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

FORM 20-F

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934** ***[FEE REQUIRED]***

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** ***[NO FEE REQUIRED]***
For the fiscal year ended December 31, 1999

OR

☐ **TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** ***[NO FEE REQUIRED]***
For the transition period from __________ to __________

Commission file number 0-30324

RADWARE Ltd.
(Exact name of Registrant as specified in its charter)

Israel
(Jurisdiction of incorporation or organization)

Atidim Technological Park, Building 4, Tel Aviv 61131, Israel
(Address of principal executive offices)

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
None	None

Securities registered or to be registered pursuant to Section 12(g) of the Act:
Ordinary Shares, NIS 0.1 par value per share
(Title of Class)

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

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:
14,604,209 Ordinary Shares, NIS 0.1 par value per share

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 which financial statement item the registrant has elected to follow.
☐ Item 17 ☒ Item 18

Except for the historical information contained herein, the statements contained in this annual report are forward-looking statements, within the meaning of the Private Securities Litigation Report Act of 1995 with respect to our business, financial condition and results of operations. Actual results could differ materially from those anticipated in these forward-looking statements a result of various factors, including all the risks discussed in "Risk Factors" and elsewhere in this annual report.

We urge you to consider that statements which use the terms "believe," "do not believe," "expect," "plan," "intend," "estimate," "anticipate," and similar expressions are intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and are subject to risks and uncertainties. Except as required by applicable law, including the securities laws of the United States, we do not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

As used in this annual report, the terms "we," "us," "our," and "RADWARE" mean RADWARE Ltd. and its subsidiaries, unless otherwise indicated.

We have registered trademarks for "Web Server Director®," "Cache Server Director®" and "Triangulation®" and we have trademark applications pending for "FireProof™," "LinkProof™," "SynapseSwitch™," "Smart Nat™" and "ISPProof™." All other trademarks and tradenames appearing in this annual report are owned by their respective holders.

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PART

ITEM 1. Identity of Directors, Senior Management and Advisors

Not applicable

ITEM 2. Offer Statistics and Expected Timetable

Not applicable.

ITEM 3. Key Information

Selected Financial Data

We have derived the following selected consolidated financial data presented below from our consolidated financial statements and notes included in this annual report. You should read the selected consolidated financial data together with the section of this annual report entitled "Operating and Financial Review and Prospects" and our consolidated financial statements included elsewhere in this annual report. Please see notes 2K and 10C of the notes to our consolidated financial statements for an explanation regarding the computation of basic and diluted net income (loss) per ordinary share.

	April 1, 1997 (inception) through December 31, 1997	Year ended December 31, 1998	Year ended December 31 1999
	(In thousands, except per share data)		
Statement of Operations Data:			
Sales	$1,159	$ 4,900	$ 14,141
Cost of sales	599	899	2,269
Gross profit	560	4,001	11,872
Operating expenses:			
Research and development expenses	411	1,080	2,099
Less — participation by the Chief Scientist of the Government of Israel	–	341	466
Research and development expenses, net	411	739	1,633
Marketing and selling expenses, net	248	4,205	9,678
General and administrative expenses	142	299	1,137
Total operating expenses	801	5,243	12,248
Operating loss	(241)	(1,242)	(576)
Financing income (expenses), net	9	(11)	856
Net income (loss)	$ (232)	$ (1,253)	$ 280
Basic net income (loss) per ordinary share	$(0.04)	$ (0.16)	$ 0.03
Diluted net income (loss) per ordinary share	$(0.04)	$ (0.16)	$ 0.02
Weighted average number of ordinary shares used in computing basic net income (loss) per ordinary share	6,350	7,778	11,175
Weighted average number of ordinary shares used in computing diluted net income (loss) per ordinary share	6,350	7,778	12,472

	December 31, 1997	1998	1999
	(In thousands)		
Balance Sheet Data:			
Cash and cash equivalents	$ 3,647	$ 1,677	$68,747
Working capital	3,646	2,507	68,303
Total assets	4,111	3,833	74,734
Shareholders' equity (deficit)	(232)	2,705	69,419

Risk Factors

Our business, operating results and financial condition could be seriously harmed due to any of the following risks. The trading price of our ordinary shares could decline due to any of these risks.

We have a limited operating history, which may limit your ability to evaluate our business.

We commenced operations in April 1997 and therefore have a limited operating history. This may limit your ability to evaluate our prospects due to:

- our limited historical financial data;
- our unproven potential to generate profits; and
- our limited experience in addressing emerging trends that may affect our business.

You should consider our prospects in light of the risks, expenses and difficulties we may encounter as an early stage company in the new and rapidly evolving market for Internet traffic management solutions. Our financial success will depend on our ability to address these factors, including our ability to:

- successfully market our Web Server Director, FireProof, Cache Server Director and LinkProof product lines;
- maintain and expand our market share in the highly competitive market for Internet traffic management solutions;
- timely and effectively introduce new products and product enhancements that are responsive to the needs of our customers; and
- attract, train and retain qualified sales, technical and customer support personnel.

We discuss these and other risks in more detail below.

We have a history of losses and we anticipate that our losses will continue.

We reported a net loss of approximately $1.3 million for the year ended December 31, 1998, representing 25.6% of sales, and approximately $232,000 for the nine month period ended December 31, 1997, representing 20.0% of sales. Although we generated net income of $280,000 for the year ended December 31, 1999, we cannot assure you that we will remain profitable. As of December 31, 1999, our accumulated deficit was approximately $1.2 million.

Our quarterly financial performance is likely to be volatile in the future because of the factors discussed below and seasonal fluctuations in our sales.

Our quarterly operating results have varied significantly in the past and are likely to continue to vary significantly in the future. Fluctuations in our quarterly financial performance may result from the factors discussed in this Risk Factors section of this Annual Report, including, for example, our limited order backlog, our dependence upon our suppliers, our need to develop and introduce new and enhanced products and the long sales cycles and implementation periods of our products. In addition, our quarterly operating results have been, and are likely to continue to be, influenced by' seasonal fluctuations in our sales. Because our sales have grown in each quarter since inception, these fluctuations may not be apparent from our historical financial statements. However, we believe that our sales and sales growth from period to period have been, and will continue to be affected by the seasonal purchasing patterns of some of our customers. For example, we believe that our sales may be reduced from the levels which they might otherwise attain during the third quarter because of the slowdown in business activities during the summer months in Europe and that our sales during the fourth quarter may be increased because some of our customers tend to make greater capital expenditures towards the end of their own fiscal years. Because of these anticipated fluctuations, our sales and operating results in any quarter may not be indicative of future performance and it may be difficult for investors to properly evaluate our prospects.

Unless our revenues grow in excess of our increasing expenses, we will not be profitable.

Our revenues may not continue to grow or even continue at their current level. In addition, we intend to increase our operating expenses, especially our marketing and selling expenses and our research and development expenses. The precise amount of this increase will depend upon several factors, including the amount of funds available to us and the results that our initial expenditures produce. We will make these expenditures in anticipation of generating higher revenues, but there will be a delay in realizing higher revenues even if we are successful. If our revenues do not increase as anticipated or if expenses increase at a greater pace than revenues, we may not be profitable or, if we are profitable, we may not be able to sustain or increase profitability on a quarterly or annual basis.

If the Internet does not continue to expand as a widespread medium for commerce and communications, demand for our products may decline significantly.

Our future success depends on the continued growth of the Internet as a widely used medium for commerce and communication. If use of the Internet does not continue to expand, the growth of the market for Internet traffic management solutions may not continue and the demand for our products could decline significantly.

If the market for Internet traffic management solutions does not continue to develop, we will not be able to sell enough of our products to achieve profitability.

The Internet traffic management market is new and rapidly evolving and we cannot assure you that it will continue to develop and grow. Market acceptance of Internet traffic management solutions is not proven and may be inhibited by, among other factors, a lack of anticipated congestion and strain on existing network infrastructures and the availability of alternative solutions. If demand for Internet traffic management solutions does not continue to grow, we will not sell enough of our products to achieve profitability.

Our success depends on the market acceptance and increased sales of our Web Server Director product line, which currently accounts for approximately 60% of our revenues, and other product lines.

We currently derive approximately 60% of our revenues from our Web Server Director product line. Our future financial performance will depend significantly on the successful marketing and market acceptance of this product line, as well as our FireProof, Cache Server Director and LinkProof product lines and other new products. Implementation of our strategy depends upon our products being able to solve the network availability and performance problems of our customers. If our products are unable to solve these problems for our customers, the market may not maintain its interest in our products, which will reduce our revenues and our profitability.

Competition in the market for Internet traffic management solutions is intense. As a result, we may lose market share and we may be unable to achieve or maintain profitability.

Our market is highly competitive and we expect competition to intensify in the future. We may not be able to compete effectively in our market and we may lose market share to our competitors. Our principal competitors in the market for Internet traffic management solutions include Alteon WebSystems, Inc., Cisco Systems. Inc.. F5 Networks, Inc. and Resonate, Inc. We also compete with other providers of hardware and software that offer solutions to network infrastructure problems. We expect to continue to face additional competition as new participants enter the market. Larger companies with substantial resources, brand recognition and sales channels may form alliances with or acquire competing Internet traffic management solutions and emerge as significant competitors. Competition may result in lower prices or reduced demand for our products and a corresponding reduction in our ability to recover our costs which may impair our ability to achieve or maintain profitability.

Some of our competitors have greater resources than us, which may limit our ability to effectively compete with them.

Some of our competitors have greater financial, personnel and other resources than we do. which may limit our ability to effectively compete with them. These competitors may be able to respond more quickly to new or emerging technologies or changes in customer requirements, benefit from greater economies of scale, offer more aggressive pricing, devote greater resources to the promotion of their products or bundle their products or incorporate an Internet traffic management component into existing products in a manner that renders our products partially or fully obsolete, thereby discouraging customers from purchasing our products.

We must develop new products and enhancements to existing products to remain competitive. If we fail to develop new products on a timely basis, we may lose market share.

The market for Internet traffic management solutions is characterized by rapid technological change, frequent new product introductions, changes in customer requirements and evolving industry standards. Accordingly, our future success will depend to a substantial extent on our ability to:

- invest significantly in research and development;
- develop, introduce and support new products and enhancements on a timely basis; and
- gain market acceptance of our products.

We are currently developing new products, new product lines and enhancements to our existing products. We may not be able to successfully complete the development and market introduction of new products, product lines or product enhancements. If we fail to develop and deploy new products, product lines and product enhancements on a timely basis, our revenues will decline and we may lose market share to our competitors.

We have a limited order backlog. If revenue levels for a quarter fall below our expectations, our earnings will decrease.

We have a limited order backlog, which makes revenues in any quarter substantially dependent on orders received and delivered in that quarter. A delay in the recognition of revenue, even from one customer, may have a significant negative impact on our results of operations for a given period. We base our decisions regarding our operating expenses on anticipated revenue trends, and our expense levels are relatively fixed. Because only a small portion of our expenses varies with our revenues, if revenue levels for a quarter fall below our expectations, our earnings for that quarter will decrease.

We depend upon independent distributors to sell our products to customers. If our distributors do not succeed in selling our products, our revenues will suffer.

We sell our products primarily to independent distributors, including value added resellers, original equipment manufacturers and systems integrators. These distributors resell our products to our ultimate customers. We currently’ have over 150 independent distributors that sell our products. We are highly dependent upon our distributors’ active marketing and sales efforts. Our distribution agreements generally are non-exclusive and are for a one-year term with no obligation of our distributors to renew the agreements. Typically. our distribution agreements do not prevent our distributors from selling products of other companies, including products that may compete with our products, and do not contain minimum sales or marketing performance requirements. As a result, our distributors may give higher priority to products of other companies. or to their own products, thus reducing or discontinuing their efforts to sell our products. We may not be able to maintain our existing distribution relationships. If our distributors terminate their relationships with us, we may not be successful in replacing them. In addition, we may need to develop new distribution channels for new products or product lines and we may not succeed in doing so. Any changes in our distribution channels, particularly the loss of a significant number of our distributors or our inability to establish distribution channels for new products, will impair our ability to sell our products and result in the loss of revenues.

Our products generally have long sales cycles and implementation periods, which increases our costs in obtaining orders and reduces the predictability of our earnings.

Our products are technologically complex and are typically intended for use in applications that may be critical to the business of our customers. Prospective customers generally must make a significant commitment of resources to test and evaluate our products and to integrate them into larger systems. As a result, our sales process is often subject to delays associated with lengthy approval processes that typically accompany the design and testing of new equipment. The sales cycles of our products to new customers can last as long as twelve months from initial presentation to sale. This delays the time in which we recognize revenue and results in our having to invest significant resources in attempting to make sales.

Long-sales cycles also subject us to risks not usually encountered in a short sales span, including customers' budgetary constraints, internal acceptance reviews and cancellation. In addition, orders expected in one quarter could shift to another because of the timing of customers' procurement decisions. Furthermore, customers may defer orders in anticipation of new products or product enhancements introduced by us or by our competitors. This complicates our planning processes and reduces the predictability of our earnings.

We must manage our expansion and anticipated growth effectively in order to attain profitability.

We are actively expanding our operations in order to gain market share in the evolving market for Internet traffic management solutions. This expansion has placed, and will continue to place, a significant strain on our managerial, operational and financial resources.

We cannot assure you that:

- we have made adequate allowances for the costs and risks associated with this expansion;
- our systems, procedures or controls will be adequate to support our operations; or
- we will be able to offer and expand our products successfully.

In addition, our management team has limited experience working together. For example, our chief financial officer only joined our company in June 1999. We cannot assure you that our management team will be able to work together effectively to manage our organization as a public company.

Any delay in implementing, or transitioning to, new or enhanced systems, procedures or controls may seriously harm our ability to forecast sales demand accurately, manage our product inventory and record and report financial and management information on a timely and accurate basis. If we are unable to manage our expanding operations effectively, our revenues may not increase, our cost of operations may rise and we may not be profitable.

Our success depends on our ability to attract, train and retain qualified sales, technical and customer support personnel.

Our products require a sophisticated marketing and sales effort targeted at several levels within a prospective customer's organization. We have recently expanded our marketing and sales staff and we plan to increase our marketing and sales staff, including our sales, technical and customer support personnel, by over 20% as well as our research and development staff by 80% by the end of 2000. Competition for qualified sales personnel is intense and we may not be able to hire sufficient sales personnel to support our marketing efforts.

As we grow, we will need to increase our staff to support new customers and the expanding needs of existing customers as well as our continued research and development operations. The installation of Internet traffic management solutions, the integration of these solutions into existing networks and ongoing support can be complex. Accordingly, we need highly-trained technical and customer support personnel. Hiring technical and customer support personnel is very competitive in our industry, due to the limited number of people available with the necessary technical skills and understanding of our products. This is particularly true in Israel, where competition for such personnel is intense. Our success depends upon our ability to attract, train and retain highly qualified technical and customer support personnel.

We are dependent on Roy Zisapel, our Chief Executive Officer and President, the loss of whom would negatively affect our business.

Our future success depends in large part on the continued services of our senior management and key personnel. In particular, we are highly dependent on the services of Roy Zisapel, our Chief Executive Officer and President. Although we have employment contracts with our senior management and key personnel, we do not carry life insurance on our senior management or key personnel. Any loss of the services of Roy Zisapel, other members of senior management or other key personnel would negatively affect our business.

Undetected hardware and software errors may increase our costs and impair the market acceptance of our products.

Our products have occasionally contained, and may in the future contain, undetected errors when first introduced or when new versions are released, either due to errors we fail to detect or errors in components supplied by third parties. These errors tend to be found from time to time in new or enhanced products after the commencement of commercial shipments. Our customers integrate our products into their networks with products from other vendors. As a result, when problems occur in a network, it may be difficult to identify the product that has caused the problem. Regardless of the source of these errors, we will need to divert the attention of our engineering personnel from our product development efforts to address the detection of the errors, In the past, we have not incurred significant warranty or repair costs, been subject to liability claims for damages related to product errors or experienced any material lags or delays as a result of these errors. However, we cannot assure you that we will not incur these costs or liabilities or experience these lags or delays in the future. Any insurance policies that we may have may not provide sufficient protection should a claim be asserted. Moreover, the occurrence of errors, whether caused by our products or the products of another vendor, may result in significant customer relations problems and injury to our reputation and may impair the market acceptance of our products.

If RAD Operation Services Ltd. is not able to provide us with adequate supplies of the principal component used in our products, we will not be able to deliver sufficient quantities of our products to satisfy demand.

We rely on RAD Operation Services Ltd. (formerly RAD Network Devices Ltd.), an affiliated entity controlled by Messrs. Yehuda and Zohar Zisapel, who are directors and principal shareholders of our company, to supply us with circuit boards. These circuit boards are the principal component which we use in the manufacture of our products. Should we be unable to acquire circuit boards from RAD Operation Services on acceptable terms or should RAD Operation Services cease to supply us with circuit boards for any reason, we may not be able to identify and integrate an alternative source of supply in a timely fashion. Any transition to one or more alternate suppliers would likely result in delays, operational problems and increased expenses and may limit our ability to deliver our products to our customers or expand our operations.

Our profitability could suffer if third parties infringe upon our proprietary technology.

Our profitability could suffer if third parties infringe upon our intellectual property rights or misappropriate our technologies and trademarks for their own businesses. Our success depends upon the protection of our proprietary software installed in our products, our trade secrets and our trademarks. To protect our rights to our intellectual property, we rely on a combination of trademark and patent law, trade secret protection. confidentiality agreements and other contractual arrangements with our employees, affiliates, distributors and others. We do not currently own any registered trademarks and we do not have any issued patents for any of our technology, In the United States, we have registered trademarks for “Web Server Director®,” “Cache Server Director®” and “Triangulation®” and we have trademark applications pending for “FireProof™,” “LinkProof™,” “SynapseSwitch™,” “Smart Nat™” and “ISPProof™.” and a pending patent application for the use of our proprietary proximity report protocol used in our Web Server Director. The protective steps we have taken may be inadequate to deter misappropriation of our proprietary information. We may be unable to detect the unauthorized use of our proprietary technology or take appropriate steps to enforce our intellectual property rights. Effective trademark, patent and trade secret protection may not be available in every country in which we offer, or intend to offer, our products. Failure to adequately protect our intellectual property could devalue our proprietary content and impair our ability to compete effectively. Further, defending our intellectual property rights could result in the expenditure of significant financial and managerial resources.

Our products may infringe on the intellectual property rights of others.

Third parties may assert against us infringement claims or claims that we have violated a patent or infringed a copyright, trademark or other proprietary right belonging to them. To date, no third parties have asserted any such claims against us. Any infringement claim, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

Our non-competition agreements with our employees may not be enforceable. If any of these employees leaves our company 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 all of our employees in Israel and we intend to enter into similar agreements with our employees in the United States. These agreements prohibit our employees, in the event they cease to work for us, from directly competing with us or working for our competitors. Pursuant to current U.S. and Israeli law, we may not be able to enforce such non-competition agreements. In the event that we are unable to enforce any of these agreements, our competitors that employ our former employees could benefit from the expertise our former employees gained while working for us.

Our efforts to increase our presence in markets outside North America may not be profitable.

We currently offer our products in over 40 countries outside North America and we intend to enter additional geographic markets and to continue to expand our sales efforts outside North America. In 1998 and 1999, our sales outside North America represented 34.6% and 43.9% of our total sales. Our ability to penetrate new markets is subject to risks inherent to these markets. These risks may impair our ability to generate profits from our increased sales efforts outside North America. Any future political or economic instability in these or other foreign countries could significantly reduce demand for our products.

