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RADVISION LTD
Form 10-Q
July 31, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2003
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ____to ____

Commission file number: 000-29871

RADVISION LTD.

(Exact Name of Registrant as Specified in Its Charter)

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

24 Raoul Wallenberg Street, Tel Aviv 69719, Israel

(Address of Principal Executive Offices)

972-3-645-5220

(Registrant's Telephone Number, Including Area Code)

N/A

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

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

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of June 30, 2003 the Registrant had 18,594,603 Ordinary Shares, par value NIS 0.1 per share, outstanding.

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

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

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

RADVISION LTD.

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RADVISION LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

| | June 30, 2003 | December 31, 2002 |
|--|-----------------------------|-------------------------|
| | ----- Unaudited ----- | ----- ----- ----- |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 27,752 | \$ 13,82 |
| Short-term bank deposits | 18,183 | 14,87 |
| Short-term marketable securities | 14,777 | 14,71 |
| Trade receivables (net of allowance for doubtful accounts of \$ 1,620 at June 30, 2003 and December 31, 2002) | 4,856 | 9,50 |
| Other receivables and prepaid expenses | 2,813 | 2,83 |
| Inventories | 813 | 99 |
| Total current assets | ----- 69,194 | ----- 56,75 |
| LONG-TERM ASSETS: | | |
| Long-term bank deposits | - | 11,01 |
| Long-term marketable securities | 32,126 | 33,92 |
| Severance pay fund | 2,071 | 1,64 |
| Total long-term assets | ----- 34,197 | ----- 46,58 |
| PROPERTY AND EQUIPMENT, NET | 2,932 | 3,33 |
| Total assets | ----- \$ 106,323 | ----- \$ 106,67 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Trade payables | \$ 918 | \$ 3,34 |
| Deferred revenues | 3,337 | 2,86 |
| Other payables and accrued expenses | 12,375 | 12,38 |
| Total current liabilities | ----- 16,630 | ----- 18,59 |
| ACCRUED SEVERANCE PAY | 3,587 | 3,06 |
| Total liabilities | ----- 20,217 | ----- 21,65 |
| SHAREHOLDERS' EQUITY: | | |
| Ordinary shares of NIS 0.1 par value: | | |

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| | | |
|---|------------|-----------|
| Authorized - 25,000,000 shares at June 30, 2003 and December 31, 2002; | | |
| Issued - 20,152,045 shares at June 30, 2003 and December 31, 2002; | | |
| Outstanding - 18,594,603 shares at June 30, 2003 and 18,285,930 shares at December 31, 2002 | 187 | 18 |
| Additional paid-in capital | 104,601 | 104,58 |
| Deferred stock compensation | - | (11 |
| Treasury stock, at cost (1,557,442 and 1,866,115 Ordinary shares of NIS 0.1 par value at June 30, 2003 and December 31, 2002, respectively) | (9,802) | (11,75 |
| Accumulated deficit | (8,880) | (7,88 |
| Total shareholders' equity | 86,106 | 85,01 |
| ----- | ----- | ----- |
| Total liabilities and shareholders' equity | \$ 106,323 | \$ 106,67 |
| ----- | ===== | ===== |

Note: The balance sheet at December 31, 2002 has been derived from the audited financial statements at that date.

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

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RADVISION LTD. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

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

| | Three months ended June 30, | | Six months ended June 30, | |
|------------------------------------|--------------------------------|-----------|------------------------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| | ----- Unaudited ----- | | | |
| Revenues | \$ 11,605 | \$ 11,707 | \$ 22,658 | \$ 23,26 |
| Cost of revenues | 2,598 | 2,571 | 4,959 | 5,12 |
| Gross profit | 9,007 | 9,136 | 17,699 | 18,13 |
| Operating costs and expenses: | | | | |
| Research and development | 3,596 | 3,870 | 7,160 | 7,91 |
| Marketing and selling | 4,853 | 4,587 | 9,584 | 9,05 |
| General and administrative | 976 | 1,073 | 1,924 | 2,04 |
| Total operating costs and expenses | 9,425 | 9,530 | 18,668 | 19,00 |

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| | | | | |
|---|---------|---------|---------|--------|
| Operating loss | 418 | 394 | 969 | 87 |
| Financial income, net | 560 | 686 | 1,129 | 1,43 |
| Other expenses | - | - | 3 | |
| Net income | \$ 142 | \$ 292 | \$ 157 | \$ 56 |
| Basic net earnings per Ordinary share | \$ 0.01 | \$ 0.02 | \$ 0.01 | \$ 0.0 |
| Diluted net earnings per Ordinary share | \$ 0.01 | \$ 0.02 | \$ 0.01 | \$ 0 |

