PROSPECTUS

2,500,000 Ordinary Shares

RADWARE Ltd.

Ordinary Shares

We are selling 1,250,000 ordinary shares and the selling shareholders named in this prospectus are selling 1,250,000 ordinary shares. We will not receive any proceeds from the sale of the ordinary shares by the selling shareholders. The underwriters named in this prospectus may purchase up to 375,000 additional ordinary shares from the selling shareholders to cover over-allotments.

The ordinary shares are quoted on the Nasdaq National Market under the symbol "RDWR." The last reported sale price of the ordinary shares on the Nasdaq National Market on January 24, 2000 was $52⅜ per ordinary share.

Investing in the ordinary shares involves risks. See "Risk Factors" beginning on page 10.

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

We and the selling shareholders have received from the Israel Securities Authority an exemption from Israel's prospectus delivery requirements applicable to this offering. You should not construe that exemption as authenticating the matters contained in this prospectus or as an approval of their reliability or adequacy or as an expression of opinion as to the quality of the securities offered by this prospectus.

	Per Share	Total
Public Offering Price	$51.75	$129,375,000
Underwriting Discount	$ 2.72	$ 6,800,000
Proceeds to RADWARE (before expenses)	$49.03	$ 61,287,500
Proceeds to the selling shareholders (before expenses)	$49.03	$ 61,287,500

The underwriters are offering the ordinary shares subject to various conditions. The underwriters expect to deliver the ordinary shares to purchasers on or about January 27, 2000.

Salomon Smith Barney

Banc of America Securities LLC

CIBC World Markets

U.S. Bancorp Piper Jaffray

January 24, 2000

[ARTWORK]

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information provided by this prospectus is accurate as of any date other than the date on the front of this prospectus.

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FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995, that address, among other things: our strategy; the anticipated development of our products; our anticipated use of proceeds; our projected capital expenditures and liquidity; our development of additional revenue sources; our development and expansion of alliances; the market acceptance of our products; and our technological advancement. These statements may be found in the sections of this prospectus entitled "Prospectus Summary," "Risk Factors," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" and in this prospectus generally, including the section of this prospectus entitled "Business — Industry Background" which contains information obtained from independent industry sources. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including all the risks discussed in "Risk Factors" and elsewhere in this prospectus.

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.

PROSPECTUS SUMMARY

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

RADWARE

We develop, manufacture and market products that manage and direct Internet traffic among network resources to enable continuous access to Web sites and other services, applications and content based on the Internet protocol or IP. The Internet protocol is the networking communications standard that underlies the Internet infrastructure. Products like ours are commonly referred to as Internet traffic management solutions. We offer a broad range of Internet traffic management 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.

The Internet has emerged as a significant global communications and commercial medium enabling millions of people worldwide to share information, communicate and conduct business electronically. Internet traffic is growing exponentially, driven by increasing numbers of Internet users, connected devices and applications and transactions. In addition, an increasing number of organizations are relying upon proprietary IP-based networks, known as intranets and extranets, to communicate with their employees, customers and suppliers. The dramatic growth in IP traffic has strained the network infrastructure of many organizations and created a need for solutions that enhance network capacity. Internet traffic management solutions alleviate the strain on network capacity by distributing IP traffic among available network resources to maximize network performance.

Our Internet traffic management solutions enable our customers to manage their network infrastructure to accommodate increasing IP traffic. We currently offer four product lines, each designed to provide Internet traffic management solutions for different areas of the network:

- *Web Server Director*™ distributes IP traffic among multiple servers and applications to enable continuous access to the servers and to optimize utilization of available capacity. Servers are computers shared within a network that provide applications accessible to users throughout the network.

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

- *Cache Server Director*™ 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 transmission capacity, or bandwidth.

- *LinkProof*™ 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).

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 sell our products principally to distributors who resell our products to final customers. Representative customers, based on the number of units and range of products purchased as well as the aggregate sales attributable to these customers, include Bell Atlantic Corporation, France Telecom, Gateway Inc., GTE Corporation, NEC Corporation, Nippon Telegraph & Telephone Corporation, Sony Corporation, Sprint Corp., UUNET Technologies, Inc. and Vanguard Financial Services.

