

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

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

Our products and technology have occasionally contained, and may in the future contain, undetected errors when first introduced or when new versions are released. Our customers integrate our products and technology into systems and products that they develop themselves or acquire from other vendors. As a result, when problems occur in equipment or a system into which our products or technology have been incorporated, it may be difficult to identify the cause of the problem. Regardless of the source of these errors, we must divert the attention of our engineering personnel from our research and development efforts to address the errors. We cannot assure you that we will not incur warranty or repair costs, be subject to liability claims for damages related to product errors or experience delays as a result of these errors in the future.

Any insurance policies that we may have, may not provide sufficient protection or coverage should a claim be asserted. Moreover, the occurrence of errors, whether caused by our products or technology or the products of another vendor, may result in significant customer relations problems and injury to our reputation and may impair the market acceptance of our products and technology.

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

We rely on technology that we license from third parties, including software

that is integrated with internally developed software and used in our products to perform key functions. For example, we license T.120 data collaboration software from Data Connection Limited and voice compression technology from Siemens. If we are unable to continue to license any of this software on commercially reasonable terms, we will face delays in releases of our products or will be required to reduce the functionality of our products until equivalent technology can be identified, licensed or developed, and integrated into our current products.

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

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

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

Third parties may assert against us infringement claims or claims that we have infringed a patent, copyright, trademark or other proprietary right belonging to them. For example, in 1998, Lucent alleged that some products manufactured by us infringed specified Lucent patents. Any infringement claim, even if not meritorious, could result in the expenditure of significant financial and managerial resources and could negatively affect our profitability.

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

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

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

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

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

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

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

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

Risks Relating to Our Location in Israel

Conditions in Israel affect our operations and may limit our ability to produce and sell our products, which could decrease our revenues.

We are incorporated under the laws of Israel, and most of our offices and our production facilities are located in the State of Israel. As a result, the political, economic and military conditions in Israel directly influence us. Any major hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could have a material adverse effect on our business, financial condition and results of operations. Since the establishment of the State of Israel in 1948, a state of hostility has existed,

varying in degree and intensity, between Israel and the Arab countries in the region. While Israel has entered into peace agreements with both Egypt and Jordan and several other countries have announced their intentions to establish trade and other relations with Israel, Israel has not entered into any additional peace agreements with such countries or with Syria or Lebanon. Peace talks between Israel and the Palestinian Authority began in the early 1990s, but broke down in mid-2000. Attacks on Israel by Palestinian terrorists, and military responses by Israel, have accelerated considerably since late 2000. The continued hostilities between the Palestinian community and Israel and the failure to settle the conflict has had and continues to have a material adverse effect on the Israeli economy and may have a material adverse effect on our business and us. Further expansion of hostilities might require more widespread military reserve service by some of our employees, which may have a material adverse effect on our business. We cannot predict whether or when the peace process will resume, whether a full resolution of these problems will be achieved, the nature of any such resolution or the consequences that any of these factors may have on us.

The economic conditions in Israel have not been stable in recent years.

As a result of political instability, the increased level of hostilities with the Palestinian Authority and the world-wide economic crisis in the high-tech and communication industries, the Israeli rate of economic growth deteriorated in 2001 and 2002, the Israeli currency was devalued and the rate of inflation increased. The Israeli Government has proposed certain budgetary cuts and other changes. Although with the assistance of the U.S. Government economic stability was reached in 2003 and the rate of inflation was negative for the first time in 2003 since the establishment of the State, we cannot assure you that the Israeli Government will be successful in its attempts to stabilize the Israeli economy or to maintain Israel's current credit rating. Should Israel's credit rating decline, the ability of the Israeli government to generate foreign financial and economic assistance may be adversely affected. Economic decline as well as price and exchange rate instability may have a material adverse effect on us.

Some of our directors, officers and employees are obligated to perform annual military reserve duty in Israel. We cannot assess the potential impact of these obligations on our business.

Our directors, officers and employees who are male adult citizens and permanent residents of Israel under the age of 48 are, unless exempt, are obligated to perform annual military reserve duty and are subject to being called to active duty at any time under emergency circumstances. We cannot assess the full impact of these requirements on our workforce or business if

conditions should change, and we cannot predict the effect on our business in the event of an expansion or reduction of these obligations.

