3,800,000 Shares



Ordinary Shares

This is our initial public offering of ordinary shares. We are offering 3,800,000 ordinary shares. No public market currently exists for our ordinary shares.

Our ordinary shares have been approved for quotation on the Nasdaq National Market under the symbol RVSN.

Investing in the ordinary shares involves risks. Risk Factors begin on page 4.

	Per Share	Total
Public Offering Price	\$20.00	\$76,000,000
Underwriting Discount	\$ 1.40	\$ 5,320,000
Proceeds to RADVision	\$18.60	\$70,680,000

We have granted the underwriters the right to purchase up to 570,000 additional ordinary shares within 30 days to cover over-allotments.

Upon the sale of the ordinary shares in the initial public offering, we and some of our existing shareholders will sell an additional 1,625,228 ordinary shares to Siemens and an additional 1,000,000 ordinary shares to Samsung in a concurrent private placement at \$17.00 per ordinary share.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The Israel Securities Authority has granted us an exemption from Israel's prospectus delivery requirements applicable to this offering. You should not interpret that exemption as endorsing the matters contained in this prospectus or as an approval of their reliability or adequacy, nor should you interpret that exemption as an expression of opinion concerning the quality of the securities offered by this prospectus.

Lehman Brothers, on behalf of the underwriters, expects to deliver the ordinary shares to purchasers on or about March 17, 2000.

LEHMAN BROTHERS

SALOMON SMITH BARNEY

U.S. BANCORP PIPER JAFFRAY



Networking Products for Voice and Video Over IP

Gateways • Gatekeepers • Conferencing Bridges

Enabling Real-time Voice & Video Communications over the

Internet Infrastructure

Software Technology for Voice and Video Over IP

Standards-Based • Protocols • Gatekeepers



connects circuit switch videoconferencing systems to packet networks.

Branch Exchange

RADVision Voice Gateways are used to connect IP-based private branch exchanges with the circuit switch telephone network, and to connect traditional private branch exchanges over the IP network.

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Until April 7, 2000, 25 days after the date of this prospectus, all dealers that buy, sell or trade our ordinary shares, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and when selling their unsold allotments or subscriptions.

PROSPECTUS SUMMARY

This summary highlights information contained in this prospectus. Before you decide to invest in our ordinary shares, you should carefully read the entire prospectus, including the section entitled "Risk Factors" and our consolidated financial statements and the notes to those financial statements.

RADVision

We are a leading designer, developer and supplier of 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 or IP. We have over 250 customers including Alcatel, Bosch, Cisco Systems, Madge Networks, Nippon Telegraph & Telephone, Nortel Networks, Philips Electronics, Shanghai Bell, Siemens and 3Com. Our products and technology are used by our customers to develop systems that enable enterprises and service providers to migrate their voice and video communications from traditional telephone networks to next generation packet networks.

The use of packet networks for real-time voice, video and data communications is expected to grow dramatically. This anticipated growth is due to the inherent benefits of packet networks and the advent of new technologies and standards that have enabled real-time communications over these networks. ICM Global Intelligence, a market research firm, forecasts that revenues for network equipment associated with voice-over-IP, or IP telephony, will grow from \$477 million in 1999 to \$7.1 billion in 2004. Perey Research & Consulting, an industry consulting firm, forecasts revenues for network equipment associated with IP video communications to grow from \$22 million in 1999 to more than \$643 million in 2003.

We are one of the few companies to offer customers IP communications products and technology that support both real-time voice and video as well as voice-only packet-based communications. Our products and technology consist of:

- RADVision gateways, which interface between traditional telephone networks and IP networks;
- RADVision gatekeepers, which control, manage and monitor real-time voice, video and data traffic over packet networks;
- RADVision IP conferencing bridges, which enable voice and multimedia conferencing over packet networks among three or more participants; and
- RADVision software development kits, which provide the core technology necessary to build interoperable, standards-compliant products, applications and services for real-time voice and video communication over packet networks.

We believe that we have established ourselves as a technology leader in providing enabling technology and products for a broad range of standards-based IP communications products and services. Our goal is to continue to be the leading provider of innovative products and technology for real-time IP communications. Our customers rely on our accumulated expertise with IP communications standards and technology to significantly reduce their development cycle and improve their time to market in the rapidly growing market for IP-based voice and video communications, integrate our products into their own IP communications systems, or use our technology to build their own standards-compliant IP communications products, systems and applications for enterprises and service providers.

We were incorporated under the laws of the State of Israel in 1992 and began operations in October 1992. Our principal executive offices are located at 24 Raoul Wallenberg St., Tel Aviv 69719, Israel and our telephone number is 011-972-3-645-5220.

The Offering

Ordinary shares offered in this offering	3,800,000 shares
Private placement	
Ordinary shares offered by us to Siemens	365,767 shares
Ordinary shares offered by us to Samsung	225,055 shares
Ordinary shares to be outstanding after this offering and the private placement	18,028,596 shares
Use of proceeds	We expect to use the net proceeds from this offering to finance the continued growth of our business and for general corporate purposes.

Nasdaq National Market symbol RVSN

The number of ordinary shares referred to in the preceding table to be outstanding after this offering excludes:

- 3,048,873 shares issuable upon the exercise of outstanding options under our share option plans; and
- up to 61,900 additional ordinary shares reserved for issuance under our share option plans.

Private Placement

Concurrently with this offering, Samsung Electro-Mechanics Co. Ltd. and Samsung Venture Investment Corporation, members of the Samsung group, and Siemens Aktiengesellschaft have agreed to purchase an aggregate of 2,625,228 of our ordinary shares at \$17.00 per ordinary share in a private placement. Of the 2,625,228 ordinary shares, we will sell 590,822 ordinary shares in the private placement and the remaining 2,034,406 ordinary shares will be sold by some of our existing shareholders, including our chairman of the board, our chief executive officer and some of our other directors.

About this Prospectus

Unless otherwise indicated, all information contained in this prospectus:

- gives effect to the sale of an aggregate of 590,822 ordinary shares by us to Siemens and Samsung in a private placement concurrent with this offering at \$17.00 per ordinary share to be effected immediately after the closing of this offering;
- assumes no exercise of the underwriters' option to purchase from us up to 570,000 additional ordinary shares to cover over-allotments;
- reflects the conversion of all our preferred shares into ordinary shares on a 1-to-1 basis before the share recapitalization referred to below;
- reflects the conversion of 2,770 ordinary shares into deferred shares before the share dividend referred to below; and
- reflects a 211-for-1 share recapitalization of our ordinary shares, following the conversion of our preferred shares into ordinary shares, as the result of a share split and share dividend that will be effected before this offering.

