

2000 annual report

RADVISION

the V²oIP™ experts

To Our Shareholders:

Since founding the company in 1993, RADVISION has evolved from a pioneer to industry leader in the growing Internet Protocol (IP) communications market. Today, RADVISION is recognized globally as the voice and video over IP (V²oIP™) experts. Hundreds of thousands of end-users around the world communicate over IP networks built around RADVISION products and technology.

2000 was a hallmark year for us. On March 14, 2000 we became a publicly traded company. We successfully executed on all aspects of our growth strategy, which led us to more than double revenues for the fourth-consecutive year and achieve profitability in the second quarter. RADVISION's revenues reached \$45.9 million in 2000, an increase of 162% over 1999.

Our performance this year has reinforced RADVISION's reputation as a market leader for real-time voice and video IP communication. Our specific achievements include growing our customer base for both our networking products and software toolkits from 250 at the beginning of the year to over 400 customers worldwide by the end of the year. We expanded our product offerings with several significant new product introductions. We also expanded our distribution reach by forming new channel partnerships with leading companies that are driving the adoption of voice and video over IP.

The combination of offering IP-centric networking products and software toolkits uniquely positions us in the center of the IP communication revolution. Both of our product lines are essential for building IP networks that support real-time voice and video communication. Enterprises and service providers of all sizes use our family of innovative, scalable and market proven IP-centric networking solutions for migrating from traditional telephony to converged networks. Our networking products include:

- Gateways – for bridging between traditional telephone networks and IP networks
- Multipoint Conferencing Units – for establishing converged voice, video, and data conference calls between 3 or more people
- Gatekeeper Applications – for managing, controlling and monitoring network resources and usage

Industry giants and emerging technology companies use our family of IP communication protocol toolkits to reduce their time to market for developing interoperable, standards-compliant V²oIP products, applications and services. Today you will find RADVISION protocols implemented in a wide range of environments from chipsets, to simple user devices like IP phones and video systems, through carrier class network devices like gateways, switches and softswitches.

Our rapid growth in 2000 required organizational change in order to capture additional market share and support future growth. We reorganized into two 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. This past year, we increased our addressable markets by expanding both of our product lines.

For our networking products, the Networking Business Unit introduced the *viaIP* multi-function platform for deploying IP-centric voice, video and data conferencing services over large-scale networks. The *viaIP* product family complements our OnLAN product family, which was designed for small to medium size networks. We now have a broad product offering that addresses the IP communication requirements of small, medium and large scale networks in the enterprise, government and service provider markets.

For our developer toolkits, the Technology Business Unit expanded its product offering to include a complete suite of key IP communications protocol toolkits for voice and video over IP. RADVISION toolkits now include SIP, MGCP, MEGACO and H.323. The introduction of SIP, MGCP and MEGACO makes us the premier, one-stop-shop for all voice and video technologies and reinforces RADVISION's leadership position as the V²oIP technology experts.

There is growing worldwide interest and demand for V²oIP communications. In the United States and Europe, the rate of adoption of IP technology is higher on the enterprise side. In Asia-Pacific, the rate of adoption is higher in the service provider community, which is not strapped down by legacy networks. We have a strong, and highly talented global sales, support and marketing team in place to pursue these worldwide opportunities with regional headquarters in the United States, Hong Kong, United Kingdom (first quarter 2001) and, Israel.

We firmly believe that the future of communications lies with IP. With our IP-centric strategy and solutions, we are well positioned for long-term growth. We plan to continue developing innovative networking products and enabling technologies for V²oIP communications, to establish new partner relationships, and to foster closer working relationships with existing partners in order to sustain our market leadership and drive the broad based deployment of IP-centric communication solutions.

Even though we are seeing growing demand for V²oIP communications, we cannot ignore signs of less robust spending on the part of our customers in response to the slowing economy. We do not assume that we will remain immune to a general slowdown in the networking industry. Given these more modest market conditions, we are taking prevailing economic factors into account in our planning. But this does not change our priorities to maximize our efforts and resources to achieve our business goals and deliver high value to you.

Given the current economic slowdown, we believe now, more than ever, it is important for us to stay focused on continuing to run our business by putting our customers first, and adhering to high standards and innovation in our product development, sales, support, marketing and administrative activities. We have ample resources to carry out our long-term growth initiatives and maintain our market leadership and the technological advantage that we have relative to our competitors. As we begin 2001, we are in an excellent position to leverage our current reputation as the recognized experts in V²oIP and build for the future through continued investment in new product and market development

