



RADVISION

2001 ANNUAL REPORT

To Our Shareholders:

2000 was a year of dramatic growth for RADVISION. 2001 was a year of focusing on execution and laying the foundation for long-term growth in the videoconferencing market. Business conditions presented challenges for our industry as enterprises reigned in spending and pulled back on investments in communications infrastructure.

The tragic events of September 11 also highlighted the need for strong communications infrastructure and the power of videoconferencing. Enterprises and service providers were directly affected by the damage to communications networks and by the stress placed on networks that remained physically intact. IP communications, with its distributed architecture, offered alternative routes for critical communications and data to reach their destination. This kept people, families and businesses connected during this tumultuous time. As a result, we began to see growing awareness of videoconferencing and positive signs that the potency of an IP network is being recognized.

Until recently, mainstream adoption of videoconferencing was hindered by technical barriers, implementation costs and the complexity of deployment. Many of these issues have been successfully addressed and the appetite for implementing these valuable solutions is increasing. As businesses look for ways to reduce discretionary spending, reduce travel expenses and enhance employee productivity, videoconferencing is viewed more and more as a necessary and powerful business tool. The introduction of Microsoft's XP with Windows Messenger's support for RADVISION's SIP-based videoconferencing gave a strong message to the market. This is an essential application that will shape the way we communicate both personally and professionally for years to come.

Early in the year, RADVISION responded to the more challenging business environment by taking steps to ensure that our spending did not exceed our expected revenue. We pruned our resources and reduced our discretionary spending while continuing to deliver a high standard of innovation, superior customer service and support, and invest in sales and marketing initiatives for continued growth. We concentrated our research and development on enhancing our current products to provide immediate solutions for customer needs, while conscientiously designing the products of the future. Because of these steps, we were able to report an adjusted net income of \$1.4 million, or \$0.07 per share, on revenues of \$45.9 million. We also preserved our cash reserves and ended the year with cash and cash equivalents of \$86 million.

During 2001, RADVISION continued to strengthen the Networking Business Unit's (NBU) sales channels. We opened an office in the United Kingdom in the first half of the year; we strengthened our offices in Hong Kong and Beijing and added approximately 26 resellers around the world, including the first 3 in Latin America. In addition, we fortified our strategic relationships with videoconferencing end-point vendors such as SONY, Tandberg and Aethra.

We introduced the second generation of our videoconferencing network infrastructure products, the *viaIP* 400, for large enterprises and service providers, which bridged the gap between RADVISION and competitive offerings. The new *viaIP* systems accounted for 41% of revenue for the NBU and 26% of total revenue in the first full year of shipment. The *viaIP* was well received by both existing and new RADVISION customers, including Alcatel, China Railcom and Siemens.

## *Letter to Our Shareholders*

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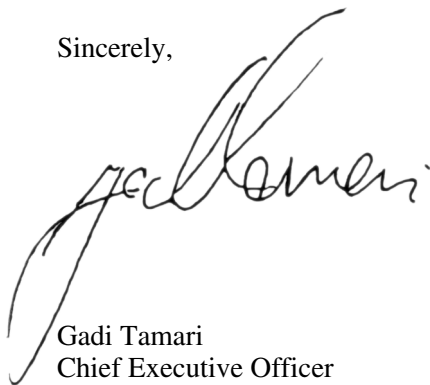
In the Technology Business Unit (TBU), we launched a number of new products, including development toolkits for SIP and MEGACO/H.248, and broke new ground in developing a testing and validation system for voice and video with the ProLab H.323 Test Manager. The TBU continued to enhance its existing product offerings with upgrades and expansion of the developer toolkits to include the most up-to-date standards and extensions.

Key customers including LG Electronics, NEC, Shanghai Bell and Texas Instruments helped to uphold RADVISION's leadership in the market in H.323 and position us as the market leader for SIP development solutions. RADVISION's innovation in technology, commitment to customer service and high standards of quality have enabled us to build an excellent reputation and leverage our existing customer base for new product sales.

Looking toward the future, RADVISION will provide a more encompassing offering that includes collaboration and conferencing solutions beyond traditional videoconferencing. We are looking at how businesses communicate through the desktop, the web and mobile devices. We will strengthen our current alliances and forge new relationships to reach those goals. RADVISION is also dedicating resources to further explore the potential and future opportunities of the service provider markets, and steer our product development to address the needs of this community.

RADVISION will continue to be a leading force in the growth of this dynamic industry with the dedication and talent of our employees. We look forward to 2002 as a time to strengthen and expand our product offerings, our company, our market position and the industry as a whole. We will continue to educate, innovate and communicate with our peers and leading business associates to ensure a successful future for IP communications.

Sincerely,

A handwritten signature in black ink, appearing to read "Gadi Tamari". The signature is fluid and cursive, with a large initial "G" and "T".