We have a registered trademark for RADVision[®]. All other trademarks and trade names appearing in this prospectus are owned by their holders.

Summary Consolidated Financial Data

	Year ended December 31,				
	1995	1996	1997	1998	1999
	(ii	n thousand	s, except pe	r share d	ata)
Consolidated Statement of Operations Data:					
Revenues	\$ 871	\$ 1,491	\$ 4,899	\$ 8,894	\$17,550
Gross profit	301	721	3,689	7,482	14,697
Operating loss	(1,497)) (2,067)	(1,062)	(852	(2,801)
Net loss	(1,499)) (2,025)	(1,056)	(829) (2,696)
Basic and diluted net loss per ordinary share	\$ (0.21)) \$ (0.21)	\$ (0.10)	\$ (0.08	s) \$ (0.26)
Weighted average number of ordinary shares used in					
computing basic and diluted net loss per ordinary share	7,217	9,499	10,234	10,492	10,538
Pro forma basic and diluted net loss per ordinary share					\$ (0.20)
Weighted average number of ordinary shares used in					
computing pro forma basic and diluted net loss per					
ordinary share					13,496
			As o	f Decemb	er 31, 1999
				.1	Pro forma
			Act		as adjusted
Consolidated Balance Sheet Dates				(in thous	ands)
Cosh and cash equivalents			\$ 2	605	\$81 301
Working capital	• • • • • •		·· \$ 2,	005 814	\$01,391 70,600
Total assets	• • • • • •			014 261	02 047
Total bank dabt not of current maturities	• • • • • •		13,	201 67	92,047
Total shareholders' equity	• • • • • •		•••	/81	82 268
	• • • • • •		3,	101	02,200
Pro forma basic and diluted net loss per ordinary share g	ives effe	ect to the	conversi	on of al	1

outstanding preferred shares into ordinary shares, which will take place before the completion of this offering.

The pro forma as adjusted information included above in the consolidated balance sheet data gives effect to:

- the conversion of our preferred shares;
- the issuance of 52,750 ordinary shares upon the exercise of options after December 31, 1999 and the receipt of \$62,500 in proceeds from the option exercise;
- this offering of our ordinary shares; and
- the private placement by us of 590,822 ordinary shares to Siemens and Samsung at \$17.00 per ordinary share.

BUSINESS

Overview

We are a leading designer, developer and supplier of 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 or IP. Our products and technology are used by our customers to develop systems that enable enterprises and service providers to use next generation packet networks for real-time IP communications. We have over 250 customers including Alcatel, Bosch, Cisco, Madge, NTT, Nortel, Philips, Shanghai Bell, Siemens and 3Com.

Industry Background

Growth in Communications

In recent years, communications networks have experienced dramatic growth in traffic. This growth is expected to continue due to a number of factors, including:

- an increasing need for enterprises to expand their networks to enable them to send, access and receive information quickly, economically and globally;
- an increasing use of the Internet and other packet networks for communicating and engaging in commercial transactions;
- an increase in available bandwidth at declining prices; and
- the introduction of new voice, video and data communications services and applications.

Limitations of Traditional Networks

Traditionally, circuit-switched networks have been the principal medium for the transmission of communications. Circuit-switched technology dedicates a circuit with a fixed amount of bandwidth for the duration of the connection, regardless of a user's actual bandwidth usage. The recent growth in data communications traffic, particularly the growth in the number of Internet users, has placed significant strains on the capacity of traditional circuit-switched networks. Circuit-switched networks were initially deployed to handle only voice communications. These networks were not designed to handle data efficiently and cannot scale cost-effectively to accommodate the growth in data traffic. Moreover, circuit-switched networks were built based on proprietary, complex technologies which have historically limited the entrance of new competitors and hindered the development and introduction of new services.

Advantages of Packet-based Networks

While circuit-switched networks were principally designed to handle analog voice traffic, packetbased networks were principally designed for transmitting digital information. Packet-based networks, including IP networks, transmit voice, video and data information in the form of small digital packages called packets. Voice, video and data packets are sent over a single network simultaneously and reassembled at the destination. Packet switching enables more efficient utilization of available network bandwidth than circuit-switching, allowing more calls to travel through a packet network at the same time. Moreover, packet networks allow for the cost-efficient expansion of capacity as communications traffic increases. In addition, packet networks are built using open standards, like IP, which promote competition by allowing different vendors to build products and applications that can interoperate with one another. By using packet technologies based on open standards, new services can be deployed rapidly and economically.

The Need for Industry Standards for Real-time IP Communications

Originally, enterprises and communications service providers deployed packet networks primarily for handling data traffic and not for real-time IP communications. Technical barriers initially hampered the use of packet networks for real-time communications. For example, packet networks were not designed to guarantee the sequential delivery of packets and packets could be lost. In addition, the time of delivery of packets was dependent upon the amount of packet traffic being transmitted over the network. For real-time communications, it is critical that the packets associated with a specific voice or video communication be transmitted in the correct sequence and in a timely manner. Early attempts at real-time IP communications solved these technical problems by using proprietary solutions developed by individual vendors. However, proprietary solutions from different vendors meant that different vendor products could not inter-operate with one another.

To enable the global deployment of real-time IP communications networks, industry standards and protocols were developed to promote interoperability of real-time communications over packet networks. H.323 is currently the most widely deployed industry-wide protocol for real-time IP communications. H.323 was developed by a team of computing, telephony and networking experts under the direction and auspices of the International Telecommunications Union, or ITU-T, a United Nations organization, with the goal of specifying a universal real-time standard that would ensure interoperability of all packet-based networks and products. H.323 provides the technical framework for developing standards-compliant products and systems for real-time voice and video communication over packet networks. All components of an H.323 compliant network, including terminals, gateways, gatekeepers and conferencing bridges, use the H.323 protocol to communicate.

Today, H.323 is the standard of choice for the builders of real-time IP communications solutions for enterprises. The ITU-T is continuously enhancing H.323 and publishing new versions to support the evolving requirements of next generation packet networks. Other emerging standards like MGCP, or Media Gateway Control Protocol, and SIP, or Session Initiation Protocol, are also being developed to address the complex requirements of multi-protocol packet networks. The widespread acceptance of industry protocols and standards for IP communications has enabled the deployment of packet networks for real-time communications by ensuring interoperability and is facilitating the migration to IP communications.