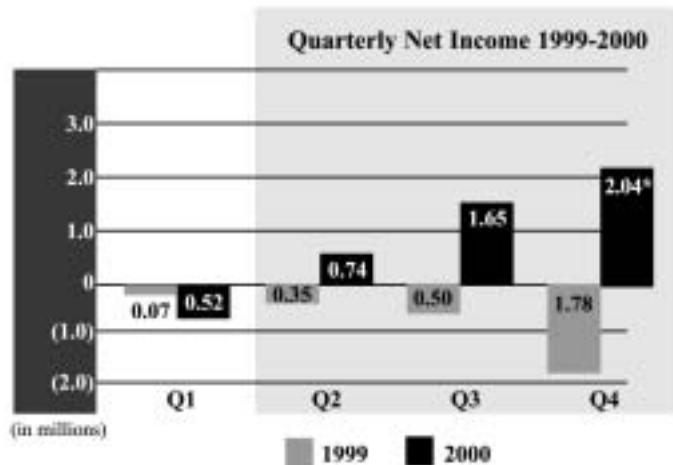
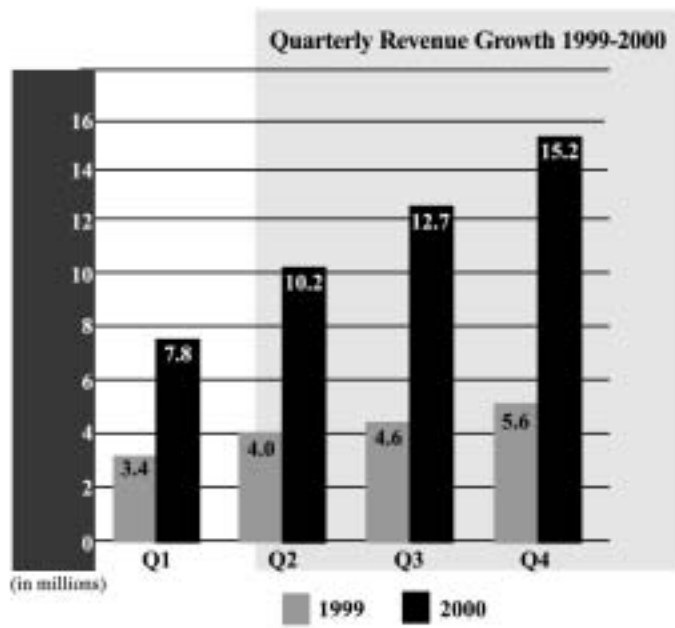
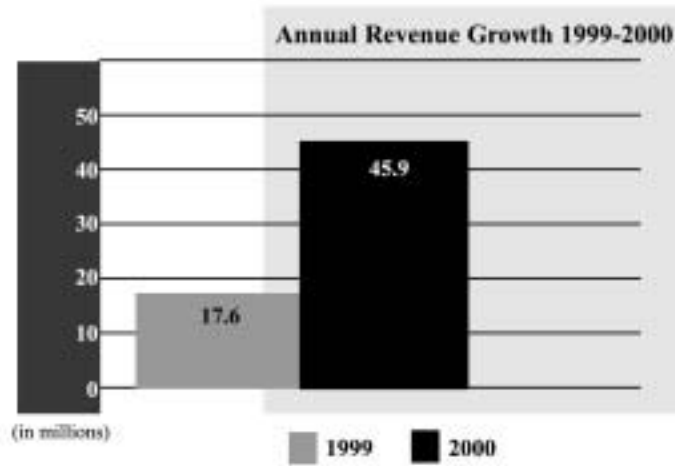
Letter to Our Shareholders

In looking ahead, all of us at RADVISION remain excited about the future of IP networks and committed to performing to our individual best and fulfilling the vision of making V²oIP communication as accessible and easy to use as the plain old telephone we all take for granted today.

Sincerely,

A handwritten signature in black ink, appearing to read "A. Amir", with a long, sweeping flourish extending to the right.

Ami Amir
Chief Executive Officer



*Excluding one-time payment to the Israeli Chief Scientist.



Consolidated Financial Statements

RADVISION LTD.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and the Shareholders of
RADVISION Ltd.:

We have audited the accompanying consolidated balance sheets of RADVISION Ltd. (an Israeli corporation) as of December 31, 1999 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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 management, as well as evaluating the overall financial statement presentation. We believe that our audits provides 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 RADVISION Ltd. as of December 31, 1999 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Luboshitz Kasierer
Member Firm of Arthur Andersen

February 5, 2001

RADVISION LTD.
CONSOLIDATED BALANCE SHEETS

	Note	December 31,	
		1999	2000
Current assets			
Cash and cash equivalents	(3)	\$ 2,604,735	\$ 41,616,732
Short-term investments	(4)	-	39,549,589
Trade receivables, net	(5)	3,214,462	7,024,800
Other receivables and prepaid expenses	(5)	1,516,576	1,051,481
Inventories	(6)	2,433,422	4,955,796
Total current assets		9,769,195	94,198,398
Long-term investments	(4)	-	15,897,320
Property and equipment, net	(7)	3,021,015	5,199,980
Deposit with insurance companies	(10)	470,361	1,054,730
Total assets		\$ 13,260,571	\$ 116,350,428
Current liabilities			
Current maturities of long-term loans		\$ 63,901	\$ 46,375
Trade payables		2,557,978	3,716,003
Other payables and accrued expenses	(8)	6,333,376	16,776,634
Total current liabilities		8,955,255	20,539,012
Long-term liabilities			
Bank loans	(9)	67,383	18,750
Accrued severance pay	(10)	756,812	1,448,094
		824,195	1,466,844
Total liabilities		9,779,450	22,005,856
Commitments and contingencies	(11)		
Shareholders' equity	(12)		
Preferred shares of NIS 0.1 par value:			
Authorized - 5,275,000 shares as of			
December 31, 1999; issued and outstanding -			
		2,957,165 shares as of December 31, 1999	-
		3,825	-
Ordinary shares of NIS 0.1 par value:			
Authorized - 12,332,317 and 24,984,470 shares			
as of December 31, 1999 and 2000; issued and			
outstanding - 10,627,859 and 19,144,984 shares			
as of December 31, 1999 and 2000			
		16,820	164,675
Additional paid-in capital		13,788,618	103,848,699
Deferred compensation		(1,051,549)	(641,128)
Accumulated deficit		(9,276,593)	(9,027,674)
Total shareholders' equity		3,481,121	94,344,572
Total liabilities and shareholders' equity		\$ 13,260,571	\$ 116,350,428

The accompanying notes form an integral part of these consolidated financial statements.