We are controlled by Messrs. Yehuda and Zohar Zisapel who beneficially own approximately 30% of our ordinary shares and may therefore be able to elect all of our directors and exercise control over the outcome of matters requiring shareholder approval.

Two of our directors, Messrs. Yehuda and Zohar Zisapel, who are brothers, beneficially own an aggregate of 4,751,608 ordinary shares, representing approximately 30% of the ordinary shares currently outstanding. In addition, Roy Zisapel, Yehuda Zisapel's son, is our Chief Executive Officer and President and a director and has been granted options to purchase 1,020,573 ordinary shares, of which 907,173 are fully vested. Messrs. Yehuda, Zohar and Roy Zisapel are also parties to a voting agreement, under which they have agreed to act together in the nomination and election of directors. In addition, Messrs. Yehuda and Zohar Zisapel control the right to vote the ordinary shares issuable upon exercise of options while held by the trustee under our share option plan. As a result, these shareholders may control the outcome of various actions that require shareholder approval. For example, these shareholders could elect all of our directors, delay or prevent a transaction in which shareholders might receive a premium over the prevailing market price for their shares and prevent changes in control or management.

We do not intend to pay dividends.

We have never declared or paid any cash dividends on our ordinary shares. We currently intend to retain any future earnings to finance operations and to expand our business and, therefore, do not expect to pay any cash dividends in the foreseeable future.

If we are characterized as a passive foreign investment company, our U.S. shareholders may suffer adverse tax consequences.

Generally, if for any taxable year 75% or more of our gross income is passive income, or at least 50% of our assets are held for the production of, or produce, passive income, we may be characterized as a passive foreign investment company for U.S. federal income tax purposes. Our passive income would not include income derived from the sale of our products but would include amounts derived by reason of the temporary investment of the proceeds of this offering. This characterization could result in adverse U.S. tax consequences to our shareholders, including having gain realized on the sale of our shares be treated as ordinary income, as opposed to capital gain income, and having potentially punitive interest charges apply to such sales proceeds. U.S. shareholders should consult with their own U.S. tax advisors with respect to the U.S. tax consequences of investing in our ordinary shares. For a discussion of how we might be characterized as a passive foreign investment company and related tax consequences, please see the section of this prospectus entitled Taxation and Foreign Exchange Regulation — United States Federal Income Tax Considerations."

Conditions in Israel affect our operations and may limit our ability to produce and sell our products.

We are incorporated under Israeli law and our principal offices and manufacturing and research and development facilities are located in Israel, Political, economic and military conditions in Israel directly affect our operations Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. We could be adversely affected by any major hostilities involving Israel, the interruption or curtailment of trade between Israel and its trading partners, a significant increase in inflation, or a significant downturn in the economic or financial condition of Israel. Despite the progress towards peace between Israel and its Arab neighbors, the future of these peace efforts is uncertain. Several Arab countries still restrict business with Israeli companies. We could be adversely affected by restrictive laws or policies directed towards Israel or Israeli businesses.

Most of our directors, officers and employees are obligated to perform annual military reserve duty in Israel. We cannot assess the potential impact of these obligations on our business.

Our directors. officers and employees who arc male adult citizens and permanent residents of Israel under the age of 48, including Roy Zisapel, our Chief Executive Officer and President. Meir Moshe, our Chief Financial Officer, and Amir Peles, our Vice President, Research and Development, are, unless exempt, obligated to perform annual military reserve duty and are subject to being called to active duty at any time under emergency circumstances. We cannot assess the full impact of these requirements on our workforce or business if conditions should change and we cannot predict the effect on us of any expansion or reduction of these obligations.

The rate of inflation in Israel may negatively impact our costs if it exceeds the rate of devaluation of the New Israeli Shekel against the U.S. dollar.

All of our revenues are denominated in U.S. dollars or are dollar-linked. but we incur a portion of our expenses, principally salaries and related personnel expenses in Israel, in New Israeli Shekels. or NIS. As a result, we are exposed to the risk that the rate of inflation in Israel will exceed the rate of devaluation of the NIS in relation to the dollar or that the timing of this devaluation lags behind inflation in Israel. In that event, the dollar cost of our operations in Israel will increase and our dollar-measured results of operations will be adversely affected. In 1997 and 1998, the rate of devaluation of the NIS against the dollar exceeded the rate of inflation in Israel, a reversal from prior years which benefited us. However, we cannot assure you that this reversal will continue or that we will not be materially adversely affected in the future if the rate of inflation in Israel exceeds the devaluation of the NIS against the dollar or if the timing of this devaluation lags behind increases in inflation in Israel.

The government programs in which we currently participate and tax benefits which we currently receive require us to satisfy prescribed conditions and may be terminated or reduced in the future. This would increase our costs and taxes.

We currently receive grants from the Government of Israel through the Office of the Chief Scientist of the Ministry of Industry and Trade for the financing of a significant portion of our research and development expenditures in Israel. In 1998 and 1999, we received grants from the Chief Scientist totaling approximately $341,000 and $466,000, representing 31.6% and 22.2% of our total research and development expenditures in these periods. We cannot assure you that we will continue to receive grants at the same rate or at all. The Chief Scientist budget has been subject to reductions which may affect the availability of funds for Chief Scientist grants in the future. The percentage of our research and development expenditures financed using grants from the Chief Scientist may decline in the future, and the terms of such grants may become less favorable. In order to receive research and development grants from the Chief Scientist, we must commit to make royalty payments to the Israeli Government on the revenues derived from the sale of products and services developed using the Chief Scientist grants. Through December 31, 1999, we paid or accrued royalties to the Israeli Government totaling approximately $1,070,000 and we expect to pay or accrue additional royalties for the fourth quarter of 1999 at a rate equal to 3% of our total sales. In addition, the terms of the Chief Scientist grants restrict our ability to manufacture products or transfer technology outside of Israel. If we fail to comply with these conditions, we could be required to refund any payments previously received together with interest and penalties and would likely be denied receipt of these grants thereafter.

In addition, the Investment Center has granted us an approval to establish an “approved enterprise” program at our manufacturing facility. Although we do not currently have an approved enterprise program, we have begun to make the necessary capital investments to establish an approved enterprise program and expect to complete such capital investments in 2000. Once it is established, our income derived from this approved enterprise program will be exempt from tax for a period of two years and will be subject to a reduced tax for an additional five years. The benefits available to an approved enterprise are dependent upon the fulfillment of conditions stipulated in applicable law and in the certificate of approval. If we fail to comply with these conditions, in whole or in part, with respect to any approved enterprise program we establish, we may be required to pay additional taxes for the period in which we benefited from the tax exemption or reduced tax rates and would likely be denied these benefits in the future. From time to time, the Government of Israel has discussed reducing or eliminating the benefits available to approved enterprise programs. We cannot assure you that these tax benefits will be continued in the future at their current levels or at all.

It may be difficult to enforce a U.S. judgment against us, our officers and directors and the Israeli accountants named as experts in this prospectus or to assert U.S. securities laws claims in Israel or serve process on substantially all of our officers and directors and these accountants.

We are incorporated in Israel. Substantially all of our executive officers and directors and the Israeli accountants named as experts in this prospectus are nonresidents of the United States, and a substantial portion of our assets and the assets of these persons are located outside the United States. Therefore, it max be difficult for an investor, or any other person or entity, to enforce a U.S. court judgment based upon the civil liability provisions of the U.S. federal securities laws in an Israeli court against us or any of those persons or to effect service of process upon these persons in the United States. Additionally, it may be difficult for an investor, or any other person or entity, to enforce civil liabilities under U.S. federal securities.

ITEM 4. Information on the Company

History and Development of the Company

Radware was organized in April 1997 as a corporation under the laws of the State of Israel. Our principal executive offices are located at Atidim Technological Park, Building 4, Tel-Aviv 61131, Israel and our telephone number is 972-3-645-8511. As of January 1, 1999, we established a wholly-owned subsidiary in the United States, Radware Inc., which conducts the sale and marketing of our products in North America and is our authorized representative and agent in the United States. Radware Inc. is located at 575 Corporate Dr. Suite 205, Mahwah, NJ 07430 and its telephone number is 201-512-9771. In 2000, we established subsidiaries in France, Germany, Sweden and the United Kingdom to conduct our sales and marketing activities as well as provide customer support in these regions.

For a discussion of our capital expenditures and divestitures, see "Item 5—Operating and Financial Review and Prospects – Liquidity and Capital Resources."

Business Overview

General

We develop, manufacture and market Internet traffic management solutions that enable continuous access to Web sites and other services, applications and content based on the Internet protocol. We offer a broad range of solutions to service providers, e-commerce businesses and corporate enterprises. These organizations require uninterrupted availability and optimal performance of IP-based applications that are critical to their business.

Our Internet traffic management solutions enable our customers to manage their network infrastructure to bypass systems failures and to scale their network infrastructure to accommodate increasing IP traffic. Our products improve the productivity of network infrastructure by distributing traffic within a network to optimize the use of available network resources. Our products can be deployed either as independent solutions to address specific application needs at a particular location within a network or as an end-to-end integrated solution to manage traffic throughout a network.

Products

We offer our customers a diversified range of products that address different Internet traffic management needs. Our product lines enable our customers to enjoy continuous availability of their network resources by improving the network's fault tolerance, or resistance to software and hardware errors and system failures. In addition, our product lines provide scalability by enabling customers to expand capacity as traffic volumes dictate without having to upgrade or replace existing network resources. Our solutions can be implemented to optimize the functionality of various network resources, principally server farms providing Internet protocol applications, including Web sites, file transfer sites, e-mail servers, database servers, cache servers and firewalls. Our products can be deployed either as independent solutions to address specific application needs at a particular location within a network or as an end-to-end integrated solution to manage traffic throughout a network.

We currently offer four product lines, each designed to provide Internet traffic management solutions for different areas of the networks:

- *Web Server Director(TM)* distributes IP traffic among multiple servers and applications to enable continuous access to the servers and to optimize utilization of available capacity.

- *FireProof(TM*) manages IP traffic to and from network security filters, such as firewalls, and other network resources to maximize the reliability and efficiency of these resources.

- *Cache Server Director(TM)* redirects end-user requests, when appropriate, to cache servers which store, or cache, content previously retrieved from the Internet, thereby optimizing performance, improving response time and conserving bandwidth.

- *LinkProof(TM)* manages Internet traffic for networks, commonly referred to as multi-homed networks, which access the Internet through multiple connections, generally via several Internet service providers (ISPs).

Each of our products is designed as a separate hardware unit that is dedicated to providing Internet traffic management solutions. These separate dedicated units are added to existing network structures and, because they do not need to be installed into any existing network devices, are capable of supporting networks ranging in size and traffic flow. Other software and PC-based solutions which are installed in a network's existing devices depend on the reliable operation of the underlying components and operating system of the device into which they are installed. This can be an independent source of system failure due to failed hard drives and the like, and reduces overall mean time between failure, the length of time an end-user may reasonably expect a device or system to function before an incapacitating fault occurs. By deploying separate dedicated hardware units that do not need to be installed into any existing network devices, we avoid introducing an independent source of system failure and help to increase the mean time between failure of our customers' networks.

Our products are compatible with any system that uses the Internet protocol and can operate with various network structures, configurations and operating systems. Our products support a wide variety of IP-based applications, including Web, e-mail, voice, video, database and file transfers. This enables organizations to continue to utilize and build upon their existing infrastructure without limiting their options to meet future network needs. Our products are designed to be easily and quickly installed without impact to an existing network structure.

All of our products can be combined within a single network infrastructure. For example, a typical Web Server Director network is comprised of Web Server Director-Pro units combined with Web Server Director for Distributed Sites units or Web Server Director for Network Proximity units. The same network can also deploy

FireProof, LinkProof and Cache Server Director units, all of which can be managed from a single access point anywhere within the network.

We periodically provide software upgrades to our products, which are electronically sent to our customers and automatically uploaded onto our products.

Web Server Director Product Line

The Web Server Director product line is available in three models:

• *Web Server Director-Pro/Web Server Director-Pro+*;

• *Web Server Director for Distributed Sites*; and

• *Web Server Director for Network Proximity*.

Each of these models is designed to address different network environments, ranging from a single group of servers organized in a farm to multiple groups of server farms with each server farm located at a different, geographically dispersed site in the network.

The Web Server Director product line can provide local or global traffic management:

• *Local Solution.* As a local solution, Web Server Director intercepts traffic directed to a local server farm and distributes the traffic among the servers in the farm, in order to bypass any off-line servers within the server farm, provide continuous availability of the applications provided by the server farm and optimize use of the capacity of the servers organized in the farm.

• *Global Solution.* As a global solution, Web Server Director can distribute traffic among multiple groups of server farms located at geographically dispersed sites throughout a network. The Web Server Director distributes the traffic among the various server farms located at different sites throughout the network through the use of advanced measuring tools and redirection methods, balancing traffic based upon a combination of a dynamic measurement of traffic and capacity at each server farm and the response time of each server farm.

Web Server Director-Pro/Web Server Director-Pro+. The Web Server Director-Pro product line, which includes Web Server Director-Pro and Web Server Director-Pro+, offers a local traffic management solution for server farms providing continuous availability of the server farm as well as optimizing and enhancing the server farm performance. Web Server Director-Pro and Web Server Director-Pro+, which replaced the earlier Web Server Director product model, offer high-speed performance designed for the most demanding applications and busiest Web sites. While Web Server Director-Pro and Web Server Director-Pro+ offer the same functionalities, Web Server Director-Pro+ is capable of sending and receiving data at 2.5 times the speed of the Web Server Director-Pro.

A Web Server Director-Pro unit is installed between a server farm and the router that provides access to the Internet and acts as an intelligent interface, or gateway, to the server farm. The Web Server Director-Pro is transparent to end-users who receive responses from the server farm unaware of the intermediary role of the Web Server Director unit. Web Server Director-Pro receives all incoming IP traffic addressed to the server farm from the router and directs the traffic to the appropriate server based upon availability and current traffic capacity of each server, bypassing off-line servers and optimally distributing traffic among the available servers. Web Server Director-Pro continuously monitors all layers of the networking environment to detect failures, from the physical connections and communications lines, known as the physical layer, to the routing and transport of data, known as the network and transport layers, to the application functions requested by the end-user such as e-mail or file transfer, known as the application layer. By quickly detecting physical, network and application failures and directing traffic to those servers and applications that are functioning properly, Web Server Director-Pro helps bypass system failures and provides timely responses to end-user requests.

Web Server Director-Pro includes the following features:

Single Access Address Per Server Farm — End-users access the Web site by typing in a single Internet address. Web Server Director-Pro intercepts the end-user request and, based on the current traffic volumes and server capacity, distributes the traffic in real time among the available servers within the server farm. From the perspective of the end-user, Web Server Director-Pro transforms the servers within a server farm that normally would only be independently accessible through their individual Internet addresses into a server farm functionally equivalent to a single large server accessible from a single Internet address.

No Single Point of Failure — Web Server Director-Pro reduces the single point of failure inherent to a single large server by monitoring off-line servers and directing traffic to available resources. In addition, Web Server Director-Pro allows for the routine maintenance or upgrades of servers without disrupting service to the end-user. Through server fault detection and application monitoring, Web Server Director-Pro redistributes traffic to operational servers when a server is taken off-line for maintenance and upgrade.

Customized Traffic Distribution — Web Server Director-Pro offers a comprehensive selection of traffic distribution algorithms, or mathematical procedures, allowing a customer to choose the most appropriate configuration for its unique requirements. Customers can prioritize servers within a server farm to further optimize traffic distribution, allowing Web Server Director-Pro, for example, to direct a greater proportion of the traffic to more powerful servers. Customers can also configure our products to distribute traffic among servers based on applications, for example, routing e-mail applications to select servers while routing file transfers to the remaining servers.

Monitoring and Statistics

Web Server Director-Pro dynamically monitors the network environment, compiling statistics which are used to make dynamic traffic distribution decisions. Network administrators can monitor their network capacity and the improvements realized by implementing Web Server Director-Pro through the statistics compiled by Web Server Director-Pro, including current traffic volumes, peak traffic volumes, server and Web Server Director unit utilization, attached end-users per server and number of connection failures, among other statistics.

Complete Redundancy

Two Web Server Director-Pro units can be deployed concurrently side-by-side in a parallel configuration between the router providing access to the Internet and two server farms, with each unit actively supporting one of the two server farms attached to that unit, but also acting as a secondary back-up for the other unit. If one Web Server Director-Pro unit fails, the other Web Server Director-Pro unit will service both server farms. The availability of a back-up unit that can perform the tasks of a primary unit when the primary unit fails is referred to as redundancy. This dual active unit redundancy functionality or the Web Server Director-Pro avoids the need for idle backup units that generally remain dormant and untested once installed. Alternatively, the two Web Server Director-Pro units can be configured to provide traditional back-up redundancy, with the primary unit actively supporting the server farm and the back-up unit remaining idle to provide redundancy should the primary unit fail.

Web Server Director for Distributed Sites. Building on the award-wining Web Server Director-Pro technology designed for a single location, Web Server Director for Distributed Sites is a global Internet traffic management solution, designed to manage and distribute traffic across wide area networks, such as larger intranets, extranets and Web sites, which are serviced by multiple groups of server farms at geographically dispersed sites throughout a network. Web Server Director for Distributed Sites maximizes performance of applications distributed among numerous sites throughout a network through a dynamic determination of server availability. The server availability decision is based on each site's static parameters, such as the number of servers and the capacity and power of each server at that site, and each site's dynamic parameters, such as the number of off-line servers and the current traffic capacity of the servers at that site. Each of the Web Server Director units deployed throughout the network monitors and exchanges the dynamic parameters through the use of a traffic report protocol to enable optimal utilization of server capacity and enhanced performance of IP applications.

Web Server Director for Distributed Sites transparently redirects end-users to the optimal site within the network based on continuously updated traffic volume and capacity information. Web Server Director for Distributed Sites collects network information and communicates with the other Web Server Director units in the network to determine the most available site and server farm. When an end-user request is received, Web Server Director for Distributed Sites uses this information to direct the request to a Web Server Director unit at the most available server farm, and, in turn, the Web Server Director unit at the most available server farm then directs the request to the individual server within that farm that is best able to handle the request. The end-user experiences uninterrupted access, unaware of a redirection to the alternate site.

In addition to the fault tolerance and traffic distribution capabilities found in the Web Server Director-Pro, Web Server Director for Distributed Sites includes the following features:

Combined local and global functionalities Although Web Server Director for Distributed Sites is a global solution, it contains all the functionalities of the Web Server Director-Pro and acts as a local traffic management solution for the server farm situated at the site within the network where the Web Server Director for Distributed Sites unit is located. Each Web Server Director for Distributed Sites can simultaneously manage both its local server farms and the multiple groups of server farms distributed throughout the network, redirecting traffic requests to the most available site and the most available server within the server farm at that site.

Dynamic traffic Redirection Traffic is dynamically redirected among each location and server farm based on the real time determination of traffic volumes and the relative capacity, power and number of servers in each farm. In addition, distribution and capacity thresholds can be user-defined to control redirection activity.

Interoperability with Web Server Director family Web Server Director for Distributed Sites can be deployed in conjunction with other Web Server Director-Pro and Web Server Director for Network Proximity units at different sites throughout a global network. Web Server Director for Distributed Sites or Web Server Director for Network Proximity units are deployed at the primary locations that initially receive the end-user requests due to their global functionalities. Traffic is redirected by the Web Server Director for Distributed Sites either locally, if the local server farm has the greatest availability, or alternatively to remote locations serviced by other Web Server Director units with greater availability, where the traffic is then distributed locally among the servers in the server farm.

