RADCOM LTD
Form 20-F
March 29, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report ____________

Commission file number 0-29452

RADCOM LTD.
(Exact Name of Registrant as Specified in its Charter)

N/A
(Translation of Registrant's Name into English)

Israel
(Jurisdiction of Incorporation or Organization)

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

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24 Raoul Wallenberg Street, Tel Aviv 69719, Israel
(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Ordinary Shares, NIS 0.20 par value per share	NASDAQ Capital Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: As of December 31, 2015, there were 8,638,685 ordinary shares, NIS 0.20 par value per share, outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No x

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No x

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

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer x

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP x

International Financial Reporting Standards as issued by the International Accounting Standards Board o

Other o

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant elected to follow.

Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

INTRODUCTION

Except for the historical information contained herein, the statements contained in this annual report on Form 20-F (this "Annual Report") are forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements are based on current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management.

As used in this Annual Report, the terms "we," "us," "our," "RADCOM" and the "Company" mean RADCOM Ltd. and its subsidiaries, unless otherwise indicated.

Omni-Q® is our only registered trademark. All other trademarks and trade names appearing in this Annual Report are owned by their respective holders.

Below are definitions of certain technical terms that are used throughout this Annual Report that are important for understanding this Annual Report.

GLOSSARY

3G	Third-generation digital cellular networks.
4G	Fourth-generation digital cellular networks.
BSS	Business Support System. The components that a telephone CSP uses to run its business operations that relate to the customer/subscriber usage; handles taking orders, processing bills, and collecting payments.
CODEC	CODer/DECoder. Converts and compresses voice signals from their analog form to digital signals acceptable to modern digital PBXs (private branch exchanges) and digital transmission systems. It then converts and decompresses those digital signals back to analog signals so that they can be heard and understood.
CEM	Customer Experience Management. A solution to support the strategy that focuses the operations and processes of a business around the needs of the individual customer.
CSP	Communication Service Provider. Includes all service providers offering telecommunication services or some combination of information and media services, content, entertainment and applications services over communication networks. CSPs include the following categories: Telecommunications carrier and cable service provider.
GSM	Global System for Mobile Communications. A digital wireless technology that is widely deployed in Europe and, increasingly, in other parts of the world.
GPRS	General Packet Radio Service. A packet-based digital intermediate speed wireless technology based on GSM (2.5 generation).

IMS	IP Multimedia Subsystem. An internationally recognized standard defining a generic architecture for offering Voice Over IP and multimedia services to multiple-access technologies.
LTE	Long Term Evolution. LTE is a set of enhancements to the Universal Mobile Telecommunications System (UMTS) which was introduced in 3rd Generation Partnership Project (3GPP) Release 8. Much of 3GPP Release 8 focuses on adopting 4G mobile communications technology, including an all-IP flat networking architecture.
NFV	Network Function Virtualization. NFV is a software-centric design approach for building complex information technology (IT) networks and applications, particularly for use by CSPs. NFV virtualizes entire classes of network functions into building blocks that may be connected, or chained together to create services in software-based, virtualized network environments. NFV offers a new way to design, deploy and manage networking services. NFV decouples network functions, such as network address translation (NAT), firewalling, intrusion detection, domain name service (DNS), caching, etc., from proprietary hardware appliances, so that these functions can run as virtualized software applications. It is designed to consolidate and deliver the networking components needed to support a fully virtualized infrastructure – including virtual servers, storage and even other networks. It utilizes standard IT virtualization technologies that run on high-volume service, switch and storage hardware to virtualize network functions. It is applicable to any data plane processing or control plane function in both wired and wireless network infrastructures.
NGN	Next Generation Network. General term for packet-based networks, whether wireline (Voice Over IP, Video Over IP, etc.) or 3G networks.
OSS	Operational Support System. A suite of programs that enables the enterprise to monitor, analyze and manage a network system. Used in general to mean a system that supports an organization's network operations.
Protocol	A specific set of rules, procedures or conventions governing the format, means and timing of transmissions between two devices.
Session	A lasting connection between a user (or a user agent) and a peer, typically a server, usually involving the exchange of many packets between the user's computer and the server. A session is typically implemented as a layer in a network protocol.
RAN	Radio Access Network. A part of a mobile telecommunication system. It implements a radio access technology. Conceptually, it sits between the mobile phone, and the core network.
SIGTRAN	The name, derived from signaling transport, of a defunct Internet Engineering Task Force (IETF) working group that produced specifications for a family of protocols that provide reliable datagram service and user layer adaptations for Signaling System 7 (SS7) and ISDN communications protocols. The SIGTRAN protocols are an extension of the SS7 protocol family and are used today together with IMS.