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

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RADVISION LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

| | Six months ended June 30, | |
|--|------------------------------|---------|
| | 2003 | 2002 |
| | Unaudited | |
| Cash flows from operating activities: | | |
| Net income | \$ 157 | \$ 564 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 1,187 | 1,274 |
| Accrued interest and amortization of premium on held-to-maturity marketable securities and bank deposits | 517 | - |
| Severance pay, net | 96 | (97) |
| Amortization of deferred stock-based compensation | 117 | 91 |
| Decrease (increase) in trade receivables, net | 4,649 | (2,030) |
| Decrease (increase) in other receivables and prepaid expenses | 38 | (241) |
| Decrease in inventories | 183 | 874 |
| Decrease in trade payables | (2,429) | (199) |
| Increase (decrease) in other payables and accrued expenses | (10) | 2,024 |
| Deferred revenues | 474 | - |
| Net cash provided by operating activities | 4,979 | 2,260 |

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| | | |
|---|----------|----------|
| Cash flows from investing activities: | | |
| Increase in short-term investments | - | 15,899 |
| Increase in long-term investments | - | (14,866) |
| Proceeds from redemption of held-to-maturity marketable securities | 28,481 | - |
| Purchase of held-to-maturity marketable securities | (27,129) | - |
| Proceeds from withdrawal of bank deposits | 7,578 | - |
| Purchase of property and equipment | (784) | (858) |
| | ----- | ----- |
| Net cash provided by investing activities | 8,146 | 175 |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Issuance of share capital | - | 120 |
| Purchase of treasury stock | - | (1,854) |
| Issuance of Common stock and Treasury stock for cash upon exercise of options | 787 | - |
| Exercise of options by employees | 15 | - |
| Repayment of long-term loans | - | (13) |
| | ----- | ----- |
| Net cash provided by (used in) financing activities | 802 | (1,747) |
| | ----- | ----- |
| Increase in cash and cash equivalents | 13,927 | 688 |
| Cash and cash equivalents at beginning of period | 13,825 | 6,717 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$27,752 | \$ 7,405 |
| | ===== | ===== |
| Non-cash transactions: | | |
| Issuance of Common stock upon sale of Treasury stock | \$ 15 | \$ - |
| | ===== | ===== |
| Loss on issuance of Common stock upon sale of Treasury stock | \$ 1,153 | \$ - |
| | ===== | ===== |

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

NOTE 1:- GENERAL

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

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

Commencing in 2001, the Company operates under two reportable

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segments, based on its restructured internal organization, management of operations and performance evaluation. These segments are: 1) the "networking" business unit or NBU, which focuses on a networking product and is responsible for developing networking products for IP-centric voice, video and data conferencing services; and 2) the "technology" business unit or TBU, which focuses on creating developer toolkits for the underlying IP communication protocols and testing tools needed for real-time voice and video over IP.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2002 are applied consistently in these financial statements.

a. Use of estimates:

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

b. For further information, refer to the consolidated financial statements as of December 31, 2002.

c. Accounting for stock-based compensation:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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months ended June 30, 2003 and 2002:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|------------|------------------------------|------------|
| | 2003 | 2002 | 2003 | 2002 |
| | Unaudited | | | |
| Risk free interest | 2% | 1.5% | 2% | 2% |
| Dividend yields | 0% | 0% | 0% | 0% |
| Volatility | 0.467 | 0.512 | 0.467 | 0.467 |
| Expected life | 4 | 4 | 4 | 4 |
| Pro forma information under SFAS No. 123: | | | | |
| Net income as reported | \$ 142 | \$ 292 | \$ 157 | \$ 157 |
| Add - stock based compensation expense determined under APB 25 | \$ 0 | \$ 46 | \$ 117 | \$ 117 |
| Less - stock-based compensation expense determined under fair value method for all awards | \$ 863 | \$ 1,352 | \$ 1,730 | \$ 2,089 |
| Pro forma net loss | \$ (721) | \$ (1,014) | \$ (1,456) | \$ (1,825) |
| Basic and diluted earnings per share, as reported | \$ 0.01 | \$ 0.02 | \$ 0.01 | \$ 0.01 |
| Pro forma basic and diluted net loss per share | \$ (0.04) | \$ (0.05) | \$ (0.08) | \$ (0.08) |

d. Recently issued accounting pronouncements:

In November 2002, the EITF reached a consensus on Issue 00-21, addressing how to account for arrangements that involve the delivery or performance of multiple products, services, and/or rights to use assets. Revenue arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet the following criteria: (1) the delivered item has value to the customer on a stand alone basis; (2) there is objective and reliable evidence of the fair value of

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undelivered items; and (3) delivery of any undelivered item is probable. Arrangement consideration should be allocated among the separate units of accounting based on their relative fair values, with the amount allocated to the delivered item being limited to the amount that is not contingent on the delivery of additional items or meeting other specified performance conditions. The final consensus will be applicable to agreements entered into in fiscal periods beginning after June 15, 2003 with early adoption permitted. The provisions of this consensus are not expected to have a significant effect on the Company's financial position or operating results.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company does not expect the adoption of SFAS No. 149 to have a material impact on its results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatory redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003 and must be applied to the Company's existing financial instruments effective July 1, 2003, the beginning of the first fiscal period after June 15, 2003. The adoption of this statement is not expected to have a material effect on the Company's financial position, results of operation or cash flows.