Multiple traffic Redirection methods Web Server Director for Distributed Sites supports all IP protocols and redirects traffic using multiple redirection methods, including our patent pending Triangulation method which transparently allows an end-user to receive data from the optimal site in a global network while maintaining that end-user's communication path with the original site.

Multi-level redundancy Web Server Director for Distributed Sites enables redundancy in multiple layers of the network, among sites, other Web Server Director units and individual servers.

Web Server Director for Network Proximity. Our Web Server Director for Network Proximity offers a global traffic management solution designed to identify the most appropriate site according to both site availability and network proximity of the site to the end-user. Network proximity, as opposed to physical geographic proximity, is measured by time delay, or latency, between an end-user request and site response, and network distance traveled, determined by the number of router connections, or hops, from the site to the end-user. Building on the Web Server Director for Distributed Sites global redirection functionality, Web Server Director for Network Proximity enhances end-user quality of service and response time by identifying the site that both has the greatest availability in terms of server capacity and response time and is the closest available site to the end-user in terms of network proximity.

Web Server Director for Network Proximity offers an advanced solution for customers who provide their end-users in dispersed geographic locations with local access to their Web sites or other applications distributed throughout their global network and seek to improve quality of service by optimizing response times of their Web sites and other applications. In addition, Web Server Director for Network Proximity is well suited for customers, such as service providers, seeking to minimize traffic along their primary communication lines, or backbones, and/or optimize the use of available bandwidth. This can be achieved by redirecting end-users to the optimal site in terms of network proximity, thereby minimizing traffic traversing the backbone.

Web Server Director for Network Proximity incorporates all the functionalities of Web Server Director for Distributed Sites and builds on Web Server Director for Distributed Sites by adding the ability to efficiently direct traffic based on the proximity of the site to the end-user as well as the availability of the site. As opposed to Web Server Director for Distributed Sites that redirects traffic based on site availability alone, Web Server Director for Network Proximity transparently redirects traffic to sites by means of a dual decision-making mechanism according to both network proximity to the end-user and site availability. Web Server Director for Network Proximity instructs each Web Server Director unit deployed in the network at each site to measure the latency and number of router hops back to the end-user to determine the site closest to the end-user in terms of network proximity. To calculate the optimal available site for each end-user, Web Server Director for Network Proximity uses two proprietary protocols: a proximity report protocol, which gathers information regarding proximity of the end-user to the site, and a traffic capacity report protocol, which gathers information regarding availability. We believe that Web Server Director for Network Proximity was the first commercially available product to offer traffic management based on both network proximity and site availability. Similar to Web Server Director, Web Server Director for Network Proximity can simultaneously manage both local server farms and server farms distributed throughout a global network and can be deployed in tandem with Web Server Director for Distributed Sites and Web Server Director-Pro units.

FireProof Product Line

Our FireProof product line offers an Internet traffic management solution for multiple network hardware or software security devices. For example, companies deploy network security filters, or firewalls, to protect their networks from unauthorized access to sensitive information. Firewalls act as gateways through which all incoming network traffic must pass, providing controlled access from the Internet to the data within the organization's servers in order to enforce the organization's security policy. Firewalls are often deployed in groups, or farms, to provide redundancy and increase the traffic capacity, or throughput, of the firewalls in order to overcome performance bottlenecks of individual firewall units. Similar to our Web Server Director product line, our FireProof product line is designed to direct traffic among a group of firewalls within a farm to ensure availability by avoiding off-line firewalls and to distribute traffic among available firewalls to maximize firewall capacity. Without any traffic management solution, traffic to or from the Internet that is routed through an off-line firewall will be discarded. FireProof offers continuous availability by providing full fault tolerance between firewalls by automatically routing traffic destined for an off-line firewall to the most available on-line firewall, thereby eliminating the need for additional idle standby units as backup in the event of firewall failure.

In addition, firewalls generally have limited performance capabilities when handling traffic. To accommodate growth in traffic, organizations can either upgrade to a more powerful firewall or add more units. However, a single more powerful firewall will eventually reach its full capacity. In addition, when multiple firewalls are installed, traffic load is generally not efficiently distributed among units, resulting in less than optimal use of the firewall units. FireProof enhances firewall performance by optimally distributing traffic among all available firewall units. Similar to our other product lines, FireProof offers full scalability to provide cost-effective growth. Additional firewall units can be incorporated into an organization's existing legacy equipment without the need to upgrade or replace existing firewalls.

Cache Server Director Product Line

Our Cache Server Director product line is a cache server management and traffic distribution system. Designed for organizations that employ cache server farms on their networks, Cache Server Director is designed to maximize the performance of cache server farms and provide optimal utilization of Internet access and storage resources.

Cache servers are designed to enhance the efficiency of data transmission by reducing the amount of redundant network traffic. Cache servers locally store, or cache, information previously retrieved from the Internet in dedicated storage systems. Future requests for the same information are retrieved directly from the cache server, thereby avoiding the need to traverse the entire network to retrieve the same data. Cache servers are frequently deployed in farms to provide redundancy and increased capacity. However, cache servers generally require a time-consuming user configuration procedure. Users that are not configured to a cache server will access the Internet directly. This results in less than optimal use of cache resources, delay in response time to the cache servers and unnecessary use of bandwidth to access data that was previously cached on the local network. Cache Server Director eliminates the need to configure individual users to the cache servers. Cache Server Director intercepts outgoing Internet requests according to predefined criteria and redirects them to the cache server where the requested information has previously been stored, thereby avoiding inefficient use of bandwidth and eliminating duplication of cached information on different servers.

In addition, Cache Server Director processes requests for non-cached data and distributes information retrieved from the Internet among available cache servers for storage. Cache Server Director distributes the retrieved information proportionately among the cache servers in order to optimize capacity and performance of the entire cache server farm. To further provide for optimal utilization of cache servers, Cache Server Director monitors user requests for popular Internet addresses and automatically transfers them to the least loaded cache server.

Cache Server Director provides full fault tolerance between cache servers. Should a cache server fail, Cache Server Director will redirect all requests to another cache server within a farm, providing users with uninterrupted access to the cache server farm. Similar to our other product lines, Cache Server Director offers full scalability to enable cost-effective growth, allowing customers to employ different cache servers with varying performance capabilities within a cache server farm managed by a Cache Server Director.

LinkProof Product Line

Our LinkProof product line offers an Internet traffic management solution for multi-homed networks. In order to ensure continuous access to the Internet, enterprises frequently deploy multiple connections between their networks and the Internet, generally via several Internet service providers, providing the network with alternative access points to the Internet in the event one connection fails. This network design is commonly referred to as a multi-homed network.

Our LinkProof product line is deployed between a multi-homed network and the Internet access routers to ensure high availability and continuous access to and from the Internet as well as optimal utilization of the available Internet access connections. LinkProof acts as an intelligent interface between the multi-homed network and the Internet. LinkProof receives all outgoing Internet traffic from the network and routes the traffic to the appropriate ISP based on availability and current traffic load along the connection to the ISP. LinkProof continuously monitors the transport layer of the network environment to detect failures. In the event of a failure in a connection to one of the ISPs used by the multi-homed network, LinkProof automatically routes the traffic to an alternative ISP.

LinkProof also dynamically distributes outgoing and incoming Internet traffic through the several Internet connections available to a multi-homed network to provide optimal use of the network's Internet connections. Building on the proximity detection technology used in the Web Server Director for Network Proximity, LinkProof dynamically selects the most efficient Internet connection with respect to each Web site for either inbound or outbound Internet traffic. This technology enables LinkProof to monitor the performance of each of the ISP connections with respect to the requested Web site. Using this information, LinkProof makes the routing decision based on the availability of each Internet connection as well as the network proximity of the Internet and the requested Web site through the various ISPs, thereby providing the optimal path for Internet traffic to and from the network.

ConfigWare

Our products can be managed with ConfigWare, an internally developed software management tool that is included with all of our products. ConfigWare is designed with an easy to use, graphical user interface that allows our customers to benefit from our technology with minimal technical know-how or support. ConfigWare can be installed either as a stand-alone software package or, as a Web application, in conjunction with a Web server, to enable remote configuration through a Web browser. ConfigWare enables real-time monitoring as well as historical analysis of device functionality, traffic flows and traffic volumes. It furnishes a wide range of statistics for managing servers to enable efficient utilization of the server farm, including current server traffic volumes, peak traffic volumes, attached end-users per server, and number of connection failures. Graphs and charts can be customized according to the customer's parameters. ConfigWare also enables interactive monitoring and automatic notifications of failures or other data. ConfigWare enables Web Server Director, Cache Server Director, LinkProof and FireProof software to be updated remotely while the device is working. Almost all parameter changes are implemented immediately, with no need to reset the unit.

Customers

We have a global diversified customer base consisting principally of corporate enterprises and service providers, such as telecommunication carriers, Internet service providers, application service providers and Web-hosting providers. We have also begun to offer our products to e-commerce businesses, such as e-commerce Web sites, publishing Web sites and portals, although sales to e-commerce businesses have not represented a significant portion of our revenues to date . Our range of products enables us to offer Internet traffic management solutions tailored to the varying needs of our customers to manage traffic to and from the Web servers, cache servers, e-mail servers, database servers, application servers and firewalls, both locally at a specific site within a network and globally throughout a network.

With the exception of our limited direct sales efforts to select customers, we sell our products to distributors who then resell our products to final customers. Since our inception in April 1997, we have sold more than 2,800 units either directly or through resellers to over 550 final customers. The following is a list of our seven largest distributors as of December 31, 1999:

- Frontier GlobalCenter
- National Business Group
- Progressive Source International
- Source Communications
- The WANGroup
- WebZone, Inc.
- Zerowait

The following is a representative list of final customers who have purchased at least $100,000 of our products:

- The Associates
- Australia and New Zealand (ANZ) Limited Banking Group
- Banamex
- Bell Atlantic
- BMC Software
- Compfirst.com
- Concentric Network
- Deutsche Telekom AG
- First National Bank of Omaha
- France Telecom
- Gateway
- GTE
- Intel Corporation
- KDD
- Mellon Financial Corporation
- Saritel Telematica Italiana
- Sony
- Sprint
- State of Minnesota
- State Farm Insurance
- Uproar Services Limited
- Usinternetworking
- U S WEST

• Comverse Technologies	• NEC	• UUNET
• Deutsche Bahn AG	• NTT	• Vanguard
• Deutsche Sport Fernseher	• OKI Electric	• AB Volvo

We sell our products in North America directly and through indirect distribution channels and outside North America exclusively through indirect distribution channels. In 1999 approximately 56% of our sales were in North America and 44% were outside North America, of which approximately 16% of our sales were in Europe, 19% were in the Far East and 9% were in other foreign countries. Other than the United States, no single country accounted for more than 10% of our sales for 1999.

For the periods ended December 31, 1997, 1998 and 1999, no single customer accounted for more than 10% of our sales. As of December 31, 1999, one customer represented 12% of trade receivables.

Sales and Marketing

Sales. We market and sell our products through an indirect sales force that consists of distributors in North America, Europe and Asia. In addition, we generate direct sales to select customers in North America. Our distributors are supported by our sales managers who are also responsible for recruiting potential distributors and for initiating and managing marketing projects in their assigned regions. The sales managers are supported by our internal sales support staff who help generate and qualify leads for the sales managers. In addition, we maintain close working relationships with the other members of the RAD-BYNET group in order to identify and recruit potential distributors. The RAD-BYNET group is a group of affiliated companies, including our company, RAD Data Communications Ltd. and BYNET Data Communications Ltd., which operate principally in the technology sector and are controlled by Messrs. Yehuda and Zohar Zisapel, directors and principal shareholders of our company. See “Organizational Structure” and “Related Party Transactions.”

As of December 31, 1999, we employed 21 sales managers in North America with locations in Atlanta, Chicago, Costa Mesa, Denver, Houston, Los Angeles, New Jersey, New York, San Francisco, Toronto and Washington, D.C. We also employed 15 sales managers based in Israel who are responsible for developing and maintaining distribution channels outside of North America. Our Israeli sales team maintains distribution channels in Australia, Austria, Belgium, Brazil, China, Denmark, France, Germany, Greece, Hong-Kong, India, Israel, Italy, Japan, Korea, Malaysia, The Netherlands, New Zealand, The Philippines, Portugal, Singapore, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey and the United Kingdom. We plan to invest additional resources in expanding our distribution channels by augmenting our team of sales managers, each dedicated to an assigned geographical area. In addition, we plan to establish local offices in a number of key countries in Europe and Asia. In 2000, we established subsidiaries in France, Germany, Sweden and the United Kingdom to conduct our sales and marketing activities as well as provide customer support in these regions.

Marketing Strategy. Our marketing strategy is to establish brand recognition and maintain our reputation as a provider of technologically-advanced, quality solutions for multiple Internet traffic management needs. We seek to build upon our marketing and branding efforts globally to achieve greater worldwide sales. Our sales force and marketing efforts are principally directed at developing brand awareness and providing sales support to our distributors. We participate in major trade shows and offer support to our distributors who participate in regional trade shows and events. We also invest in print and Web advertising campaigns. In addition to our independent marketing efforts, we invest in joint marketing efforts with our distributors and other companies that have formed strategic alliances with us. We have entered into co-marketing arrangements with companies in other complementary Internet segments, including Check Point Software Technologies Ltd., Network Appliance, Inc., Inktomi Corporation and WebTrends Corporation.

Strategic Alliances and Original Equipment Manufacturer Agreements. We have entered into strategic alliances and original equipment manufacturer agreements with other software and hardware vendors, including NEC and Secure Computing Corporation, as well as mutual channel information sharing arrangements. We believe that these companies have significant customer relationships and offer products which complement our products. Our agreements allow these companies to distribute our products on a world-wide non-exclusive basis with discounts based upon the volume of orders received. The products are branded with the names of these companies or co-branded with our name as well. These agreements are either standard distributor agreements or oral agreements and are terminable by either party at will. We plan to invest further in the development of strategic alliances in order to provide greater access to our target markets and enhance our brand name.

Technical Support

Our technical support team, which consists of 17 employees in Israel and North America, assists our customers and distributors with the initial installation and set-up of our products, trains distributors and customers to use our products and provides software and product upgrades for our products. In addition, our technical support team trains and certifies our distributors to provide limited technical support in each of the geographical areas in which our products are sold. Our technical support team is directly responsible for remote support, including 24 hours a day, 7 days a week help-desk support through our distributors. In the United States, on site support and remote support, such as help desk support, is provided to our customers by Enterprising Services Solutions Company, an outsourced technical support provider.

Our ability to provide our customers with responsive and qualified technical support and customer service is essential to attract and retain customers and build brand loyalty. We believe our technical support organizational structure enables us to provide technical support and customer service on a cost-effective and time-efficient basis.

Research and Development

In order to maintain our share of the Internet traffic management market, we place considerable emphasis on research and development to expand the capabilities of our existing products, develop new products and product lines and improve our existing technologies and capabilities. We believe that our future success will depend upon our ability to maintain our technological expertise, to enhance our existing products and to introduce on a timely basis new commercially viable products that will continue to address the needs of our customers. Accordingly, we intend to continue to devote a significant portion of our personnel and financial resources to research and development. As part of the product development process, we seek to maintain close relationships with current and potential distributors, customers and vendors in related industry segments to identify market needs and to define appropriate product specifications. We also maintain close relationships with the other members of the RAD-BYNET group to exchange ideas and identify market trends.

As of December 31, 1999, our research and development staff consisted of 21 employees. Research and development activities take place at our facilities in Tel Aviv, Israel. We employ established procedures for the design, development and quality assurance of our new product developments. Our team is divided according to our existing product lines. Each product line team is headed by a team leader and includes software engineers and quality control technicians. We occasionally use affiliated companies as subcontractors for the development of portions of research and development projects.

The Government of Israel, through the Office of the Chief Scientist of the Ministry of Industry and Trade, encourages research and development projects which result in products for export. In 1998 and in 1999, we received grants from the Office of the Chief Scientist for the development of our products. We expect our research and development expenses to grow as we hire additional personnel to develop new, and upgrade existing, products.

Manufacturing and Suppliers

RAD Operation Services, an affiliated company controlled by Messrs. Yehuda and Zohar Zisapel, directors and principal shareholders of our company, and located in Tel Aviv, Israel, manufactures the circuit boards which are the principal hardware component used our products. RAD Operation Services supplies us with finished circuit boards for final assembly. The other components and subassemblies included in our products are supplied to RAD Operation Services from a limited group of suppliers and subcontractors. RAD Operation Services monitors each stage of the circuit board production process, including the selection of components and subassembly suppliers. RAD Operation Services is ISO 9002 certified, indicating that its manufacturing processes adhere to established quality standards.

We install our proprietary software onto the circuit boards we receive from RAD Operation Services. Quality assurance testing, final assembly and packaging and shipping operations are performed at our facility in Jerusalem, Israel. We believe that our quality assurance procedures have been instrumental in achieving the high degree of performance and reliability evidenced by the awards our products have won.

Proprietary Rights

We rely on patent, trademark and trade secret laws, confidentiality agreements and other contractual arrangements with our employees, distributors and others to protect our technology. We have a policy that requires our employees in Israel, where our research and development facilities are located, to execute employment agreements, including confidentiality and non-compete provisions, when they begin their employment with us. We intend to implement this policy with respect to our employees in the United States.

We have registered trademarks for “Web Server Director®,” “Cache Server Director®” and “Triangulation®” and we have trademark applications pending for “FireProof™,” “LinkProof™,” “SynapseSwitch™,” “Smart Nat™” and “ISPProof™.” We do not currently own any registered copyrights.

In addition, we have filed a patent application in the United States for the use of our proprietary proximity report protocol used in our Web Server Director product line. This application may not result in any patent being issued and, if issued, the patent may not provide adequate protection against competitive technology and may not be held valid and enforceable if challenged. In addition, other parties may assert rights as inventors of the underlying technologies, which could limit our ability to fully exploit the rights conferred by any patent that we receive. Our competitors may be able to design around any patent that we receive and other parties may obtain patents that we would need to license or circumvent in order to exploit our patents.

The protective steps we have taken may be inadequate to deter misappropriation of our technology and information. We may be unable to detect the unauthorized use of, or take appropriate steps to enforce, our intellectual property rights. Some of the countries in which we sell our products do not protect a company’s intellectual property to the same extent as do the United States and Israel. In addition, our competitors may independently develop technologies that are substantially equivalent or superior to our technology. Any licenses for intellectual property that might be required for our services or products may not be available on reasonable terms.

Competition

Our industry is characterized by intense competition. Our principal competitors in the sale of Internet traffic management solutions include software-based solution providers, such as Resonate, hardware-based solution providers, such as Cisco Systems and F5 Networks, and switch-based solution providers, such as Alteon WebSystems. We expect to face increasing competition as new competitors enter our market.

Some of our competitors have substantially greater financial, personnel and other resources, and may offer a broader range of products than we do. These competitors may be able to respond more quickly to new or emerging technologies or changes in customer requirements. They may also benefit from greater economies of scale, offer more aggressive pricing, devote greater resources to the promotion of their products, bundle their products or incorporate an existing Internet traffic management solution into existing products, thereby discouraging customers from purchasing our products.

We believe that our success will depend primarily on our ability to provide more technologically advanced and cost-effective Internet traffic management solutions, and more responsive customer service and support, than our competitors. However, we cannot assure you that the products we offer will compete successfully with those of our competitors. Furthermore, should competition intensify, we may have to reduce the prices of our products.

Legal Proceedings

We are not subject to any material legal proceedings.