We believe that our products provide our customers with the following benefits:

- *Continuous Access.* Our products continuously monitor network resources to identify off-line or failed resources and direct IP traffic to functioning network resources and applications.

- *Optimal Use of Available Resources.* Our products monitor network resource capacity and productivity and allocate IP traffic among available network resources to optimize utilization of these resources.

- *Scalability of Network Infrastructure.* Our products provide scalability by enabling our customers to increase the capacity and productivity of their existing network infrastructure in order to accommodate increased traffic demands by adding additional resources without the need to upgrade or replace existing resources.

- *Ease and Flexibility of Network Management.* Our products enable our customers to manage dispersed network resources from a single access point anywhere within the network.

Our objective is to increase our share of the Internet traffic management solutions market. Key elements of our strategy to attain this objective are:

- Offering diverse products that address multiple Internet traffic management needs;

- Capitalizing on our technological expertise;

- Establishing strategic alliances and new distribution channels to broaden the market for our products; and

- Enhancing our brand recognition through aggressive marketing efforts.

Our ability to attain our objective will depend upon our success in addressing the risks relating to our business and industry discussed in "Risk Factors" and elsewhere in this prospectus, including the following:

- We have only been operating since 1997. We therefore have a limited history of operations and a limited history of revenues generated from operations.

- We have a history of operating losses, which we expect to continue in the foreseeable future. We have an accumulated deficit of approximately $1.7 million as of September 30, 1999.

- The revenue growth which we require to achieve profitability is dependent upon the growth of the market for Internet traffic management solutions and our success in increasing our revenues in this highly competitive market.

- 70% of our revenues are currently derived from our Web Server Director product line.

Because of these factors and the other risks described in this prospectus, we may encounter difficulties in implementing our strategy and we cannot assure you that we will succeed in achieving our objective.

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.

Recent Developments

Results of Operations

Our 1999 fiscal year ended December 31, 1999. While our final results of operations for the fourth quarter of 1999 are not yet available, based on preliminary financial results, we currently estimate that sales for the fourth quarter of 1999 will exceed $4.9 million, resulting in sales for the 1999 fiscal year of over $14.0 million. These estimates are preliminary in nature only, and are subject in all respects to completion of various internal analyses and procedures necessary to finalize our review of our results of operations for the respective periods.

Business Developments

Since our initial public offering, we have experienced the following significant developments in our business:

- *LinkProof.* We introduced our new LinkProof product line, a traffic management solution designed for networks that connect to the Internet through multiple Internet service providers. For more information concerning our LinkProof product line, please see the section of this prospectus entitled "Business — Products — LinkProof Product Line."
- *Lucent Technologies.* We and Lucent jointly introduced a solution for critical firewall applications that combines our FireProof product line with Lucent's managed firewall product line.
- *IBM.* We announced the completion of validation testing of our Web Server Director product line with IBM's Netfinity 4000R Ultra-Thin Server product line, demonstrating the compatibility of our Web Server Director products with IBM Netfinity products and the increased benefits to be gained by deploying both products within a network.
- *Network Engines.* We entered into a strategic alliance with Network Engines, a provider of high-density network devices that support large Web-based applications, to integrate our Internet traffic management technologies with Network Engines' network device to support organizations that generate high volumes of Web traffic.
- *Customers.* The following new and existing final customers have purchased at least $100,000 of our products:

The Associates	First National Bank of Omaha	State of Minnesota
Australia and New Zealand (ANZ) Limited Banking Group	KDD Corporation	Uproar Services Limited
Deutsche Sport Fernseher	Mellon Financial Corporation	U S WEST
	OKI Electric Industry Co. Ltd.	