RADVISION LTD.
CONSOLIDATED BALANCE SHEETS

	Note	For the year ended December 31,		
		1998	1999	2000
Revenues	(13)	\$ 8,894,414	\$ 17,549,903	\$ 45,911,292
Cost of revenues		1,412,147	2,853,393	11,446,399
Gross profit		7,482,267	14,696,510	34,464,893
Operating expenses				
Research and development expenses		4,378,829	7,666,583	14,263,347
Less - participation by the Chief Scientist of the Government of Israel	(11)	1,139,749	1,096,722	352,994
Research and development expenses, net		3,239,080	6,569,861	13,910,353
Marketing and selling expenses, net	(14)	4,425,231	9,501,682	17,357,667
General and administrative expenses		669,578	1,426,154	3,458,004
Repayment of future royalties to the Chief Scientist	(11A)	-	-	3,665,910
Total operating expenses		8,333,889	17,497,697	38,391,934
Operating loss		(851,622)	(2,801,187)	(3,927,041)
Financing income, net		22,447	105,133	4,175,960
Net income (loss)		\$ (829,175)	\$ (2,696,054)	\$ 248,919
Earnings (loss) per ordinary share	(2)	\$ (0.08)	\$ (0.26)	\$ 0.014
Weighted average number of ordinary shares outstanding		10,491,764	10,538,395	17,174,453
Diluted earnings (loss) per ordinary share	(2)	\$ (0.08)	\$ (0.26)	\$ 0.013
Weighted average number of shares		10,491,764	10,538,395	19,873,222

The accompanying notes form an integral part of these consolidated financial statements.

RADVISION LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Preferred shares		Ordinary shares		Additional paid-in capital	Deferred compensation	Accumulated deficit	Total
	Shares	Amount	Shares	Amount				
Balance as of January 1, 1998	-	\$ -	10,438,381	\$ 16,482	\$ 7,180,255	\$ (82,493)	\$ (5,751,364)	\$ 1,362,880
Ordinary shares issued	-	-	89,675	159	-	-	-	159
Preferred shares issued	2,957,165	3,825	-	-	4,795,895(1)	-	-	4,799,720
Deferred compensation	-	-	-	-	112,000	(112,000)	-	-
Amortization of deferred compensation	-	-	-	-	-	116,115	-	116,115
Net loss	-	-	-	-	-	-	(829,175)	(829,175)
Balance as of December 31, 1998	2,957,165	\$ 3,825	10,528,056	\$ 16,641	\$ 12,088,150	\$ (78,378)	\$ (6,580,539)	\$ 5,449,699
Ordinary shares issued	-	-	158,250	179	249,821	-	-	250,000
Deferred compensation	-	-	-	-	1,466,647	(1,466,647)	-	-
Amortization of deferred compensation	-	-	-	-	(16,000)	493,476	-	477,476
Net loss	-	-	-	-	-	-	(2,696,054)	(2,696,054)
Balance as of December 31, 1999	2,957,165	\$ 3,825	10,686,306	\$ 16,820	\$ 13,788,618	\$ (1,051,549)	\$ (9,276,593)	\$ 3,481,121
Ordinary shares issued	-	-	4,960,822	125,052	89,094,289(2)	-	-	89,219,341
Conversion of preferred shares	(2,957,165)	(3,825)	2,957,165	3,825	-	-	-	-
Cancellation of ordinary shares	-	-	(58,447)	-	-	-	-	-
Deferred compensation	-	-	-	-	218,000	(218,000)	-	-
Options exercised	-	-	599,138	18,978	779,802	-	-	798,780
Amortization of deferred compensation	-	-	-	-	(32,010)	628,421	-	596,411
Net income	-	-	-	-	-	-	248,919	248,919
Balance as of December 31, 2000	-	\$ -	19,144,984	\$ 164,675	\$ 103,848,699	\$ (641,128)	\$ (9,027,674)	\$ 94,344,572

(1) Net of issuance expenses of approximately \$85,000.

(2) Net of issuance expenses of approximately \$8,400,000.

The accompanying notes form an integral part of these consolidated financial statements.

RADVISION LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>For the year ended December 31,</u>		
	<u>1998</u>	<u>1999</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) income	\$ (829,175)	\$ (2,696,054)	\$ 248,919
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Income and expenses not affecting operating cash flows:			
Depreciation	360,331	718,444	1,843,449
Severance pay	39,051	103,616	106,913
Amortization of deferred compensation	116,115	477,476	596,411
Other	17,159	19,308	35,115
Changes in operating assets and liabilities:			
Increase in trade receivables, net	(724,060)	(647,116)	(3,810,338)
Decrease (increase) in other receivables and prepaid expenses	(625,820)	(429,625)	465,095
Increase in inventories	(447,200)	(1,560,790)	(2,522,374)
Increase in trade payables	282,924	1,923,895	1,158,025
Increase in other payables and accrued expenses	963,589	3,528,540	10,443,258
Net cash provided by (used in) operating activities	<u>(847,086)</u>	<u>1,437,694</u>	<u>8,564,473</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in short-term investments	-	-	(39,549,589)
Increase in long-term investments	-	-	(15,897,320)
Purchase of property and equipment	(1,102,164)	(2,388,490)	(4,175,250)
Proceeds from sale of property and equipment	19,285	74,257	117,721
Net cash used in investing activities	<u>(1,082,879)</u>	<u>(2,314,233)</u>	<u>(59,504,438)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of share capital	4,799,879	250,000	90,018,121
Decrease in short-term credit	(54,055)	(10,701)	-
Long-term loans received	100,000	-	-
Repayment of long-term loans	(45,734)	(62,763)	(66,159)
Net cash provided by financing activities	<u>4,800,090</u>	<u>176,536</u>	<u>89,951,962</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,870,125	(700,003)	39,011,997
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	434,613	3,304,738	2,604,735
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,304,738</u>	<u>\$ 2,604,735</u>	<u>\$ 41,616,732</u>
CASH PAID DURING THE YEAR IN RESPECT OF INTEREST	<u>\$ 22,715</u>	<u>\$ 15,839</u>	<u>\$ 8,367</u>
NON-CASH ACTIVITY	<u>\$ -</u>	<u>\$ 200,000</u>	<u>\$ -</u>