Organizational Structure

Yehuda and Zohar Zisapel are co-founders, directors and principal shareholders of RADWARE. Individually or together, they are also founders, directors and principal shareholders of several other companies which, together with us and the other subsidiaries and affiliates, are known as the RAD-BYNET group. These corporations include:

AB-NET Ltd.
BYNET Data Communications Ltd.
BYNET Electronics Ltd.
BYNET SEMECH Ltd.
BYNET Systems Applications Ltd.
Commerce.net Ltd.

Giganet Ltd.
IP-Rad Ltd.
RADCOM Ltd.
RAD Data Communications Ltd.
RADGuard Ltd.
RADLAN Computer Communications Ltd.

RAD Operation Services Ltd.
RAD-OP Ltd.
RADView Software Ltd.
RADVision Ltd.
RADWIN Ltd.
RIT Technologies Ltd.
RND Networks Ltd.
SILICOM Ltd.

In addition to engaging in other businesses, members of the RAD-BYNET group are actively engaged in designing, manufacturing, marketing and supporting data communications products, none of which currently compete with our products. Some of the products of members of the RAD-BYNET group are complementary to, and may be used in connection with, our products.

As of January 1, 1999, we established a wholly-owned subsidiary in the United States, Radware Inc., which conducts the sale and marketing of our products in North America. In 2000, we established subsidiaries in France, Germany, Sweden and the United Kingdom to conduct our sales and marketing activities as well as provide customer support in these regions.

Property, Plants and Equipment

As of December 31, 1999, our headquarters and principal administrative, finance and marketing and sales operations are located in approximately 11,200 square feet of leased office space in Tel Aviv, Israel. The lease expires in May 2003. We also sublease from our affiliate, RAD Operation Services, approximately 2,150 square feet space in Jerusalem for our manufacturing facility. The sublease expires in March 2004 and we have an option to renew for an additional term of five years. In the United States, we lease approximately 2,250 square feet in Mahwah, New Jersey from an affiliate, which expires in April 2002, and occupy an additional 6,000 square feet in Costa Mesa, California. The lease for the premises in California expired in February 1999, but we continue to occupy the premises and pay rent as we negotiate an extension to the lease. We expect that we will need additional space as we expand our business and believe that we will be able to obtain space as needed.

ITEM 5. Operating and Financial Review and Prospects

General

We commenced operations in April 1997. Since then, we have focused on developing and enhancing our products, building our worldwide direct and indirect distribution network and establishing and expanding our sales, marketing and customer support infrastructure. As of January 1, 1999, we established a wholly-owned subsidiary in the United States, Radware Inc., which conducts the sale and marketing of our products in North America.

In October 1999, we completed our initial public offering of 3,500,000 ordinary shares, from which we received net proceeds of approximately $56.8.

In January 2000, we completed a public offering of 1,250,000 ordinary shares, from which we received net proceeds of approximately $60.0 million.

All of our revenues are generated in U.S. dollars or are dollar-linked and the majority of our expenses are incurred in dollars and, as such, we use the dollar as our functional currency. Our consolidated financial statements are prepared in dollars and in accordance with generally accepted accounting principles in the United States.

Revenues. Our revenues are derived primarily from sales of our products and, to a lesser extent, from sales of software upgrades and maintenance services for our products. Our product sales consist of sales of our Web Server Director, Cache Server Director and FireProof product lines. In 1999, we derived approximately 60% of our revenues from sales of our Web Server Director product line. We recognize product revenues once the product has been shipped to the customer and collection is probable. We routinely analyze and provide, as necessary, reserves at the time of shipment for product returns and allowances. We recognize revenues from the sale of software upgrades and maintenance service ratably over the service period.

Cost of Sales. Our cost of sales consists primarily of the cost of circuit boards and other components used in the assembly and manufacture of our products, salaries and related personnel expenses for those engaged in the final assembly and maintenance service of our products and other overhead costs.

Research and Development Expenses, Net. Research and development expenses consist primarily of salaries and related personnel expenses and prototype expenses related to the design, development, testing and enhancement of our products. Research and development expenses are net of participations received or accrued from the Government of Israel. All research and development costs are expensed as incurred. We believe that continued investment in research and development is critical to attaining our strategic product objectives. We expect these expenses to increase in the future as we continue to develop new products and product lines and enhance existing products.

The Government of Israel, through the Office of the Chief Scientist of the Israeli Ministry of Industry and Trade, encourages research and development projects which result in products for export. In 1998 and during 1999, we received grants from the Office of the Chief Scientist for the development of our products totaling approximately $341,000 and $466,000.

Marketing and Selling Expenses, Net. Marketing and selling expenses consist primarily of salaries, commissions and related personnel expenses for those engaged in the sales, marketing and support of our products as well as related trade show, promotional and public relations expenses and royalties paid to the Government of Israel. Marketing and selling expenses are net of marketing grants received from the Government of Israel. Our success in increasing revenues depends on our ability to increase our customer base, expand our existing product lines, introduce new products and enhance our existing products, as well as the continued growth of the emerging Internet traffic management market. Accordingly, we intend to pursue sales and marketing campaigns aggressively and we therefore expect these expenses to increase in the future.

General and Administrative Expenses. General and administrative expenses consist primarily of salaries and related personnel expenses for executive, accounting and administrative personnel, professional fees, bad debt expenses and other general corporate expenses. As we add personnel and incur additional costs related to the growth of our business and our becoming a public company, we expect that general and administrative expenses will also increase.

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 stock options to employees with exercise prices per share determined to be below the deemed 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.

Financing Income (Expenses), Net. Financing income (expenses), net consists primarily of interest earned on bank deposits of proceeds from the issuance of our shares to the public, gains and losses from the translation of monetary balance sheet items denominated in non-dollar currencies and interest expense accrued with respect to our convertible debentures.

Taxes. Israeli companies are generally subject to income tax at the corporate rate of 36%. However, we intend to establish an approved enterprise program which will be eligible for the tax benefits described below under the heading “Corporate Tax Rate.” These benefits should result in our income being tax exempt or taxed at a lower rate for some time after we begin to report taxable income. The tax rate will depend upon the percentage of our income derived at that time from the approved enterprise program.

Results of Operations

The following table sets forth, for the periods indicated, certain financial data expressed as a percentage of sales:

April 1997

	(inception) through December 31, 1997	Year ended December 31, 1998	Year ended December 31, 1999
Sales	100.0%	100.0%	100.0%
Cost of sales	51.7	18.3	16.0
Gross profit	48.3	81.7	84.0
Operating expenses:			
Research and development expenses, net	35.5	15.1	11.6
Marketing and selling expenses, net	21.4	85.8	68.4
General and administrative expenses	12.2	6.1	8.1
Total operating expenses	69.1	107.0	88.1
Operating loss	(20.8)	(25.3)	(4.1)
Financing income (expenses), net	0.8	(0.3)	6.1
Net income (loss)	(20.0)%	(25.6)%	2.0%

Year Ended December 31, 1999 Compared with Year Ended December 31, 1998

Sales. Sales in 1999 were approximately $14.1 million, an increase of approximately $9.2 million compared with sales of approximately $4.9 million in 1998. The growth in sales is primarily attributable to increased shipments of our Web Server Director products and the introduction of our new Cache Server Director and FireProof product lines in the latter half of 1998.

Cost of Sales. Cost of sales was approximately $2.3 million in 1999, an increase of approximately $1.4 million compared with cost of sales of approximately $899,000 in 1998. This increase is primarily attributable to the increase sales. Cost of sales as a percentage of sales declined to 16.0% in 1999 from 18.3% in 1998, primarily as a result of our decision in the third quarter of 1998 to replace the circuit board platform used in our products which we had until such date purchased from a third party original equipment manufacturer with our internally developed circuit board platform.

Research and Development Expenses, Net. Gross research and development expenses were approximately $2.1 million in 1999, an increase of approximately $1.0 million compared with gross research and development expenses of approximately $1.1 million in 1998. This increase is primarily attributable to an increase in salaries and related personnel expenses and costs of raw materials used for research and development. Gross research and development as a percentage of sales decreased to 14.8% in 1999 from 22.1% in 1998. Grants from the Office of the Chief Scientist of the Ministry of Industry and Trade, totaling approximately $466,000 and approximately $341,000 in 1999 and 1998, are applied as reductions to gross research and development expenses. Research and development expenses, net were approximately $1.6 million in 1999, or 11.6% of sales, compared with approximately $740,000, or 15.1% of sales, in 1998.

Marketing and Selling Expenses, Net. Marketing and selling expenses, net, which consist of gross marketing and selling expenses after reduction of grants from the Israeli Government's Fund for the Encouragement of Marketing Activities, generally referred to as the marketing fund, were approximately $9.7 million in 1999, an increase of approximately $5.5 million compared with marketing and selling expenses, net of approximately $4.2 million in 1998. This increase is primarily attributable to our aggressive expansion of marketing and selling efforts and hiring of additional marketing personnel worldwide. We did not receive any grants from the marketing fund in 1999. We received approximately $53,000 from the marketing fund in 1998. Marketing and selling expenses, net as a percentage of sales decreased to 68.4% in 1999 from 85.8% in 1998, primarily as a result of the greater percentage increase in sales than in marketing and selling expenses, net in 1999.

General and Administrative Expenses. General and administrative expenses were approximately $1.1 million in 1999, an increase of approximately $800,000 compared with general and administrative expenses of approximately $298,000 in 1998. This increase is primarily attributable to the expansion of our business and expenses associated with our becoming a public company. General and administrative expenses as a percentage of sales increased to 8.0% in 1999 from 6.1% in 1998.

Financing Income (Expenses), Net. Financing income, net was approximately $856,000 in 1999, compared with financing expenses, net of approximately $11,000 in 1998. This change is primarily attributable to the interest income derived from bank deposits in 1999 in connection with the private placements of our securities, compared to the interest expense we incurred on our convertible debentures in 1998. The convertible debentures were converted into preferred shares in 1998 and thus no interest was incurred on the debentures in 1999.

Year Ended December 31, 1998 Compared with Nine Month Period Ended December 31, 1997

Sales. Sales in 1998 were approximately $4.9 million, an increase of $3.7 million compared with sales of approximately $1.2 million in 1997. This increase is primarily attributable to greater market acceptance of the Web Server Director product line, the introduction of the Cache Server Director and FireProof product lines and to the inclusion of a full year of results in 1998 as compared to nine months in 1997.

Cost of Sales. Cost of sales was approximately $899,000 in 1998, an increase of approximately $300,000 compared with cost of sales of approximately $599,000 in 1997. This increase is primarily attributable to the increase in sales. Cost of sales as a percentage of sales declined to 18% in 1998 from 52% in 1997, primarily as a result of efficiencies due to economies of scale and our decision in the third quarter of 1998 to replace the circuit board platform used in our products which we had until such date purchased from a third party original equipment manufacturer with our internally developed circuit board platform.

Research and Development Expenses, Net. Gross research and development expenses were approximately $1.1 million in 1998, an increase of approximately $669,000 compared with gross research and development expenses of approximately $411,000 in 1997. This increase is primarily attributable to an increase in salaries and related personnel expenses and increased costs of raw materials used for research and development. Gross research and development as a percentage of sales decreased to 22% in 1998 from 35% in 1997. Grants from the Chief Scientist totaled approximately $341,000 in 1998. We did not receive any grants from the Chief Scientist in 1997. Research and development expenses, net were approximately $739,000, or 15% of sales, in 1998, compared with approximately $411,000, or 35%, in 1997.

Marketing and Selling Expenses, Net. Marketing and selling expenses, net were approximately $4.2 million in 1998, an increase of approximately $4.0 million compared with marketing and selling expenses, net of approximately $248,000 in 1997. This increase is primarily attributable to our aggressive expansion of marketing and selling efforts worldwide. Grants from the marketing fund totaled approximately $53,000 in 1998. We did not receive any grants from the marketing fund in 1997. Marketing and selling expenses, net as a percentage of sales increased to 86% in 1998 from 21% in 1997, primarily as a result of our expansion of marketing and sales efforts in 1998.

General and Administrative Expenses. General and administrative expenses were approximately $298,000 in 1998, an increase of approximately $156,000 compared with general and administrative expenses of approximately $142,000 in 1997. General and administrative expenses as a percentage of sales decreased to 6% in 1998 from 12% in 1997, primarily reflecting the fact that administrative expenses did not grow as rapidly as sales.

Financing Income (Expenses), Net. Financing expenses, net were approximately $11,000 in 1998, compared with financing income, net of approximately $9,000 in 1997. This change is primarily attributable to the devaluation of the NIS against the dollar in 1998.

Liquidity and Capital Resources

Since our inception, we have financed our operations through a combination of sales of our debt and equity securities, including two public offerings, research and development and marketing grants from the Government of Israel and cash generated by operations. In November 1997, we raised approximately $4.0 million in a private placement of our convertible debentures to unaffiliated third parties. During 1998, all of the convertible debentures were converted into preferred shares. In June 1999, we raised approximately $9.0 million in a private placement of Series B preferred shares to existing shareholders and unaffiliated third parties. In August 1999, all of our preferred shares and Series B preferred shares were converted into ordinary shares. In October 1999, we raised net proceeds of approximately $56.8 million in the initial public offering of our ordinary shares. In January 2000, we raised net proceeds of approximately $60.0 million in a public offering of our ordinary shares.

Our principal commitments consist of obligations for royalties to the Israeli Government and obligations outstanding under operating leases. Our maximum potential obligations for royalties, based on research and development participations from the Chief Scientist received or accrued, net of royalties paid or accrued, totaled approximately $1,070,000 as of December 31, 1999 and approximately $1,164,000 as of December 31, 1998. In connection with our marketing efforts, as of December 31, 1999, we have accrued approximately $53,000 in participation payments from the Government of Israel Fund for the Encouragement of Marketing Activities. In exchange for marketing participation payments, we are committed to pay royalties at a rate of 4% of our total increase in sales outside of Israel, commencing from the second year after receipt of the participation payments. As of December 31, 1999, our obligations for royalties in respect of marketing participation payments received or accrued was $530,000.

We operate from leased premises in California, Jerusalem, New Jersey and Tel Aviv. The lease in California expired in February 1999, but we continue to occupy the premises and pay rent as we negotiate an extension of the lease. The other leases for these premises have remaining terms extending from 2001 to 2004. Our aggregate annual rent obligations under these leases, including the premises in California, are approximately $275,000 for each of 2000 and 2001.

Capital expenditures for the nine months ended December 31, 1997, the year ended December 31, 1998 and the year ended December 31, 1999 were approximately $163,000, $130,000 and $980,000. These expenditures were principally for machinery, equipment and vehicle purchases. In order to establish an approved enterprise program under the approval granted to us by the Investment Center, we must make an investment of $91,000 for manufacturing equipment to be used at the approved enterprise facility no later than December 31, 2000. Other than this commitment, we currently do not have significant capital spending or purchase commitments, but we expect to continue to engage in capital spending consistent with anticipated growth in our operations, infrastructure and personnel.

Net cash provided by operating activities was approximately $2.4 million for the year ended December 31, 1999. Net cash provided by operating activities during the year ended December 31, 1999 was primarily due to increases in trade payables and accrued expenses, partially offset by an increase in trade receivables. Net cash used in operating activities was approximately $1.8 million in 1998, primarily due to net losses and increases in receivables and prepaid expenses, partially offset by increases in payables and accrued expenses. Net cash used in operating activities was approximately $210,000 in 1997.

Net cash used in investing activities was approximately $1.0 million for the year ended December 31, 1999. Cash was used during this period to purchase equipment and machinery. Net cash used in investing activities was approximately $130,000 in 1998 and approximately $144,000 in 1997.

Net cash provided by financing activities was approximately $66.0 million for the year ended December 31, 1999, primarily due to our initial public offering which generated net proceeds of approximately $56.8 million and a private placement of our series B preferred shares (which were converted into ordinary shares in August 1999) that resulted in proceeds of approximately $9.0 million. Net cash used in financing activities was approximately $32,000 in 1998 primarily due to costs related to the issuance of preferred shares upon the conversion of all outstanding convertible debentures. Net cash provided by financing activities in 1997 was approximately $4.0 million due to the issuance of convertible debentures.

At December 31, 1999, we had cash and cash equivalents of approximately $68.7 million, as compared to approximately $1.7 million on December 31, 1998. The increase was primarily due to our initial public offering which generated net proceeds of approximately $56.8 million and a private placement of our series B preferred shares that resulted in proceeds of approximately $9.0 million. In January 2000, we completed a secondary public offering of 1,250,000 ordinary shares, from which we received net proceeds of approximately $60.0 million.

Our capital requirements depend on numerous factors, including market acceptance of our products and the resources we allocate to our research and development efforts and our marketing and sales activities. We have experienced substantial increases in our expenditures since our inception consistent with growth in our operations and personnel and we intend to increase our expenditures for the foreseeable future in order to execute our strategy. We anticipate that operating activities, as well as capital expenditures, will constitute a material use of our cash resources. We believe that cash generated from operations, our unused cash balances, Israeli Government research and development and marketing grants and the net proceeds from our public offerings will provide sufficient cash resources to finance our operations and the projected expansion of our marketing and sales activities and research and development efforts for a period of at least the next twelve months. However, if our operations do not generate cash to the extent currently anticipated or if we grow more rapidly than currently anticipated, it is possible that we will require additional funds prior to the end of such period. In addition, in order to meet our long term liquidity needs, we may seek to raise additional funds through public or private offerings or debt financings. We cannot assure you that additional financings will be available, or if available, that these financings will be on reasonable terms, nor can we assure that these additional financings will not be dilutive to our shareholders.

Impact of Inflation and Currency Fluctuations

The U.S. dollar cost of our operations is influenced by the extent to which any increase in the rate of inflation in Israel is offset, or is offset on a lagging basis, by the devaluation of the NIS in relation to the dollar. Because all of our sales are denominated in dollars or are dollar-linked and we incur a portion of our expenses, principally salaries and related personnel expenses, in NIS, inflation in Israel will have a negative effect on our profitability unless such inflation is offset by a devaluation of the NIS. Conversely, devaluations of the NIS relative to the dollar at a rate in excess of the rate of inflation in Israel will have a positive effect on our profitability.

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. A devaluation of the NIS in relation to the dollar has the effect of reducing the dollar amount of any of our expenses or liabilities which are payable in NIS, unless these expenses or payables are linked to the dollar. This devaluation also has the effect of decreasing the dollar value of any asset which consists of NIS or receivables payable in NIS, unless the receivables are linked to the dollar. Conversely, any increase in the value of the NIS in relation to the dollar has the effect of increasing the dollar value of any unlinked NIS assets and the dollar amounts of any unlinked NIS liabilities and expenses. Because exchange rates between the NIS and the dollar fluctuate continuously, with a historically declining trend in the value of the NIS, exchange rate fluctuations and especially larger periodic devaluations will have an impact on our profitability and period-to-period comparisons of our results. The effects of foreign currency re-measurements are reported in our consolidated financial statements in current operations.

Market Risk

We do not invest in, or otherwise hold, for trading or other purposes, any financial instruments subject to market risk and we have no debt.

Corporate Tax Rate

Israeli companies are generally subject to tax at the corporate tax rate of 36% of taxable income. However, the Investment Center has granted us an approval to establish an "approved enterprise" program at our manufacturing facility under the Law for the Encouragement of Capital Investments, 1959. Although we do not currently have an approved enterprise program, we have begun to make the necessary capital investments to establish an approved enterprise program and expect to complete such capital investments in 2000. Once it is established, our income derived from this approved enterprise program will be tax-exempt for a period of two years and will be subject for the subsequent five years to a reduced company tax of up to 25%. We expect that a substantial portion of any taxable income that we may realize in the future will be derived from the approved enterprise program which we intend to establish. As a result, we do not anticipate being subject to income tax in Israel in the near future.