SIP	Session Initiation Protocol. A simple application layer signaling protocol for VoIP implementations. It is a textual client server based protocol and provides the necessary mechanisms so that end user systems and proxy servers can provide various different services.
TCP	Transmission Control Protocol. TCP provides a reliable stream delivery and virtual connection service to applications through the use of sequenced acknowledgment with retransmission of packets when necessary. It is one of the core protocols of the Internet Protocol Suite. TCP is one of the two original components of the suite (the other being Internet Protocol, or IP), so the entire suite is commonly referred to as TCP/IP. Whereas IP handles lower-level transmissions from computer to computer as a message makes its way across the Internet, TCP operates at a higher level, concerned only with the two end systems, for example a Web browser and a Web server.
Triple Play	A marketing term for the provisioning of the three services: high-speed Internet, television (Video on Demand or regular broadcasts) and telephone service over a single broadband connection.
UMTS	Universal Mobile Telecommunications Service. A third-generation digital high-speed wireless technology for packet-based transmission of text, digitized voice, video, and multimedia that is the successor to GSM.
VoIP	Voice Over IP. A telephone service that uses the Internet as a global telephone network.
VoLTE	Voice over Long Term Evolution. VoLTE is GSM's adoption of the "One Voice" initiative, which describes standard configurations for carrying (packet) voice over LTE. VoLTE eliminates the need for 2G/3G voice, the whole problem of multiple networks, certain extra components and costs of devices by carrying the voice over the LTE channel using adaptive multi rate (AMR) coding. Using IP Multimedia Subsystems (IM S) specifications developed by 3GPP as its basis, GSM has expanded upon the original scope of One Voice work to address the entire end-to-end voice and short message service (SMS) ecosystem by also focusing on roaming and interconnect interfaces, in addition the interface between customer and network.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains express or implied “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and other U.S. Federal securities laws.

These forward-looking statements include, but are not limited to:

- our plans to become the market leader for service assurance and CEM to leading CSPs and increase our sales;
- our plans to focus our expansion efforts in Tier 1 and other leading CSPs in the North American, European, and Asian markets and our success in doing so;

- our ability to leverage our technology leadership and the accumulative experience to implement one of the largest and most comprehensive NFV deployments;
- our expectations to maintain our technological advantage over our competitors;
- maintaining our relationship with Amdocs and its affiliates;
- delivering and implementing successfully our solutions to the leading North American mobile operator that was recently announced;;
- our ability to expand our foothold with Tier1 CSPs as a result, among other things, of the selection of a Tier 1 CSP in North American mobile operator of our solutions;
- our ability to identify, market and sell our solutions to CSPs migrating to LTE, VoLTE and 5G;
- our expectation that the NFV market will continue gaining momentum during 2016;
- mobile data services to become a significant revenue source for CSPs; and
- increased spending by CSPs of next-generation services and increased usage of such services and increase of the potential need for service assurance solutions.