NOTE 3:- UNAUDITED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2003, are not necessarily indicative of the results of operations that may be expected for the year ended December 31, 2003.

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NOTE 4:- INVENTORIES

| | June 30, 2003 | December 31, 2002 |
|-----------------------------------|-----------------------------|----------------------|
| | ----- Unaudited ----- | |
| Raw materials, parts and supplies | \$ 175 | \$ 194 |
| Work in progress | 540 | 720 |
| Finished products | 98 | 82 |
| | ----- | ----- |
| | \$ 813 | \$ 996 |
| | ===== | ===== |

NOTE 5:- OTHER PAYABLES AND ACCRUED EXPENSES

| | June 30, 2003 | December 31, 2002 |
|---------------------------------|-----------------------------|----------------------|
| | ----- Unaudited ----- | |
| Employees and employee accruals | \$ 1,989 | \$ 1,617 |
| Accrued expenses | 10,386 | 10,768 |
| | ----- | ----- |
| | \$ 12,375 | \$ 12,385 |
| | ===== | ===== |

NOTE 6:- SEGMENTS AND CUSTOMER INFORMATION

| | Three months ended June 30, | | Six months ended June 30, | |
|------------------------|--------------------------------|-----------|------------------------------|---------|
| | 2003 | 2002 | 2003 | 2002 |
| | ----- Unaudited ----- | | | |
| Revenues: | | | | |
| Product sales | \$ 8,553 | \$ 8,580 | \$ 16,239 | \$ 16,9 |
| Software sales | 3,052 | 3,127 | 6,419 | 6,3 |
| | ----- | ----- | ----- | ----- |
| Total revenues | \$ 11,605 | \$ 11,707 | \$ 22,658 | \$ 23,2 |
| | ===== | ===== | ===== | ===== |
| Cost of revenues: | | | | |
| Product sales | \$ 2,429 | \$ 2,540 | \$ 4,783 | \$ 5,0 |
| Software sales | 169 | 31 | 176 | |
| | ----- | ----- | ----- | ----- |
| Total cost of revenues | \$ 2,598 | \$ 2,571 | \$ 4,959 | \$ 5,1 |
| | ===== | ===== | ===== | ===== |

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

NOTE 7:- EARNINGS PER SHARE

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

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|------------|------------------------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| | ----- Unaudited ----- | | | |
| Numerator: | | | | |
| Net income | \$ 142 | \$ 292 | \$ 157 | \$ 5 |
| | ===== | ===== | ===== | ===== |
| Diluted net earnings per share - income | \$ 142 | \$ 292 | \$ 157 | \$ 5 |
| | ===== | ===== | ===== | ===== |
| Number of shares: | | | | |
| Denominator: | | | | |
| Denominator for basic earnings per share - weighted average of Ordinary shares | 18,473,504 | 18,063,334 | 18,409,399 | 18,274,2 |
| Effect of dilutive securities: Employee stock options and unvested restricted shares | 745,278 | 800,930 | 645,894 | 1,067,8 |
| | ----- | ----- | ----- | ----- |
| | 19,218,782 | 18,864,264 | 19,055,293 | 19,342,1 |
| | ===== | ===== | ===== | ===== |

NOTE 8:- SIGNIFICANT EVENTS

During the six months ended June 30, 2003, the Company issued 322,673 Ordinary shares from treasury stock to employees who have exercised options. The Company accounts for the reissuances in accordance with Accounting Principles Board Opinion No. 6 "Status of Accounting Research Bulletins" and charges the excess of the repurchase cost over issuance price using the weighted average method to accumulated deficit. In case the repurchase cost is lower than the issuance price, the Company credits the difference to additional paid in capital. As a result of the reissuances during the six months ended June 30, 2003, the Company recorded a loss in the amount of \$ 1,153.

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

The following is management's discussion and analysis of certain significant factors which have affected our financial position and operating results during the periods included in the accompanying condensed consolidated financial statements. The discussion and analysis which follows may contain trend analysis and other forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to future events and financial results. These include statements regarding our earnings, projected growth and forecasts, and similar matters that are not historical facts. We remind shareholders that forward-looking statements are merely predictions and therefore are inherently subject to uncertainties and other factors that could cause the future results to differ materially from those described in the forward-looking statements. These uncertainties and other factors include, but are not limited to, the uncertainties and factors included in the "Risk Factors" contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

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 IP networks.