The approval which the Investment Center granted us is for establishing an approved enterprise program in Tel Aviv, Israel. However, our manufacturing facility is located in Jerusalem and we have, therefore, submitted a request to the Investment Center to designate our approved enterprise program for tax benefits applicable to an enterprise established and located in Jerusalem. These benefits provide that income derived from the approved enterprise program will be tax exempt for six years and will be taxed at a reduced company tax rate of up to 25% for one additional year. The six-year tax exemption period may be extended to ten years if we apply to the Investment Center for recognition as a "High Technology" facility and this status is recognized.

Government Grants

We conduct our research and development operations in Israel. Our research and development efforts have been financed through internal resources and grants from the Chief Scientist. For the year ended December 31, 1998 and the year ended December 31, 1999, the Chief Scientist provided grants for research and development efforts of approximately $341,000 and $466,000, representing 31.6% and 22.2% of our total research and development expenses. Under Israeli law, royalties on the revenues derived from sales of products and services developed using such grants are payable to the Israeli Government, generally at the rate of 3% during the first three years, 4% over the following three years and 5% in or after the seventh year. The maximum aggregate royalties payable generally cannot exceed 100% of the dollar-linked value of the total grants received. Royalties payable with respect to grants received under programs approved after January 1, 1999, however, will be subject to interest on the dollar-linked value of the total grants received at an annual rate of LIBOR applicable to dollar deposits. In addition to the Chief Scientist grants that we received in 1998 and 1999, in connection with our license of technology from RND Networks in 1997, we agreed to pay royalties to the Israeli Government under the same terms and conditions, on sales of products based on this technology. The aggregate amount of grants received by RND Networks and us subject to this obligation is approximately $1.1 million as of December 31, 1999.

The Government of Israel does not own proprietary rights in technology developed using its funding and there is no restriction on the export of products manufactured using the technology. The technology is, however, subject to other legal restrictions, including the obligation to manufacture the product based on such technology in Israel and to obtain the Chief Scientist's consent to transfer the technology to a third party. If the Chief Scientist consents to the manufacture of the products outside Israel, we may be required to pay increased royalties, ranging from 120% to 300% of the amount of the Chief Scientist grant, depending on the percentage of foreign manufacture. These restrictions continue to apply even after we have paid the full amount of royalties payable in respect of the grants. Based upon the aggregate grants received to date, we expect that we will continue to pay royalties to the Israeli Government on sales of our products and related services for the foreseeable future. For the years ended December 31, 1997, 1998 and 1999, we paid or accrued to the Israeli Government approximately $5,000, $152,000 and $515,000. From time to time, provisions of Israeli law relating to the terms of the Chief Scientist participations have been amended and may be further amended in the future. The Chief Scientist budget has been subject to reductions and such reductions may affect the availability of funds for Chief Scientist participations in the future.

The Israeli Government, through the Fund for the Encouragement of Marketing Activities, awards grants to Israeli companies for overseas marketing expenses, including expenses for maintaining branches, advertising, catalogs, exhibitions and surveys, up to a maximum rate of 33% of such expenses, not to exceed $1.2 million annually. In 1998, we received grants from the marketing fund totaling approximately $53,000, and are required to pay royalties in connection with such grants at a rate of 4% of the increase in sales outside of Israel up to the total dollar-linked amount of such grants, plus interest. Marketing grants are currently awarded only to companies whose annual exports in the year preceding the application did not exceed $15 million. As of December 31, 1999, our contingent liability to the Israeli Government in respect of grants received from the marketing fund was $53,000. If we fail to satisfy the terms and conditions of the grants, we may be required to refund the grants already received and would likely be denied these grants in the future.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management

The following table lists our current directors and executive officers:

Name	Age	Position
Yehuda Zisapel(1)	58	Chairman of the Board of Directors
Roy Zisapel(2)	29	Chief Executive Officer, President and Director
Meir Moshe.....................	46	Chief Financial Officer
Yiftach Weiser................	42	Chief Operating Officer
Yael Langer	35	General Counsel and Secretary
Sharon Trachtman...........	34	Vice President, Marketing
Amir Peles	28	Vice President, Chief Technology Officer
Asaf Ronen	27	Vice President, Research and Development
Doron Meirom	42	President of Radware Inc.
Zohar Zisapel(1)	51	Director
Yiftach Atir(2)(4)	50	Director
Avigdor Willenz(3)(4)....	43	Director
Christopher McCleary (3)(4)...............................	47	Nominee Director

(1) Term as director expires at the annual meeting of shareholders to be held in 2000.

(2) Term as director expires at the annual meeting of shareholders to be held in 2001.

(3) Term as director expires at the annual meeting of shareholders to be held in 2002.

(4) Independent director.

Yehuda Zisapel, co-founder of our company, has served as our Chairman of the Board of Directors since our inception. Mr. Zisapel also serves as a director of Radware Inc. Mr. Zisapel is also a founder and a director of RAD Data Communications Ltd., a worldwide data communications company headquartered in Israel, and BYNET Data Communications Ltd., a distributor of data communications products in Israel, Chairman of the Board of Directors of RIT Technologies Ltd., and a director of other companies in the RAD-BYNET group, including SILICOM Ltd., RADVision Ltd. and RADCOM Ltd. Mr. Zisapel has a B.Sc. and an M.Sc. degree in electrical engineering from the Technion, Israel Institute of Technology and an M.B.A. degree from Tel Aviv University. Yehuda Zisapel and Zohar Zisapel are brothers. Yehuda Zisapel is the father of Roy Zisapel.

Roy Zisapel, co-founder of our company, has served as our Chief Executive Officer and President and a director since our inception. Mr. Zisapel also serves as a director of Radware Inc. and other subsidiaries. From February 1996 to March 1997, Mr. Zisapel was a team leader of research and development projects for RND Networks Ltd. From July 1994 to February 1996, Mr. Zisapel was employed as a software engineer for unaffiliated companies in Israel. Mr. Zisapel has a B.Sc. degree in mathematics and computer science from Tel-Aviv University. Roy Zisapel is the son of Yehuda Zisapel.

Meir Moshe has served as our Chief Financial Officer since June 1999. From June 1997 to June 1999, Mr. Moshe was Chief Financial Officer, Secretary and Treasurer of ForSoft Ltd. From January 1992 until June 1997, Mr. Moshe was Vice President, Finance and Secretary of Formula Computers Technologies, Ltd. From January 1988 until January 1992, Mr. Moshe was Vice President, Finance of Koor Communications, Ltd., a telecommunications company. Mr. Moshe holds a B.Sc. in economics and accounting from Tel Aviv University and is a certified public accountant.

Yiftach Weiser has served as our Chief Operating Officer since March 2000. From 1994 until March 2000, Mr. Weiser was first Vice President Customer Service for Indigo Europe and then Corporate Vice President Customer Service, General Manager Asia Pacific of Indigo N.V. From July 1993 to July 1994, Mr. Weiser was Technical Support Manager for RAD Network Devices Ltd. Mr. Weiser holds a B.Sc. degree in Computer Engineering from the Technion, Israeli Institute of Technology.

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

Sharon Trachtman has served as our Vice President of Marketing since September 1997. From November 1994 to September 1997, Ms. Trachtman was a product line marketing manager for Scitex Corporation. Ms. Trachtman has a B.A. degree in computer science and philosophy from Bar Ilan University.

Amir Peles has served as our Vice President, Chief Technology Officer since April 2000. Prior to that, Mr. Peles was our Vice President of Research and Development since July 1997. From July 1996 to July 1997, Mr. Peles was a senior team leader at Amdocs Corporation. Mr. Peles has a B.Sc. degree in computer science, statistics and operations research from Tel Aviv University.

Assaf Ronen has served as our Vice President of Research and Development since April 2000. From February 1997 to April 2000, Mr. Ronen served as a senior program manager at Comverse Network Systems. Prior to February 1997, Mr. Ronen served in various positions in the Israel Defense Forces Computers Unit. Mr. Ronen has a B.Sc. degree in computer science from the Israeli Open University and an M.B.A. from Manchester University.

Doron Meirom has served as President of Radware Inc. since its incorporation in January 1999. From June 1996 until December 1998, Mr. Meirom served as President of the U.S. subsidiary of RND Networks. Between January 1995 and May 1996, Mr. Meirom served as Vice President of Sales and Marketing of Armon Networking Ltd. From October 1992 to January 1995, Mr. Meirom served as director of worldwide distribution of Fibronics Ltd. and later as its Vice President of Sales.

Zohar Zisapel, co-founder of our company, has served as a director since our inception. Mr. Zisapel also serves as a director of Radware Inc. Mr. Zisapel is also a founder and a director of RAD Data Communications, of which he has served as President since January 1982, and a director of other companies in the RAD-BYNET group, including RADCOM, SILICOM, RADVision Ltd. and RIT. Mr. Zisapel previously served as Head of the Electronics Research Department in the Israeli Ministry of Defense. Mr. Zisapel received B.Sc. and M.Sc. degrees in electrical engineering from the Technion, Israel Institute of Technology and an M.B.A. degree from Tel Aviv University. Zohar Zisapel and Yehuda Zisapel are brothers.

Yiftach Atir has served as a director since November 1997. Mr. Atir is a managing director in Evergreen Canada-Israel Management Ltd., a management company for a group of technology focused venture capital funds, where he has been employed since November 1994. Prior to joining Evergreen, Mr. Atir served as a Brigadier General in the Intelligence Corps of the Israel Defense Forces, where he had overall responsibility for screening new technologies, which included managing many multi-disciplined high-tech projects. Mr. Atir has a B.A. in political science from Haifa University and an M.B.A. from Tel Aviv University.

Avigdor Willenz has served as a director since October 1999. Since November 1992, Mr. Willenz has served as Chief Executive Officer and Chairman of the Board of Directors of Galileo Technology Ltd. Mr. Willenz holds a B.S.E.E. from the Technion, Israel Institute of Technology.

Christopher McCleary has served as a director since February 2000. Mr. McCleary is a co-founder of USinternetworking Inc. and has served as the Chairman and Chief Executive Officer of USi since January 1998. Prior to founding USi, he was the Chairman and Chief Executive Officer of DIGEX, Inc. from January 1996 to December 1997. Prior to serving at DIGEX, Mr. McCleary served as Vice President and General Manager for Satellite Telephone Service at American Mobile Satellite Corporation, a satellite communications company, from October 1990 to January 1996. Mr. McCleary has a B.S. from the University of Kentucky.

Nasdaq National Market

Our ordinary shares are listed for quotation on the Nasdaq National Market and we are subject to the rules of the Nasdaq National Market applicable to listed companies. Under the Nasdaq rules, we are required to appoint two independent directors and to maintain an audit committee, at least a majority of whose members are independent of management. Chris McCleary, Yiftach Atir and Avigdor Willenz qualify as independent directors under the Nasdaq National Market requirements.

Nasdaq recently amended these rules, however, to require that companies quoted on Nasdaq have at least three independent directors, maintain an audit committee, all of whose members are independent, and adopt an audit committee charter. The responsibilities of the audit committee under the new Nasdaq rules include, among other things, evaluating the independence of a company's outside auditors. We intend to continue to take all action as may be necessary for us to maintain our compliance with applicable Nasdaq requirements.

Israeli Companies Law

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

External Directors

Qualifications Of External Directors

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

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

The term affiliation includes:

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

No person can serve as an external director if the person's position or other business creates, or may create, conflict of interests with the person's responsibilities as an external director. Until the lapse of two years from termination of office, a company may not engage an external director to serve as an office holder and cannot employ or receive services from that person, either directly or indirectly, including through a corporation controlled by that person.

An external director is entitled to compensation as provided in regulations to be adopted under the Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with service provided as an external director.

Election Of External Directors

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

- the majority of shares voted at the meeting, including at least one third of the shares of non-controlling shareholders voted at the meeting, vote in favor of the election; or

- the total number of shares voted against the election of the external director does not exceed one percent of the aggregate voting rights in the company.

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

Audit Committee

Nasdaq Requirements

As described above, under the Nasdaq rules, we are required, by June 2001, to have an audit committee consisting of at least three independent directors, all of whom are financially literate and one of whom has accounting or related financial management expertise. The responsibilities of the audit committee under the Nasdaq rules include evaluating the independence of a company's outside auditors. In addition, we are required to adopt an audit committee charter by June 2000. We intend to continue to take all action as may be necessary for us to maintain our compliance with applicable Nasdaq requirements.

Companies Law Requirements

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

- chairman of the board of directors;

- general manager;

- chief executive officer; and

- controlling shareholder and any director employed by the company or who provides services to the company on a regular basis.

The role of the audit committee is to examine flaws in the business management of the company, in consultation with the internal auditor and the company's independent accountants, and suggest appropriate course of action.

Approval Of Interested Party Transactions

The approval of the audit committee is required to effect specified actions and transactions with office holders and interested parties. An interested party is defined in the Companies Law as a 5% or greater shareholder, any person or entity who has the right to designate one director or more or the general manager of the company or any person who serves as a director or as a general manager. An audit committee may not approve an action or a transaction with an interested party or with an office holder unless at the time of approval the two external directors are serving as members of the audit committee and at least one of whom was present at the meeting in which an approval was granted.

Internal Auditor

Under the Companies Law, the board of directors must appoint an internal auditor proposed by the audit committee. The role of the internal auditor is to examine, whether the company's actions comply with the law, integrity and orderly business procedure. Under the Companies Law, the internal auditor may not be an interested party, an office holder, or an affiliate, or a relative of an interested party, an office holder or affiliate, nor may the internal auditor be the company's independent accountant or its representative. We are in the process of appointing an internal auditor that complies with the requirements of the Companies Law.

Classified Board

Our articles of association provide for a board of directors of not less than five and not more than nine directors. In accordance with the terms of our articles of association, the board of directors will be divided into three classes with each class serving until the third annual meeting following their election as follows:

Class	Term expiring at the annual meeting for the year	Directors
Class I	2000	Yehuda Zisapel and Zohar Zisapel
Class II	2001	Roy Zisapel and Yiftach Atir
Class III	2002	Avigdor Willenz and Christopher McCleary

At each annual meeting of shareholders after the initial classification, the successors to directors whose terms will then expire will be elected to serve from the time of election and qualification until the third annual meeting following the election. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. This classification of our board of directors may have the effect of delaying or preventing changes in control or management of our company.

The above classification does not apply to the external directors we will be required to appoint under the Companies Law whose term is three years, as required by law.

Our Committees

Our board of directors has formed an audit committee and a share incentive committee. The audit committee, which consists of Messrs. Zohar Zisapel, Yiftach Atir and Avigdor Willenz, exercises the powers of the board of directors with respect to our accounting, reporting and financial control practices. Upon the appointment of our external directors under the new Companies Law, the external directors will also serve on our audit committee. Our share incentive committee, which consists of Messrs. Yehuda Zisapel and Roy Zisapel, administers our share option plan.

Members of our board of directors do not have service contracts with us and are not entitled to receive any benefits upon termination of their term as director.

Voting Agreement

Yehuda Zisapel, Zohar Zisapel and Roy Zisapel have entered into a voting agreement, which provides that, in respect of the election of our directors, they will nominate and vote for all three of them as directors. Under the voting agreement, no party will vote for the election of any other person as a director unless all these shareholders agree. The voting agreement will expire one year following the date of our initial public offering provided that it shall thereafter be automatically extended for four additional one-year periods unless any of the parties notifies each of the other parties 60 days prior to the expiration date that he does not agree to such extension. As of December 31, 1999, 4,751,608 ordinary shares owned by Messrs. Yehuda Zisapel and Zohar Zisapel representing approximately 30% of the then outstanding ordinary shares, are subject to the voting agreement, excluding 1,020,573 ordinary shares subject to options granted to Roy Zisapel.

Founders' Agreement

On April 1, 1997, we entered into an agreement with our founders, Messrs. Zohar, Yehuda and Roy Zisapel, pursuant to which Roy Zisapel agreed to serve as our chief executive officer for a period of no less than five years. In consideration for his services:

- we agreed to pay Roy Zisapel an annual salary of approximately $44,000, plus benefits, including contributions to a managers' insurance policy; and
- we granted Roy Zisapel options under our share option plan equal to 9.9% of the total amount of our issued and outstanding share capital as of April 1997.

In addition, the agreement provides that Roy Zisapel may not compete with us or disclose to third parties information pertaining to our business for a period ranging from twelve to thirty months from the date of termination of his employment, depending on the length of his term of employment with us.

Compensation

The following table sets forth all compensation we paid with respect to all of our directors and officers as a group for the year ended December 31, 1999. The table does not include any amounts we paid to reimburse any of our affiliates for costs incurred in providing us with services during such period, including services rendered by Yael Langer who is also our officer.

	Salaries, fees, commissions and bonuses	**Pension, retirement and other similar benefits**
All directors and officers as a group, consisting of 13 persons........................	$ 574,000	$ 52,000

As of March 31, 2000, our directors and officers as a group, consisting of 13 persons, held options to purchase an aggregate of 1,281,463 ordinary shares. All our officers work full time for us except Yael Langer, who is also an officer of other companies in the RAD-BYNET group. Other than reimbursement for expenses, we do not compensate our directors for serving on our board of directors.

During 1999, we granted in the aggregate to our directors and officers options to purchase 126, 417 ordinary shares at a weighted average exercise price of $4.30. The options expire sixty-two months after grant.

Key Employee Share Incentive Plan

In June 1997, we adopted our Key Employee Share Incentive Plan (1997). Options granted pursuant to our share option plan are for a term of sixty-two months from the date of the grant of the option. As of December 31, 1999, 1,814,400 ordinary shares have been reserved for option grants under the plan, of which we have granted options to purchase 1,630,736 ordinary shares, including 1,020,573 to Roy Zisapel, our Chief Executive Officer and President, at a weighted average exercise price of $1.29 per ordinary share. We intend to grant further options under our share option plan to our executive officers and employees.

Our share option plan is administered by the share incentive committee of our board of directors. Pursuant to the plan, the committee has the authority to determine, in its discretion:

- the persons to whom options are granted;
- the number of shares underlying each options award;
- the time or times at which the award shall be made;

- the exercise price, vesting schedule and conditions pursuant to which the options are exercisable; and

- any other matter necessary or desirable for the administration of the plan.

Pursuant to our share option plan, all options, or shares issued upon exercise of options, are held in trust and registered in the name of a trustee selected by the share incentive committee. The trustee will not release the options or ordinary shares to the option holder before the later of (1) the second anniversary of the registration of the options in the name of the trustee on behalf of the option holder and (2) the initial public offering of our ordinary shares. During this period, voting rights on the ordinary shares issued in respect of these options are vested in Messrs. Zohar and Yehuda Zisapel.

Our board of directors may terminate or amend our share option plan, provided that any action by our board of directors which will alter or impair the rights of an option holder requires the prior consent of that option holder.

1999 Employee Stock Purchase Plan

We adopted an employee stock purchase plan effective as of May 1, 2000. The purpose of the employee stock purchase plan is to align employee and shareholder long-term interests by facilitating the purchase of our ordinary shares by employees and to enable employees to develop and maintain significant ownership of ordinary shares.

General. The employee stock purchase plan is intended to comply with the requirements of Section 423 of the Internal Revenue Code, and to assure the participants of the tax advantages provided thereby. The number of our ordinary shares available for issuance under the employee stock purchase plan is limited to 200,000 ordinary shares.

Administration. The employee stock purchase plan will be administered by a committee established by the board of directors. The committee may make such rules and regulations and establish such procedures for the administration of the employee stock purchase plan as it deems appropriate.

Eligibility. All employees of the company and its designated subsidiaries who have at least one year of service and work more than 20 hours per week and five months in a calendar year will be eligible to participate in the employee stock purchase plan, except that employees who are "highly compensated" within the meaning of Section 414(q) of the Code and employees who are five percent or more stockholders of the company or any parent or subsidiary of the company will not be eligible to participate.