The accompanying notes form an integral part of these consolidated financial statements.

RADVISION LTD.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2000**

Note 1 - General

RADVISION Ltd. referred to in these consolidated financial statements as 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 consolidated financial statements of the Company have been prepared in U.S. dollars, as the currency of the primary economic environment in which the operations of the Company are conducted is the U.S. dollar. All of the Company's sales are in U.S. dollars or are dollar-linked. Most purchases of materials and components and most marketing costs are denominated in U.S. dollars. Therefore, the functional currency of the Company is the U.S. dollar.

Transactions and balances originally denominated in U.S. dollars are presented at their original amounts. Transactions and balances in other currencies are remeasured into U.S. dollars in accordance with the principles set forth in Statement No. 52 of the Financial Accounting Standards Board of the United States ("FASB"). Items have been remeasured as follows:

- Monetary items - at the exchange rate in effect on the balance sheet date.
- Non monetary items - at historical exchange rates.
- Revenue and expense items - at the exchange rates in effect as of the date of recognition of those items, excluding depreciation and other items deriving from non-monetary items.

All exchange gains and losses from the remeasurement mentioned above, which are immaterial for all periods presented are reflected in the statement of operations. The representative rate of exchange at December 31, 2000 was U.S.\$ 1.00 = NIS 4.041; and at December 31, 1999 and 1998 = NIS 4.153 and NIS 4.16, respectively.

RADVISION LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

Note 2 - Significant Accounting Policies

The financial statements are prepared according to generally accepted accounting principles in the United States. The significant accounting policies followed in the preparation of the financial statements, applied on a consistent basis, are as follows:

A. Principles of Consolidation

The financial statements include the accounts of the Company and its wholly-owned subsidiaries in the United States, Netherlands and Hong Kong. Material intercompany balances and transactions have been eliminated.

B. Cash and Cash Equivalents

All highly liquid investments with an original maturity of three months or less are considered cash equivalents.

C. Allowance for Doubtful Accounts

Allowance for doubtful accounts is computed for specific debts the collectibility of which is doubtful based upon the Company's experience.

D. Inventories

Inventories are valued at the lower of cost or market. Cost is determined on the moving average basis.

E. Property and Equipment

Property and equipment are stated at cost. Depreciation is computed by the straight-line method over the estimated useful life of the assets, ranging from 3 to 15 years.

RADVISION LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

Note 2 - Significant Accounting Policies (Cont.)

F. Investments

The Company accounts for investments in debentures under Statement of Financial Accounting Standard (“SFAS”) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Under SFAS No. 115, investments in debentures for which the Company has the positive intent and ability to hold to maturity, are reported at amortized cost, which approximates fair market value.

G. Revenue Recognition

Revenues from sales of products and technology are recognized in accordance with Statement of Position (SOP) 97-2, as amended by SOP 98-4, upon delivery, when collection is probable, the vendor's fee is fixed or determinable and persuasive evidence of an arrangement exists. Provided that all other elements of SOP 97-2 are met, revenues are recognized upon delivery, whether the customer is a distributor or the final end user. Revenues for maintenance and support services are deferred and recognized ratably over the service period.

In accordance with SOP 97-2, revenues for multi-element arrangements, that is, sales of products or technology in conjunction with post-contract customer support services, are segregated. Revenues allocated to the delivered elements are recognized upon delivery, provided that the other elements of SOP 97-2 are satisfied. Revenues allocated to the undelivered elements (post-contract customer support services) are deferred and recognized ratably over the service period. The portion of the fee for multi-element arrangements allocated to the undelivered elements (post-contract customer support services) is based on vendor-specific objective evidence determined, in the case of post-contract customer support services, based on the annual renewal rate for such services actually charged to customers for years subsequent to the first year following sale. The remaining portion of the fee is allocated to the delivered elements based on the residual value method.

RADVISION LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

Note 2 - Significant Accounting Policies (Cont.)

H. Research and Development Costs

Research and development costs, net of participations by the Government of Israel through the Ministry of Industry and Trade, Office of the Chief Scientist, are charged to operations as incurred. Software development costs are considered for capitalization when technological feasibility is established according to SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed." Costs incurred after achievement of technological feasibility in the process of software production have not been material. Therefore, the Company has not capitalized any of its research and development expenses and does not anticipate that its development process will differ materially in the future.

I. Income Taxes

The Company accounts for income taxes under the liability method of accounting. Under the liability method, deferred taxes are determined based on the differences between the financial statement and tax basis of assets and liabilities at enacted tax rates in effect in the year in which the differences are expected to reverse. Valuation allowances are established, when necessary, to reduce deferred tax assets to amounts expected to be realized.

J. Fair Value of Financial Instruments

Unless otherwise noted, the carrying amount of financial instruments approximates fair value.