Gadi Tamari  
Chief Executive Officer



Consolidated Financial Statements  
As Of December 31, 2001

**RADVISION LTD.**

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**RADVISION LTD.**

*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) and its subsidiaries as of December 31, 2000 and 2001, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. 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 provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of RADVISION Ltd. and its subsidiaries as of December 31, 2000 and 2001, and the consolidated results of operations and cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

**Luboshitz Kasierer  
Arthur Andersen**

Tel-Aviv, Israel  
January 30, 2002

**RADVISION LTD.**

**CONSOLIDATED BALANCE SHEET**

In thousands of U.S. dollars, except per share data

	Note	December 31,	
		2000	2001
Current assets			
Cash and cash equivalents	(3)	\$ 41,617	\$ 6,717
Short-term investments	(4)	39,550	52,785
Trade receivables, net	(5)	7,025	5,078
Other receivables and prepaid expenses		1,051	1,259
Inventories	(6)	4,956	1,884
Total current assets		94,199	67,723
Long-term investments	(4)	15,897	26,326
Property and equipment, net	(7)	5,200	4,518
Deposit with insurance companies	(10)	1,055	1,200
Total assets		\$ 116,351	\$ 99,767
Current liabilities			
Current maturities of long-term bank loans		\$ 46	\$ 19
Trade payables		3,716	765
Other payables and accrued expenses	(8)	16,777	13,562
Total current liabilities		20,539	14,346
Long-term liabilities			
Bank loans, net of current maturities	(9)	19	-
Accrued severance pay	(10)	1,448	1,872
		1,467	1,872
Total liabilities		22,006	16,218
Commitments and contingencies	(11)		
Shareholders' equity:	(12)		
Ordinary shares of NIS 0.1 par value:			
Authorized - 24,984,470 shares as of December 31, 2001;			
Issued and outstanding - 19,144,984 and 19,889,690 shares			
as of December 31, 2000 and 2001		165	182
Additional paid-in capital		103,849	104,209
Deferred compensation		(641)	(299)
Accumulated deficit		(9,028)	(10,640)
		94,345	93,452
Less cost of treasury stock - 1,585,446			
Ordinary shares of NIS 0.1 par value as of			
December 31, 2001 (2000 - none)		-	9,903
Total shareholders' equity		94,345	83,549
Total liabilities and shareholders' equity		\$ 116,351	\$ 99,767

**RADVISION LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
 In thousands of U.S. dollars, except per share data

	Note	For the year ended December 31,		
		1999	2000	2001
Revenues	(13B)	\$ 17,550	\$ 45,911	\$ 46,227
Cost of revenues		2,853	11,446	10,362
Gross profit		<u>14,697</u>	<u>34,465</u>	<u>35,865</u>
Operating expenses				
Research and development expenses		7,667	14,263	17,933
Less - participation by the Chief Scientist of the Government of Israel		1,097	353	-
Research and development expenses, net		<u>6,570</u>	<u>13,910</u>	<u>17,933</u>
Marketing and selling expenses, net	(14)	9,502	17,358	16,735
General and administrative expenses		1,426	3,458	4,438
Restructuring costs	(15)	-	-	3,023
Repayment of future royalties to the Chief Scientist		-	3,666	-
Total operating expenses		<u>17,498</u>	<u>38,392</u>	<u>42,129</u>
Operating loss		(2,801)	(3,927)	(6,264)
Financing income, net		105	4,176	4,652
Net income (loss)		<u>\$ (2,696)</u>	<u>\$ 249</u>	<u>\$ (1,612)</u>
Basic earnings (loss) per ordinary share	(2M)	<u>\$(0.26)</u>	<u>\$0.014</u>	<u>\$(0.09)</u>
Weighted average number of ordinary shares outstanding		<u>10,538,395</u>	<u>17,174,453</u>	<u>18,943,014</u>
Diluted earnings (loss) per ordinary share	(2M)	<u>\$(0.26)</u>	<u>\$0.013</u>	<u>\$(0.09)</u>
Weighted average number of shares		<u>10,538,395</u>	<u>19,873,222</u>	<u>18,943,014</u>

**RADVISION LTD.**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

In thousands of U.S. dollars, except share data

	Ordinary shares		Preferred shares		Additional paid-in capital	Deferred compensation	Accumulated deficit	Treasury stock	Total
	Shares	Amount	Shares	Amount					
balance as of January 1, 1999	10,528,056	\$ 17	2,957,165	\$ -	\$ 12,088	\$ (78)	\$ (6,581)	\$ -	\$ 5,450
ordinary shares issued	158,250	(*)	-	-	250	-	-	-	250
deferred compensation	-	-	-	-	1,467	(1,467)	-	-	-
mortization of deferred compensation	-	-	-	-	(16)	493	-	-	477
net loss	-	-	-	-	-	-	(2,696)	-	(2,696)
balance as of January 1, 2000	10,686,306	\$ 17	2,957,165	\$ -	\$ 13,789	\$ (1,052)	\$ (9,277)	\$ -	\$ 3,481
ordinary shares issued	4,960,822	125	-	-	89,094(**)	-	-	-	89,219
conversion of preferred shares	2,957,165	4	(2,957,165)	-	-	-	-	-	-
ancellation of ordinary shares	(58,447)	-	-	-	-	-	-	-	-
deferred compensation	-	-	-	-	218	(218)	-	-	-
options exercised	599,138	19	-	-	780	-	-	-	799
mortization of deferred compensation	-	-	-	-	(32)	629	-	-	597
net income	-	-	-	-	-	-	249	-	249
balance as of December 31, 2000	19,144,984	\$ 165	-	\$ -	\$ 103,849	\$ (641)	\$ (9,028)	\$ -	\$ 94,345
purchase of treasury stock	(1,585,446)	-	-	-	-	-	-	(9,903)	(9,903)
options exercised	744,706	17	-	-	924	-	-	-	941
payment of issuance expenses	-	-	-	-	(550)	-	-	-	(550)
mortization of deferred compensation	-	-	-	-	(14)	342	-	-	328
net income	-	-	-	-	-	-	(1,612)	-	(1,612)
balance as of December 31, 2001	18,304,244	\$ 182	-	\$ -	\$ 104,209	\$ (299)	\$ (10,640)	\$ (9,903)	\$ 83,549

(\*) Less than one thousand. (\*\*) Net of issuance expenses of approximately \$8,400.