In some cases, forward-looking statements are identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "intends," "estimates," "predicts," "potential," or "continue" or the negative of these terms or other comparable terminology. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or performance to differ materially from those projected. These statements are only current predictions and are subject to known and unknown risks, uncertainties, and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from those anticipated by the forward-looking statements. The forward-looking statements contained in this annual report are subject to risks and uncertainties, including those discussed under Item 3.D. Risk Factors and in our other filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Except as required by law, we are under no duty to (and expressly disclaim any such obligation to) update or revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Annual Report.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

We have derived the following selected consolidated statements of operations data for the years ended December 31, 2015, 2014 and 2013 and the selected consolidated balance sheet data as of December 31, 2015 and 2014 from our audited consolidated financial statements and notes included in this Annual Report. Our selected consolidated statements of operations data for the years ended December 31, 2011 and 2012 and the selected consolidated balance sheet data as of December 31, 2013, 2012 and 2011, have been derived from audited consolidated financial statements not included in this Annual Report. We prepare our consolidated financial statements in accordance with U.S. generally accepted accounting principles ("U.S. GAAP").

You should read the selected consolidated financial data together with "Item 5—Operating and Financial Review and Prospects" and our consolidated financial statements and related notes included elsewhere in this Annual Report. All references to "dollar," "dollars" or "$" in this Annual Report are to the "U.S. dollar" or "U.S. dollars." All references to "NIS" are to the New Israeli Shekels.

Statement of Operations Data:

	Year Ended December 31, 2015	2014	2013	2012	2011
Revenues:					
Products	$16,122	$20,547	$17,917	$12,480	$19,199
Services	2,551	3,089	2,565	3,306	2,788
	18,673	23,636	20,482	15,786	21,987
Cost of revenues:					
Products	4,041	8,350	7,540	5,765	6,074
Services	285	343	350	417	606
	4,326	8,693	7,890	6,182	6,680
Gross profit	14,347	14,943	12,592	9,604	15,307
Operating expenses:					
Research and development	6,071	5,812	5,615	6,102	5,866
Less - royalty-bearing participation	1,582	1,664	1,537	1,567	1,235
Research and development, net	4,489	4,148	4,078	4,535	4,631
Sales and marketing, net	7,834	7,295	7,592	8,515	9,962
General and administrative	2,393	2,262	2,051	2,107	2,234
Total operating expenses	14,716	13,705	13,721	15,157	16,827
Operating (loss) income	(369)	1,238	(1,129)	(5,553)	(1,520)
Financing expenses, net	(433)	(332)	(291)	(314)	(384)
Income (loss) before taxes on income	(802)	906	(1,420)	(5,867)	(1,904)
Taxes on Income	(121)	(180)	---	(120)	---
Net (loss) income	(923)	726	(1,420)	(5,987)	(1,904)
Basic net (loss) income per ordinary share	$(0.11)	$0.09	$(0.19)	$(0.93)	$(0.30)
Weighted average number of ordinary shares used to compute basic net income (loss) per ordinary share	8,572,681	8,088,974	7,340,056	6,442,068	6,367,560
Diluted net (loss) income per ordinary share	$(0.11)	$0.08	$(0.19)	$(0.93)	$(0.30)
Weighted average number of ordinary shares used to compute diluted net (loss) income per ordinary share	8,572,681	8,592,387	7,340,056	6,442,068	6,367,560
Balance Sheet Data:					
Working capital	$9,643	$10,062	$7,762	$5,194	$10,670
Total assets	$20,135	$20,318	$19,645	$19,867	$21,345
Shareholders' equity	$9,863	$10,262	$7,499	$4,997	$10,392
Share capital	$372	$361	$335	$251	$250

Exchange Rate Information

The following table shows, for each of the months indicated the high and low exchange rates between the NIS and the U.S. dollar, expressed as NIS per U.S. dollar and based upon the daily representative rate of exchange as published by the Bank of Israel:

Month	High (NIS)	Low (NIS)
March (through March 24, 2016)	3.912	3.842
February 2016	3.964	3.871
January 2016	3.983	3.913
December 2015	3.905	3.855
November 2015	3.921	3.868
October 2015	3.923	3.816
September 2015	3.949	3.863

On March 24, 2016, the daily representative rate of exchange between the NIS and U.S. dollar as published by the Bank of Israel was NIS 3.842 to $1.00.