Grants. Pursuant to the employee stock purchase plan, each eligible employee will be permitted to purchase ordinary shares up to two times per calendar year through regular payroll deductions in an aggregate amount equal to 1% to 10% of the employee's base pay, as elected by the employee, for each payroll period. Under the employee stock purchase plan, a participant's right to purchase ordinary shares may not accrue at a rate that exceeds $25,000 of fair market value of the ordinary shares during any calendar year.

Offering Period; Purchase Period. The initial offering period will commence on the first trading day on or after the effective date of the employee stock purchase plan and end on the last trading day on or prior to the second anniversary of the commencement date. Each subsequent offering period will have a duration of approximately one year, commencing on the first trading day and ending on the last trading day of each calendar year (commencing with calendar year 2001). Each purchase period will have a duration of approximately six months.

Exercise Price. As of the last day of each purchase period ending within an offering period, participating employees will be able to purchase ordinary shares with payroll deductions for a purchase price equal to the lesser of:

- 85% of the fair market value of the ordinary shares on the date the offering period begins; and

- 85% of the fair market value of the ordinary shares on the last day of the purchase period.

A right to purchase shares which is granted to a participant under the employee stock purchase plan is not transferable otherwise than by will or the laws of descent and distribution.

Employees

At the time of commencement of employment, our employees in North America generally sign offer letters specifying basic terms and conditions of employment, and our employees in Israel generally, including our executive officers, sign standard written employment agreements, which include confidentiality and non-compete provisions.

As of December 31, 1999, we had 75 employees worldwide, of whom 43 were based in Israel and 32 were based in the United States. Of these 75 employees, 19 were employed in research and development, 42 were employed in sales and marketing, 6 were employed in management and administration and 8 were employed in operations. Approximately 67% of our employees have at least a college degree or its equivalent.

We are subject to Israeli labor laws and regulations with respect to our Israeli employees. These laws principally concern matters such as paid annual vacation, paid sick days, length of the workday and work week, minimum wages, pay for overtime, insurance for work-related accidents, severance pay and other conditions of employment.

Furthermore, we and our Israeli employees are subject to provisions of the collective bargaining agreements between the Histadrut, the General Federation of Labor in Israel, and the Coordination Bureau of Economic Organizations, including the Industrialists Association, by order of the Israeli Ministry of Labor and Welfare. These provisions principally concern cost of living increases, recreation pay and other conditions of employment. We provide our employees with benefits and working conditions above the required minimums. Our employees are not represented by a labor union. To date, we have not experienced any work stoppages.

Share Ownership

The following table sets forth certain information regarding the ownership of our ordinary shares by our directors and officers as of March 31, 2000. The percentage of outstanding ordinary shares is based on 15,854,209 ordinary shares outstanding as of March 31, 2000.

Name	Number of ordinary shares	Percentage of outstanding ordinary shares	Number of options
Yehuda Zisapel................	3,611,227	22.8%	--
Zohar Zisapel...................	1,140,381	7.2%	--
Roy Zisapel (1)................	--	--	1,020,573
All directors and executive officers as a group (13 persons) (2).....	4,815,112	30.4%	1,281,463

(1) Consists of 907,173 options exercisable as of March 31, 2000 and an additional 113,400 options which vest in one-third increments on each of January 1, 2002, 2003 and 2004. The options have a weighted average exercise price of $0.64 and terminate sixty-two months after the grant date if not sooner exercised.

(2) Each of the directors and executive officers not separately identified in the above table beneficially own less than 1% of our outstanding ordinary shares (including options held by each such party) and have therefore not been separately disclosed.

ITEM 7. Major Shareholders and Related Party Transactions

Major Shareholders

The following table sets forth certain information regarding the beneficial ownership of our ordinary shares as of March 31, 2000, by each person or entity known to own beneficially more than 5% of our outstanding ordinary shares based on information provided to us by the holders or disclosed in public filings with the Securities and Exchange Commission.

Name	Number of ordinary shares	Percentage of outstanding ordinary shares
Yehuda Zisapel (1)..........	3,611,227	22.8%
Evergreen Group (2)	1,559,541	9.8%
Polaris Group (3)............	1,322,744	8.3%
Zohar Zisapel (4)............	1,140,381	7.2%

(1) Includes 1,000,000 ordinary shares owned of record by Carm-AD Ltd.

(2) Consists of 37,895 ordinary shares owned by Evergreen Canada-Israel Management Ltd., 633,127 ordinary shares owned by Periscope I Fund, L.P., 162,271 ordinary shares owned by Periscope I Fund, Israeli Partnership, 682,836 ordinary shares owned by IJT Technologies Ltd., 41,823 ordinary shares owned by First Union Financial Company and 1,589 ordinary shares owned by Cathay Technologies (HK) Ltd.

(3) Consists of 471,349 ordinary shares owned by Polaris Fund II (Tax Exempt Investors), L.L.C., 311,089 ordinary shares owned by Polaris Fund II, L.L.C., 117,852 ordinary shares owned by Polaris Fund II, L.P., 276,952 ordinary shares owned by DS Polaris Trust Company (Foreign Residents) (1997) Ltd., 13,244 ordinary shares owned by DS Polaris Ltd. and 132,258 ordinary shares owned by Canada-Israel Opportunity Fund.

(4) Includes 448,200 ordinary shares owned of record by Lomsha Ltd. and 448,200 ordinary shares owned of record by Michael and Klil Holdings (93), Ltd.

HarbourVest International Private Equity Partners III – Direct Fund, L.P. disposed of certain of its holdings of our ordinary shares in our public offering in January 2000 and, as a result, no longer hold 5% or more of our outstanding ordinary shares.

Related Party Transactions

Services Furnished by RAD Data Communications Ltd. and BYNET Data Communications Ltd.

Each of RAD Data Communications Ltd. and BYNET Data Communications Ltd., our affiliates and members of the RAD-BYNET group, provides us with legal, personnel and administrative services, and we reimburse each for its costs in providing such services. The aggregate amount of these reimbursements was approximately $96,000 in 1999.

Agreement with RND Networks Ltd.

In November 1997, we entered into a technology transfer agreement with RND Networks Ltd., our affiliate and a member of the RAD-BYNET group, pursuant to which we obtained a perpetual, non-exclusive, royalty-free license for technology that was developed by RND Networks Ltd. and that is used in our products, for a one-time payment of $250,000. The technology relates to a standard component used as the basic platform for our products. As a condition for the approval of the Chief Scientist of the Ministry of Industry and Trade required for the license of the technology, we have committed to pay royalties to the Government of Israel on proceeds from sales of products which incorporate this technology. Royalty rates are 3% to 5%. Royalties are payable from the commencement of sales of products which incorporate this technology until the cumulative amount of the royalties paid and accrued by us and by RND Networks Ltd. equals 100% of the dollar linked amount received by RND Networks Ltd. from the Chief Scientist. Our maximum potential obligation for royalties, based on Israeli Government participations received or accrued, including participations with respect to technology developed by RND Networks Ltd., net of royalties paid or accrued, totaled approximately $1.0 million as of December 31, 1999.

Agreements with RAD Operation Services

In July 1999, we entered into a turnkey operating services agreement with RAD Operation Services Ltd., our affiliate and a member of the RAD-BYNET group, pursuant to which RAD Operation Services Ltd. agreed to supply us with circuit boards, the principal component used in the manufacture of our products, at agreed upon prices. In addition, RAD Operation Services Ltd. agreed to provide us with operational management services, including mechanical development, management information systems and procurement. In consideration for these services, we pay RAD Operation Services Ltd. a monthly fee of approximately $7,000.

In addition, we sublease from RAD Operation Services Ltd. approximately 2,150 square feet for our facility in Jerusalem, for a monthly rent of $1,960. The term of the sublease is five years, commencing May 1, 1999 and terminating in March 2004, with an option to renew for an additional five year term.

Agreement with RND Networks Inc.

In January 1999, our subsidiary, Radware Inc., agreed to acquire all of the assets of RND Networks, Inc., our affiliate and a member of the RAD-BYNET group, for an aggregate purchase price of approximately $171,000. In addition, we agreed to pay RND Networks, Inc. an additional amount equal to approximately $153,000 in consideration for recruiting services rendered in the United States.

We believe that the terms of the transactions in which we have engaged and are currently engaged with other members of the RAD-BYNET group are beneficial to us and no less favorable to us than terms which might be available to us from unaffiliated third parties. All future transactions and arrangements with other members of the RAD-BYNET group in which our office holders and directors have a personal interest will require approval by the audit committee and our board of directors and may also require approval by our shareholders.

Private Placement

In June 1999, we issued in a private placement to new investors and our existing shareholders, including the Evergreen Group and the Polaris Group, an aggregate of 1,577,340 Series B preferred shares at an aggregate purchase price of approximately $9.0 million, or $5.73 per share.

Registration Rights

In connection with the private placement of our Series B preferred shares, most of our existing shareholders prior to our initial public offering were granted registration rights with respect to the ordinary shares outstanding or to be issued upon conversion of their preferred shares (8,581,336 ordinary shares in the aggregate). The agreements provide that each of Messrs. Yehuda and Zohar Zisapel, as a group, the Evergreen Group and the Polaris Group, as a group, and HarbourVest together with all of the other investors in the June 1999 private placement, as a group, will have the right to make a single demand for the registration of their ordinary shares outstanding at the time of our initial public offering, provided that the demand covers shares representing a market value of at least $3 million. The shareholders' rights will be exercisable at any time commencing on the first anniversary of the consummation of our initial public offering and for a period of three years or, in specified cases, for a period of five years thereafter. In addition, each of the shareholders has the right to have its ordinary shares included in certain of our registration statements.

Voting Agreement

See discussion on page 45, under "Directors and Senior Management"

Founders' Agreement

See discussion on page 45, under "Directors and Senior Management"

ITEM 8. Financial Information

The Financial Statements required by this item are found at the end of this Annual Report, beginning on page F-1.

ITEM 9. The Offer and Listing

Markets

Our ordinary shares have been listed for quotation on the Nasdaq National Market as of September 30, 1999, under the symbol "RDWR". Prior to that date, there had been no market to our ordinary shares.

Offer and Listing Details

The following table sets forth the high and low closing price for our ordinary shares as reported by the Nasdaq National Market for the periods indicated:

	Price per share	
1999	**High**	**Low**
September 30 – December 31	$80	$26½
2000		
January 1 – March 31	67 7/16	38¾
April 1 – April 30	33¼	19 5/8

ITEM 10. Additional information

Memorandum and Articles of Association

For information concerning our memorandum of association and articles of association, see our Registration Statement on Form F-1 (File no. 333-11298).

Material Contracts

For a summary of our material contracts, see “Item 7 – Related Party Transactions.”

Taxation

Israeli Tax Considerations and Foreign Exchange Regulation

The following is a summary of the current tax structure applicable to companies in Israel, with special reference to its effect on us. The following also contains a discussion of the material Israeli and United States tax consequences to purchasers of our ordinary shares and Israeli government programs benefiting us. To the extent that the discussion is based on new tax legislation which has not been subject to judicial or administrative interpretation, we cannot assure you that the views expressed in the discussion will be accepted by the tax authorities in question. The discussion is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations.

Holders of our ordinary shares should consult their own tax advisors as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of ordinary shares, including, in particular, the effect of any foreign, state or local taxes.

General Corporate Tax Structure

Israeli companies are subject to “Company Tax” at the rate of 36% of taxable income. However, the effective tax rate payable by a company which derives income from an approved enterprise (as further discussed below) may be considerably less.

Tax Benefits Under the Law for the Encouragement of Capital Investments, 1959

The Law for the Encouragement of Capital Investments, 1959, as amended, provides that a proposed capital investment in eligible facilities may, upon application to the Investment Center of the Ministry of Industry and Commerce of the State of Israel, be designated as an approved enterprise. The Investment Center bases its decision as to whether or not to approve an application on the criteria set forth in the Investment Law and regulations, the then prevailing policy of the Investment Center, and the specific objectives and financial criteria of the applicant. Each certificate of approval for an approved enterprise relates to a specific investment program delineated both by its financial scope, including its capital sources, and by its physical characteristics, *e.g.*, the equipment to be purchased and utilized pursuant to the program.

The Investment Law provides that an approved enterprise is eligible for tax benefits on taxable income derived from its approved enterprise programs. If a company has more than one approval or only a portion of its capital investments are approved, its effective tax rate is the result of a weighted average of the applicable rates. The tax benefits under the Investment Law are not available with respect to income derived from products manufactured outside of Israel. In addition, the tax benefits available to an approved enterprise are contingent upon the fulfillment of conditions stipulated in the Investment Law and regulations and the criteria set forth in the specific certificate of approval, as described above. In the event that a company does not meet these conditions, it would be required to refund the amount of tax benefits, plus a consumer price index linkage adjustment and interest.

The Investment Law also provides that an approved enterprise is entitled to accelerated depreciation on its property and equipment that are included in an approved enterprise program.

Taxable income of a company derived from an approved enterprise is subject to company tax at the maximum rate of 25%, rather than 36%, for the benefit period. This period is ordinarily seven years commencing with the year in which the approved enterprise first generates taxable income, and is limited to twelve years from commencement of production or 14 years from the date of approval, whichever is earlier.

Instead of the foregoing tax benefits, a company may elect to receive an alternative package of benefits. Under the alternative package of benefits, a company's undistributed income derived from an approved enterprise will be exempt from company tax for a period of between two and ten years from the first year the company derives taxable income under the program, depending on the geographic location of the approved enterprise within Israel, and such company will be eligible for a reduced tax rate for the remainder of the benefits period.

A company that has elected the alternative package of benefits and that subsequently pays a dividend out of income derived from the approved enterprise during the tax exemption period will be subject to tax in respect of the amount distributed, including any taxes thereon, at the rate which would have been applicable had it not elected the alternative package of benefits, generally 10%-25%, depending on the percentage of the company's ordinary shares held by foreign shareholders. The dividend recipient is taxed at the reduced rate applicable to dividends from approved enterprises, if the dividend is distributed during the tax exemption period or within twelve years thereafter. The company must withhold this tax at source, regardless of whether the dividend is converted into foreign currency.

Subject to applicable provisions concerning income under the alternative package of benefits, dividends paid by a company are considered to be attributable to income received from the entire company and the company's effective tax rate is the result of a weighted average of the various applicable tax rates, excluding any tax exempt income. Under the Investment Law, a company that has elected the alternative package of benefits is not obliged to distribute retained profits, and may generally decide from which year's profits to declare dividends.

In December 1998, the Investment Center granted us an approval for establishing an "approved enterprise" program at our manufacturing facility under the Investment Law. Although we do not currently have an approved enterprise program, we have begun to make the necessary capital investments to establish an approved enterprise program and intend to complete such capital investments in 2000.

We have elected the alternative package of benefits for the approved enterprise program we intend to establish at our manufacturing facility. Once it is established, our income derived from this approved enterprise program will be tax exempt for a period of two years and will be subject to a reduced company tax of up to 25% for the following five years.

The approval which the Investment Center granted us is for establishing an approved enterprise program in Tel Aviv, Israel. However, our manufacturing facility is located in Jerusalem and we, therefore, have submitted a request to the Investment Center to designate our approved enterprise program for tax benefits applicable to an enterprise established and located in Jerusalem. These benefits provide that income derived from the approved enterprise program will be tax exempt for six years and will be taxed at a reduced company tax rate of up to 25% for one additional year. The six-year tax exemption period may be extended to ten years if we apply to the Investment Center for recognition as a "High Technology" facility and this status is recognized. We currently intend to reinvest any income derived from our approved enterprise program and not to distribute such income as a dividend.

Grants under the Law for the Encouragement of Industrial Research and Development, 1984

Under the Law for the Encouragement of Industrial Research and Development, 1984, research and development programs which meet specified criteria and are approved by a governmental committee of the Office of the Chief Scientist are eligible for grants of up to 50% of the project's expenditure, as determined by the research committee, in exchange for the payment of royalties from the sale of products developed in accordance with the program. Regulations promulgated under the Research Law generally provide for the payment of royalties to the Israeli Government ranging from 3% to 5% on sales of products developed using such grants until 100% of the dollar-linked grant is repaid.

The Research Law requires that products developed with Chief Scientist grants be manufactured in Israel. However, under the regulations promulgated under the Research Law, products developed with Chief Scientist grants may be manufactured outside of Israel by any entity other than the company which received the grants, with the approval of the Chief Scientist, except that the company would be required to pay royalties that are adjusted in proportion to manufacturing outside of Israel, effectively adjusting the royalties to a percentage equal to the ratio of the amount of grants received from the Chief Scientist, linked to the dollar, divided by the amount of grants received from the Chief Scientist, linked to the dollar, and the investments made by the company in the project. In addition, the total amount to be repaid to the Israeli Government will also be adjusted to 120%, 150% or 300% of the grant if the manufacturing volume that is performed outside Israel is less than 50%, between 50% and 90% or more than 90% of the company's total manufacturing volume. The technology developed pursuant to the Chief Scientist grants may not be transferred to third parties without the prior approval of a governmental committee under the Research Law. Such approval, however, is not required for the export of any products developed using the grants. Approval of the transfer of technology may be granted only if the recipient abides by the provisions of the Research Law and regulations promulgated thereunder, including the restrictions on the transfer of know-how and the obligation to pay royalties.

Effective for grants received from the Chief Scientist under programs approved after January 1, 1999, the outstanding balance of such grants to be repaid through the payment of royalties will be subject to interest at a rate equal to LIBOR for 12 months applicable to dollar deposits.

The funds generally available for Chief Scientist grants were reduced in 1998 and remained at the same level in 1999, and the Israeli authorities have indicated that the government may further reduce or abolish Chief Scientist grants in the future.

Generally, expenditures supported under other incentive programs of the State of Israel are not eligible for Chief Scientist grants.

Tax Benefits and Grants for Research and Development

Israeli tax law allows, under specified conditions, a tax deduction for expenditures, including capital expenditures, in the year incurred relating to scientific research and development projects, if the expenditures are approved by the relevant Israeli Government ministry, determined by the field of research, and the research and development is for the promotion of the company and is carried out by or on behalf of the company seeking such deduction. Expenditures not so approved are deductible over a three-year period. However, expenditures made out of proceeds made available through government grants are not deductible.

Tax Benefits Under the Law for the Encouragement of Industry (Taxes), 1969

Under the Law for the Encouragement of Industry (Taxes), 1969, Industrial Companies are entitled to the following preferred corporate tax benefits:

• deduction of purchases of know-how and patents over an eight-year period for tax purposes;

• right to elect, under specified conditions, to file a consolidated tax return with additional related Israeli Industrial Companies; and

• accelerated depreciation rates on equipment and buildings.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority. Under the Industry Encouragement Law, an “Industrial Company” is defined as a company resident in Israel, at least 90% of the income of which, in any tax year, determined in Israeli currency, exclusive of income from government loans, capital gains, interest and dividends, is derived from an “Industrial Enterprise” owned by it. An “Industrial Enterprise” is defined as an enterprise whose major activity in a given tax year is industrial production activity.

We believe that we currently qualify as an Industrial Company within the definition of the Industry Encouragement Law. No assurance can be given that we will continue to qualify as an Industrial Company or that the benefits described above will be available in the future.