*Financial Statements*

**RADVISION LTD.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

In thousands of U.S. dollars

	<b>For the year ended December 31,</b>		
	<b>1999</b>	<b>2000</b>	<b>2001</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income (loss)	\$ (2,696)	\$ 249	\$ (1,612)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Income and expenses not affecting operating cash flows:			
Depreciation	718	1,843	2,407
Severance pay	104	107	279
Amortization of deferred compensation	477	597	328
Other	20	34	174
Changes in operating assets and liabilities:			
Decrease (increase) in trade receivables, net	(647)	(3,810)	1,947
Decrease (increase) in other receivables and prepaid expenses	(430)	465	(208)
Decrease (increase) in inventories	(1,561)	(2,522)	3,072
Increase (decrease) in trade payables	1,924	1,158	(2,951)
Increase (decrease) in other payables and accrued expenses	3,529	10,443	(3,215)
Net cash provided by operating activities	<u>1,438</u>	<u>8,564</u>	<u>221</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Increase in short-term investments	-	(39,550)	(13,235)
Increase in long-term investments	-	(15,897)	(10,429)
Purchase of property and equipment	(2,388)	(4,175)	(2,045)
Proceeds from sale of property and equipment	74	118	146
Net cash used in investing activities	<u>(2,314)</u>	<u>(59,504)</u>	<u>(25,563)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of share capital	250	90,018	941
Purchase of treasury stock	-	-	(9,903)
Decrease in short-term credit	(11)	-	-
Payment of issuance expenses	-	-	(550)
Repayment of long-term bank loans	(63)	(66)	(46)
Net cash provided by (used in) financing activities	<u>176</u>	<u>89,952</u>	<u>(9,558)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(700)	39,012	(34,900)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	3,305	2,605	41,617
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 2,605</u>	<u>\$ 41,617</u>	<u>\$ 6,717</u>
<b>CASH PAID DURING THE YEAR IN RESPECT OF INTEREST</b>	<u>\$ 16</u>	<u>\$ 8</u>	<u>\$ 4</u>
<b>NON-CASH ACTIVITY</b>	<u>\$ 200</u>	<u>\$ -</u>	<u>\$ -</u>

**RADVISION LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

In thousands of U.S. dollars

**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 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, 2001 was U.S.\$ 1.00 = NIS 4.416; and at December 31, 2000 and 1999 = NIS 4.041 and NIS 4.153, respectively.

**RADVISION LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

In thousands of U.S. dollars

**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, United-Kingdom 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. Investments**

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

**E. Inventories**

Inventories are stated at the lower of cost or market. Cost is determined by the moving average method.

**RADVISION LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

In thousands of U.S. dollars

**Note 2 - Significant Accounting Policies (Cont.)**

**F. Property and Equipment**

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from three to fifteen years.

**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**

In thousands of U.S. dollars

**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 Statement of Financial Accounting Standards (“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. Advertising Costs**

Advertising costs are charged to expenses as incurred.

**J. 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.

**K. Fair Value of Financial Instruments**

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

**L. 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**

In thousands of U.S. dollars

**Note 2 - Significant Accounting Policies (Cont.)**

**M. Basic and Diluted Net Earnings (Loss) Per Share**

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of ordinary shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing net income by the sum of the weighted average number of Ordinary shares outstanding, plus all additional Ordinary shares that would have been outstanding if potentially dilutive Ordinary shares had been issued. Options to purchase 2,667,251, 529,887 and 3,885,872 Ordinary shares were not included in the computation of years 1999, 2000 and 2001 diluted earnings (loss) per share because such options were considered anti-dilutive.

**N. Share-based Compensation**

The Company has adopted the disclosure provisions of Statement of Financial Accounting Standards ("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." Under APB 25, when the exercise price of the Company's share options is less than the market price of the underlying shares on the date of grant, compensation expense is recognized. The Company has provided the necessary pro forma disclosures as if the fair value method had been applied.

**O. 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**

In thousands of U.S. dollars

**Note 2 - Significant Accounting Policies (Cont.)**

**P. Derivative Financial Instruments**

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 133 “Accounting for Derivative Instruments and Hedging Activities”. The adoption of SFAS 133 had no material impact on reported earnings for the year ended December 31, 2001.

**Q. Segment Reporting**

Effective January 2001, the Company adopted Statement of Financial Accounting Standard (“SFAS”) No. 131, “Disclosures about Segments of an Enterprise and Related Information.” SFAS 131 establishes standards for the manner in which public companies report information about operating segments in annual and interim financial statements.

**R. Recently Issued Accounting Pronouncements**

In July 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards (“SFAS”) No. 141, “Business Combinations” and SFAS No. 142, “Goodwill and Other Intangible Assets”. SFAS 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. All other intangible assets will continue to be amortized over their estimated useful lives. The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS 142 effective January 1, 2002. The Company believes that adoption of SFAS 141 and SFAS 142 will not have an effect on its financial statements.