The following table shows, for each of the periods indicated, the average exchange rate between the NIS and the U.S. dollar, expressed as NIS per U.S. dollar, calculated based on the average of the representative daily rate of exchange during the relevant period as published by the Bank of Israel:

Year	Average (NIS)
2016 (through March 24, 2016)	3.915
2015	3.884
2014	3.577
2013	3.609
2012	3.858
2011	3.582

The effect of exchange rate fluctuations on our business and operations is discussed in "Item 5.A—Operating and Financial Review and Prospects—Operating Results—Impact of Inflation and Foreign Currency Fluctuations."

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Investing in our ordinary shares involves a high degree of risk. You should carefully consider the risks described below before investing in our ordinary shares.

Our business, operating results and financial condition could be seriously harmed due to any of the following risks, among others. If we do not successfully address the risks to which we are subject, we could experience a material adverse effect on our business, results of operations and financial condition and our share price may decline. We cannot assure you that we will successfully address any of these risks.

Risks Related to Our Business and Our Industry

Our business is dependent on a limited number of significant customers, and the loss of our significant customers could harm our results of operations.

We expect to depend on sales of our solutions to a limited number of customers for the substantial majority of our revenues in 2016. The loss of any significant customer, a significant decrease in business from any such customer or a reduction in customer revenue due to adverse changes in the market, economic or competitive conditions or other factors could have a material adverse effect on our business, results of operations and financial condition. For more information, see "Item 7.B—Major Shareholders and Related Party Transactions—Related Party Transactions" below.

A reduction in some CSPs' revenues and profitability, which may lead them to decrease their investment in capital equipment and infrastructure, may in turn affect our revenues and results of operations. A continued slowdown in our customers' investment in capital equipment and infrastructure may materially and adversely affect our revenues and results of operations.

Our future success is dependent upon the continued growth of the telecommunications industry as well as the specific sectors that we target, which currently include 3G and 4G cellular and triple-play networks, and NFV. During the last few years, some of the CSPs experienced a reduction in their revenues from subscribers and lower profitability, which affected the spending budget of such telecommunications carriers. The global telecommunications industry, as well as the various sectors within the industry, is evolving rapidly, and it is difficult to predict its potential growth rate or future trends in technology development. The deregulation, privatization and economic globalization of the worldwide telecommunications market that have resulted in increased competition and escalating demand for new technologies and services may not continue in a manner favorable to us or our business strategies. In addition, the growth in demand for Internet and data services and the resulting need for high speed or enhanced telecommunications equipment may not continue at its current rate or at all.

Our future success also depends upon the increased utilization of our monitoring solutions by next-generation network operators. CSPs may not adopt our technology. Furthermore, any such new technology may not lead to greater demand for our products.

During the last few years, developments in the communications industry such as the impact of general global economic conditions, industry consolidation, emergence of new competitors, commoditization of voice services, the plans of CSPs to shift, transform and adapt their network operations to the NFV and changes in the regulatory environment, have had a material adverse effect on our existing and/or potential customers, and may continue to have such an effect in the future. In the past, these conditions reduced the high growth rates that the communications industry had previously experienced, and caused the market value, financial results, prospects, and capital spending levels of many communications companies to decline. Over the last few years, the telecommunications industry experienced significant financial pressures that caused many in the industry to cut expenses and limit investment in capital intensive projects, and in some cases, led to restructurings.

Recent and future economic conditions, including turmoil in the financial and credit markets, may adversely affect our business.

The recent economic environment had a significant negative impact on business around the world. The impact of these conditions on the technology industry and our major customers has been quite severe. Conditions may continue to be depressed, or may be subject to further deterioration, which could lead to a further reduction in consumer and customer spending overall, which could have an adverse impact on sales of our products. A disruption in the ability of our significant customers to access liquidity could cause serious disruptions or an overall deterioration of their businesses, which could lead to a significant reduction in their orders of our products and the inability or failure on their part, to meet their payment obligations to us, any of which could have a material adverse effect on our business, financial condition, results of operations and liquidity. In addition, any disruption in the ability of customers to access liquidity could lead customers to request longer payment terms from us or long-term financing of their purchases from us. If we are unable to grant extended payment terms when requested by customers, our sales could decrease. Granting extended payment terms or a significant adverse change in a customer's financial and/or credit position, would have an immediate negative effect on our cash balance, and could require us to assume greater credit risk relating to that customer's receivables, or could limit our ability to collect receivables related to purchases by that customer. As a result, we may have to defer recognition of revenues, our reserves for doubtful accounts and write-offs of accounts receivable may increase and our losses may increase.