Growth in Real-time Voice and Video IP Communications

Due to the inherent benefits of packet networks and the advent of new technologies and standards that have enabled real-time communications over these networks, the use of packet networks for real-time voice, video and data communications is expected to grow dramatically. ICM Global Intelligence, a market research firm, forecasts that revenues for network equipment associated with voice-over-IP, or IP telephony, will grow from \$477 million in 1999 to \$7.1 billion in 2004. Perey Research & Consulting, an industry consulting firm, forecasts revenues for network equipment associated with IP video communications to grow from \$22 million in 1999 to more than \$643 million in 2003.

This anticipated growth in real-time IP communications is expected to be driven primarily by enterprises and communications service providers migrating to packet networks. As enterprises move from centralized organizations to distributed networks of employees, customers, suppliers and business partners, they require more effective communications capabilities to support their operations and remain competitive in a global and rapidly changing market. Packet networks are well-suited for enterprises because they provide enterprises with the following advantages:

· cost-effective increases in capacity to meet increasing communications traffic demands;

- support for new communications applications, like video conferencing and data collaboration, for improved workforce productivity;
- interoperability with different network configurations of their customers, suppliers and partners; and
- cost savings associated with simplified network management resulting from creating a single network that handles all communications, rather than having to maintain separate telephone and computer networks.

Communications service providers have also begun to deploy packet networks in an effort to compete more effectively in a deregulated market. Global deregulation and rapid technological advances have resulted in the emergence of many new communications service providers, increased competition among traditional telecommunications carriers, lower prices, innovative new product and service offerings and accelerated customer turnover. To remain competitive, communications service providers must be able to develop and introduce new services to differentiate themselves in the market and attract and maintain customers. Packet networks are well-suited to accomplish these objectives because they enable the rapid deployment of new and differentiated solutions. In addition, packet-based technology allows new competitors to enter the market quickly without substantial investment in infrastructure.

Key Attributes of Real-time Voice and Video IP Communications Solutions

To migrate their voice and video communications to packet networks, enterprises and communications service providers require a real-time IP communications solution that provides:

- reliable real-time voice, video and data communications functionality;
- interoperability with the existing circuit-switched networks as well as with other IP equipment and systems;
- applications, features and functionality comparable to those available over traditional telephone networks, including call transfer, conferencing and caller identification;
- scalability to permit cost-effective increases in capacity to meet demand;
- standards compliance, so that products from different vendors can work together in one network; and
- flexibility to adapt to rapidly changing network environments in response to the evolving needs of enterprises and to accommodate a mobile business environment.

Our Solution

We provide standards-based products and technology for real-time voice, video and data communications over packet networks for enterprises and service providers. Our products and technology offer the following benefits:

Real-time Voice, Video and Data Communications Functionality. We are one of the few companies that offer IP communications products which support both voice-only, as well as combined voice, video and data communications. We believe that this dual functionality is attractive to enterprises and service providers that seek a flexible IP communications solution which can provide enhanced multimedia functionality in addition to IP telephony capabilities. We believe our products enable developers of IP communications solutions to offer features and functions generally unavailable in competitive solutions.

Market Leading Technology for Standards Based Real-time IP Communications. We were one of the original five members of the ITU-T committee responsible for defining the H.323 standard which has

been adopted worldwide for real-time packet-based communications. We believe our technology is recognized as the market-leading implementation of the H.323 industry standard for real-time voice, video and data communications over packet networks. We have been actively involved in the development of protocols for real-time communications since the inception of the industry in 1994 and were the first-to-market with enabling products and technology for voice, video and data communications over IP networks. We believe that our technology has become the technology of choice among developers of standards-compliant IP communications systems. Because we were first to market and have achieved broad market penetration, our customers benefit from our ability to develop and provide them market-tested, proven products and technology. Using our products and technology, our customers can develop unique capabilities with increased functionality that will differentiate their IP communications solutions in the market. We believe that the accumulated knowledge that we have gained participating in the development of industry standards provides us with a competitive advantage and positions us to be among the first to market products and technology based on the latest technological advances.

Interoperability. We provide our customers with products and technology that are interoperable across a broad range of IP communications systems. Our products and technology have been integrated into IP communications systems developed by more than 250 communications equipment providers. Because our products and technology are broadly deployed across various segments of the IP communications industry, we believe that the interoperability of our products and technology with products from different vendors is virtually assured. We believe that our long-standing involvement in the definition of standards and accumulated experience with product development across our broad customer base provides us with a competitive advantage in addressing interoperability needs. We continue to participate actively in defining industry standards by working closely with industry consortia on a broad spectrum of IP communications protocols to ensure continued interoperability of our products and technology across multiple protocols.

Improved Time to Market. Our customers rely on our accumulated expertise with IP communications standards and core technology to significantly reduce their development cycle and improve time to market. Communications equipment providers seeking to market standards-compliant systems for real-time voice and video communications over packet networks require standards-compliant building blocks to develop their products. Implementing standards as deployable products and technology is a complex task that requires significant technical knowledge and expertise as well as substantial investments of time and resources. Our products and technology enable our customers to shorten their own development time by integrating our proven enabling products and technology into their solutions. Rather than dedicate in-house resources to implementing industry standards, these developers can use our products and technology and focus their core competencies on building enhanced systems, products and applications.

Broad Range of Product Environments. Our products and technology provide our customers with flexibility to design individual products and applications or complete systems. Our customers can build a complete network solution for real-time IP communications using our full suite of products or integrate RADVision products with their own products or other vendor products into their real-time IP communications solution. Similarly, our technology has been designed to enable the development of a broad range of products and applications, from those that can service single users, including hand held devices and residential IP phones, to multi-user products, like highly complex, powerful carrier class gateways. Taken together, our products and technology provide all of the key network components necessary to build a real-time IP communications.

Distributed Architecture. We designed our products based on a distributed architecture. With a distributed architecture, the core functions needed for real-time IP communications are dispersed throughout the network at the site of each gateway, IP conferencing bridge and gatekeeper, rather than

aggregated at a single centralized location. This distributed approach offers several advantages compared to a traditional centralized architecture. The distributed architecture of our products enables better utilization of network bandwidth, because communications need not be routed through a centralized location but rather can be routed over the shortest path to minimize bandwidth usage. Similarly, our distributed architecture is a scalable solution, allowing a network manager to add network resources at distributed locations incrementally as the network grows. Our distributed architecture also provides redundancy and increased fault tolerance and reliability because, unlike a centralized architecture, failure at one location will not compromise the entire network.