We were incorporated in January 1992, commenced operations in October 1992 and commenced sales of our products in the fourth quarter of 1994. Before that time, our operations consisted primarily of research and development and recruiting personnel. In 1995, we established a wholly owned subsidiary in the United States, RADVision Inc., which conducts our sales and marketing activities in North America. In 2000, we established a wholly owned subsidiary in the Hong Kong, RADVision HK Ltd, which conducts our marketing activities in Asia Pacific. In 2001, we established a wholly owned subsidiary in the United Kingdom, RADVision (UK) Ltd, which conducts our marketing activities in England.

Critical Accounting Policies

We have identified the following policies as critical to the understanding of our financial statements. The preparation of our financial statements 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 sales and expenses during the reporting periods. Areas where significant judgments are made include, but are not limited to, inventory valuation and revenue recognition. Actual results could differ materially from these estimates. Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

Revenues and Revenue Recognition. We generate revenues from sales of our networking products that are primarily sold in the form of stand-alone products, and our technology products that are primarily sold in the form of software development kits, as well as related maintenance and support services. We price our networking products on a per unit basis, and grant discounts based upon unit volumes. We price our software development kits on the basis of a fixed-fee

plus royalties from products developed using the software development kits. We sell our products and technology through direct sales and various indirect distribution channels in North America, Europe and the Middle East and the Asian Pacific region.

Revenues from sales of products and technology are recognized in accordance with Statement of Position (SOP) 97-2, as amended by SOP 98-9, 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.

Revenues from products sales are recognized in accordance with Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" ("SAB No. 101") when the following criteria are met: persuasive evidence of an arrangement exists, delivery of the product has occurred, the fee is fixed or determinable and collectibility is probable. We have no obligation to customers after the date on which products are delivered. Revenues from maintenance and updates are recognized over the term of agreement.

All of our revenues are generated in U.S. dollars or are linked to the dollar and a majority of our expenses are incurred in U.S. dollars. Consequently, we use the dollar as our functional currency. Transactions and balances in other currencies are remeasured into dollars according to the principles in Financial Accounting Standards Board Statement No. 52. Gains and losses arising from remeasurement are reflected in our statements of operations as financial income or expenses as appropriate.

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

Significant Costs and Expenses

Cost of Revenues. Our cost of revenues consists of component and material costs, direct labor costs, subcontractor fees, overhead related to manufacturing and depreciation of manufacturing equipment. Our gross margin is affected by the selling prices for our products as well as the proportion of our revenues generated from the sale of our technology products as compared to our networking products. Our revenues from the sale of our technology products

have higher gross margins than our revenues from the sale of our networking products and we offer greater discounts to our high volume OEM customers. As the relative proportion of our revenues from our networking products increases as a percentage of our total revenues and we generate a higher percentage of our revenues from sales to our high volume OEM customers, our gross margins will decline.

Research and development expense. Our research and development expenses consist primarily of compensation and related costs for research and development personnel, expenses for testing facilities and depreciation of equipment. Research and development costs, net are charged to operations as incurred. Software development costs are considered for capitalization when technological feasibility is established according to SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed." Costs incurred after achievement of technological feasibility in the process of software production have not been material. Therefore, we have not capitalized any of our research and development expenses and do not anticipate that our development process will differ materially in the future.

Marketing and selling expenses, net. Our marketing and selling expenses consist primarily of compensation and related costs for sales personnel, marketing personnel, sales commissions, marketing programs, public relations, promotional materials, travel expenses, trade show exhibit expenses and royalties paid to the Government of Israel. We do not intend to apply for any grants from the Government of Israel in the future.

General and administrative expenses. Our general and administrative expenses consist primarily of salaries and related expenses for executive, accounting and human resources personnel, professional fees, provisions for doubtful accounts and other general corporate expenses.

Other operating expenses. Operating expenses also include amortization of stock-based compensation, which is allocated among research and development expenses, marketing and selling expenses and general and administrative expenses based on the division in which the recipient of the option grant is employed. Amortization of stock-based compensation results from the granting of options to employees with exercise prices per share determined to be below the fair market value per share of our ordinary shares on the dates of grant. The stock-based compensation is being amortized to operating expenses over the vesting period of the individual options.

Financial income, net. Our financial income consists primarily of interest earned on bank deposits and other liquid investments, gains and losses from the remeasurment of monetary balance sheet items denominated in non-dollar currencies into dollars and interest expense incurred on outstanding debt.

Taxes. Israeli companies are generally subject to income tax at the corporate tax rate of 36%. However, several of our investment programs at our manufacturing facility in Tel Aviv have been granted approved enterprise status and, therefore, we are eligible for tax benefits. These benefits should result in income recognized by us being tax exempt or taxed at a lower rate for a specified period after we begin to report taxable income and exhaust any net operating loss carry-forwards. However, these benefits may not be applied to reduce the tax rate for any income derived by our U.S. subsidiary.