K. Provision for Warranty Costs

The Company warrants its products for a twelve month period. Provision for warranty costs are based on Company's past experience.

RADVISION LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

Note 2 - Significant Accounting Policies (Cont.)

L. Basic and Diluted Net Earnings (Loss) Per Share

Basic and diluted net earnings (loss) per share are presented according to SFAS No. 128, "Earnings per share", for all periods presented.

Basic and diluted net earnings (loss) per share have been computed using the weighted average number of ordinary shares outstanding during the period.

M. Share-based Compensation

The Company has adopted the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and the accounting rules in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", including the FASB Issued Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation on Interpretation of APB 25." The Company has provided the necessary pro forma disclosures as if the fair value method had been applied. See Note 12(E).

N. Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RADVISION LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

Note 2 - Significant Accounting Policies (Cont.)

O. Recently Issued New Accounting Standards

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 as amended by SFAS 138 established accounting and reporting standards requiring that every derivative instrument be recorded on the balance sheet at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the statement of operations. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000. The Company believes that the adoption of SFAS No. 133 will not have a material effect on its financial statements.

Note 3 - Cash and Cash Equivalents

	December 31,	
	1999	2000
Cash in banks, primarily in U.S. dollars	\$ 1,828,335	\$ 5,004,185
Bank deposits in U.S. dollars, bearing annual interest rate of 6.5%	615,875	36,150,532
Bank deposits in NIS, bearing annual interest rate of 7.1%	160,525	462,015
	<u>\$ 2,604,735</u>	<u>\$ 41,616,732</u>

The interest rates are as of December 31, 2000.

RADVISION LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

Note 4 - Investments

	December 31,	
	1999	2000
Bank deposits in U.S. dollars bearing annual interest rate of 6.7%	-	12,208,190
Marketable debentures, bearing annual interest of 7%.	-	27,341,399
	-	39,549,589

Marketable debentures in the amount of \$15,897,320 that mature later than December 31, 2001, bearing annual interest of 7%, are presented as long-term investments.

The interest rates are as of December 31, 2000.

Note 5 - Trade Receivables, Net

- A. Trade receivables are presented net of allowance for doubtful accounts in the amount of \$224,705 and \$577,028 as of December 31, 1999 and 2000. The Company generally provides customers with a thirty to sixty day post-sale acceptance period, during which customers can return products for a full refund. Historically, returns during this period have been negligible.
- B. Other receivables and prepaid expenses include grants receivable from the Government of Israel in the amount of \$864,444 and zero as of December 31, 1999 and 2000.

Note 6 - Inventories

	December 31,	
	1999	2000
Materials and components	\$ 1,037,633	\$ 2,377,026
Work in process	634,969	609,637
Finished products	760,820	1,969,133
	\$ 2,433,422	\$ 4,955,796

RADVISION LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)****Note 7 - Property and Equipment, net**

	December 31,	
	1999	2000
COST		
Research and development equipment	\$1,370,345	\$2,694,941
Motor vehicles	1,039,715	1,090,178
Manufacturing equipment	236,208	280,047
Office furniture and equipment and leasehold improvements	1,753,264	4,288,005
	<u>\$4,399,532</u>	<u>\$8,353,171</u>
ACCUMULATED DEPRECIATION		
Research and development equipment	669,773	1,232,186
Motor vehicles	148,674	241,872
Manufacturing equipment	109,383	169,159
Office furniture and equipment and leasehold improvements	450,687	1,509,974
	<u>1,378,517</u>	<u>3,153,191</u>
NET BOOK VALUE	<u>\$3,021,015</u>	<u>\$5,199,980</u>

For the years ended December 31, 1998, 1999 and 2000, depreciation expense was \$360,331, \$718,444 and \$1,843,449, respectively.

The Company's property and equipment are primarily located in Israel.

RADVISION LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)****Note 8 - Other Payables and Accrued Expenses**

	December 31,	
	1999	2000
Deferred income	\$ 2,930,587	\$10,298,334
Employees and employee institutions (1)	1,493,704	2,345,104
Accrued royalties	476,000	410,681
Tax withholding payable	403,000	310,068
Accrued expenses	1,030,085	3,412,447
	<u>\$ 6,333,376</u>	<u>\$16,776,634</u>

- (1) Employees and employee institutions include salaries, bonuses and employee institutions payable. The employee institutions include amounts deducted from employees payroll for December 1999 and 2000, respectively for educational funds and insurance policies funds. For the years ended December 31, 1998, 1999 and 2000 educational funds expenses were \$122,239, \$232,996 and \$547,491 and insurance policies funds expenses were \$208,145, \$409,598 and \$375,035.

Note 9 - Long-term Bank Loans

	December 31,	
	1999	2000
Loans linked to the U.S. dollar	\$ 131,284	\$ 65,125
Less - current maturities	63,901	46,375
	<u>\$ 67,383</u>	<u>\$ 18,750</u>

The loans bear interest at an annual rate of Libor plus 1%, which was 7.3% at December 31, 2000, and mature in equal quarterly installments through 2002.

RADVISION LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

Note 10 - Accrued Severance Pay

Under Israeli law and labor agreements, the Company is required to make severance payments to its dismissed employees and employees leaving its employment in certain other circumstances. The Company's severance pay liability to its employees, which is calculated on the basis of the salary of each employee for the last month of the reported period multiplied by the years of the employee's employment, is reflected in the Company's balance sheet on the accrual basis, and is partially funded by purchase of insurance policies in the name of the Company. The severance pay expense for the years ended December 31, 1998, 1999 and 2000 amounted to \$134,248, \$365,076, and \$606,187.