Special Provisions Relating to Taxation Under Inflationary Conditions

The Income Tax Law (Inflationary Adjustments), 1985, represents an attempt to overcome the problems presented to a traditional tax system by an economy undergoing rapid inflation. The Inflationary Adjustments Law is highly complex. Its features which are material to us can be described as follows:

• The law provides for a special tax adjustment for the preservation of equity whereby certain corporate assets are classified broadly into fixed assets and non-fixed assets. Where a company's equity, as defined in such law, exceeds the depreciated cost of fixed assets, a deduction from taxable income that takes into account the effect of the applicable annual rate of inflation on such excess is allowed up to a ceiling of 70% of taxable income in any single tax year, with the unused portion permitted to be carried forward on a linked basis. If the depreciated cost of fixed assets exceeds a company's equity, then such excess multiplied by the applicable annual rate of inflation is added to taxable income.

• Subject to certain limitations, depreciation deductions on fixed assets and losses carried forward are adjusted for inflation based on the increase in the consumer price index.

• Taxable gains on certain traded securities which are normally exempt from tax are taxable in specified circumstances. However, dealers in securities are subject to the regular tax rules applicable to business income in Israel.

Capital Gains Tax on Sales of Our Ordinary Shares

Israeli law imposes a capital gains tax on the sale of capital assets. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is a portion of the total capital gain which is equivalent to the increase of the relevant asset's purchase price which is attributable to the increase in the Israeli consumer price index between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus. The inflationary surplus accumulated from and after December 31, 1993, is exempt from any capital gains tax in Israel while the real gain is added to ordinary income, which is taxed at ordinary rates of 30% to 50% for individuals and 36% for corporations.

Under current law, sales of our ordinary shares are exempt from Israeli capital gains for so long as they are quoted on Nasdaq or listed on a stock exchange in a country appearing in a list approved by the Controller of Foreign Currency and we qualify as an Industrial Company. There can be no assurance that we will maintain such qualification or our status as an Industrial Company. Notwithstanding the foregoing, dealers in securities in Israel are taxed at regular tax rates applicable to business income.

Pursuant to the Convention Between the government of the United States of America and the government of Israel with Respect to Taxes on Income, as amended, the sale, exchange or disposition of ordinary shares by a person who (i) holds the ordinary shares as a capital asset, (ii) qualifies as a resident of the United States within the meaning of the U.S.-Israel Tax Treaty and (iii) is entitled to claim the benefits afforded to such person by the U.S.-Israel Tax Treaty generally will not be subject to the Israeli capital gains tax unless such Treaty U.S. Resident holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding such sale, exchange or disposition, subject to certain conditions. A sale, exchange or disposition of ordinary shares by a Treaty U.S. Resident who holds, directly or indirectly, shares representing 10% or more of our voting power at any time during such preceding 12-month period would be subject to such Israeli tax, to the extent applicable; however, under the U.S.-Israel Tax Treaty, such Treaty U.S. Resident would be permitted to claim a credit for such taxes against the U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel Tax Treaty does not relate to U.S. state or local taxes.

Taxation of Non-Resident Holders of Shares

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. Such sources of income include passive income such as dividends, royalties and interest, as well as non-passive income from services rendered in Israel. On distributions of dividends other than bonus shares, or stock dividends, income tax at the rate of up to 25% is withheld at source, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence. Under the U.S.-Israel Tax Treaty, the maximum tax on dividends paid to a holder of ordinary shares who is a Treaty U.S. Resident is 25%. However, under the Investment Law, dividends generated by an Approved Enterprise are taxed at the rate of 15%.

Under an amendment to the Inflationary Adjustments Law, non-Israeli corporations might be subject to Israeli taxes on the sale of traded securities in an Israeli company, subject to the provisions of any applicable double taxation treaty.

For information with respect to the applicability of Israeli capital gains taxes on the sale of ordinary shares by United States residents, see "— Capital Gains Tax on Sales of Our Ordinary Shares."

Foreign Exchange Regulations

Dividends (if any) paid to the holders of the ordinary shares offered hereby, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of the ordinary shares to an Israeli resident, may be paid in non-Israeli currency or, if paid in Israeli currency, may be converted into freely repatriable dollars at the rate of exchange prevailing at the time of conversion.

United States Federal Income Tax Considerations

Subject to the limitations described in the next paragraph, the following discussion describes the material United States federal income tax consequences to a holder of our ordinary shares who purchases such shares pursuant to this offering, referred to for purposes of this discussion as a "U.S. Holder", that is:

- a citizen or resident of the United States;
- a corporation created or organized in the United States or under the laws of the United States or of any state;
- an estate, the income of which is includible in gross income for United States federal income tax purposes regardless of its source; or
- a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to each person's decision to purchase ordinary shares. This summary considers only U.S. Holders that will own ordinary shares as capital assets.

This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended, current and proposed Treasury regulations promulgated thereunder, and administrative and judicial decisions as of the date hereof, all of which are subject to change, possibly on a retroactive basis. This discussion does not address all aspects of United States federal income taxation that may be relevant to any particular shareholder based on such shareholder's individual circumstances. In particular, this discussion does not address the potential application of the alternative minimum tax or United States federal income tax consequences to shareholders that are subject to special treatment, including:

- taxpayers who are broker-dealers or insurance companies;
- taxpayers who have elected mark-to-market accounting;
- tax-exempt organizations;
- financial institutions or "financial services entities";
- taxpayers who hold ordinary shares as part of a straddle, "hedge" or "conversion transaction" with other investments;
- non-U.S. corporations;
- non-resident aliens of the United States;
- holders owning directly, indirectly or by attribution at least 10% of our voting power; and
- taxpayers whose functional currency is not the U.S. dollar.

In addition, this discussion does not address any aspect of state, local or non-United States tax laws.

Additionally, the discussion does not consider the tax treatment of partnerships or persons who hold ordinary shares through a partnership or other pass-through entity or the possible application of United States federal gift or estate tax. Material aspects of United States federal income tax relevant to a holder other than a U.S. Holder are also discussed below.

Each holder of ordinary shares is advised to consult such person's own tax advisor with respect to the specific tax consequences to such person of purchasing, holding or disposing of our ordinary shares.

Taxation of Ordinary Shares

Taxation of Dividends Paid On Ordinary Shares. A U.S. Holder will be required to include in gross income as ordinary income the amount of any distribution paid on ordinary shares, including any Israeli taxes withheld from the amount paid, on the date the distribution is received to the extent the distribution is paid out of our current or accumulated earnings and profits as determined for United States federal income tax purposes. Distributions in excess of such earnings and profits will be applied against and will reduce the U.S. Holder's basis in the ordinary shares and, to the extent in excess of such basis, will be treated as gain from the sale or exchange of ordinary shares.

Distributions of current or accumulated earnings and profits paid in foreign currency to a U.S. Holder will be includible in the income of a U.S. Holder in a U.S. dollar amount calculated by reference to the exchange rate on the day the distribution is received. A U.S. Holder that receives a foreign currency distribution and converts the foreign currency into U.S. dollars subsequent to receipt will have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the U.S. dollar, which will generally be U.S. source ordinary income or loss.

U.S. Holders will have the option of claiming the amount of any Israeli income taxes withheld at source either as a deduction from gross income or as a dollar-for-dollar credit against their United States federal income tax liability. Individuals who do not claim itemized deductions, but instead utilize the standard deduction, may not claim a deduction for the amount of the Israeli income taxes withheld, but such amount may be claimed as a credit against the individual's United States federal income tax liability. The amount of foreign income taxes which may be claimed as a credit in any year is subject to complex limitations and restrictions, which must be determined on an individual basis by each shareholder. These limitations include, among others, rules which limit foreign tax credits allowable with respect to specific classes of income to the United States federal income taxes otherwise payable with respect to each such class of income. The total amount of allowable foreign tax credits in any year cannot exceed regular U.S. tax liability for the year attributable to foreign source taxable income. A U.S. Holder will be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on the ordinary shares to the extent such U.S. Holder has not held the ordinary shares for at least 16 days of the 30-day period beginning on the date which is 15 days before the ex-dividend date or to the extent such U.S. Holder is under an obligation to make related payments with respect to substantially similar or related property. Any days during which a U.S. Holder has substantially diminished its risk of loss on the ordinary shares are not counted toward meeting the 16 day holding period required by the statute. In addition, distributions of current or accumulated earnings and profits will be foreign source passive income for United States foreign tax credit purposes and will not qualify for the dividends received deduction available to corporations.

Taxation of the Disposition of Ordinary Shares. Upon the sale, exchange or other disposition of ordinary shares, a U.S. Holder will recognize capital gain or loss in an amount equal to the difference between such U.S. Holder's basis in the ordinary shares, which is usually the cost of such shares, and the amount realized on the disposition. A U.S. Holder that uses the cash method of accounting calculates the U.S. dollar value of the proceeds received on the sale date as of the date that the sale settles, while a U.S. Holder that uses the accrual method of accounting is required to calculate the value of the proceeds of the sale as of the "trade date," unless such U.S. Holder has elected to use the settlement date to determine its proceeds of sale. Capital gain from the sale, exchange or other disposition of ordinary shares held more than one year is long-term capital gain, and is eligible for a maximum 20% rate of taxation for individuals. Gains recognized by a U.S. Holder on a sale, exchange or other disposition of ordinary shares will be treated as United States source income for United States foreign tax credit purposes. A loss recognized by a U.S. Holder on the sale, exchange or other disposition of ordinary shares is allocated to U.S. source income. The deductibility of a capital loss recognized on the sale, exchange or other disposition of ordinary shares is subject to limitations. A U.S. Holder that receives foreign currency upon disposition of ordinary shares and converts the foreign currency into U.S. dollars subsequent to receipt will have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the U.S. dollar, which will generally be U.S. source ordinary income or loss.

Tax Consequences if We Are a Passive Foreign Investment Company. We will be a passive foreign investment company, or PFIC, if 75% or more of our gross income in a taxable year, including our pro rata share of the gross income of any company, U.S. or foreign, in which we are considered to own 25% or more of the shares by value, is passive income. Alternatively, we will be considered to be a PFIC if at least 50% of our assets in a taxable year, averaged over the year and ordinarily determined based on fair market value and including our pro rata share of the assets of any company in which we are considered to own 25% or more of the shares by value, are held for the production of, or produce, passive income. Passive income includes amounts derived by reason of the temporary investment of funds raised in our initial public offering and this offering. If we were a PFIC, and a U.S. Holder did not make a election to treat us as a "qualified electing fund" (as described below):

- Excess distributions by us to a U.S. Holder would be taxed in a special way. "Excess distributions" are amounts received by a U.S. Holder with respect to our stock in any taxable year that exceed 125% of the average distributions received by such U.S. Holder from us in the shorter of either the three previous years or such U.S. Holder's holding period for ordinary shares before the present taxable year. Excess distributions must be allocated ratably to each day that a U.S. Holder has held our stock. A U.S. Holder must include amounts allocated to the current taxable year in its gross income as ordinary income for that year. A U.S. Holder must pay tax on amounts allocated to each prior taxable year in which we were a PFIC at the highest rate in effect for that year on ordinary income and the tax is subject to an interest charge at the rate applicable to deficiencies for income tax.

- The entire amount of gain that realized by a U.S. Holder upon the sale or other disposition of ordinary shares will also be rated as an excess distribution and will be subject to tax as described above.

- The tax basis in shares of our stock that were acquired from a decedent who was a U.S. Holder would not receive a step-up to fair market value as of the date of the decedent's death but would instead be equal to the decedent's basis, if lower.

The special PFIC rules described above will not apply to a U.S. Holder if the U.S. Holder makes an election to treat us as a "qualified electing fund" for the first taxable year in which the U.S. Holder owns ordinary shares and if we comply with certain reporting requirements. Instead, a shareholder of a qualified electing fund is required for each taxable year to include in income a pro rata share of the ordinary earnings of the qualified electing fund as ordinary income and a pro rata share of the net capital gain of the qualified electing fund as long-term capital gain, subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge. We have agreed to supply U.S. Holders with the information needed to report income and gain pursuant to a QEF election in the event we are classified as PFIC. The QEF election is made on a shareholder-by-shareholder basis and can be revoked only with the consent of the Internal Revenue Service, or IRS. A shareholder makes a QEF election by attaching a completed IRS Form 8621, including the PFIC annual information statement, to a timely filed United States federal income tax return and by filing such form with the IRS Service Center in Philadelphia, Pennsylvania. Even if a QEF election is not made, a U.S. person who is a shareholder in a PFIC must file a completed IRS Form 8621 every year.

A U.S. Holder of PFIC stock which is publicly traded could elect to mark the stock to market annually, recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the PFIC stock and the U.S. Holder's adjusted tax basis in the PFIC stock. Losses would be allowed only to the extent of net mark-to-market gain previously included by the U.S. Holder under the election for prior taxable years. If the mark-to-market election were made, then the rules set forth above would not apply for periods covered by the election.

We were not a PFIC for 1999 and, based on our current business plan, we believe that we will not be a PFIC for 2000. However, the tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of future income and assets, which are relevant to this determination. Accordingly, there can be no assurance that we will not become a PFIC. U.S. Holders who hold ordinary shares during a period when we are a PFIC will be subject to the foregoing rules, even if we cease to be a PFIC, subject to certain exceptions for U.S. Holders who made a QEF election. U.S. Holders are urged to consult their tax advisors about the PFIC rules, including QEF elections.

Tax Consequences for Non-U.S. Holders of Ordinary Shares

Except as described in "Information Reporting and Back-up Withholding" below, a Non-U.S. Holder of ordinary shares will not be subject to U.S. federal income or withholding tax on the payment of dividends on, and the proceeds from the disposition of, ordinary shares, unless:

- such item is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States and, in the case of a resident of a country which has a treaty with the United States, such item is attributable to a permanent establishment or, in the case of an individual, a fixed place of business, in the United States;

- the Non-U.S. Holder is an individual who holds the ordinary shares as a capital asset and is present in the United States for 183 days or more in the taxable year of the disposition and does not qualify for an exemption; or

- the Non-U.S. Holder is subject to tax pursuant to the provisions of United States tax law applicable to U.S. expatriates.

Information Reporting and Back-up Withholding

U.S. Holders generally are subject to information reporting requirements with respect to dividends paid in the United States on ordinary shares. Under existing regulations, such dividends are not subject to back-up withholding. U.S. Holders are subject to information reporting and back-up withholding at a rate of 31% on proceeds paid from the disposition of ordinary shares unless the U.S. Holder provides IRS Form W-9 or otherwise establishes an exemption.

Non-U.S. Holders generally are not subject to information reporting or back-up withholding with respect to dividends paid on, or the proceeds from the disposition of, ordinary shares, provided that such non-U.S. Holder provides a taxpayer identification number, certifies to its foreign status, or otherwise establishes an exemption.

Treasury regulations effective January 1, 2001 may alter the rules regarding information reporting and back-up withholding. In particular, those regulations would impose back-up withholding on dividends paid in the United States on ordinary shares unless the U.S. Holder provides IRS Form W-9 or otherwise establishes an exemption. Prospective investors should consult their tax advisors concerning the effect, if any, of these Treasury regulations on an investment in ordinary shares. The amount of any back-up withholding will be allowed as a credit against a U.S. or Non-U.S. Holder's United States federal income tax liability and may entitle such Holder to a refund, provided that certain required information is furnished to the IRS.

Documents on Display

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, applicable to foreign private issuers and fulfill the obligations with respect to such requirements by filing reports with the Securities and Exchange Commission. You may read and copy any document we file with the

Securities and Exchange Commission without charge at the Securities and Exchange Commission's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such material may be obtained by mail from the Public Reference Branch of the Securities and Exchange Commission at such address, at prescribed rates. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference room.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the Securities and Exchange Commission as frequently or as promptly as United States companies whose securities are registered under the Exchange Act. However, we intend to file with the Securities and Exchange Commission, within 180 days after the end of each fiscal year, an annual report on Form 20-F containing financial statements which will be examined and reported on, with an opinion expressed, by an independent public accounting firm, as well as reports on Form 6-K containing unaudited financial information for the first three quarters of each fiscal year, within 60 days after the end of each such quarter.

ITEM 11. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

ITEM 12. Description of Securities other than Equity Securities

Not applicable.

PART

ITEM 13. Defaults, Dividend Averages and Delinquencies

Not applicable.

ITEM 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

The effective date of the registration statement (No. 333-10752) for our initial public offering of our ordinary shares, NIS 0.1 par value, was September 29, 1999. The offering commenced on October 5, 1999, and terminated after the sale of all the securities registered. The managing underwriter of the offering was Salomon Smith Barney. We registered 4,025,000 ordinary shares in the offering, including shares issued pursuant to the exercise of the underwriters' over-allotment option. Of such shares, we sold 3,500,000 ordinary shares at an aggregate offering price of $63.0 million ($18.00 per share) and certain selling shareholders sold an aggregate of 525,000 ordinary shares at an aggregate offering price of $9.45 million ($18.00 per share). Under the terms of the offering, we incurred underwriting discounts of $4.41 million. We also incurred estimated expenses of $1.82 million in connection with the offering. None of the expenses consisted of amounts paid directly or indirectly to any of our directors, officers, general partners or their associates, any persons owing ten percent or more of any class of our equity securities, or any of our affiliates. The net proceeds that we received as a result of the offering were approximately $56.8 million. As of March 31, 2000, the net proceeds have been kept in deposits for a range of 30 days to six months, at interest rates ranging from 6.03% to 6.33%. None of the use of proceeds consisted of amounts paid directly or indirectly to any of our directors, officers, general partners or their associates, any persons owing ten percent or more of any class of our equity securities, or any of our affiliates. In January 2000, we raised net proceeds of approximately $60.0 million in a public offering of our ordinary shares. The net proceeds are kept also in deposits for 30 days up to six months, at interest rates ranging from 6.03% to 6.3%.

ITEM 15. [reserved]

ITEM 16. [reserved]

PART

ITEM 17. Financial Statements

We have responded to Item 18 in lieu of this item.

ITEM 18. Financial Statements

The Financial Statements required by this item are found at the end of this Annual Report, beginning on page F-1.

ITEM 19. Exhibits

The exhibits filed with or incorporated into this annual report are listed on the index of exhibits below.

Exhibit No.	Exhibit
1.1	Memorandum of Association*
1.2	Articles of Association*
3	Voting Agreement, dated as of August 19, 1999, among Roy Zisapel, Yehuda Zisapel and Zohar Zisapel*
8	List of Subsidiaries*

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* Incorporated by reference to the Registration Statement on Form F-1 (File No. 333-10752).

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

RADWARE LTD.

By: /s/ Yehuda Zisapel
Chairman of the Board of Directors

Date: May __, 2000

RADWARE LTD.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of
RADWARE LTD.

We have audited the accompanying consolidated balance sheets of Radware Ltd. (an Israeli corporation) as of December 31, 1999 and 1998, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years ended December 31, 1999 and 1998 and for the period from commencement of operations (April 1, 1997) to December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 1999 and 1998, and the consolidated results of operations, changes in shareholders' equity and cash flows for the years ended December 31, 1999 and 1998 and for the period from commencement of operations (April 1, 1997) to December 31, 1997, in conformity with accounting principles generally accepted in the United States.

Luboshitz Kasierer
Member Firm of Arthur Andersen

Tel Aviv, Israel
February 3, 2000

	Note	December 31, 1998	December 31, 1999
Current assets			
Cash and cash equivalents	(3)	1,677	68,747
Trade receivables, net	(4)	839	2,915
Other receivables and prepaid expenses	(4)	471	920
Inventories	(5)	565	782
Total current assets		3,552	73,364
Property and equipment, net	(6)	218	1,036
Deposit with insurance companies	(8)	63	254
Security deposit		-	80
Total assets		3,833	74,734
Current liabilities			
Trade payables		336	1,813
Other payables and accrued expenses	(7)	709	3,248
Total current liabilities		1,045	5,061
Accrued severance pay	(8)	83	254
Total liabilities		1,128	5,315
Commitments	(9)		
Shareholders' equity	(10)		
Ordinary shares of NIS 0.1 par value: Authorized - 30,000,000 shares (1998 - 16,200,000 shares) Issued and outstanding - 14,604,209 shares (1998 - 9,526,869 shares)		16	360
Additional paid-in capital		4,262	71,817
Deferred compensation		(88)	(1,553)
Accumulated deficit		(1,485)	(1,205)

RADWARE LTD.