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Results of Operations

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

| | Three months ended June 30, 2002 | | Six months ended June 30, 2002 | |
|---------------------------------|--|-------|--------------------------------------|-------|
| | 2003 | 2002 | 2003 | 2003 |
| | Unaudited | | | |
| | | | | |
| Revenues | | | | |
| Networking products..... | 73.3% | 73.3% | 72.7% | 71.7 |
| Technology products..... | 26.7 | 26.3 | 27.3 | 28.3 |
| Total revenues..... | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of revenues | | | | |
| Networking products..... | 21.7 | 20.9 | 21.7 | 21.1 |
| Technology products..... | 0.3 | 1.5 | 0.3 | 0.8 |
| Total cost of revenues..... | 22.0 | 22.4 | 22.0 | 21.9 |
| Gross profit..... | 78.0 | 77.6 | 78.0 | 78.1 |
| Operating expenses | | | | |
| Research and development..... | 33.0 | 31.0 | 34.0 | 31.6 |
| Marketing and selling..... | 39.2 | 41.8 | 38.9 | 42.3 |
| General and administrative..... | 9.2 | 8.4 | 8.8 | 8.5 |
| Total operating expenses..... | 81.4 | 81.2 | 81.7 | 82.4 |
| Operating loss..... | (3.4) | (3.6) | (3.7) | (4.3) |
| Financial income, net..... | 5.9 | 4.8 | 6.1 | 5.0 |
| Net income (loss)..... | 2.5 | 1.2 | 2.4 | 0.7 |
| | | | | === |

Three Months Ended June 30, 2002 Compared with Three Months Ended June 30, 2003

Revenues. Revenues decreased from \$11.7 million for the three months ended June 30, 2002 to \$11.6 million for the three months ended June 30, 2003, a decrease of \$102,000, or less than 1%. This decrease was mainly due to a \$75,000, or 2.4%, decrease in sales of our technology products.

Revenues from networking products remained constant at approximately \$8.6 million for the three months ended June 30, 2002 and 2003. Revenues from sales of our ViaIP and OnLan product lines remained at the same level of \$8.6 million for the three months periods ended June 30, 2002 and 2003.

Revenues from technology products remained constant at approximately \$3.1 million for three months periods ended June 30, 2002 and 2003. Revenues from licenses and royalties totaled \$1.3 million and \$574,000 in the three months ended June 30, 2002 compared to \$1.1 million and \$731,000, respectively, in the three months ended June 30, 2003. Maintenance revenues declined from \$1.3 million in the three months ended June 30, 2002 to \$1.1 million in the three months ended June 30, 2003, which decline was offset in part by the initiation of our offering professional services with respect to research and development, which activity accounted for \$170,000 in revenues in the three months ended June 30, 2003.

Revenues from sales to customers in the United States decreased from \$7.1 million, or 60.7% of revenues, for the three months ended June 30, 2002, to \$6.6 million, or 56.9% of revenues, for the three months ended June 30, 2003, a decrease of \$558,000, or 7.9%. This decrease in sales to

customers in the United States was primarily attributable to decreased market demand as budgets for these technology products decreased.

Revenues from sales to customers in Europe decreased from \$1.9 million, or 16.2% of revenues, for the three months ended June 30, 2002, to \$1.3 million, or 11.2% of revenues, for the three months ended June 30, 2003, a decrease of \$600,000, or 31.6%. This decrease in sales to customers in Europe was primarily attributable to the ongoing softness in enterprise spending in Europe.

Revenues from sales to customers in the Far East increased from \$2.1 million, or 17.9% of revenues, for the three months ended June 30, 2002, to \$3.2 million, or 27.6% of revenues, for the three months ended June 30, 2003, an increase of \$1.1 million, or 52.4%. This increase in sales to customers in the Far East was primarily attributable to increased sales efforts.

Revenues from sales to customers in Israel decreased from \$592,000, or 5.1% of revenues, for the three months ended June 30, 2002 to \$524,000, or 4.5% of revenues, for the three months ended June 30, 2003, a decrease of \$68,000, or 11.5%.

Cost of Revenues. Cost of revenues remained relatively constant at approximately \$2.6 million for the three month periods ended June 30, 2002 and 2003. Gross profit as a percentage of revenues decreased slightly from 78.0% for the three months ended June 30, 2002 to 77.6% for the three months ended June 30, 2003.

Research and Development. Research and development expenses decreased from \$3.9 million for the three months ended June 30, 2002 to \$3.6 million for the three months ended June 30, 2003, a decrease of \$274,000, or 7.0%. This decrease was primarily attributable to a decrease in the number of research and development personnel whom we employed. Research and development expenses as a percentage of revenues decreased from 33.0% for the three months ended June 30, 2002 to 31.0% for the three months ended June 30, 2003.