Note 11 - Commitments and Contingencies

- A. In connection with its research and development, the Company received and accrued participation payments from the Office of the Chief Scientist of the Ministry of Industry and Trade in Israel in the total amount of approximately \$4.9 million. In December 2000 the Company repaid all its remaining commitment with regard to this participation in the amount of approximately \$3.7 million.
- B. In connection with its marketing activities, the Company received and accrued participation payments from the Government of Israel - Fund for the Encouragement of Marketing Activities, in the total amount of approximately \$686,000. In return for the participation payments, the Company is committed to pay royalties at a rate of 3% of the Company's total increase in export sales, from the end of the second year of implementation of the marketing plan until the date at which the participation has been fully repaid. The Company's total commitment for royalties payable with respect to future sales, based on Government of Israel participations received or accrued, net of royalties paid or accrued, totaled approximately \$200,000 as of December 31, 2000.

RADVISION LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

Note 11 - Commitments and Contingencies (Cont.)

- C. In connection with its research and development, the Company received and accrued participation payments from the Israel U.S. Binational Industrial Research and Development Foundation (BIRDF), in the total amount of approximately \$188,000. In return for the participation, the Company is committed to pay royalties at a rate of 2.5% of proceeds from the first year's sales and 5% of the proceeds from the succeeding years' sales, up to the amount of the grant. Once the amount of the grant has been repaid, royalties will be payable at the rate of 2.5% of proceeds, until additional royalties equal to one half of the grant amount have been repaid. The Company's total commitment for royalties payable with respect to future sales, based on Government participations received or accrued, net of royalties paid or accrued, totaled approximately \$276,000 as of December 31, 2000.
- D. The Company and its subsidiaries operate from leased premises in Israel, United States, China and Hong Kong. Lease agreements expire in May 2001 through March 2006 (some with renewal options). Annual minimum future rental payments due under the above agreements, at the exchange rate in effect on December 31, 2000, are approximately as follows:

2001	\$ 1,932,482
2002	1,939,109
2003	1,888,664
2004	1,888,664
2005 and thereafter	1,273,360
	<u>\$ 8,922,279</u>

RADVISION LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

Note 11 - Commitments and Contingencies (Cont.)

- E. The Company is committed to pay royalties to third parties for the integration of these third parties' technologies into the Company's products. Royalties are payable based on the sales volume of these products, for as long as the Company uses these technologies, without limit on the amount of royalties payable. The rates of these royalties are based on a fixed amount per product sold by the Company in the range of \$1.00 to \$5.00 per unit sold. The agreements pursuant to which the royalties are payable have no expiration date. Annual minimum future royalty payments are approximately as follows:

2001	\$	25,000
2002		25,000
2003		25,000
		<u>25,000</u>
	\$	<u>75,000</u>

- F. In 1998, a third party sent correspondence to the Company's affiliate alleging that some products manufactured by the Company infringe upon patents held by the third party and offered to license these patents to the Company. In subsequent correspondence, the Company's affiliate requested that the third party specifically substantiate each allegation of infringement before the Company's affiliate would be prepared to enter into any licensing arrangements. The Company does not believe that these allegations will have a material adverse effect upon its business, financial position, results of operations or liquidity. The Company's affiliate has received further correspondence from the third party, in which the third party has, among other things, reiterated its claims. The Company's affiliate does not believe the third party has substantiated its claims and has communicated this belief to the third party. The Company's affiliate has advised the Company that the alleged infringement claims are unresolved.

RADVISION LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

Note 12 - Shareholders' Equity

- A. On January 18, 2000, the Company increased its authorized Ordinary Share Capital to 24,984,470 Ordinary Shares and 15,530 deferred shares of NIS 0.1 par value per share and all outstanding preferred shares were converted into an identical number of ordinary shares.

In January 2000, the Company effected a 211 to 1 share split in the form of a share dividend.

All references to per share amounts and the number of shares in these financial statements have been restated to reflect the abovementioned changes.

- B. The Company has an authorized share capital of 15,530 deferred shares of par value NIS 0.1 each. The deferred shares confer no rights or privileges on their holders except for the right to receive upon dissolution or liquidation the par value of the deferred shares.

RADVISION LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

Note 12 - Shareholders' Equity (Cont.)

- C. In March 2000, the Company issued 590,822 ordinary shares in a private placement to Siemens Aktiengesellschaft, Samsung Electro-Mechanics Co. Ltd. and Samsung Venture Investment Corporation for an aggregate consideration of approximately \$10 million.
- D. On March 13, 2000, the Company issued 4,370,000 ordinary shares in an initial public offering for \$87 million, or \$20 per share.
- E. The Company adopted a key employee share incentive plan which provides for the grant by the Company of option awards to purchase up to an aggregate of 3,800,000 ordinary shares to officers, employees, directors and consultants of the Company, its subsidiaries and affiliates. The options vest ratably over vesting periods ranging from three to five years. The options expire 62 to 120 months from the date of issuance. The exercise price of options, under the plan is at varying prices ranging from \$0.95 to \$28.