**RADVISION LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

In thousands of U.S. dollars

**Note 2 - Significant Accounting Policies (Cont.)**

**R. Recently Issued Accounting Pronouncements (Cont.)**

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”. Although SFAS 144 supersedes SFAS 121, it retains the requirements of SFAS 121 regarding recognition of impairment loss for long-lived assets to be held and used (based on undiscounted cash flows) and resolves certain implementation issues. Also, the accounting model used in SFAS 121 for long-lived assets to be disposed of by sale (lower of carrying amount or fair value less cost to sell) is broadened by SFAS 144 to include discontinued operations and supersedes APB Opinion No. 30. Therefore, discontinued operations will no longer be measured on a net realizable value basis and future operating losses will no longer be recognized before they occur. SFAS 144 also broadens the presentation of discontinued operations to include a component of an entity (rather than a segment of a business). The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those years. The Company believes that the adoption of SFAS 144 will not have an effect on its financial statements.

**Note 3 - Cash and Cash Equivalents**

	<b>December 31,</b>	
	<b>2000</b>	<b>2001</b>
Cash in banks, primarily in U.S. dollars	\$ 5,004	\$ 1,835
Bank deposits in U.S. dollars, bearing annual interest rate of approximately 2.0%	36,151	4,882
Bank deposits in NIS	462	-
	<u>\$ 41,617</u>	<u>\$ 6,717</u>

The interest rates are as of December 31, 2001.

**RADVISION LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

In thousands of U.S. dollars

**Note 4 - Short-Term and Long-Term Investments**

	<b>December 31,</b>	
	<b>2000</b>	<b>2001</b>
Bank deposits in U.S. dollars bearing annual interest rate of approximately 3.4%	\$ 12,208	\$ 28,396
Marketable debentures, bearing annual interest of approximately 5.8%	27,342	24,389
	\$ 39,550	\$ 52,785

Marketable debentures in the amount of \$24,304 that mature later than December 31, 2002, bearing annual interest of 4.7%, as well as a bank deposit in the amount of \$2,022 bearing annual interest of 3.9%, are presented as long-term investments.

The interest rates are as of December 31, 2001.

**Note 5 - Trade Receivables, Net**

Trade receivables are presented net of allowance for doubtful accounts in the amount of \$577 and \$1,126 as of December 31, 2000 and 2001, respectively. 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.

**Note 6 - Inventories**

	<b>December 31,</b>	
	<b>2000</b>	<b>2001</b>
Materials and components	\$ 2,377	\$ 991
Work-in-process	610	391
Finished products	1,969	502
	\$ 4,956	\$ 1,884

**RADVISION LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

In thousands of U.S. dollars

**Note 7 - Property and Equipment, net**

	<b>December 31,</b>	
	<b>2000</b>	<b>2001</b>
<b>COST</b>		
Research and development equipment	\$ 2,695	\$ 3,250
Motor vehicles	1,090	1,001
Manufacturing equipment	280	401
Office furniture, equipment and leasehold improvements	4,288	5,268
	<u>\$ 8,353</u>	<u>\$ 9,920</u>
<b>ACCUMULATED DEPRECIATION</b>		
Research and development equipment	\$ 1,232	\$ 2,024
Motor vehicles	242	371
Manufacturing equipment	169	190
Office furniture, equipment and leasehold improvements	1,510	2,817
	<u>3,153</u>	<u>5,402</u>
<b>NET BOOK VALUE</b>	<u>\$ 5,200</u>	<u>\$ 4,518</u>

For the years ended December 31, 1999, 2000 and 2001, depreciation expense was \$718, \$1,843 and \$2,407, respectively.

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

**RADVISION LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

In thousands of U.S. dollars

**Note 8 - Other Payables and Accrued Expenses**

	<b>December 31,</b>	
	<b>2000</b>	<b>2001</b>
Deferred income	\$ 10,298	\$ 3,491
Employees and employee institutions (*)	2,345	2,369
Accrued royalties	411	670
Tax withholding payable	310	284
Accrued expenses	3,413	6,748
	<u>\$ 16,777</u>	<u>\$ 13,562</u>

(\*) Employees and employee institutions include salaries, bonuses and employee institutions payable. The employee institutions include amounts deducted from employees payroll for December 2000 and 2001, respectively for educational funds and insurance policies funds. For the years ended December 31, 1999, 2000 and 2001 educational funds expenses were \$233, \$547 and \$703 and insurance policies funds expenses were \$410, \$375 and \$469.

**Note 9 - Long-term Bank Loans**

	<b>December 31,</b>	
	<b>2000</b>	<b>2001</b>
Loans linked to the U.S. dollar	\$ 65	\$ 19
Less - current maturities	46	19
	<u>\$ 19</u>	<u>\$ -</u>

The loans bear an annual interest rate of LIBOR plus 1%.

As of December 31, 2001, the company had an unused line of credit in the amount of \$2,500.

**RADVISION LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

In thousands of U.S. dollars

**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, 1999, 2000 and 2001 amounted to \$365, \$606 and \$840, respectively.

**Note 11 - Commitments and Contingencies**

- A.** In connection with its marketing activities, the Company received in prior years participation payments from the Government of Israel - Fund for the Encouragement of Marketing Activities in the total amount of approximately \$686. 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 \$15 as of December 31, 2001.
- B.** 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. 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 BIRDF participations received or accrued, net of royalties paid or accrued, totaled approximately \$276 as of December 31, 2001.

**RADVISION LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

In thousands of U.S. dollars

**Note 11 - Commitments and Contingencies (Cont.)**

- C. The Company and its subsidiaries operate from leased premises in Israel, United States, China, United Kingdom and Hong Kong. Lease agreements expire in May 2002 through June 2005 (some with renewal options). Annual minimum future rental payments due under the above agreements, at the exchange rate in effect on December 31, 2001, are approximately as follows:

2002	\$	1,544
2003		1,366
2004		1,356
2005		678
		\$ 4,944

For the years ended December 31, 1999, 2000 and 2001, rental expense was \$528, \$1,015 and \$1,424, respectively.