Marketing and Selling. Marketing and selling expenses increased from \$4.6 million for the three months ended June 30, 2002 to \$4.9 million for the three months ended June 30, 2003, an increase of \$266,000, or 5.8%. This increase was primarily attributable to increased sales efforts in the United States and the Far East. Marketing and selling expenses as a percentage of revenues increased from 39.2% for the three months ended June 30, 2002 to 41.8% for the three months ended June 30, 2003.

General and Administrative. General and administrative expenses decreased from \$1.1 million for the three months ended June 30, 2002 to \$1 million for the three months ended June 30, 2003, a decrease of \$97,000, or 8.8%. This decrease was primarily attributable to a decrease in personnel expenses. General and administrative expenses as a percentage of revenues was 9.2% for the three months ended June 30, 2002 and 8.4% for the three months ended June 30, 2003.

Operating Loss. Although our operating loss increased slightly from \$394,000 for the three months ended June 30, 2002 to \$418,000 for the three months ended June 30, 2003, our operating loss decreased sequentially from the first quarter of 2003 as a result of our cost-cutting efforts and increased revenues.

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Financial Income. We had financial income of \$686,000 in the three months ended June 30, 2002 as compared to \$560,000 for the three months ended June 30, 2003. This income was principally derived from the investment of the proceeds of our March 2000 initial public offering and private placement. Our interest income decreased due to lower prevailing interest rates.

Net Income. Net income for the quarter was \$142,000 compared with net income of \$292,000 for the second quarter of 2002.

Six Months Ended June 30, 2003 Compared with Six Months Ended June 30, 2002

Revenues. Revenues decreased from \$23.3 million for the six months ended June 30, 2002 to \$22.7 million for the six months ended June 30, 2003, a decrease of \$606,000, or 2.6%. This decrease was due a decrease in sales of networking products.

Revenues from networking products decreased from \$16.9 million for the six months ended June 30, 2002 to \$16.2 million for the six months ended June 30, 2003. Revenues from sales of our ViaIP and OnLan product lines decreased from \$12.3 million and \$4.5 million in the six months ended June 30, 2002 to \$13.4 million and \$1.4 million, respectively, in the six months ended June 30, 2003. This decline was offset in great measure by \$1.3 million of other product sales. The decrease in networking product sales was principally attributable to lower than expected sales in the United States.

Revenues from technology products remained relatively constant at approximately \$6.4 million for the six months periods ended June 30, 2002 and 2003. Revenues from licenses and royalties were \$2.6 million and \$935,000 in the six months ended June 30, 2002 and \$2.4 million and \$1.3 million respectively, in the six months ended June 30, 2003. Maintenance revenues decreased from \$2.9 million in the six months ended June 30, 2002 to \$2.4 million in the six months ended June 30, 2003, which decline was offset in part by the initiation of our offering professional services with respect to research and development, which activity accounted for \$401,000 in revenues in the six months ended June 30, 2003.

Revenues from sales to customers in the United States decreased from \$14.5 million, or 62.2% of revenues, for the six months ended June 30, 2002, to \$10.9 million, or 48.0% of revenues, for the six months ended June 30, 2003, a decrease of \$3.6 million, or 24.8%. This decrease in sales was primarily attributable to the ongoing softness in enterprise spending in the United States.

Revenues from sales to customers in Europe increased from \$3.6 million, or 15.5% of revenues, for the six months ended June 30, 2002, to \$4.6 million, or 20.3% of revenues, for the six months ended June 30, 2003, an increase of \$1.0 million, or 27.8%. This increase in sales was primarily attributable to the FastWeb sale in the first three months of 2003.

Revenues from sales to customers in the Far East increased from \$4.1 million, or 17.6% of revenues, for the six months ended June 30, 2002, to \$6.2 million, or 27.4% of revenues, for the six months ended June 30, 2003 an increase of \$2.1 million, or 51.2%. This increase in sales was primarily attributable to increased sales efforts.

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Revenues from sales to customers in Israel decreased from \$1.1 million for the six months ended June 30, 2002, or 4.7% of revenues, and for the six months ended June 30, 2002, to \$900,000, or 4.0% of revenue for the six months ended June 30, 2003.

Cost of Revenues. Cost of revenues decreased from \$5.1 million for the six months ended June 30, 2002 to \$5.0 million for the six months ended June 30, 2003, a decrease of \$170,000, or 3.3%. Gross profit as a percentage of revenues increased slightly from 78.0% for the six months ended June 30, 2002 to 78.1% for the six months ended June 30, 2003.

Research and Development. Research and development expenses decreased from \$7.9 million for the six months ended June 30, 2002 to \$7.2 million for the six months ended June 30, 2003, a decrease of \$751,000, or 9.5%. This decrease was primarily attributable to a decrease in the number of research and development personnel whom we employed. Research and development expenses as a percentage of revenues decreased from 34.0% for the six months ended June 30, 2002 to 31.6% for the six months ended June 30, 2003.