Our plans to focus our sales efforts in Tier 1 and other leading CSPs in the North American and European markets may not be successful.

With the recognition of our technological leadership in the service assurance for NFV we have started to enhance our presence in North America, Europe, and Asia where a significant share of the NFV activity is taking place. We plan to expand our foothold in these markets, both directly and indirectly through partnerships. Although our recent selection by a top tier 1 leading North American mobile operator is expected to significantly help open doors to a relatively untapped market for us, we may not be successful in expanding our business in said markets.

Our expectation that the NFV market will continue gaining momentum during 2016 and thereafter may not materialize.

Although the majority of the industry's leading CSPs are either evaluating NFV or have started deploying virtualized solutions for their network functionality, and despite our expectation that the NFV market will continue to gain momentum during year 2016 and thereafter, the actual pace of NFV transformation may take time, and as a result the market's need for our NFV solution may take more time to materialize.

We may not deliver and implement successfully our solutions to a leading North American mobile operator

On December 28, 2015, we entered into an End User License Agreement with one of Amdocs Software's customers, a top-tier leading North American mobile operator, pursuant to which we would grant a license to use our NFV solutions. We may not deliver and implement successfully or timely our solutions to this CSP and as a result, we may incur losses.

We have a history of net losses and may not achieve or sustain profitability in the future.

We have a history of net losses. Although we were profitable in 2014, in 2015 and 2013 we incurred net losses of $0.9 million and $1.4 million, respectively. We may continue not to be profitable in the future, which could materially affect our cash and liquidity and could adversely affect the value and market price of our shares.

Our actual cash flows may not be sufficient to meet our obligations.

If our cash flow does not meet or exceed our current projections, then our ability to pay our obligations could be materially impaired. We believe that our existing capital resources and cash flows from operations will be adequate to satisfy our expected liquidity requirements to meet our operating obligations, as they come due, at least through the next twelve months. However, if our actual sales and spending differ materially from our projections, we may be required to raise capital, borrow additional funds or reduce discretionary spending in order to provide the required liquidity. We cannot assure you that our business will generate sufficient cash flows or that future capital raising or borrowings will be available to us in amounts and on terms sufficient to enable us to fund our liquidity needs. Our ability to continue as a going concern is substantially dependent on the successful achievement of our sales and spending projections.

While we believe that our existing capital resources and cash flows from operations will be adequate to satisfy our expected liquidity requirements at least through the next twelve months, there is no assurance that, if required, we will be able to raise additional capital or reduce discretionary spending to provide the required liquidity in order to continue as a going concern.

The market for our products is characterized by changing technology, and its requirements, standards and products, and we may be materially adversely affected if we do not respond promptly and effectively to such changes.

The telecommunications market for our products is characterized by rapidly changing technology, network infrastructure, changing customer requirements, evolving industry standards and frequent new product introductions. These changes could reduce the market for our products or require us to develop new products and to keep adapting them, in order to remain up to date with our customers' requirements.

The 3G, LTE (Long Term Evolution), VoLTE (Voice over Long Term Evolution) networks and NFV (Network Function Virtualization) required us to develop a new product, MaveriQ, which was launched in 2014 and which replaced the OmniQ, our hardware-based solutions.

In 2015 we invested in R&D, and such R&D efforts will continue in the future to develop our NFV solutions, in anticipation of further disruptive changes in the telecommunication market from software-centric architectures and NFV.