- D. The Company is committed to pay royalties to two 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 royalties to one of the third parties 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:

2002	\$	25
2003		25
2004		25
		\$ 75

The rates of royalties to the other third party are comprised of:

- (i) royalties based on a fixed amount per certain product sold by the Company in the range of \$20.00 to \$48.00 per unit sold, and;
- (ii) a minimum royalty payment in the amount of \$85 to be paid until the earlier of May, 2005, or the completion of an aggregate sales volume of 600 units of another product.

**RADVISION LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

In thousands of U.S. dollars, except share and per share data

**Note 11 - Commitments and Contingencies (Cont.)**

- E.** 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.
- F.** 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 in respect to damages caused by this action, if any. The Company cannot predict the final outcome of this dispute.

**Note 12 - Shareholders' Equity**

The Ordinary shares of the Company are traded on the NASDAQ National Market. The Ordinary shares confer upon their holders the right to receive notice to participate and vote in general meetings of the Company, and the right to receive dividends, if declared.

- A.** In January 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.

**RADVISION LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

In thousands of U.S. dollars, except share and per share data

**Note 12 - Shareholders' Equity (Cont.)**

- 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.
- 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.** In March 2000, the Company issued 4,370,000 ordinary shares in an initial public offering for \$87 million, or \$20 per share.
- E.** In February 2001, the Company announced that its Board of Directors authorized the repurchase of up to 10% of its outstanding ordinary shares in the open market, from time to time, at prevailing market prices. No time limit was given with respect to the duration of the share repurchase program. As of December 31, 2001, the Company had repurchased 1,585,446 ordinary shares at a cost of \$9,903.
- F.** 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 5,284,945 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 the options under the plan is at varying prices ranging from \$0.95 to \$28. The incentive plan provides for the grant of options equal in the amount of up to 4% of the Company's share capital on a diluted basis.

**RADVISION LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

In thousands of U.S. dollars, except share and per share data

**Note 12 - Shareholders' Equity (Cont.)**

**F. (Cont.)**

Transactions related to the share incentive plan during the years ended December 31, 1999, 2000 and 2001 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:

	<b>Number of options</b>	<b>Weighted average exercise price per share</b>	<b>Weighted average fair value of options granted</b>
Outstanding as of January 1, 1999	1,430,580	\$ 1.28	
Options granted	1,421,296	1.18	\$ 1.14
Options forfeited	(184,625)	1.18	
Outstanding as of December 31, 1999	2,667,251	\$ 1.23	
Options exercisable at December 31, 1999	542,903	\$ 1.31	
Options outstanding as of January 1, 2000	2,667,251	\$ 1.23	
Options granted	1,390,795	16.68	\$ 7.72
Options exercised	(599,138)	1.46	
Options forfeited	(230,252)	7.30	
Outstanding as of December 31, 2000	3,228,656	\$ 7.48	
Options exercisable at December 31, 2000	749,225	\$ 1.69	
Options outstanding as of January 1, 2001	3,228,656	\$ 7.48	
Options granted	2,284,095	5.65	\$ 3.29
Options exercised	(744,706)	1.31	
Options forfeited	(882,173)	8.74	
Outstanding as of December 31, 2001	3,885,872	\$ 7.29	
Options exercisable at December 31, 2001	698,842	\$ 8.01	

**RADVISION LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

In thousands of U.S. dollars, except share and per share data

**Note 12 - Shareholders' Equity (Cont.)**

**F. (Cont.)**

A summary of the options outstanding and exercisable at December 31, 2001 is as follows:

Exercise price	Options outstanding			Options exercisable	
	Number outstanding at December 31, 2001	Weighted – average remaining contractual life	Weighted - average exercise prices	Number outstanding at December 31, 2001	Weighted – average exercise prices
\$ 0.95-1.74	890,259	2.19	\$ 1.25	334,351	\$ 1.24
4.70-7.62	2,064,470	9.38	5.61	40,000	6.57
10.20-12.94	454,418	8.26	11.92	204,810	11.71
\$17.00-28.00	476,725	8.50	\$ 21.06	119,681	\$ 21.06
	<u>3,885,872</u>			<u>698,842</u>	

A summary of the options granted whose exercise prices differ from the market price of the date of the stock on the date of grant as follows:

**For the years ended December 31,**

	1999		2000		2001	
	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price
Weighted average exercise prices less than fair value at date of grant	1,421,29	\$ 1.18	121,114	\$ 10.20	-	\$ -
Weighted average exercise prices equal to fair value at date of grant	-	\$ -	1,269,68	\$ 17.52	2,284,09	\$ 5.65

**RADVISION LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

In thousands of U.S. dollars, except share and per share data

**Note 12 - Shareholders' Equity (Cont.)**

**F. (Cont.)**

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 \$1,466, \$218 and \$0 for options granted in the years ended December 31, 1999, 2000 and 2001, 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, 1999, 2000 and 2001 amounted to \$477 and \$597 and \$328, respectively.