Marketing and Selling. Marketing and selling expenses increased from \$9.1 million for the six months ended June 30, 2002 to \$9.6 million for the six months ended June 30, 2003, an increase of \$528,000, or 5.8%. Marketing and selling expenses as a percentage of revenues increased from 38.9% for the six months ended June 30, 2002 to 42.3% for the six months ended June 30, 2003.

General and Administrative. General and administrative expenses decreased from \$2.0 million for the six months ended June 30, 2002 to \$1.9 million for the six months ended June 30, 2003, a decrease of \$118,000, or 5.8%. This decrease was primarily attributable to a decrease in personnel expenses. General and administrative expenses as a percentage of revenues was 8.8% for the six months ended June 30, 2002 and 8.5% for the six months ended June 30, 2003.

Operating Loss. Although our operating loss increased from \$874,000 for the six months ended June 30, 2002 to \$969,000 for the six months ended June 30, 2003, we narrowed our operating loss in the second quarter to \$418,000 from \$551,000 for the first quarter of 2003 as a result of cost cutting efforts and increased revenues.

Financial Income. Financial income decreased from \$1.4 million for the six months ended June 30, 2002 to \$1.1 million for the six months ended June 30, 2003 principally as a result of the decreased interest income we derived from the investment of the proceeds of our March 2000 initial public offering and private placement. Our interest income decreased due to lower prevailing interest rates.

Net Income. Net income for the first six months of 2003 was \$157,000 compared with net income of \$564,000 for the first six months of 2002.

Liquidity and Capital Resources

From our inception until our initial public offering in March 2000, we financed our operations through cash generated by operations and a combination of private placements of our share capital and borrowings under lines of credit. Through December 31, 1999, we raised a total of approximately \$12.2 million in aggregate net proceeds in four private placements. In

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March 2000, we sold 4,370,000 of our ordinary shares in an initial public offering and 590,822 ordinary shares in a private placement. We received net proceeds of \$89.2 million from the public offering and private placement. As of June 30, 2003, we had approximately \$27.8 million in cash and cash equivalents, \$33.0 million in short term investments and our working capital was approximately \$52.6 million. Taking into account long-term liquid investments, we had \$92.8 million in cash and liquid investments as of June 30, 2003.

Net cash generated from operating activities was approximately \$5.0 million for the six months ended June 30, 2003. This amount was primarily attributable to a \$4.6 million decrease in trade receivables, depreciation expenses of \$1.2 million and an increase of \$474,000 in deferred revenues. These increases in cash generated by our operating activities were offset in part by a \$2.4 million decrease in trade payables.

The decrease in inventories at June 30, 2003 was primarily due to our continued efforts to manage our inventory to correspond with our revenues and our efforts to utilize subcontractors.

Net cash provided by investing activities was approximately \$8.1 million for the six months ended June 30, 2003. During the six months ended June 30, 2003, \$784,000 of cash used in investing activities was for purchases of property and equipment.

Net cash received from financing activities was \$802,000 for the six months ended June 30, 2003.

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

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

On August 28, 2002, we announced that our board of directors had authorized the repurchase of up to \$10.0 million or 2 million of our ordinary shares in the open market from time to time at prevailing market prices. During April 2003, we started to repurchase our ordinary shares based on the instruction of our board of directors. As of June 30, 2003, we have purchased 14,000 ordinary shares at a total cost of \$78,000, or an average price of \$5.55 per share.

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Item 3. Quantitative and Qualitative Disclosure About Market Risk

Foreign Exchange

Our international business is subject to risks typical of an international business, including, but not limited to differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Accordingly, our future results could be materially adversely impacted by changes in these or other factors.

We cannot assure you that we will not be materially and adversely affected in the future if inflation in Israel exceeds the devaluation of the NIS against the dollar or if the timing of the devaluation lags behind inflation in Israel.

Interest Rates

We invest our cash in a variety of financial instruments, including time deposits, cash deposits, U.S. federal agency securities and corporate bonds with an average credit rating of A2. Despite the high quality of our investments, fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates, or we may suffer losses in principal if forced to sell securities that have seen a decline in market value due to changes in interest rates.

We account for our investment instruments in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). All of the cash equivalents and short-term investments are treated as available-for-sale under SFAS No. 115.

The weighted-average interest rate on investment securities held at June 30, 2003 was approximately 2.73% as compared to 3.25% at December 31, 2002. The fair market value of cash equivalents and liquid investments held at June 30, 2003 was \$92.8 million.