New or enhanced telecommunications and data communications-related products developed by other companies could be incompatible with our products. Therefore, our timely access to information concerning, and our ability to anticipate, changes in technology and customer requirements and the emergence of new industry standards, as well as our ability to develop, manufacture and market new and enhanced products successfully and on a timely basis, will be significant factors in our ability to remain competitive. For example, many of our strategic initiatives and investments are aimed at meeting the requirements of application providers of 3G and LTE cellular, triple-play networks and NFV. If networking evolves toward greater emphasis on application providers, we believe that we have positioned ourselves well relative to our key competitors. However, if networking does not evolve toward a greater emphasis on application providers, our initiatives and investments in this area may be of no or limited value.

In addition, a 2014 cooperation agreement among Huawei, Ericsson and NSN called "OSSii" (Operations Support Systems interoperability initiative) aims to facilitate interoperability between network management systems from different vendors. If this initiative succeeds, it could lead to a decreased need for our probe-based solutions, as network elements could supply the performance and quality measurements provided by our probe-based solutions. As a result, we cannot quantify the impact of new product introductions on our future operations.

We have a history of quarterly fluctuations and unpredictability in our results of operations and expect these fluctuations to continue. This may cause our share price to fluctuate and/or to decline.

In 2015, we experienced, and expect to experience in the future, significant fluctuations in our quarterly results of operations. Factors that may contribute to fluctuations in our quarterly results of operations include:

- the variation in size and timing of individual purchases by our customers;
- seasonal factors that may affect capital spending by customers, such as the varying fiscal year-ends of customers and the reduction in business during the summer months, particularly in Europe;

- the relatively long sales cycles for our products;

- the request for longer payment terms from us or long-term financing of customers' purchases from us, as well as additional conditions tied to such payment terms;

- competitive conditions in our markets;
- the timing of the introduction and market acceptance of new products or product enhancements by us and by our customers, competitors and suppliers;
- changes in the level of operating expenses relative to revenues;
- product quality problems;
- supply interruptions;
- changes in global or regional economic conditions or in the telecommunications industry;
- delays in or cancellation of projects by customers;
- changes in the mix of products sold;
- the size and timing of approval of grants from the Government of Israel; and
- foreign currency exchange rates.

Our costs of sales consist of variable costs, which include hardware purchasing, packaging, royalties to the Chief Scientist (as defined below), license fees paid to third parties and import taxes, recurring and non-recurring write-off of inventory, subcontractors' expenses and of fixed costs which include facilities' payments, employees' salaries and related costs and overhead expenses. A major of our costs of sales are relatively variable, and the costs are determined based on our anticipated revenue. We believe, therefore, that quarter -to- quarter comparisons of our operating results may not be a reliable indication of future performance.

Our revenues in any quarter generally have been, and may continue to be, derived from a relatively small number of orders with relatively high average revenues per order. Therefore, the loss of any order or a delay in closing a transaction could have a more significant impact on our quarterly revenues and results of operations, than on those of companies with relatively high volumes of sales or low revenues per order.

We may experience a delay in generating or recognizing revenues for a number of reasons, including based on revenue recognition accounting requirements. In many cases we cannot recognize revenue from an order prior to customer acceptance, which may take 3 to 12 months. Therefore, a major part of the revenue of a fiscal quarter is derived from the backlog of shipped orders and generally is not tied to the date of a customer's order or the shipment date.

Our revenues for a particular quarter may also be difficult to predict and may be affected if we experience a non-linear sales pattern. We generally experience significantly higher levels of sales orders towards the end of a quarter, as a result of customers submitting their orders late in the quarter. Furthermore, orders received towards the end of the quarter may not be delivered within the quarter due to our production and development lead times. These orders are booked within the quarter, but only recognized as revenue at a later stage.

If our revenues in any quarter remain level or decline in comparison to any prior quarter, our financial results for that quarter could be adversely affected.

Due to the factors described above, as well as other unanticipated factors, in future quarters our results of operations could fail to meet the expectations of public market analysts or investors. If this occurs, the price of our ordinary shares may fall, as was the case in previous years.