Our Strategy

Our goal is to be the leading provider of innovative products and technology that enable real-time voice and video communications over packet networks. Key elements of our strategy include the following:

- *Maintain and Extend our Technology Leadership.* We believe that we have established ourselves as a technology leader in providing core-enabling technology for a broad range of IP communications products and services. We have accumulated extensive knowledge and expertise as designers and developers of commercial products and technology for real-time packet-based communications. We place considerable emphasis on research and development to expand the capabilities of our existing products, to develop new products and to improve our existing technology and capabilities. We believe that our future success will depend upon our ability to maintain our technological leadership, to enhance our existing products and to introduce on a timely basis new commercially viable products addressing the needs of our customers. We intend to continue to devote a significant portion of our personnel and financial resources to research and development.
- Strengthen and expand our relationships with OEM customers. We have established and continue to maintain collaborative working relationships with many OEMs in the IP communications market, including Bosch, Cisco, Nortel, Philips, Polycom and Siemens. We work closely with our OEM customers to integrate our products and core technology into their solutions. Our core technology and our system design expertise enable us to assist these customers in the development of complete solutions that contain enhanced features and functionality compared to competitive alternatives. We have generally established long-term relationships with our OEM customers by starting with a few products and subsequently expanding these relationships by increasing the number and range of products sold to these customers. We intend to expand the depth and breadth of our existing OEM relationships while initiating similar new relationships with leading OEMs focused on the IP communications market.
- Continue to offer new and enhanced products and features. We believe we have consistently been either first, or among the first, to market products that support real-time voice, video and data communications over packet networks. We were the first to market with IP gateways that provide combined voice, video and data functionality, and first to market with software development kits for the development of H.323-compliant IP communications products and applications. We intend to utilize our technological expertise as a basis for market leadership by continuing to be first-to-market with new and enhanced products and features that address the increasingly sophisticated needs of our customers and the evolving markets they serve. In addition, we believe that our participation in the drafting of industry standards gives us the ability to quickly identify emerging trends to develop new products and technologies that are at the forefront of technological evolution in the IP communications industry. We currently expect to introduce several new or enhanced products in 2000, including our MGCP software development kits and carrier class gatekeepers for large-scale networks.

- *Expand the distribution channels for our products.* We intend to continue to focus our sales and marketing efforts on expanding our distribution channels, including broadening the number of systems integrators that distribute our products. Systems integrators provide us a channel for feedback from their customers, the end-users of our products, which gives us valuable insight into evolving industry trends and customer requirements. Systems integrators represent an important independent marketing channel for our products that provides us with increased market presence through the relationships and existing customer base of these systems integrators. In addition, endorsements by leading systems integrators strengthen our brand name awareness. As part of this strategy to expand our distribution channels, we intend to open an office in Asia in 2000.
- Continue our active involvement in shaping industry standards for IP communications. We actively participate in and contribute to the formulation of standards for IP communications. We intend to continue our active involvement in the organizations that define the standards for real-time communications over next generation packet networks. Our knowledge and expertise gained in participating in the development of these industry standards enable us to be among the first to market products based on new standards adopted. We are continually improving and enhancing our core enabling H.323 technology to ensure that we maintain our leadership position as a provider of superior H.323 software development kits. We are also investing significant resources in developing other emerging protocols, like MGCP. Because of our involvement in defining these IP communications standards, we believe we are well-positioned to quickly develop enhanced functionality and new products based on multiple protocols.

Our Products and Technology

RADVision products and technology provide the core building blocks needed for standards-based real-time voice, video and data communications over packet networks. Our customers can deploy our products as a complete network solution for IP communications, integrate our products into their own IP communications systems or use our technology to build their own standards-compliant IP communications products, systems and applications for enterprises and service providers.

Our products and technology consist of:

- RADVision gateways, which interface between traditional circuit-switched networks and IP networks;
- RADVision gatekeepers, which control, manage and monitor real-time voice, video and data traffic over packet networks;
- RADVision IP conferencing bridges, which enable voice or multimedia conferencing over packet networks among three or more participants; and
- RADVision software development kits, which provide the core technology necessary to build interoperable, standards-compliant products, systems and applications for real-time voice and video communication over packet networks.

RADVision Gateways

To achieve the successful deployment of IP communications systems by enterprises and service providers, users who are connected to packet networks must be able to communicate with users who are connected to circuit-switched telephone networks. RADVision gateways provide an interface between traditional circuit-switched telephone networks and the new packet-based networks. A gateway converts voice, video and data signals received from a circuit-switched network into packets, that it then transmits in real-time over a packet-based network. When the direction of the communication is reversed, the gateway converts the packets back into circuit-switched signals.

We offer RADVision multimedia gateways, which support real-time voice, video and data communications, and RADVision voice gateways, which support voice-only communications.

RADVision Multimedia Gateways

Our RADVision multimedia gateways can support up to 30 voice calls or 15 multimedia calls simultaneously. We sell these gateways principally to systems integrators and OEMs who offer IP communications solutions to enterprises for next generation networks. These gateways provide the following benefits:

- *Real-time voice, video and data communications*. Our multimedia gateways support real-time voice and video calls, data collaboration as well as voice-only calls.
- *Interoperability*. Our multimedia gateways are H.323 compliant and are designed to be fully interoperable with other IP network components.
- *Embedded gatekeeper*. Our multimedia gateways contain an embedded gatekeeper that provides the gateway with similar functionality to that of a corporate telephone system, known as a private branch exchange, or PBX, including call and network management capabilities such as controlling how calls are routed, who may use the networks and how bandwidth is allocated. This embedded gatekeeper is offered free to the customer who may choose to use it or disable it. Customers who disable the embedded gatekeeper can purchase a gatekeeper from us or from another gatekeeper vendor.
- Advanced call functionality. Our multimedia gateways can support advanced PBX-like functions including call transfer and call forwarding.

A typical configuration of our RADVision multimedia gateways in a packet network is shown below.



RADVision Voice Gateways

Our RADVision voice gateways are optimized for voice-only functionality. Our RADVision voice gateways can support up to 30 voice calls simultaneously. These gateways were developed based upon the technology contained in our multimedia gateways for voice and video calls and can be easily upgraded to a multimedia gateway. We sell our RADVision voice gateways to OEMs that build solutions for enterprises and require gateways to interface voice calls between traditional circuit-switched telephone networks and packet networks.

Our voice gateways are designed for two principal applications:

- as gateways to connect traditional PBXs for circuit-switched networks with new PBXs built for packet-based networks, also known as IP/PBXs, and
- as gateways to interconnect two circuit-switched PBX systems over a packet network, thus bypassing the circuit-switched network.

Our RADVision voice gateways contain embedded gatekeepers and are interoperable with other H.323 compliant network components. Our RADVision voice gateways also provide the advanced call functionality of our multimedia gateways.

A configuration of our RADVision voice gateways demonstrating both applications of these gateways is shown below.