Transactions related to the share incentive plan during the years ended December 31, 1998, 1999 and 2000 and the weighted average exercise prices per share and weighted average fair value of the options at the date of grant are summarized as follows:

	Outstanding options	Weighted average exercise price per share	Weighted average fair value of options granted
Outstanding as of January 1, 1998	649,880	\$ 1.41	
Options granted	791,250	1.18	\$ 0.29
Options forfeited	(10,550)	1.64	
Outstanding as of December 31, 1998	1,430,580	1.28	
Options granted	1,421,296	1.18	\$ 1.14
Options forfeited	(184,625)	1.80	
Outstanding as of December 31, 1999	2,667,251	1.23	
Options granted	1,390,795	16.68	\$ 9.38
Options exercised	(599,138)	1.46	
Options forfeited	(230,252)	7.30	
Outstanding as of December 31, 2000	3,228,656	\$ 7.48	

RADVISION LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

Note 12 - Shareholders' Equity (Cont.)

E. (Cont.)

The following table summarizes information about options outstanding and exercisable at December 31, 2000:

Exercise price	Options outstanding			Options exercisable	
	Number outstanding at December 31, 2000	Weighted – average remaining contractual life	Weighted - average exercise prices	Number outstanding at December 31, 2000	Weighted – average exercise prices
\$ 0.95-\$0.98	663,494	2.86	\$0.95	201,621	\$0.95
1.18	718,799	2.55	1.18	343,826	1.18
1.58-1.64	503,881	3.48	1.58	132,771	1.59
1.74	49,010	1.41	1.74	33,276	1.74
10.20	118,478	4.04	10.20	29,620	10.20
12.00	305,472	4.20	12.00	8,111	12.00
12.94	186,000	4.97	12.94	-	-
17.00	440,022	4.56	17.00	-	-
28.00	243,500	4.91	28.00	-	-
	3,228,656			749,225	

The amounts of deferred compensation recognized arising from the difference between the exercise price and the fair market value on the date of the grant of \$112,000, \$1,466,647 and \$218,000 for options granted in the years ended December 31, 1998, 1999 and 2000, are included in shareholders' equity and are amortized over the vesting periods of the options according to APB 25. Under APB 25, the deferred compensation expense for the years ended December 31, 1998, 1999 and 2000 amounted to \$116,115, \$477,476 and \$596,411.

RADVISION LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

Note 12 - Shareholders' Equity (Cont.)

E. (Cont.)

If deferred compensation had been determined under the alternative fair value accounting method provided for under SFAS Statement No. 123, "Accounting for Stock-Based Compensation," the Company's net loss and net loss per share would have been increased to the following pro forma amounts:

	For the year ended December 31,		
	1998	1999	2000
Net income (loss):			
As reported	\$ (829,175)	\$(2,696,054)	\$ 248,919
Pro forma	(956,396)	(2,749,826)	(3,196,900)
Net earnings (loss)			
per share:			
Basic	(0.08)	(0.26)	0.014
Diluted	(0.08)	(0.26)	0.013
Pro forma			
Basic	(0.09)	(0.26)	(0.19)
Diluted	-	-	-

Under SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1998, 1999 and 2000: (1) expected life of the options of 2.72, 2.84 and 2.39; (2) no dividend yield; (3) expected volatility of 0% for 1998 and 1999 and expected volatility of 80% for 2000; and (4) risk-free interest rate of 5%.

RADVISION LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

Note 13 - Revenues

The Company's sales by geographic area are as follows:

	For the year ended December 31,		
	1998	1999	2000
North America, principally the United States	\$ 4,845,522	\$ 9,530,948	\$ 28,830,023
Europe	2,248,880	4,045,882	7,327,630
Far East	942,460	2,662,865	5,286,587
Israel	857,552	1,310,208	4,467,052
	<u>\$ 8,894,414</u>	<u>\$ 17,549,903</u>	<u>\$ 45,911,292</u>

The Company manages its business on the basis of one reportable segment.

For the years ended December 31, 1998 and 1999, no single customer represented more than 10% of sales. For the year ended December 31, 2000, one customer accounted for approximately 22% of sales for that period.

Note 14 - Marketing and Selling Expenses, Net

	For the year ended December 31,		
	1998	1999	2000
Marketing and selling expenses	\$ 4,603,336	\$ 9,699,745	\$ 17,491,503
Participation by the Government of Israel	178,105	198,063	133,836
Marketing and selling expenses, net	<u>\$ 4,425,231</u>	<u>\$ 9,501,682</u>	<u>\$ 17,357,667</u>
Marketing and selling expenses include:			
Royalties to the Government of Israel	<u>\$ 366,736</u>	<u>\$ 896,249</u>	<u>\$ 749,556</u>

RADVISION LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

Note 15 - Concentration of Credit Risk

For the period ended December 31, 1999, no single customer accounted for more than 10% of the Company's sales and no customer represented more than 10% of trade receivables. As of December 31, 2000, current balances of two customers accounted for 22% and 20% of the Company's trade receivables. The Company does not generally require collateral to support credit sales. Allowances are maintained for potential credit losses.

Note 16 - Related Party Balances and Transactions

A. Balances with Related Parties

	December 31,	
	1999	2000
Receivables	\$ 124,264	\$ 72,923
Trade payables	305,325	197,496

B. Transactions with Related Parties

	For the year ended December 31,		
	1998	1999	2000
Revenues (1)	\$ 47,429	\$ 166,812	\$ 251,019
Cost of revenues (3) (4)	252,655	384,951	842,143
Research and development expenses (2)(3)	3,017	362,573	621,510
Marketing, selling, general and administrative expenses (2) (3)	201,238	343,873	1,210,381
Purchase of property and equipment (5)	64,225	283,752	722,157

- (1) Includes revenues from agreements to license the Company's technology to Radcom Ltd. and Rad Data Communications Ltd., affiliated companies. The agreements are based on the Company's standard form and include a licensing fee, maintenance and support services for one year and minimum royalty payments on sales of products which incorporate the technology.