Because most of our revenues are generated in U.S. dollars or are linked to the U.S. dollar while a portion of our expenses are incurred in new Israeli shekels, our results of operations would be adversely affected if inflation in Israel is not offset on a timely basis by a devaluation of the new Israeli shekel against the U.S. dollar.

Most of our revenues are in dollars or are linked to the dollar, while a portion of our expenses, principally salaries and the related personnel expenses, are in new Israeli shekels, or NIS. As a result, we are exposed to the risk that the rate of inflation in Israel will exceed the rate of devaluation of the NIS in

relation to the dollar or that the timing of this devaluation lags behind inflation in Israel. This would have the effect of increasing the dollar cost of our operations. In 1999 and 2000 while the rate of inflation was low, there was a devaluation of the dollar against the NIS. In the years 2001 and 2002 the rate of devaluation of the NIS against the dollar exceeded the rate of inflation. In 2003 there was a devaluation of the dollar against the NIS. We cannot predict any future trends in the rate of inflation in Israel or the rate of devaluation of the NIS against the dollar. If the dollar cost of our operations in Israel increases, our dollar-measured results of operations will be adversely affected.

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

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

It may be difficult to enforce a U.S. judgment against us and most of our officers and directors or to assert U.S. securities laws claims in Israel or serve process on most of our officers and directors.

We are incorporated in Israel. Many of our executive officers and directors are nonresidents of the United States, and a substantial portion of our assets and the assets of these persons are located outside the United States. Therefore, it may be difficult for an investor, or any other person or entity, to enforce a U.S. court judgment based upon the civil liability provisions of the U.S. federal securities laws in an Israeli court against us or any of those persons or to effect service of process upon these persons in the United States. Additionally, it may be difficult for an investor, or any other person or entity, to enforce civil liabilities under U.S. federal securities laws in original actions instituted in Israel.

Risks Relating to Our Ordinary Shares

Holders of our ordinary shares who are United States residents face income tax risks.

There is a risk that we will be classified as a passive foreign investment company, or PFIC. Our treatment as a PFIC could result in a reduction in the after-tax return to the holders of our ordinary shares and would likely cause a reduction in the value of such shares. For U.S. Federal income tax purposes, we will be classified as a PFIC for any taxable year in which either (i) 75% or more of our gross income is passive income, or (ii) at least 50% of the average

value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, passive income includes dividends, interest, royalties, rents, annuities and the excess of gains over losses from the disposition of assets that produce passive income. If we were determined to be a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. Holders owning ordinary shares. Accordingly, you are urged to consult your tax advisors regarding the application of such rules.

As a result of our substantial cash position, if the value of our stock declines, there is a substantial risk that we will be classified as a PFIC under the asset test described in the preceding paragraph. Based on an independent third party opinion, we believe that we were not deemed to be classified as a PFIC in 2002, and as a result of the increase in the value of our stock, we believe that we were not deemed to be classified as a PFIC in 2003. We have, however, no assurance that the U.S. Internal Revenue Services will accept this determination and there can be no assurance that we will not be classified as a PFIC in the future.

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

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

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

- future sales of our ordinary shares; and
- stock market price and volume fluctuations.

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

adversely affect the market price of our ordinary shares.

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

Anti-takeover provisions could negatively impact our shareholders.

The new Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% shareholder of the company. This rule does not apply if there is already another 25% shareholder of the company. Similarly, the Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% shareholder of the company. There is an exception to this provision, if someone else is already a majority shareholder of the company. Regulations under the Companies Law provide that the Companies Law's tender offer rules do not apply to a company whose shares are publicly traded outside of Israel, if pursuant to the applicable foreign securities laws and stock exchange rules there is a restriction on the acquisition of any level of control of the company, or if the acquisition of any level of control of the company requires the purchaser to make a tender offer to the public shareholders.