The Offering

Ordinary shares offered by us	1,250,000 shares
Ordinary shares offered by the selling shareholders	1,250,000 shares
Ordinary shares to be outstanding after this offering	15,854,209 shares
Use of proceeds	For a discussion of the intended uses of the net proceeds from this offering, please see the section of this prospectus entitled "Use of Proceeds."
Nasdaq National Market Symbol	"RDWR"

The number of ordinary shares referred to in the preceding table to be outstanding after this offering excludes 1,600,736 ordinary shares issuable upon the exercise of outstanding options under our share option plan and 213,664 additional ordinary shares reserved for issuance under our share option plan.

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

Unless otherwise indicated, all information contained in this prospectus:

- reflects a 27-for-1 stock split in the form of a share dividend which was effected prior to our initial public offering in October 1999; and
- assumes no exercise of the underwriters' option to purchase up to 375,000 additional ordinary shares to cover over-allotments.

We have trademark applications pending for "Web Server Director™," "Cache Server Director™," "FireProof™," "LinkProof™" and "Triangulation™". All other trademarks and tradenames appearing in this prospectus are owned by their respective holders.

Summary Consolidated Financial Data
(in thousands, except per share data)

	April 1997 (inception) through December 31, 1997	Year ended December 31, 1998	Nine months ended September 30, 1998	Nine months ended September 30, 1999
			(unaudited)	(unaudited)
Statement of Operations Data:				
Sales	$1,159	$ 4,900	$ 3,087	$ 9,136
Gross profit	560	4,001	2,421	7,674
Operating loss	(241)	(1,242)	(1,108)	(375)
Net loss	$ (232)	$(1,253)	$(1,147)	$ (237)
Basic and diluted net loss per ordinary share	$(0.04)	$ (0.16)	$ (0.16)	$ (0.02)
Weighted average number of ordinary shares used in computing basic and diluted net loss per ordinary share	6,350	7,778	7,188	10,083

	September 30, 1999 Actual	September 30, 1999 Pro Forma (unaudited)	September 30, 1999 Pro Forma As Adjusted
Balance Sheet Data:			
Cash and cash equivalents	$10,624	$67,394	$127,582
Working capital	11,007	67,777	127,965
Total assets	15,519	72,289	132,477
Shareholders' equity	11,723	68,493	128,681

The pro forma information included above in the balance sheet data gives effect to our initial public offering in October 1999 of 3,500,000 ordinary shares and our receipt of the net proceeds from the initial public offering. The pro forma as adjusted information included above in the balance sheet data gives effect to our initial public offering and to this offering of our ordinary shares and the receipt of the estimated net proceeds of this offering, after deducting the underwriting discount and estimated offering expenses. Please see notes 2 and 10 of the notes to our consolidated financial statements for an explanation of the number of shares used in computing per share data.

RISK FACTORS

Investing in our ordinary shares involves a high degree of risk. Before purchasing our ordinary shares, you should carefully consider the risks described below in addition to the other information in this prospectus. 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, and you could lose all or part of your investment.

Risks Relating to Our Business

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 have incurred significant losses since our inception and we expect to continue to incur significant losses for the foreseeable future. We reported a net loss of approximately $1.3 million for the year ended December 31, 1998, representing 25.6% of sales, and approximately $237,000 for the nine months ended September 30, 1999, representing 2.6% of sales. As of September 30, 1999, our accumulated deficit was approximately $1.7 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. The table below sets forth the percentage of our annual sales attributable to each of the six consecutive quarters ended December 31, 1998.

	Quarter Ended					
	Sept. 30, 1997	Dec. 31, 1997	March 31, 1998	June 30, 1998	Sept. 30, 1998	Dec. 31, 1998
Sales for the quarter as a percentage of annual sales	42.0%	58.0%	14.2%	20.0%	28.8%	37.0%

Fluctuations in our quarterly financial performance may result from the factors discussed in this Risk Factors section of our prospectus, 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. Please see "Management's Discussion and Analysis of Financial Conditions and Results of Operations — Quarterly Results of Operations" for additional information concerning our financial performance in each of the seven quarters ended September 30, 1999.