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:

	<b>For the year ended December 31,</b>		
	<b>1999</b>	<b>2000</b>	<b>2001</b>
Net income (loss):			
As reported	\$ (2,696)	\$ 249	\$ (1,612)
Pro forma	(2,750)	(3,197)	(7,971)
Net earnings (loss) per share:			
Basic	(0.26)	0.014	(0.09)
Diluted	(0.26)	0.013	(0.09)
Pro forma			
Basic	(0.26)	(0.19)	(0.42)
Diluted	\$ (0.26)	\$ (0.19)	\$ (0.42)

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 no expected dividends and with the following weighted-average assumptions used for grants in 1999, 2000 and 2001:

	<b>1999</b>	<b>2000</b>	<b>2001</b>
Expected life of the option (years)	2.84	2.5	2.63
Volatility	0%	80%	98%
Risk free interest rate	5%	5%	2.5%

**RADVISION LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

In thousands of U.S. dollars

**Note 13 - Segment Reporting and Geographical Information**

- A. Beginning in the year 2001, the Company operates under two reportable segments based on its revised internal organization structure, management of operations and performance evaluation. These segments are: The Technology Business Unit (TBU) and the Networking Business Unit (NBU). Discrete segment financial information was not available or reviewed by senior management during the years` 2000 and 1999. Therefore corresponding information for prior years is not available.

The Technology Business Unit is responsible for the development of enabling technologies for real-time voice and video over IP. The Networking Business Unit is responsible for developing networking products for IP-centric voice, video and data conferencing services. There are no significant transactions between the TBU and the NBU.

The Company evaluates segment performance based on revenues and operating income (loss) of each segment. As such, there are no separately identifiable segment assets nor are there any separately identifiable statements of operations data below operating loss.

Business segment revenues are as follows:

	<b>For the year ended</b>	<b>December 31,</b>
		<b>2001</b>
Technology Business Unit	\$	16,545
Networking Business Unit		29,682
Total revenues	\$	<u>46,227</u>

Business segment operating loss is as follows:

	<b>For the year ended</b>	<b>December 31,</b>
		<b>2001</b>
Technology Business Unit	\$	(3,122)
Networking Business Unit		(3,142)
Total operating loss	\$	<u>(6,264)</u>

**RADVISION LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

In thousands of U.S. dollars

**Note 13 - Segment Reporting and Geographical Information (Cont.)**

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

	<b>For the year ended December 31,</b>		
	<b>1999</b>	<b>2000</b>	<b>2001</b>
North America, principally the United States	\$ 9,531	\$ 28,830	\$ 29,245
Europe	4,046	7,328	8,096
Far East	2,663	5,287	6,940
Israel	1,310	4,466	1,946
	\$ 17,550	\$ 45,911	\$ 46,227

For the year ended December 31, 1999, no single customer represented more than 10% of sales. For the years ended December 31, 2000 and 2001, one customer accounted for approximately 22% and 35%, respectively, of sales for that period.

**Note 14 - Marketing and Selling Expenses, Net**

	<b>For the year ended December 31,</b>		
	<b>1999</b>	<b>2000</b>	<b>2001</b>
Marketing and selling expenses	\$ 9,700	\$ 17,492	\$ 16,735
Participation by the Government of Israel	198	134	-
Marketing and selling expenses, net	\$ 9,502	\$ 17,358	\$ 16,735
Marketing and selling expenses include:			
Royalties to the Government of Israel	\$ 896	\$ 750	\$ 80

**Note 15 - Restructuring Costs**

In the second quarter of 2001, the Company recorded a charge of approximately \$3.0 million primarily relating to severance costs associated with a 13% workforce reduction as part of its plan to reduce operating expenses. As of December 31, 2001, the remaining reserve balance of approximately \$1.8 million is included with other payables and accrued expenses on the balance sheet.

**RADVISION LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

In thousands of U.S. dollars

**Note 16 - Concentration of Credit Risk**

As of December 31, 2000, current balances of two customers accounted for 22% and 20% of the Company's trade receivables, or approximately \$3,000 in total. As of December 31, 2001, current balances of two customers accounted for 15% and 11% of the Company's trade receivables, or approximately \$1,300 in total. The Company does not generally require collateral to support credit sales. Allowances are maintained for potential credit losses.

**Note 17 - Related Party Balances and Transactions**

**A. Balances with Related Parties**

	December 31,	
	2000	2001
Receivables	\$ 73	\$ 2
Trade payables	\$ 197	\$ 148

**B. Transactions with Related Parties**

	For the year ended December 31,		
	1999	2000	2001
Revenues (1)	\$ 167	\$ 251	\$ 108
Cost of revenues (3)	385	842	188
Research and development expenses (2)	363	622	184
Marketing, selling, general and administrative expenses (2)	344	1,210	116
Purchase of property and equipment (4)	\$ 284	\$ 722	\$ 263

**RADVISION LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

In thousands of U.S. dollars

**Note 17 - Related Party Balances and Transactions (Cont.)**

**B. Transactions with Related Parties (Cont.)**

- (1) Includes revenues from the Company's products and maintenance sold to affiliated companies.
- (2) Includes administrative services provided to the Company by affiliated companies which the Company reimburses for the costs incurred in providing these services.
- (3) Includes the purchase of components from affiliated companies.
- (4) Includes property and equipment that were purchased from affiliated companies.

**C. Dispute with related parties – see note 11F.**

**Note 18 - Taxes on Income**

- A. The Company's investment program totaling \$122 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. 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 and the tax rates may be reduced to 10%.

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. 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 currently 36%.