RADVision Video Interface Units

Enterprises have invested significant resources in outdated, or legacy, videoconferencing equipment that are designed to function only over circuit-switched networks. Our RADVision video interface unit

was designed to extend the life of this equipment by allowing legacy videoconferencing systems to be connected directly to a packet network rather than the circuit-switched network. Our RADVision video interface units are affordable, single user gateways designed specifically to interconnect legacy video equipment with packet networks. Because most new videoconferencing systems are designed to connect directly to packet networks, we expect that the market for these units will decrease significantly over time.

RADVision Gatekeepers

Gatekeepers perform the essential network function of controlling and managing real-time voice, video and data communications on a packet-based network. Gatekeepers define and control how traffic is routed over a packet-based network by identifying the IP destination address and routing the traffic to that destination. Gatekeepers also enable the provisioning of advanced PBX-like functions, including call forwarding, multi-point conferencing and call transfer. Network managers use gatekeepers to configure, monitor and manage the voice and video call activity on a packet network to ensure optimal implementation of the network. Gatekeepers log and track call activity and maintain details of network activity which permit the network manager to monitor IP communications activity on the network, including number of calls, number of users and bandwidth usage.

We provide a free embedded gatekeeper in our gateways. We also sell a stand-alone gatekeeper software application that is designed to be installed on any computer that supports the Microsoft Windows NT operating system. We sell this off-the-shelf application to systems integrators as a complementary product to our family of gateways and IP conferencing bridges. These customers combine RADVision gatekeeper application software with other IP network components to build complete IP communications solutions. These customers typically purchase our gatekeeper application in conjunction with the purchase of our gateways or IP conferencing bridges to use instead of our free embedded gatekeeper.

We also sell gatekeeper technology in the form of software development kits that enable our OEM customers to build and customize their own gatekeeper applications. Our gatekeeper software development kit offers the software developer full control over a wide range of gatekeeper functions and the flexibility to customize and further differentiate the gatekeeper to respond to the needs of their particular market. By using RADVision software development kits, our customers can build upon our proven technology and bring their gatekeeper products to market quickly.

RADVision IP Conferencing Bridges

While communications between two parties involves point-to-point connections, conferencing between multiple parties involves multipoint communications among three or more participants. In traditional circuit-switched networks, conferencing bridges connect callers to each other through a central bridge that conducts the conference call. As enterprises migrate to packet networks, IP conferencing bridges are needed to conduct conference calls over these next generation networks. We were one of the first and remain one of a few companies to offer IP conferencing bridges for multipoint communications.

Traditionally, voice or video conferencing required the conference to be arranged in advance by a network administrator and remain attended by an operator for the duration of the conference. Our RADVision IP conferencing bridges allow voice or video conferencing among multiple participants over IP networks without any advance arrangements or the assistance of an operator. Participants simply dial a number and the conferencing bridge automatically arranges the conference call. Additional participants can join the conference while it is in progress or by being added to the conference by any party already participating in the conference. Traditional conferencing bridges were primarily built as large complex carrier class bridges that were not appropriate for installation within an enterprise, requiring enterprises to contract with external service providers to conduct conference calls. Our

RADVision IP conferencing bridges are substantially less expensive and are designed to be deployed locally within an enterprise network, eliminating the need to contract with a service provider for conferencing services.

Our RADVision IP conferencing bridges can support up to 15 simultaneous voice and video calls or 24 voice-only calls. Like our gateways, our conferencing bridges include an embedded gatekeeper. Multiple conferencing bridges can be combined to increase the number of simultaneous conferences, and conferencing bridges can be linked together to provide a solution for very large conferences, allowing for multiple conference panels with many remote viewers.

A configuration of our RADVision IP conferencing bridges for multipoint conferencing between three or more participants is shown below.



RADVision H.323 Software Development Kit

H.323 is currently the most widely deployed standard for real-time IP communications. All components of an H.323-compliant network, including terminals, gateways, gatekeepers and conferencing bridges, use the H.323 protocol to communicate. As a result, communications equipment providers seeking to market H.323-compliant IP telephony and multimedia products, systems and applications need H.323 core software to develop their solutions. Rather than dedicate in-house resources to developing H.323 technology, these providers seek to build upon our proven enabling technologies.

We sell the core enabling technology for real-time IP communications in the form of software development kits. Our RADVision H.323 software development kits provide developers with the core software building blocks needed to develop H.323-compliant products, systems and applications. Our RADVision H.323 software development kit is an integrated set of software programs which execute

the H.323 protocol and perform the functions necessary to establish and maintain real-time voice, video and data communications over packet-based networks. Our technology enables our customers to focus on their core competencies and dramatically reduces the time to market of H.323-compliant IP communications products, systems and applications. Our RADVision H.323 software development kits can be used to develop a broad spectrum of products, including gateways, gatekeepers, conferencing bridges, IP telephones and other H.323-compliant products.

Products and Technology Under Development

We intend to capitalize upon our technological leadership in real-time IP communications to develop new products and technology that meet the evolving needs of the IP communications market. Our future product and technology offerings are expected to include:

RADVision MGCP Software Development Kits. Media gateway control protocol, commonly referred to as MGCP, provides functions that complement H.323 and has been developed for large packet networks operated by telecommunications carriers and service providers that require gateways that can support a practically unlimited number of calls. MGCP is the protocol by which a centralized gateway controller communicates with and controls the numerous gateways throughout a packet network and manages the network traffic through those gateways. MGCP has been adopted by large telecommunications companies and Internet service providers as well as by cable television companies building IP communications solutions over their networks. Our RADVision MGCP software development kit will be used to build MGCP compliant gateways. We intend to commercially release our MGCP software development kit in 2000. We may also develop and introduce in the future products that are based on other industry standards such as SIP,or Session Initiation Protocol, to the extent we believe that these products are feasible and there is a market opportunity for these products.

RADVision Carrier Class Gatekeepers. Gatekeepers are generally designed to manage hundreds of simultaneous voice calls. Large packet networks operated by telecommunications carriers and service providers require gatekeepers that can support a practically unlimited number of calls. We are currently enhancing our RADVision gatekeeper to provide core functionality necessary for large IP communications networks operated by telecommunications carriers and services providers. Our carrier class gatekeeper software development kit release will support high performance, high reliability, carrier class platforms, including network platforms developed by Cisco, Compaq and Hewlett-Packard. We expect our customers to introduce systems for creating new IP-based services incorporating our carrier class gatekeeper in 2000.

Customers

We sell our products to OEMs, systems integrators and value added resellers, or VARs. Our OEM customers purchase our products to integrate with products that they developed in-house to build complete IP communications solutions. Our systems integrator customers either purchase our full suite of products or integrate our individual products with products of other manufacturers to build complete IP communications solutions. Our VAR customers purchase our products to resell to end-users as separate units, or as part of a family of related product offerings, either under our RADVision label or under their private label.