We expect our gross margins to vary over time, and we may not be able to sustain or improve upon our recent level of gross margins, which may have a material adverse effect on our future profitability.

We may not be able to sustain or improve upon our recent level of gross margins. Our gross margins may be adversely affected by numerous factors, including:

- increased price competition;

- local sales taxes which may be incurred for direct sales;
- increased industry consolidation among our customers, which may lead to decreased demand for and downward pricing pressure on our products;
- changes in customer, geographic or product mix;
- our ability to reduce and control production costs;
- increases in material or labor costs;
- excess inventory and inventory holding costs;
- obsolescence charges;
- reductions in cost savings due to changes in component pricing or charges incurred due to inventory holding periods if parts ordering does not correctly anticipate product demand;
- changes in distribution channels;
- losses on customer contracts; and
- Increases in warranty costs.

Further deterioration in gross margins, due to these or other factors, may have a material adverse effect on our business, financial condition and results of operations.

Our sales derived from emerging market countries may be materially adversely affected by economic, exchange rates, regulatory and political developments in those countries.

We generate sales from various emerging market countries. As sales from these countries represent a significant portion of our total sales, and as these countries represent a significant portion of our expected growth, economic or political turmoil in these countries could materially adversely affect our sales and results of operations. Our investments in emerging market countries may also be subject to risks and uncertainties, including unfavorable taxation treatment, exchange rates, challenges in protecting our intellectual property rights, nationalization, inflation, currency fluctuations, or the absence of, or unexpected changes in, regulation as well as other unforeseeable operational risks.

Any reversal or slowdown in the deregulation of telecommunications markets could materially harm the markets for our products.

Future growth in the markets for our products will depend, in part, on the continued privatization, deregulation and the restructuring of telecommunications markets worldwide, as the demand for our products is generally higher when a competitive environment exists. Any reversal or slowdown in the pace of this privatization, deregulation or restructuring could materially harm the markets for our products. Moreover, the consequences of deregulation are subject to many uncertainties, including judicial and administrative proceedings that affect the pace at which the changes contemplated by deregulation occur, and other regulatory, economic and political factors. Furthermore, the uncertainties associated with deregulation have in the past, and could in the future, cause our customers to delay purchasing decisions pending the resolutions of these uncertainties.

Our growing international presence exposes us to risks associated with varied and changing political, cultural, legal and economic conditions worldwide.

We are affected by risks associated with conducting business internationally. We maintain development facilities in Israel, and have operations in North America, Europe, Latin America and Asia. We obtain significant revenues from customers in Latin America, Asia and North America and our strategy is to continue to broaden and expand into those markets. Conducting business internationally exposes us to certain risks inherent in doing business in international markets, including:

- legal and cultural differences in the conduct of business;
- difficulties in staffing and managing foreign operations;
- longer payment cycles;
- difficulties in collecting accounts receivable and withholding taxes that limit the repatriation of earnings;

- difficulties in complying with varied legal and regulatory requirements across jurisdictions, including additional labor laws, particularly in Brazil;

- political instability;

- variations in effective income tax rates among countries where we conduct business;

- fluctuations in foreign currency exchange rates; and

- laws and business practices favoring local competitors;

One or more of these factors could have a material adverse effect on our international operations, which could have a material adverse effect on our business, financial condition and results of operations.

Our inventory may become obsolete or unusable.

We make advance purchases of various component parts to ensure that we have an adequate and readily available supply. Our failure to accurately project our needs for these components and the demand for our products that incorporate them, or changes in our business strategy or technology that reduce our need for these components, could result in these components becoming obsolete prior to their intended use or otherwise unusable in our business. This would result in a write-off of inventories for these components. In addition, a portion of our inventory is located on our customers' premises as it has not yet been accepted in accordance with the terms of their orders and therefore, has not yet been recognized as revenue, making the control of such inventory more difficult.

Many of our customers usually require a detailed and comprehensive evaluation process before they order our products. Our sales process may be subject to delays that may significantly decrease our revenues and which could result in the eventual cancellations of some sale opportunities.