**RADVISION LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

In thousands of U.S. dollars

**Note 18 - Taxes on Income (Cont.)**

**A. (Cont.)**

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, 2001, the Company's net operating loss carryforwards for tax purposes amounted to approximately \$22.7 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 tax asset has 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.)**

In thousands of U.S. dollars

**Note 18 - Taxes on Income (Cont.)**

**F.** The U.S. subsidiary's carryforward tax losses through December 31, 2001 amounted to approximately \$9.0 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. In light of the Subsidiary's recent history of operating losses, the Company has recorded a valuation allowance for all its deferred tax assets.

**G.** The components of the Company's total income (loss) before provision for income taxes are as follows:

	<b>December 31,</b>		
	<b>1999</b>	<b>2000</b>	<b>2001</b>
Israel	\$ (1,327)	\$ 72	\$ (965)
Foreign	(1,369)	177	(647)
	\$ (2,696)	\$ 249	\$ (1,612)

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:

	<b>For the year ended December 31,</b>		
	<b>1999</b>	<b>2000</b>	<b>2001</b>
Theoretical tax expense (benefit) computed at the statutory rate (36%)	\$ (970)	\$ 90	\$ (580)
Loss and other items for which deferred taxes were not provided, net	936	(182)	418
Non-deductible expenses	34	92	162
Income tax benefit	\$ -	\$ -	\$ -

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

**RADVISION LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

In thousands of U.S. dollars, except share and per share data

**Note 18 - Taxes on Income (Cont.)**

- I. For U.S. Federal income tax purposes, the Company will be classified as a passive foreign investment company ("PFIC") for any taxable year in which either (i) 75% or more of the Company's gross income is passive income, or (ii) at least 50% of the average value of all of the assets for the taxable year produce or are held for the production of passive income. As of December 31, 2001 the Company believes, based on an independent expert's opinion, that it is not a PFIC for United States tax purposes. However, there is no certainty that the United States tax authorities will accept the Company's standpoint in this regard.

**RADVISION LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

In thousands of U.S. dollars, except share and per share data

**Note 19 – Quarterly information**

The Company's quarterly consolidated financial position and statements of operations as of and for each of the quarterly periods in the years ended December 31, 2000, and 2001 are as follows:

	For the three months ended							
	Mar. 31,	June 30,	Sept. 30,	Dec. 31,	Mar. 31,	June 30,	Sept. 30,	Dec. 31,
	2000	2000	2000	2000	2001	2001	2001	2001
Revenues	\$ 7,827	\$ 10,201	\$ 12,707	\$ 15,176	\$ 14,895	\$ 10,430	\$ 10,208	\$ 10,694
Cost of revenues	(1,944)	(2,579)	(3,101)	(3,822)	(3,725)	(2,240)	(2,099)	(2,298)
Gross profit	5,883	7,622	9,606	11,354	11,170	8,190	8,109	8,396
Operating expenses								
Research and development expenses	2,529	3,332	3,749	4,653	4,757	4,563	4,319	4,294
Less - participation by the Chief Scientist	236	365	(248)	-	-	-	-	-
Research and development expenses, net	2,293	2,967	3,997	4,653	4,757	4,563	4,319	4,294
Marketing and selling expenses, net	3,611	4,523	4,470	4,754	4,840	4,365	3,690	3,840
General and administrative expenses	615	670	780	1,393	1,169	1,308	1,057	904
Restructuring costs	-	-	-	-	-	3,023	-	-
Repayment of future royalties to the Chief Scientist of the Government of Israel	-	-	-	3,666	-	-	-	-
Total operating expenses	6,519	8,160	9,247	14,466	10,766	13,259	9,066	9,038
Operating income (loss)	(636)	(538)	359	(3,112)	404	(5,069)	(957)	(642)
Financial income, net	115	1,279	1,292	1,490	1,404	1,264	1,118	866
Net income (loss)	\$ (521)	\$ 741	\$ 1,651	\$ (1,622)	\$ 1,808	\$ (3,805)	\$ 161	\$ 224
Basic earnings (loss)								
Per ordinary share	\$ (0.04)	\$ 0.04	\$ 0.09	\$ (0.09)	\$ 0.09	\$ (0.2)	\$ 0.01	\$ 0.01
Weighted average number of ordinary shares Outstanding	14,626,504	18,598,596	18,661,155	19,020,592	19,196,316	19,199,771	18,995,041	18,431,559
Diluted earnings (loss) per ordinary share	\$ (0.04)	\$ 0.03	\$ 0.08	\$ (0.09)	\$ 0.09	\$ (0.2)	\$ 0.01	\$ 0.01
Weighted average number of shares Number	14,626,504	21,705,623	21,835,771	19,020,592	20,750,146	19,199,771	20,226,819	19,601,742