We sell our technology in the form of software development kits to developers of IP communications products, systems and applications for developing their own IP communications solutions based on our core enabling technology.

The following is a representative list of our customers who have purchased more than \$200,000 of our products or technology since January 1, 1999:

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Sales and Marketing

Sales organization. We market and sell our products through multiple channels in North America, Europe, the Far East and Israel. Our products are sold to end-users principally through indirect channels by OEMs, system integrators and value added resellers. We market and sell our technology, primarily in the form of software development kits, directly to developers of IP communications products and applications. In Taiwan, Korea and Japan, we sell our software development kits indirectly through local sales representatives.

Our sales organization is managed from our corporate headquarters in Tel Aviv. We currently have sales offices in Tel Aviv, Israel, in Mahwah, New Jersey and in Sunnyvale, California. We intend to establish a sales office in Asia in the year 2000. North America is currently our largest market, contributing approximately 54% of our total sales for the year ended December 31, 1999.

We have dedicated sales teams to support our larger strategic accounts as well as to identify potential strategic customers who would deploy our products on large scales and generate significant revenues for us.

Marketing organization. Our marketing organization develops strategies and implements programs to support the sale of our products and technology and to support and enhance our market position as an industry leader. Our current marketing efforts include various programs designed to increase industry visibility, including press/analyst tours, trade shows and events, speaking engagements and ongoing interaction with analysts and the media as well as targeted marketing programs. Additional programs include technical seminars where customers and other industry participants are educated in real-time IP communications technology and the benefits of our products and technology. We also view our web site as an important marketing tool. We intend to enhance our web site to create a reference site for IP communications, featuring broad-based coverage of issues relevant to the IP communications industry, as well as important product and market trends.

To reinforce and further strengthen our market position as a technology leader in the field of real-time IP communications, we actively participate in key industry consortia. We are a member of the board of directors of the International Multimedia Telecommunications Consortia, or IMTC, a global organization to promote interoperable multimedia communications solutions based on international standards, and are responsible for directing its marketing activities. We regularly participate in IMTC-sponsored InterOP events, a vendor-neutral forum where IMTC members test the interoperability of their products.

We are also active in defining and reviewing evolving IP communications standards that are being developed by international standards bodies including:

- the ITU-T, which has published the H.323 standard;
- the Internet Engineering Task Force, or IETF, which has published the SIP standard; and
- CableLabs, an organization of cable operators which is currently working on defining the MGCP standard.

Customer Care and Support

Our ability to provide our customers with responsive and qualified customer care and support services globally is essential to attract and retain customers, build brand loyalty and maintain our leadership position in the market. We believe our customer care and support organizational structure enables us to provide superior technical support and customer service on a cost- and time-efficient basis.

We provide global customer care and support for our products and technology. Our customer care and technical support teams are located in Tel Aviv, Israel, in Mahwah, New Jersey and in Sunnyvale, California. We assist our customers with the initial installation, set-up and training. In addition, our technical support team trains and certifies our customers to provide local support in each of the geographical areas in which our products are sold. We also provide customers the option of obtaining, for a fee, 24 hours a day, 7 days a week help-desk support.

In addition, customers who purchase our software development kits generally request that we provide them ongoing engineering and technical support services to integrate our technology into their products, although these services are not essential for the use of our software development kits. Our standard software development kit contract provides for one year of support services, renewable annually at the customer's option. Customers who have contracted for support services receive all relevant software updates and enhancements as well as access to our customer care and technical support teams.

Research and Development

We place considerable emphasis on research and development to expand the capabilities of our existing products and technology, to develop new products and to improve our existing technologies and capabilities. We believe that our future success will depend upon our ability to maintain our technological leadership, to enhance our existing products and technology and to introduce on a timely basis new commercially viable products and technology addressing the needs of our customers. We intend to continue to devote a significant portion of our personnel and financial resources to research and development. As part of our product development process, we seek to maintain close relationships with our customers to identify market needs and to define appropriate product specifications.

As of December 31, 1999, our research and development staff consisted of approximately 94 employees. Our research and development activities are conducted at our facilities in Tel Aviv, Israel and in our office in Mahwah, New Jersey. To introduce new, high quality products, we deploy procedures for the design, development and quality assurance of our new product developments. Our team is divided according to our existing product lines. Each product line team is headed by a team leader and includes software or hardware engineers and quality control technicians.

Manufacturing and Assembly

Our manufacturing operations consist of materials planning and procurement, out-sourcing of sub-assemblies, final assembly, product assurance testing, quality control and packaging and shipping. We assemble and test our products at our facilities in Tel Aviv, Israel. We test our products both during and after the assembly process using internally developed product assurance testing procedures. We have a flexible assembly process that enables us to configure our products at the final assembly stage for customers who require that our products be modified to bear their private label. This flexibility is designed to reduce our assembly cycle time and reduce our need to maintain a large inventory of finished goods. We use an enterprise resource planning, or ERP, system that we purchased from BAAN Systems that we modified to our specific needs. This system allows us to use just in time procurement and manufacturing procedures. We believe that the efficiency of our assembly process to date is largely due to our product architecture and our commitment to assembly process design. We manufacture our

software development kits on CD-ROMs and package and ship them accompanied by relevant documentation.

As part of our commitment to quality, we have been certified as an ISO 9002 supplier. The ISO 9002 standard defines the procedures required for the manufacture of products with predictable and stable performance and quality. We are continuously trying to improve our quality based on the guidelines dictated by the ISO 9002 standard.

Intellectual Property

We rely on copyright, trademark and trade secret laws, confidentiality agreements and other contractual arrangements with our customers, third-party distributors, employees and others to protect our intellectual property.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products and technology or obtain and use information that we regard as proprietary. Policing unauthorized use of our products and technology is difficult. In addition, the laws of some foreign countries in which we currently or may in the future sell products do not protect our proprietary rights to as great an extent as do the laws of the United States. Our means of protecting our proprietary rights may not be adequate and our competitors may independently develop similar technology, duplicate our products or design around our intellectual property.

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

Competition

We compete in a new, rapidly evolving and highly competitive and fragmented market. We expect competition to intensify in the future. We believe that the main competitive factors in our market are time to market, product quality, features, cost, technological performance, scalability, compliance with industry standards and customer relationships.