RADVISION LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

Note 16 - Related Party Balances and Transactions (Cont.)

B. Transactions with Related Parties (Cont.)

- (2) Includes legal, human resources and administrative services provided to the Company by affiliated companies which the Company reimburses for the costs incurred in providing these services.
- (3) Includes rental fees based on lease agreements with Rit Technologies Ltd., Rad Data Communications Ltd., and several other affiliated companies. Under these lease agreements, the Company leases office space of approximately 21,830 and 9,000 square feet, in Israel and in New Jersey, respectively. The expiration dates of these lease agreements range from August 2000 to May 2002.
- (4) Includes the purchase of components from Rad Data Communications Ltd., an affiliated company, which the Company integrates into its products.
- (5) Includes property and equipment that were purchased mainly from Bynet Data Communications Ltd., an affiliated company.

Note 17 - Taxes on Income

- A. The Company's investment program totaling \$122,000 has been granted Approved Enterprise status under the Law for Encouragement of Capital Investments, 1959. In addition, the Company was granted Approved Enterprise status for an expansion of a previous program totaling \$375,000. The Company is entitled to a tax benefit period of seven years, on income derived from these programs, as follows: a full income tax exemption for the first two years and a reduced income tax rate of 25% (instead of the regular rate of 36%) for the remaining five year period. If foreign shareholdings in the Company exceed 25%, the period for which the Company is entitled to a reduced income tax is extended to eight years.

If the Company distributes a cash dividend out of retained earnings which were tax exempt due to its approved enterprise status, the Company would have to pay a 25% corporate tax on the amount distributed, and a further 15% withholding tax would be deducted from the amounts distributed to the recipients.

RADVISION LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

Note 17 - Taxes on Income (Cont.)

A. (Cont.)

Should the Company derive income from sources other than the approved enterprise programs during the relevant period of benefits, this income will be taxable at the regular corporate tax rate, which is 36%.

The benefits from the Company's approved enterprise programs are dependent upon the Company fulfilling the conditions stipulated by the Law for Encouragement of Capital Investments, 1959 and the regulations published under this law, as well as the criteria in the approval for the specific investment in the Company's approved enterprise programs. If the Company does not comply with these conditions, the tax benefits may be canceled, and the Company may be required to refund the amount of the canceled benefits, with the addition of linkage differences and interest. As of the date of these financial statements, the Company believes that it has complied with these conditions.

- B. The Company is subject to the Income Tax Law (Inflationary Adjustments), 1985, measuring income on the basis of changes in the Israeli Consumer Price Index.
- C. The Company is an "Industrial Company" under the Law for Encouragement of Industry (Taxes), 1969 and is therefore entitled to certain tax benefits, mainly accelerated depreciation of machinery and equipment and deduction of expenses incurred in connection with a public offering.
- D. Through December 31, 1994, the Company's losses for tax purposes were assigned to a shareholder, and are not available to the Company.
- E. As of December 31, 2000, the Company's net operating loss carryforwards for tax purposes amounted to approximately \$15.0 million. These net operating losses may be carried forward indefinitely and offset against future taxable income. The Company expects that during the period in which these tax losses are utilized its income would be substantially tax exempt. Accordingly, the income tax rate of the Company during the tax exempt period will be zero, and there will be no tax benefit available from these losses and no deferred income taxes have been included in these financial statements. Deferred taxes in respect of other temporary differences are immaterial.

RADVISION LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

Note 17 - Taxes on Income (Cont.)

- F. The U.S. subsidiary's carryforward tax losses through December 31, 2000 amounted to approximately \$8.0 million. These losses are available to offset any future U.S. taxable income of the U.S. subsidiary and will expire in the years 2010 - 2014.

Details of deferred tax assets are as follows:

	December 31,	
	1999	2000
Net operating loss carryforwards	\$ 770,000	\$2,835,000
Less - valuation allowance	(770,000)	(2,835,000)
	\$ -	\$ -

- G. A reconciliation between the theoretical tax benefit, assuming all income is taxed at the statutory tax rate applicable to the income of the Company and the actual tax expense as reported in the statements of operations, is as follows:

	For the year ended December 31,		
	1998	1999	2000
Theoretical tax expense (benefit) computed at the statutory rate (36%)	\$(298,503)	\$(970,579)	\$ 89,611
Loss and other items for which deferred taxes were not provided, net	277,000	936,423	(181,665)
Non-deductible expenses	21,503	34,156	92,054
Income tax benefit	\$ -	\$ -	\$ -

- H. The Company has been assessed for tax purposes through the year 1996.

#

Senior Management

Ami Amir, *Chief Executive Officer*
Eli Doron, *Chief Technical Officer*
David Seligman, *Chief Financial Officer*
Avinoam Barak, *General Manager,
Networking Business Unit*
Boaz Raviv, *General Manager, Technology
Business Unit*
Eugene Wolf, *President RADVISION Inc.
and Senior Vice President Worldwide Sales
& Support*
Dr. Michelle Blank, *Vice President Galactic
Marketing*
Ofer Shapiro, *Vice President Business
Development*
Nurit Ofir, *Vice President Human Resources*

Board of Directors

Yehuda Zisapel, *Chairman of the Board of
Directors*
Ami Amir, *Chief Executive Officer, President
and Director*
Zohar Zisapel, *Director*
Adi Gan, *Director*
Dan Goldstein, *Director*
Liora Katzenstein, *Director*
Hillel E. Milo, *Director*
Efraim Wachtel, *Director*
Andreas Mattes, *Director*

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