We derive all of our revenues from the sale of products and related services for CSPs. The purchase of our products represents a relatively significant capital expenditure for our customers. As a result, our products generally undergo a lengthy evaluation process before we can sell them. In recent years, our customers have been conducting a more stringent and detailed evaluation of our products and decisions are subject to additional levels of internal review. As a result, the sales cycle generally takes between 3 to 6 months for small transactions, and between 9 to 18 months for large transactions. The following factors, among others, affect the length of the approval process:

- the time involved for our customers to determine and announce their specifications;

- the time required for our customers to process approvals for purchasing decisions;

- the complexity of the products involved;

- the technological priorities and budgets of our customers; and

- the need for our customers to obtain or comply with any required regulatory approvals.

If customers continue to delay project approval, delays are further lengthened, or such continued delays result in the eventual cancellation of any sale opportunities, it would have a material adverse effect on our business, financial condition and results of operations.

We have experienced periods of growth and consolidation of our business. If we cannot adequately manage our business, our results of operations may suffer.

During 2013 and 2014, in order to decrease our expenses, we undertook a series of reorganizations of our operations involving, among other things, the reduction of our workforce. However, beginning in the second half of 2015, we increased the size of our workforce and we plan to continue to increase our workforce, in North America and other regions during 2016 in order to enable us to meet our projections for 2016 and beyond. Future growth or consolidation may place a significant strain on our managerial, operational and financial resources. We are currently expending significant time and resources with respect to research and development related to a project for one of our major customers.

We cannot be sure that we have made adequate allowances for the costs and risks associated with possible expansion and consolidation of our business, or that our systems, procedures and managerial controls will be adequate to support our operations. Any delay in implementing, or transitioning to, new or enhanced systems, procedures or controls may adversely affect our ability to record and report financial and management information on a timely and accurate basis. We believe that significant growth may require us to hire additional engineering, technical support, sales, administrative and operational personnel. Competition for qualified personnel can be intense in the areas where we operate. The process of locating, training and successfully integrating qualified personnel into our operations can be lengthy and expensive. If we are unable to successfully manage our expansion, we may not succeed in expanding our business, our expenses may increase and our results of operations may be adversely affected.

In addition, employees may seek future employment with our business partners, customers or competitors. We cannot assure you that the confidential nature of our proprietary information will not be compromised by any such employees who terminate their employment with us. Furthermore, we believe that our future success will largely depend upon our ability to attract, incentivize and retain highly skilled personnel.

We may lose significant market share as a result of intense competition in the markets for our existing and future products.

Many companies compete with us in the market for service monitoring, customer experience management and service assurance solutions. We expect that competition will increase in the future, both with respect to products and solutions that we currently offer and products and solutions that we are developing. Moreover, manufacturers of data communications and telecommunications equipment which are current and potential customers of ours, may in the future incorporate into their products capabilities similar to ours, which would reduce the demand for our products.

Many of our existing and potential competitors have substantially greater resources, including financial, technological, engineering, manufacturing, and marketing and distribution capabilities, and several of them may enjoy greater market recognition than us. We may not be able to compete effectively with our competitors. A failure to do so could adversely affect our revenues and profitability.

In July 2015, NetScout Systems Inc. announced that it had completed the acquisition of Danaher Corporation's communications business, which includes Tektronix Communications, enabling it to expand its network performance monitoring and security monitoring capabilities. This transaction results in NetScout Systems Inc. holding a very significant market share, making it a stronger competitor, and may as a result have a negative impact on our competitive environment.

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

We currently have non-competition agreements with our key and certain employees. These agreements prohibit those employees, while they work for us and for a specified length of time after they cease to work for us, from directly competing with us or working for our competitors. Under current applicable law, we may not be able to enforce these non-competition agreements. If we are unable to enforce any of these agreements, competitors that employ our former employees could benefit from the expertise our former employees gained while working for us.

Our business could be harmed if we were to lose the services of one or more members of our senior management team, or if we are unable to attract and retain qualified personnel.