The principal competitors in the market for our products and software development kits currently include:

Products

- Ezenia!, formerly known as Video-Server
- White Pine Software
- In-house developers employed by manufacturers of telecommunications equipment and systems

Software development kits

- DataBeam, a subsidiary of Lotus/IBM
- DynamicSoft
- · Elemedia, a subsidiary of Lucent
- Trillium Digital Systems

Other companies, including Accord Networks, have announced products that may compete with ours. Additional competitors may enter each of our markets at any time.

Both Vovida Networks, Inc. and OpenH323 offer H.323 source code for free. In addition, Vovida offers MGCP and SIP source code for free. If our customers choose to use the free source code offered by these organizations instead of purchasing our technology, our revenues from the sale of our software development kits will decline.

Facilities

Our headquarters and principal administrative, finance, sales and marketing and promotion operations are located in approximately 25,481 square feet of leased office space in Tel Aviv, Israel. The expiration dates of the lease of our principal offices range from August 2000 to December 2000. We intend to relocate our corporate headquarters in Tel Aviv, Israel to new facilities in 2000. In the United States, we lease approximately 9,000 square feet in Mahwah, New Jersey expiring in May 2002 and approximately 1,232 square feet in Sunnyvale, California expiring in December 2002.

Employees

As of December 31, 1999, we had 192 employees worldwide, of whom 94 were employed in research and development, 53 in sales and marketing, 10 in management and administration and 35 in operations. We have standard employment agreements with all of our employees located in Israel. Of our employees, 153 are based in Israel and 39 are based in the United States.

None of our employees is represented by a labor union. To date, we have not experienced any work stoppages.

Legal Proceedings

We are not party to any material legal proceedings.

In 1998, Lucent sent correspondence to our affiliate, RAD Data Communications Ltd., alleging that some products manufactured by RAD and some of its affiliates, including us, infringe upon specified Lucent patents and offering to license these patents to RAD and its affiliates. In subsequent correspondence, RAD requested that Lucent specifically substantiate each allegation of infringement before RAD or any of its affiliates would be prepared to enter into any licensing arrangements. RAD has recently received further correspondence from Lucent in which Lucent has reiterated its claims. RAD does not believe Lucent has substantiated its claims and has communicated this belief to Lucent. RAD advises us that the alleged infringement claims are unresolved.

The elements of our products that Lucent has alleged infringe upon its patents are contained within components which we obtain from a third party manufacturer. We believe that the third party manufacturer has a license to use these patents and that we may be entitled to the benefits of this license.

In addition, based on Lucent's fee and royalty schedule for licensing the relevant patents, we believe that any licensing fee and royalty payments that we may be required to pay for the right to use Lucent's patents would not have a material impact on our earnings. As a result, we do not believe that Lucent's allegations will have a material adverse effect upon us, our business, financial condition or liquidity.

MANAGEMENT

Directors and Executive Officers

The following table lists our current directors and executive officers:

Name	Age	Position
Yehuda Zisapel	57	Chairman of the Board of Directors
Ami Amir	55	Chief Executive Officer, President and Director
Eli Doron	47	Chief Technical Officer and Executive Vice President
Yeshayahu Gordon	43	Vice President, Global Sales
Michelle Blank	45	Vice President, Global Marketing
David Seligman	41	Chief Financial Officer
Yael Langer	35	General Counsel and Secretary
Zohar Zisapel	50	Director
Adi Gan	31	Director
Dan Goldstein	45	Director
Hillel E. Milo	49	Director
Efraim Wachtel	54	Director
Andreas Mattes	38	Director Nominee

Adi Gan, Dan Goldstein and Hillel Milo are independent directors.

Andreas Mattes shall become a director upon the closing of the private placement.

Yehuda Zisapel has served as a director of RADVision since November 1992 and as our chairman of the board of directors since August 1999. Mr. Zisapel is also a founder and a director of RAD Data Communications Ltd., a leading worldwide data communications company headquartered in Israel, of which he has served as a director since 1979, and its affiliate, BYNET Data Communications Ltd. Mr. Zisapel also serves as the chairman of the board of RIT Technologies Ltd. and RADWARE Ltd. and as a director of other companies in the RAD-BYNET group, including SILICOM Ltd. and RADCOM Ltd. Mr. Zisapel has a B.Sc. and an M.Sc. degree in electrical engineering from the Technion, Israel Institute of Technology and an M.B.A. degree from Tel Aviv University. Yehuda Zisapel and Zohar Zisapel are brothers.

Ami Amir, our co-founder, has served as our chief executive officer, president and a director since November 1992. From March 1987 to November 1992, Mr. Amir was the president of RAD Data Communications Inc. Before March 1987, Mr. Amir held senior engineering positions for Simtech Advanced Training and Simulation Systems, Tadiran Electronic Industries and Elbit Systems Ltd. Mr. Amir has a B.Sc. degree in electronics and computer science from the Technion Israel Institute of Technology.

Eli Doron, our co-founder, has served as our executive vice president and chief technical officer since July 1998. From October 1992 to July 1998, Mr. Doron was our vice president of research and development. From October 1983 to October 1992, Mr. Doron held senior engineering positions at Simtech Advanced Training and Simulation Systems. Mr. Doron has a B.Sc. degree in electronics and computer science from Ben Gurion University.

Yeshayahu Gordon has served as our vice president of global sales since May 1999 and as our vice president of sales and marketing since August 1997. From April 1995 to July 1997, Mr. Gordon was president of RADVision Inc. From May 1994 to April 1995, Mr. Gordon was president of Radlinx Inc. From August 1990 to May 1994, Mr. Gordon was the district sales manager for Orbotech Inc. and, before August 1990, sales representative for DEC Israel. Mr. Gordon has a B.Sc. degree in physics and computer science from Tel Aviv University.

Michelle Blank has served as our vice president of global marketing since May 1999. From June 1997 to May 1999, Ms. Blank was president of RADVision Inc. From September 1990 to June 1997, Ms. Blank acted as an independent consultant to several technology companies. Ms. Blank has a Ph.D. degree in cognitive science from The University of Texas.

David Seligman has served as our chief financial officer since November 1999. From July 1996 until November 1999, Mr. Seligman was the chief financial officer and secretary of LanOptics Ltd. From October 1993 until June 1996, Mr. Seligman was a senior financial analyst for Fidelity Investments Systems Company. Mr. Seligman has a B.A. in political science and geography and an M.B.A. in accounting and finance from Tel Aviv University.

Yael Langer has served as our general counsel since July 1998. Ms. Langer is also general counsel and secretary of RAD and other companies in the RAD-BYNET group. From December 1995 to July 1998, Ms. Langer served as assistant general counsel to companies in the RAD-BYNET group. From September 1993 until July 1995, Ms. Langer was a member of the legal department of Poalim Capital Markets and Investments Ltd. Ms. Langer has an LL.B. degree from the Hebrew University in Jerusalem.