Finally, Israeli tax law treats certain acquisitions, particularly stock-for-stock swaps between an Israeli company and a foreign company, less favorably than United States tax law. Israeli tax law may, for instance, subject a shareholder who exchanges his company shares for shares in a foreign corporation to immediate taxation.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Risk

As of March 31, 2004, we had cash and cash equivalents and short-term investments of $46.6 million. We invest our cash surplus in time deposits, cash deposits, U.S. federal agency securities and corporate bonds with an average credit rating of A2. These investments are not purchased for trading or other speculative purposes. Due to the nature of these investments, we believe that we do not have a material exposure to market risk.

Our exposure to market risks for changes in interest rates is limited since we do not have any material indebtedness.

Foreign Currency Exchange Risk

We develop products in Israel and sell them in North America, Asia and several European countries. As a result our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets.

Our foreign currency exposure with respect to our sales is mitigated, and we

expect it will continue to be mitigated, through salaries, materials and support operations, in which part of these costs are denominated in NIS.

During 2003, the NIS revalued approximately 7.6% against the dollar. Among the factors contributing to the revaluation are the low interest rate for US$ investments compared to the higher interest rate for NIS investments. The revaluation has resulted in a deflation in Israel, which was approximately 1.9% for the year 2003 compared to an annual inflation rate of 6.5% for 2002 and deflation of 0.1% for the three months ended March 31, 2004.

Since most of our sales are quoted in $, and a portion of our expenses are incurred in NIS, our results may be adversely affected by a change in the rate of inflation in Israel or if such change in the rate of inflation is not offset, or is offset on a lagging basis, by a corresponding devaluation of the NIS against the dollar and other foreign currencies.

We did not enter into any foreign exchange contracts in 2003 or the first quarter of 2004.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures pursuant to Rule 13a-14 of the Securities Exchange Act of 1934. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

There have been no significant changes in our internal controls or other factors which could significantly affect internal controls subsequent to the date we carried out the evaluation.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are not involved in any legal proceedings that are material to our business or financial condition.

Item 2. Changes in Securities and Use of Proceeds

Use of Proceeds. The following information required by Item 701(f) of Regulation

S-K relates to our initial public offering of ordinary shares of our company on March 14, 2000. The following table sets forth, with respect to the ordinary shares registered, the amount of securities registered, the aggregate offering price of amount registered, the amount sold and the aggregate offering price of the amount sold, for both the account of our company and the account of any selling security holder.

	For the account of the company	For the account of the selling shareholder
Number of ordinary shares registered ..	4,370,000	N/A
Aggregate offering price of shares registered	$87,400,000	N/A
Number of ordinary shares sold	4,370,000	N/A
Aggregate offering price of shares sold	$87,400,000	N/A

The following table sets forth the expenses incurred by us in connection with our public offering during the period commencing the effective date of the Registration Statement and ending March 31, 2004. None of such expenses were paid directly or indirectly to directors, officers, persons owning 10% or more of any class of equity securities of our company or to our affiliates.

	Direct or indirect payments to persons other than affiliated persons
Underwriting discounts and commissions ...	$6,118,000
Finders' fees	550,000
Expenses paid to or for underwriters......	41,290
Other expenses	2,241,113
Total expenses	$8,950,403

The net public offering proceeds to us, after deducting the total expenses (set forth in the table above), were $78,449,597.

The following table sets forth the amount of net public offering proceeds used by us for the purposes listed below. None of such payments were paid directly or indirectly to directors, officers, persons owning 10% or more of any class of our equity securities or to our affiliates.

30

Purpose	Direct or indirect payments to persons other than to affiliated persons
Acquisition of other companies and business(es)	N/A
Construction of plant, building and facilities	N/A

Purchase and installation of machinery and equipment	N/A
Purchase of real estate	N/A
Repayment of indebtedness	N/A
Working capital	$78,450,000
Temporary investments	N/A
Other purposes	N/A

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

31.1 Certification by Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 Certification by Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K filed during the last quarter of the period covered by this report:

An 8-K bearing the cover date of February 3, 2004 with respect to a press release regarding the Registrant's earning for the three months and year ended December 31, 2003 was filed on February 3, 2004.

31

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RADVISION LTD.
(Registrant)

/s/Gad Tamari

Gad Tamari
Chief Executive Officer

/s/Tsipi Kagan

Tsipi Kagan
Chief Financial Officer

Date: May 10, 2004