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 utilize more than $25 million of the proceeds of our initial public offering through the end of 2000 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 70% of our revenues, and other product lines.

We currently derive approximately 70% 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 130 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. In the past twelve months, the number of our employees increased from 39 to 97. This growth 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 100% 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 Network Devices 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 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 Network Devices on acceptable terms or should RAD Network

Devices 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 pending trademark applications for "Web Server Director," "Cache Server Director," "Fire Proof," "LinkProof" and "Triangulation" 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 failure or the failure of our suppliers and customers to be year 2000 compliant may negatively impact our business.

The "Year 2000 issue" is the result of computer systems and programs using two digits rather than four to identify a given year. Computer systems or programs that have date sensitive software or embedded chips may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations or other computer errors causing disruptions of operations. The potential for failures encompasses all aspects of our business including our products, suppliers and customers. These failures could cause, among other things, disruptions in our operations and a temporary inability to engage in normal business activities.

The Year 2000 issue creates significant risks for us including:

- potential warranty or other claims arising from our products;
- impairment of the systems we use to run our business;
- impairment of the systems used by our suppliers and customers; and
- non-compliance of the components manufactured by our suppliers for integration into our products.

Although we believe our current products are Year 2000 compliant, we may see an increase in warranty and other claims as a result of the Year 2000 issues arising from undetected defects or the non-compliance of the suppliers upon whom we rely.

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

We currently offer our products in 28 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 the first nine months of 1999, our sales outside North America represented 34.6% and 35.5% 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. For example, while Australia, China, India, Japan, Korea, New Zealand, Philippines, Singapore, Taiwan and Thailand are significant markets for our products, our sales in these Far Eastern countries as a percentage of total sales decreased from 27.2% for the first nine months of 1998 to 13.7% for the first nine months of 1999. This decrease in the percentage of our sales in the Far East was in part the result of the recent recession and volatility in political and economic conditions in countries in the Far East. Any future political or economic instability in these or other foreign countries could significantly reduce demand for our products.

Risks Relating to this Offering

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

After this offering, two of our directors, Messrs. Yehuda and Zohar Zisapel, who are brothers, will beneficially own an aggregate of 4,751,608 ordinary shares, representing approximately 30% of the ordinary shares then 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.

A total of 9,329,209, or 59%, of our outstanding ordinary shares are restricted from immediate resale but may be sold into the market in the near future. This could cause the market price of our ordinary shares to drop significantly, even if our business is doing well.

After this offering, we will have 15,854,209 ordinary shares outstanding. This includes the ordinary shares we and some of our shareholders sold in our initial public offering, which are freely tradeable, as well as the ordinary shares we and the selling shareholders are selling in this offering, which may be resold in the public market immediately after this offering. The remaining 59%, or 9,329,209 ordinary shares, of our total outstanding ordinary shares will become available for resale in the public market as shown in the chart below.

As restrictions on resale end, the market price of our ordinary shares could drop significantly if the holders of these restricted shares sell them or are perceived by the market as intending to sell them.

Number of shares/ Percentage of total outstanding	Date of availability for resale into public market
2,063,280 / 13.0%	March 27, 2000, due to an agreement these shareholders have with the underwriters of our initial public offering. However, these underwriters may waive this restriction and allow these shareholders to sell their shares at any time.
7,153,096 / 45.1%	90 days after the date of this prospectus, due to an agreement these shareholders have with the underwriters. However, the underwriters may waive this restriction and allow these shareholders to sell their shares at any time.
112,833 / 0.7%	Within 365 days after the date of the initial public offering of our ordinary shares due to the requirements of the U.S. securities laws.

In addition, we have granted options to purchase a total of 1,600,736 ordinary shares and are authorized to grant options to employees to purchase 213,664 additional ordinary shares. We intend to file a registration statement on Form S-8 covering all of the ordinary shares issuable upon the exercise of options under our share option plan, at which time these shares will be immediately available for sale in the public market, subject to the terms of grant of the related options and any applicable lock-up agreements. In addition, 8,581,336 outstanding ordinary shares may be registered for sale after this offering pursuant to registration rights granted to principal shareholders, which rights permit these shareholders, in specified circumstances, to demand to have their shares registered and to have their shares included in our registration statements.