Item 4. Controls and Procedures

Within the 90-day period prior to the filing of this report, the we carried out an evaluation of the effectiveness of our disclosure controls and procedures (as defined by Rule 13a-14(c) of the Securities Exchange Act of 1934) under the supervision and with the participation of our chief executive officer and chief financial officer. Based on and as of the date of such evaluation, the aforementioned officers have concluded that our disclosure controls and procedures were effective.

Our company also maintains a system of internal accounting controls that is designed to provide assurance that its assets are safeguarded and that transactions are executed in accordance with management's authorization and properly recorded. This system is continually reviewed and is augmented by written policies and procedures, the careful selection and training of qualified personnel and an internal audit program to monitor its effectiveness. During the quarter ended June 30, 2003, there were no significant changes to this system of internal controls or in other factors that could significantly affect those controls.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 2. Changes in Securities and Use of Proceeds

 Use of Proceeds. The following information required by Item 701(f) of Regulation S-K relates to our initial public offering of ordinary shares of our company on March 14, 2000. The following table sets forth, with respect to the ordinary shares registered, the amount of securities registered, the aggregate offering price of amount registered, the amount sold and the aggregate offering price of the amount sold, for both the account of our company and the account of any selling security holder.

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

The following table sets forth the expenses incurred by us in connection with our public offering during the period commencing the effective date of the Registration Statement and ending June 30, 2003. None of such expenses were paid directly or indirectly to directors, officers, persons owning 10% or more of any class of equity securities of our company or to our affiliates.

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

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

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

| Purpose | Direct or indirect payments to persons other than to affiliated persons |
|---|---|
| ----- | |
| Acquisition of other companies and business(es) | N/A |
| Construction of plant, building and facilities | N/A |
| Purchase and installation of machinery and equipment | N/A |
| Purchase of real estate | N/A |
| Repayment of indebtedness | N/A |
| Working capital | \$78,450,000 |
| Temporary investments | N/A |
| Other purposes | N/A |

Item 3. Defaults Upon Senior Securities

None

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

During the three month period ended June 30, 2003, we held our Annual General Meeting of Shareholders.

At the meeting, held on June 8, 2003, our shareholders voted:

1. To consider and receive the Directors' Annual Report to Shareholders for the year ended December 31, 2002, and to consider and receive the Company's Consolidated Financial Statements for the year ended December 31, 2002, and the auditor's report thereon.

| For | Against | Abstained |
|-----------|---------|-----------|
| --- | ----- | ----- |
| 6,649,133 | 2,683 | 9,335 |

2. To appoint Kost Forer & Gabbay, a member of Ernst & Young Global, to conduct the annual audit of the Company's financial statements for the year ending December 31, 2003, and to authorize the Board of Directors to fix their remuneration.

| For | Against | Abstained |
|-----------|---------|-----------|
| --- | ----- | ----- |
| 6,562,318 | 90,797 | 8,035 |

3. To elect Zohar Zisapel, Gadi Tamari, Efraim Wachtel and Andreas Mattes as directors of the Company to hold office for a term until their successors are duly elected and qualified at our 2004 Annual General Meeting of Shareholders.

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| | For | Against |
|----------------|-----------|---------|
| | --- | ----- |
| Zohar Zisapel | 6,653,570 | 7,580 |
| Gadi Tamari | 6,653,570 | 7,580 |
| Efraim Wachtel | 6,653,570 | 7,580 |
| Andreas Mattes | 6,653,570 | 7,580 |

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4. To elect the following external directors to hold office for a term of three years.

| | For | Against | Abstained |
|------------------------|-----------|---------|-----------|
| | --- | ----- | ----- |
| Liora Katzenstein..... | 6,628,943 | 24,676 | 7,531 |
| Joseph Atsmon..... | 6,628,943 | 24,676 | 7,531 |

5. To authorize remuneration of our external directors.

| | For | Against | Abstained |
|--|-----------|---------|-----------|
| | --- | ----- | ----- |
| | 6,432,764 | 217,411 | 10,975 |

6. To approve the grant of options to the CEO of the company.

| | For | Against | Abstained |
|--|-----------|---------|-----------|
| | --- | ----- | ----- |
| | 6,260,211 | 561,812 | 13,200 |

7. To approve indemnification by the company of directors and office holders of the company.

| | For | Against | Abstained |
|--|-----------|---------|-----------|
| | --- | ----- | ----- |
| | 6,281,569 | 541,048 | 12,606 |

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

99.1 Certification by Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

99.2 Certification by Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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99.3 Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.4 Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

An 8-K bearing the cover date of April 1, 2003 with respect to a press release regarding a reduction in the Registrant's first quarter earnings estimate and outlook for the year was filed on April 1, 2003.

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SIGNATURES

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

RADVISION LTD.
(Registrant)

/s/Gad Tamari

Gad Tamari
Chief Executive Officer

/s/David Seligman

David Seligman
Chief Financial Officer

Date: July 31, 2003

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