Zohar Zisapel has served as a director of RADVision since November 1992 and was chairman of the board of directors until August 1999. Mr. Zisapel is also a founder and a director of RAD, of which he has served as president since January 1982, and a director of other companies in the RAD-BYNET group, including RADCOM, SILICOM, RIT and RADWARE. Mr. Zisapel previously served as head of the electronics research department in the Israeli Ministry of Defense. Mr. Zisapel received B.Sc. and M.Sc. degrees in electrical engineering from the Technion, Israel Institute of Technology and an M.B.A. degree from Tel Aviv University. Zohar Zisapel and Yehuda Zisapel are brothers.

Adi Gan has served as a director of RADVision since August 1998. Since January 1998, Mr. Gan has been an investment manager with Evergreen's Venture Capital Group. From August 1995 until January 1998, Mr. Gan was employed by TesCom Ltd., initially as a project manager and then as a manager of the real-time system division of TesCom Ltd. Mr. Gan has a B.Sc. in physics from the Technion, Israel Institute of Technology, and a M.Sc. in chemistry from Tel Aviv University.

Dan Goldstein has served as a director of RADVision since January 2000. In 1985, Mr. Goldstein founded Formula Systems (1985) Ltd. and has been its chief executive officer and chairman of the board of directors since that time. Mr. Goldstein is also the chairman of the board of directors of other companies in the Formula Systems group, including ForSoft Ltd., Sintec Advanced Technologies Ltd., F.C.T. Formula Computer Technologies Ltd. and Applicom Software Industries (1990) Ltd., and is a director of Crystal Systems Solutions Ltd. Mr. Goldstein has a B.Sc. degree in mathematics and computer science and an M.B.A. in business administration from Tel Aviv University.

Hillel E. Milo has served as a director of RADVision since May 1995. Until July 1999, Mr. Milo was president and chief executive officer of Israel Infinity Venture Capital Fund. Since January 1995, Mr. Milo has been chief executive officer and managing director of Clal Venture Capital Fund L.P. In 1993, Mr. Milo co-founded Walden Israel Venture Capital fund and has been the general partner of that fund since that time. Mr. Milo has a B.Sc. in mechanical engineering and a M.A. in management science from the University of Alabama.

Efraim Wachtel has served as a director of RADVision since March 1998. Mr. Wachtel has been president and chief executive officer of RAD since November 1997. From October 1985 to November 1997, Mr. Wachtel was vice president of sales and marketing of RAD. Before October 1985, Mr. Wachtel held various research and development positions in several companies in Israel and in the U.S. Mr. Wachtel has a B.Sc. degree in electrical engineering from the Technion, Israel Institute of Technology.

Andreas Mattes will be appointed a director of RADVision effective upon the closing of the private placement. Since April 1999, Mr. Mattes has been the president of enterprise networks of Siemens ICN. From October 1998 until April 1999, Mr. Mattes was the president of central sales of Siemens ICN. From June 1997 until October 1998, Mr. Mattes was the president of international sales of Siemens PN. From January 1996 until June 1997, Mr. Mattes was the vice president of product management of Siemens PN. From October 1985 until January 1996, Mr. Mattes held various sales, marketing and business administration positions at Siemens.

Board of Directors

Our articles of association to be adopted before the consummation of this offering provide that directors are elected at our annual general meeting of the shareholders by a vote of the holders of a majority of the voting power represented at that meeting. Each director, except for the external directors described below, holds office until the next annual general meeting of the shareholders.

Independent Directors

Upon the completion of this offering, our ordinary shares will be listed for quotation on the Nasdaq National Market and we will be subject to the rules of the Nasdaq National Market applicable to listed companies. Under the Nasdaq rules, we are required to appoint a minimum of three independent directors. The independence standard under the Nasdaq rules excludes any person who is a current or former employee of a company or its affiliates as well as the immediate family members of an executive officer of a company or its affiliates. Our three independent directors, Adi Gan, Dan Goldstein and Hillel Milo, meet the independence standard of the Nasdaq rules.

Israeli Companies Law

We are subject to the provisions of the new Israeli Companies Law, 5759-1999, which became effective on February 1, 2000 and supersedes most of the provisions of the Israeli Companies Ordinance (New Version), 5743-1983. The Companies Law authorizes the minister of justice to adopt regulations exempting from the provisions described below companies, like us, whose shares are traded outside of Israel.

External Directors

Qualifications of External Directors

Under the Companies Law, companies incorporated under the laws of Israel whose shares have been offered to the public in or outside of Israel are required to appoint two external directors. The Companies Law provides that a person may not be appointed as an external director if he or his relative, partner, employer or any entity under his control has or had during the two years preceding the date of appointment any affiliation with:

- the company;
- any entity controlling the company; or
- any entity controlled by the company or by this controlling entity.

The term affiliation includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; and
- service as an office holder.

No person can serve as an external director if the person's position or other business creates, or may create, conflict of interests with the person's responsibilities as an external director.

Until the lapse of two years from termination of office, a company may not engage an external director to serve as an office holder and cannot employ or receive services from that person, either directly or indirectly, including through a corporation controlled by that person.

Election of External Directors

External directors are to be elected by a majority vote at a shareholders' meeting, provided that either:

- the majority of shares voted at the meeting, including at least one third of the shares of non-controlling shareholders voted at the meeting, vote in favor of the election; or
- the total number of shares voted against the election of the external director does not exceed one percent of the aggregate voting rights in the company.

The initial term of an external director is three years and may be extended for an additional three years. Each committee of a company's board of directors is required to include at least one external director. Under the provisions of the Companies Law, we are required to designate the initial external directors at a shareholders' meeting to be convened no later than August 1, 2000. We intend to elect two directors as external directors after this offering.

Audit Committee

Nasdaq Requirements

Under the Nasdaq rules, we are required to form an audit committee consisting of at least three independent directors, all of whom are financially literate and one of whom has accounting or related financial management expertise. The responsibilities of the audit committee under the Nasdaq rules include evaluating the independence of a company's outside auditors. Our current audit committee complies with the Nasdaq rules. In addition, we are required to adopt an audit committee charter. We have adopted an audit committee charter that complies with Nasdaq specifications.

Companies Law Requirements

Under the Companies Law, the board of directors of any company that is required to nominate external directors must also appoint an audit committee, comprised of at least three directors including all of the external directors, but excluding a:

- chairman of the board of directors;
- general manager;
- chief executive officer; and
- controlling shareholder and any director employed by the company or who provides services to the company on a regular basis.