CONSOLIDATED BALANCE SHEETS

In thousands of U.S. dollars (except per share data)

Total shareholders’ equity	2,705	69,419
Total liabilities and shareholders' equity	3,833	74,734

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

	Note	For the period (*) ended December 31, 1997	For the year ended December 31, 1998	1999
Sales	(12)	1,159	4,900	14,141
Cost of sales		599	899	2,269
Gross profit		560	4,001	11,872
Operating expenses				
Research and development expenses		411	1,081	2,099
Less-participation by the Chief Scientist of the Government of Israel	(9)	-	341	466
Research and development expenses, net		411	740	1,633
Marketing and selling expenses	(13)	248	4,205	9,678
General and administrative expenses		142	298	1,137
Total operating expenses		801	5,243	12,448
Operating loss		(241)	(1,242)	(576)
Financing income (expenses), net		9	(11)	856
Net income (loss)		(232)	(1,253)	280
Net income (loss) per ordinary share				
Basic		(0.04)	(0.16)	0.03
Diluted		(0.04)	(0.16)	0.02
Weighted average number of shares used in computing per share amounts:				
Basic		6,350,400	7,777,635	11,174,639
Diluted		6,350,400	7,777,635	12,472,318

(*) From commencement of operations - April 1, 1997.

	Ordinary shares					
	Shares	**Amount**	**Additional paid-in capital**	**Deferred compensation**	**Accumulated deficit**	**Total**
Shares issued	6,350,400	-	-	-	-	-
Net loss (*)	-	-	-	-	(232)	(232)
Balance as of December 31, 1997	6,350,400	-	-	-	(232)	(232)
Shares issued	-	7	-	-	-	7
Shares issued on conversion of debentures	3,176,469	9	4,121 (**)	-	-	4,130
Deferred compensation	-	-	141	(141)	-	-
Amortization of deferred compensation	-	-	-	53	-	53
Net loss	-	-	-	-	(1,253)	(1,253)
Balance as of December 31, 1998	9,526,869	16	4,262	(88)	(1,485)	2,705
Shares issued in a private placement	1,577,340	2	8,898 (***)	-	-	8,900
Shares issued in an initial public offering	3,500,000	82	56,749 (****)	-	-	56,831
Stock split in the form of share dividend	-	260	(260)	-	-	-
Deferred compensation	-	-	2,192	(2,192)	-	-
Amortization of deferred compensation	-	-	(24)	727	-	703
Net income	-	-	-	-	280	280
Balance as of December 31, 1999	14,604,209	360	71,817	(1,553)	(1,205)	69,419

(*) For the period from April 1, 1997 to December 31, 1997.
(**) Net of issuance expenses of $39.
(***) Net of issuance expenses of $141.
(****) Net of issuance expenses of $6,169.

	For the period (*) ended December 31,	For the year ended December 31,	
	1997	**1998**	**1999**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	(232)	(1,253)	280
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Income and expenses not affecting operating cash flows:			
Depreciation	10	44	132
Amortization of deferred stock compensation	-	53	703
Interest accrued on convertible debentures	-	168	-
Accrued severance pay and others	5	10	(18)
Changes in operating assets and liabilities:			
Increase in trade receivables	(35)	(804)	(2,076)
Increase in other receivables and prepaid expenses	(12)	(459)	(449)
Increase in inventories	(272)	(293)	(217)
Increase in trade payables	221	121	1,477
Increase in other payables and accrued expenses	105	605	2,539
Net cash provided by (used in) operating activities	(210)	(1,808)	2,371
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	(163)	(130)	(980)
Proceeds from sale of property and equipment	20	-	28
Deposit	-	-	(80)
Net cash used in investing activities	(143)	(130)	(1,032)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from convertible debentures issued	4,000	-	-
Proceeds from shares issued	-	7	72,041
Share issuance expenses	-	(39)	(6,310)
Net cash provided by (used in) financing activities	4,000	(32)	65,731
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,647	(1,970)	67,070
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	-	3,647	1,677
CASH AND CASH EQUIVALENTS AT END OF PERIOD	3,647	1,677	68,747
NONCASH ACTIVITIES			
Conversion of convertible debentures	-	4,168	-

(*) From commencement of operations - April 1, 1997.

Note 1 - GENERAL

A. Radware Ltd. (“the Company”), an Israeli corporation, commenced operations in April 1997. The Company is engaged in the development, manufacture and sale of Internet traffic management solutions that enable continuous, high quality access to Web sites and other Internet Protocol (I/P) services, applications and content.

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiary in the United States, Radware Inc., which was incorporated on January 1, 1999. The subsidiary is primarily engaged in the sale and marketing of the Company’s products within North America.

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

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

Monetary items - at the exchange rate in effect on balance sheet date.

Nonmonetary items - at historical exchange rates.

Revenue and expense items - at the exchange rates in effect as of date of recognition of those items (excluding depreciation and other items deriving from non-monetary items).

All exchange gains and losses from the translation mentioned above (which are immaterial for all periods presented) are reflected in the statement of operations. The representative rate of exchange at December 31, 1999 was US$ 1.00 - 4.153 New Israeli Shekels ("NIS") (December 31, 1998 and 1997 - NIS 4.160 and 3.536, respectively).

Note 2 - SIGNIFICANT ACCOUNTING POLICIES

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

A. PRINCIPLES OF CONSOLIDATION

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

B. CASH AND CASH EQUIVALENTS

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

C. ALLOWANCE FOR DOUBTFUL DEBTS

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

D. INVENTORIES

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

E. PROPERTY AND EQUIPMENT

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

F. PROVISION FOR WARRANTY COSTS

The Company provides warranty for a twelve months period. Provision for warranty costs is based on Company's experience.

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

G. REVENUE RECOGNITION

Revenues from product sales are recognized upon shipment in the case of indirect sales, to the distributor, and in the case of direct sales, to the final customers, in each case when no right of return exists and collection is probable. Revenue from sale of Post-Contract Support ("PCS") services is included ratably over the service period. PCS services are generally provided under standard contracts with a one year term at a fixed fee equal to 10% of the purchase price paid for the product.

H. RESEARCH AND DEVELOPMENT COSTS

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

I. INCOME TAXES

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

J. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

K. NET INCOME (LOSS) PER SHARE

The Company computes net income (loss) per share in accordance with SFAS No. 128, "Earnings per Share".

Under the provisions of SFAS No. 128, basic net income (loss) per share ("Basic EPS") is computed by dividing net income (loss) by the weighted average number of ordinary shares outstanding. Diluted net income (loss) per share ("Diluted EPS") is computed by dividing net income (loss) by the weighted average number of shares and dilutive share equivalents then outstanding. The total number of shares related to the outstanding options excluded from the calculations of diluted net loss per share were 982,692 and 1,541,322 for the period ended December 31, 1997 and the year ended December 31, 1998, respectively. A reconciliation between the numerator and denominator of Basic EPS and Diluted EPS for the year ended December 31, 1999, follows:

	Net income	**Weighted average number of shares**	**Net income per share**
	(In thousands)		
Basic EPS:			
Net income attributable to ordinary shares	280	11,174,639	0.03
Effect of dilutive securities:			
Share options	-	1,297,679	(0.01)
Diluted EPS	280	12,472,318	0.02

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

L. SHARE-BASED COMPENSATION

The Company has adopted the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and the accounting rules set forth in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." The Company has provided the necessary pro forma disclosures as if the fair value method had been applied (See Note 10(C)).

M. USE OF ESTIMATES

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

N. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

In thousands of U.S. dollars

Note 3 - CASH AND CASH EQUIVALENTS

	December 31	
	1998	1999
Cash in banks	151	1,434
Bank deposits		
In U.S. Dollars (bearing annual interest rate of 5.5% to 6.2%)	1,390	67,307
In NIS	136	6
	1,677	68,747

Note 4 - RECEIVABLES

A. Trade receivables are presented net of allowance for doubtful debts in the amount of $220 (1998 - none).

B. Other receivables and prepaid expenses include grants receivable in the amount of $298 (1998 - $312).

Note 5 - INVENTORIES

	December 31	
	1998	1999
Materials and components	99	13
Work in progress	72	74
Finished goods	394	695
	565	782

In thousands of U.S. dollars

Note 6 - PROPERTY AND EQUIPMENT

	December 31	
	1998	1999
COST		
Research and development equipment	44	135
Computer equipment	53	470
Leasehold improvements	2	71
Motor vehicles	163	363
Office furniture and equipment	9	177
	271	1,216
ACCUMULATED DEPRECIATION		
Research and development equipment	11	30
Computer equipment	16	74
Leasehold improvements	-	6
Motor vehicles	25	54
Office furniture and equipment	1	16
	53	180
	218	1,036

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

For the period ended December 31, 1997 and the years ended December 31, 1998 and 1999, depreciation expense was $10, $44 and $132, respectively.

In thousands of U.S. dollars

Note 7 - OTHER PAYABLES AND ACCRUED EXPENSES

	December 31	
	1998	**1999**
Deferred income	164	1,092
Accrued expenses	131	803
Related company	-	692
Employees and employee institutions	181	383
Provision for warranty costs	73	241
Other	160	37
	709	3,248

Note 8 - SEVERANCE PAY

Under Israeli law and labor agreements, the Company is required to make severance payments to its dismissed employees and employees leaving its employment in certain other circumstances. The Company's severance pay liability to its employees, which is calculated on the basis of the salary of each employee for the last month of the reported period multiplied by the years of such employee's employment, is reflected in the Company's balance sheet on the accrual basis, and is partially funded by purchase of insurance policies in the name of the Company. Severance pay expense for the periods ended December 31, 1997, 1998 and 1999 amounted to $23, $60 and $171, respectively.

In thousands of U.S. dollars

Note 9 - COMMITMENTS

A. In connection with its research and development, the Company received and accrued participation payments from the Office of the Chief Scientist of the Ministry of Industry and Trade in Israel in the total amount of approximately $1,950 (including amounts which had been received by an affiliated company). In return for the Government of Israel’s participation, the Company is committed to pay royalties at a rate of 3% - 5% of sales of the developed product, up to 100% of the amount of grants received (for grants received under programs approved subsequent to January 1, 1999 - 100% plus interest at Libor). The Company’s total commitment for royalties payable with respect to future sales, based on Government participations received or accrued, net of royalties paid or accrued, totaled approximately $1,070 as of December 31, 1999.

B. The Company operates from leased premises in Tel-Aviv and Jerusalem, Israel and in New Jersey and California in the United States. Lease agreements expire in the years 2001 to 2004 (some with renewal options). Annual minimum future rental payments due under the above agreements, at exchange rates in effect on December 31, 1999, are approximately as follows:

2000	275
2001	275
2002	260
2003	252
2004	82
	1,144

Note 10 - SHAREHOLDERS' EQUITY

A. In June 1999, the Company issued 1,577,340 Series B preferred shares in a private placement to a group of investors at an aggregate purchase price of $9,040. On August 30, 1999, the Company increased its authorized share capital to 30,000,000 shares of NIS 0.1 par value per share and all outstanding preferred shares were converted into an identical number of ordinary shares. In October 1999, the Company effected a 27 to 1 stock split in the form of a share dividend. All references to per share amounts and the number of shares in these financial statements have been restated to reflect the above changes.

B. In October 1999, the Company issued 3,500,000 ordinary shares in an initial public offering on the NASDAQ National Market in consideration for $56,831 (net of issuance expenses). (See also Note 16).

C. In 1997, the Company adopted a key employee share incentive plan which provides for the grant by the Company of option awards to purchase up to an aggregate of 1,587,600 ordinary shares to officers and employees of the Company and its subsidiaries. The vesting period for these options ranges from immediate vesting upon grant to ratable vesting over a four year period. The options expire 62 months from the date of issuance. The exercise price of option awards under the plan will be at varying prices ranging from $0 to the fair market value at the date of the grant. In June 1999, the plan was increased by an additional 226,800 Ordinary shares subject to option grants.

Transactions related to the above discussed options during the period ended December 31, 1997 and the years ended December 31, 1998 and 1999 and the weighted average exercise prices per share and weighted average fair value of the options at the date of grant are summarized as follows:

In thousands of U.S. dollars (except per share data)

Note 10 - SHAREHOLDERS' EQUITY

C. (Cont.)

	Outstanding options	Weighted average exercise price per share	Weighted average fair value of options granted
Inception	-	$ -	$ -
Options granted	982,692	-	-
Outstanding December 31, 1997	982,692	-	-
Options granted	140,508	-	1.01
Outstanding December 31, 1998	1,123,200	-	
Options granted	557,540	4.68	8.48
Options forfeited	(50,004)	-	
Outstanding December 31, 1999	1,630,736	1.6	

The following table summarizes information about options outstanding and exercisable at December 31, 1999:

	Options outstanding			Options exercisable	
Exercise price	Number outstanding at December, 31 1999	Weighted-average remaining contractual life	Weighted-average exercise price	Number outstanding at December 31, 1999	Weighted-average exercise price
$ -	1,389,339	3.21	$ -	894,983	$ -
4.59	38,583	4.64	4.59	-	-
5.73	113,400	4.91	5.73	113,400	5.73
18.00	79,414	4.92	18.00	-	-
35.00	10,000	5.16	35.00	-	-
	1,630,736			1,008,383	

In thousands of U.S. dollars (except per share data)

Note 10 - SHAREHOLDERS' EQUITY (Cont.)

C. (Cont.)

The amounts of deferred compensation recognized arising from the difference between the exercise price and the fair market value on the date of grant of $141 and $2,192, for options granted in the years ended December 31, 1998 and 1999, respectively, are included in shareholders' equity and are being amortized over the vesting periods of the respective options in accordance with APB 25. The balance of unamortized deferred compensation at December 31, 1999, is $1,553. Under APB 25 the deferred compensation that has been charged to operations for the year ended December 31, 1999 amounted to $703 (year ended December 31, 1998 - $53).

If deferred compensation had been determined under the alternative fair value accounting method provided for under SFAS No. 123, the Company's net income (loss) and net income (loss) per share would have been changed to the following pro forma amounts:

	For the period ended December 31,	For the year ended December 31,	
	1997	1998	1999
Net income (loss)			
As reported	(232)	(1,253)	280
Pro forma	(232)	(1,253)	(121)
Basic income (loss) per share:			
As reported	(0.04)	(0.16)	0.03
Pro forma	(0.04)	(0.16)	(0.01)
Diluted income (loss) per share:			
As reported	(0.04)	(0.16)	0.02
Pro forma	(0.04)	(0.16)	(0.01)

Under SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 1997, 1998 and 1999: (1); expected life of the options of 2.13, 2.75 and 2.33 for the period ended December 31, 1997 and the years ended December 31, 1998 and 1999, respectively; (2) no dividend yield (1997, 1998 - same); (3) expected volatility of 274% (1997, 1998 - 0%) and (4) risk - free interest rate of 5% (1997, 1998 - same).

Note 11 - TAXES ON INCOME

A. The Company submitted an investment program in June 1998 to the Investment Center for approval as an approved enterprise in accordance with the Law for the Encouragement of Capital Investments, 1959 (the "Law") and the Investment Center granted an approval in December 1998 for establishing an approved enterprise in Tel-Aviv. As the Company has elected to apply the alternative benefits method for this program, the Company will be entitled to a tax exemption with respect to the income derived from the approved enterprise program for two years and will be taxed at a 25% rate for five additional years (8 years, if foreign shareholding in the Company exceeds 25%). As the Company's facilities are located in Jerusalem, the Company has submitted a request to the Investment Center to reconsider its investment program to qualify for the benefits afforded to an approved enterprise established in Jerusalem. If the request is accepted, the Company will be entitled to a tax exemption with respect to the income derived from the approved enterprise program for six years and will be taxed at a 25% rate for one additional year. The six-year period of full tax exemption may be extended to a ten years if the Company applies to the Investment Center for recognition as a "High Technology" facility and this status is recognized.

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

Should the Company derive income from sources other than the approved enterprise program, such income will be taxable at regular corporate tax rate, which is 36%.

The Company is entitled to claim accelerated depreciation for a period of five years in respect of property and equipment of its approved enterprise program. The Company has not utilized this benefit to date.

A. (Cont.)

The benefits from the Company's approved enterprise program are dependent upon the Company fulfilling the conditions stipulated by the Law and the regulations published thereunder, as well as the criteria set forth in the approval for the specific investment in the Company's approved enterprise. If the Company does not comply with these conditions, the tax benefits may be canceled, and the Company may be required to refund the amount of the canceled benefits, with the addition of linkage differences and interest. As of the date of these financial statements, the Company believes it complies with these conditions, although none of such benefits have been utilized by the Company to date.

B. The Company is subject to the Income Tax Law (Inflationary Adjustments), 1985, measuring income on the basis of changes in the Israeli Consumer Price Index.

C. As at December 31, 1999, the Company and its U.S. subsidiary have net operating loss carryforwards for tax purposes in immaterial amounts. No provision for taxes on income is required in respect of reported net income, due to utilization of tax losses generated in previous years.

Details of deferred tax assets are as follows:

Deferred tax assets, mainly in respect of reserves and allowances not currently deductible	$ 1,100
Valuation allowance	1,100
	$ -

D. The Company has not received final tax assessments since commencement of operations (1997).

Note 12 - SALES

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

	For the period ended December 31	For the year ended December 31	
	1997	1998	1999
The Company's sales by geographic areas are as follows:			
North America (principally United States)	1,124	3,206	7,935
Europe	14	523	2,254
Far East	-	1,015	2,639
Other	21	156	1,313
	1,159	4,900	14,141

Note 13 - MARKETING AND SELLING EXPENSES

	For the period ended December 31	For the year ended December 31	
	1997	1998	1999
Marketing and selling expenses include royalties to the Government of Israel	5	152	515

Note 14 - CONCENTRATION OF CREDIT RISK

For the periods ended December 31, 1997, 1998 and 1999, no single customer accounted for more than 10% of the Company’s sales. As of December 31, 1999, one customer represented 12% of trade receivables (December 31, 1997 and 1998 - no customer represented more than 10% of trade receivables). The Company does not require collateral to support credit sales. Allowances are maintained for potential credit losses.

Note 15 - RELATED PARTY BALANCES AND TRANSACTIONS

A. BALANCES WITH RELATED PARTIES

	December 31	
	1998	1999
Trade receivables	700	357
Trade payables	78	536
Other payables and accrued expenses	-	694

B. TRANSACTIONS WITH RELATED PARTIES

	For the period ended December 31,	For the year ended December 31,	
	1997	1998	1999
Sales	1,145	807	1,239
Cost of sales (1)	864	689	1,089
Operating expenses	262 (2)	1,392	519
Purchase of property and equipment	-	-	171

(1) Includes amounts held in inventory and expensed in later periods when the corresponding sale is recognized.

(2) Upon commencement of operations, the Company obtained a perpetual, non-exclusive, royalty-free license for technology relating to the Company's products from an affiliated company for $250, which amount was charged to operations in 1997.

Until December 31, 1998, the Company's products were marketed and sold in North America through an affiliated company.

Note 16 - SUBSEQUENT EVENTS

Subsequent to balance sheet date, the Company issued 1,250,000 ordinary shares in a secondary public offering in consideration for approximately $60 million (net of issuance expenses).