**Note 19 – Quarterly information (Cont.)**

	<u>Mar. 31,</u>	<u>June 30,</u>	<u>Sept. 30,</u>	<u>Dec. 31,</u>	<u>Mar. 31,</u>	<u>June 30,</u>	<u>Sept. 30,</u>	<u>Dec. 31,</u>
	<u>2000</u>	<u>2000</u>	<u>2000</u>	<u>2000</u>	<u>2001</u>	<u>2001</u>	<u>2001</u>	<u>2001</u>
Cash and cash equivalents	\$ 64,245	\$ 25,754	\$ 35,278	\$ 41,617	\$ 39,269	\$ 42,368	\$ 31,181	\$ 6,717
Short-term investments	21,000	26,218	32,164	39,550	44,132	22,967	21,546	52,785
Trade receivables, net	3,700	5,731	5,982	7,025	7,294	5,332	5,403	5,078
Other receivables and Prepaid expenses	1,620	2,021	1,279	1,051	1,128	876	1,122	1,259
Inventories	4,071	4,766	4,997	4,956	3,352	2,003	1,672	1,884
Total current assets	<u>94,636</u>	<u>64,490</u>	<u>79,700</u>	<u>94,199</u>	<u>95,175</u>	<u>73,546</u>	<u>60,924</u>	<u>67,723</u>
Long-term investments	<u>7,096</u>	<u>43,278</u>	<u>29,660</u>	<u>15,897</u>	<u>10,310</u>	<u>26,490</u>	<u>35,831</u>	<u>26,326</u>
Property and equipment, net	<u>3,288</u>	<u>3,625</u>	<u>4,557</u>	<u>5,200</u>	<u>5,284</u>	<u>5,399</u>	<u>4,794</u>	<u>4,518</u>
Deposit with insurance companies	<u>554</u>	<u>654</u>	<u>834</u>	<u>1,055</u>	<u>1,082</u>	<u>1,239</u>	<u>1,244</u>	<u>1,200</u>
Total assets	<u>105,574</u>	<u>112,047</u>	<u>114,751</u>	<u>116,351</u>	<u>111,851</u>	<u>106,674</u>	<u>102,793</u>	<u>99,767</u>
Current liabilities								
Current maturities of long-term bank loans	63	63	55	46	38	38	26	19
Trade payables	2,432	1,073	989	3,716	2,012	1,531	1,574	765
Other payables and accrued expenses	9,847	16,456	16,873	16,777	12,344	13,529	12,773	13,562
Total current liabilities	<u>12,342</u>	<u>17,592</u>	<u>17,917</u>	<u>20,539</u>	<u>14,394</u>	<u>15,098</u>	<u>14,373</u>	<u>14,346</u>
Long-term liabilities								
Bank loans, net of current maturities	52	33	25	19	13	-	-	-
Accrued severance pay	900	1,149	1,279	1,448	1,649	1,877	1,845	1,872
	<u>952</u>	<u>1,182</u>	<u>1,304</u>	<u>1,467</u>	<u>1,662</u>	<u>1,877</u>	<u>1,845</u>	<u>1,872</u>
Total liabilities	<u>13,294</u>	<u>18,774</u>	<u>19,221</u>	<u>22,006</u>	<u>16,056</u>	<u>16,975</u>	<u>16,218</u>	<u>16,218</u>
Shareholders' equity								
Ordinary shares of NIS 0.1 par value	147	147	154	165	167	176	174	182
Additional paid-in capital	103,036	103,151	103,576	103,849	103,402	103,688	103,832	104,209
Deferred compensation	(1,106)	(967)	(795)	(641)	(554)	(463)	(381)	(299)
Accumulated deficit	(9,797)	(9,058)	(7,405)	(9,028)	(7,220)	(11,025)	(10,864)	(10,640)
Less cost of treasury stock	-	-	-	-	-	(2,677)	(6,186)	(9,903)
Total shareholders' equity	<u>92,280</u>	<u>93,273</u>	<u>95,530</u>	<u>94,345</u>	<u>95,795</u>	<u>89,699</u>	<u>86,575</u>	<u>83,549</u>
Total	<u>\$ 105,574</u>	<u>\$ 112,047</u>	<u>\$ 114,751</u>	<u>\$ 116,351</u>	<u>\$ 111,851</u>	<u>\$ 106,674</u>	<u>\$ 102,793</u>	<u>\$ 99,767</u>

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**Senior Management**

Gadi Tamari, *Chief Executive Officer and President*

Eli Doron, *Chief Technical Officer and Executive Vice President*

David Seligman, *Chief Financial Officer*

Avinoam Barak, *General Manager, Networking Business Unit (NBU)*

Boaz Raviv, *General Manager, Technology Business Unit (TBU)*

Yotam Raz, *Executive Vice President, General Manager of the NBU in the Americas*

Ofer Shapiro, *Senior Vice President, Business Development*

Adit Tevel, *Vice President, International Sales*

**Board of Directors**

Zohar Zisapel, *Chairman of the Board of Directors*

Gadi Tamari, *Chief Executive Officer, President and Director*

Ami Amir, *Director*

Dan Goldstein, *Director*

Liora Katzenstein, *Director*

Andreas Mattes, *Director*

Efraim Wachtel, *Director*

**Stock Listing**

NASDAQ

National Market Systems

Symbol: RVSN

Common Stock

**Transfer Agent**

American Stock Transfer & Trust Company

40 Wall Street

New York, NY 10036

Tel: 800.937.5449

Fax: 718.236.2641

**Independent Accountants**

Arthur Andersen/Luboshitz Kasierer

9 Ahad Ha'am Street

P.O. Box 29452

Tel Aviv, Israel 61293

Tel: +972.3.511.8222

Fax: +972.3.529.3516

Arthur Andersen

1345 Avenue of the Americas

New York, NY 10105-0032

Tel: 212.708.4000

Fax: 212.708.3630

**Corporate Counsel**

Danziger, Klagsbald, Rosen & Co.

Ramat Gan, Israel

Carter, Ledyard & Milburn

New York, New York

**Investor Relations**

RADVISION

575 Corporate Dr. Suite 420

Mahwah, NJ 07430

Tel: 201.529.4300

Fax: 201.529.3516

[irinfo@radvision.com](mailto:irinfo@radvision.com)



[www.radvision.com](http://www.radvision.com)

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