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."

Risks Relating to Our Location in Israel

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 are 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 benefitted 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Impact of Inflation and Currency Fluctuations."

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 and we intend to apply for additional grants in the future. In 1998 and the first nine months of 1999, we received grants from the Chief Scientist totalling approximately $341,000 and $327,000, representing 31.6% and 23.9% 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 September 30, 1999, we paid or accrued royalties to the Israeli Government totalling approximately $468,000 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. See "Taxation and Foreign Exchange Regulation — Israel Tax Considerations and Foreign Exchange Regulation — Tax Benefits Under the Law of Encouragement of Capital Investments, 1959."

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 may 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 laws in original actions instituted in Israel.

USE OF PROCEEDS

We estimate that the net proceeds we will receive from the sale of our ordinary shares will be approximately $60.2 million, after deducting the underwriting discount and the estimated offering expenses. We will not receive any proceeds from the sale of ordinary shares by the selling shareholders.

We expect to use the net proceeds to finance the continued growth of our business and for general corporate purposes. We may use a portion of the net proceeds to fund our participation in strategic alliances with vendors of, and/or to fund strategic acquisitions of, products and technologies that will complement or extend our existing Internet traffic management solutions. We currently have no understandings, commitments or agreements with respect to any particular strategic alliance or acquisition.

Pending use of the net proceeds as described above, we intend to invest the net proceeds in short-term, interest-bearing investment-grade instruments, or bank deposits with interest and principal linked to the U.S. dollar or the Israel consumer price index, or deposit the net proceeds in U.S. dollar bank accounts in Israel or outside of Israel.

DIVIDEND POLICY

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

MARKET PRICE OF OUR ORDINARY SHARES

Our ordinary shares began trading on the Nasdaq National Market on September 30, 1999 under the symbol "RDWR". Prior to that time, there had been no market for our ordinary shares. The following table sets forth the high and low sales prices 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	$87	$24
2000		
January 1 - January 24	$56½	$42

On January 24, 2000, the last reported sale price for our ordinary shares was $52⅜. As of January 24, 2000, there were approximately 58 holders of record of our ordinary shares, although we believe that the number of beneficial owners of our ordinary shares is significantly greater.

CAPITALIZATION

The following table sets forth our capitalization at September 30, 1999:

- on an actual basis;
- on a pro forma basis to give effect to our initial public offering in October 1999 of 3,500,000 ordinary shares and our receipt of the net proceeds from the initial public offering; and
- on a pro forma as adjusted basis to give effect to our initial public offering and the sale by us of 1,250,000 ordinary shares in this offering and the receipt by us of the estimated net proceeds of this offering, after deducting the underwriting discount and estimated offering expenses.

	September 30, 1999		
	Actual	Pro Forma	Pro Forma As Adjusted
		(In thousands)	
Cash and cash equivalents	$10,624	$67,394	$127,582
Shareholders' equity:			
Ordinary shares, par value NIS 0.10 per share; 30,000,000 shares authorized; 11,104,209 shares issued and outstanding, actual; 14,604,209 shares issued and outstanding, pro forma; 15,854,209 shares issued and outstanding, pro forma as adjusted	17	99	129
Additional paid-in capital	15,080	71,768	131,926
Deferred compensation	(1,652)	(1,652)	(1,652)
Accumulated deficit	(1,722)	(1,722)	(1,722)
Total shareholders' equity	11,723	68,493	128,681
Total capitalization	$11,723	$68,493	$128,681

The actual, pro forma and pro forma as adjusted information set forth in the table excludes 1,600,736 ordinary shares issuable upon exercise of options outstanding as of the date of this prospectus at a weighted average exercise price of $1.29 per ordinary share, and 213,664 additional ordinary shares reserved for issuance under our share option plan.

SELECTED CONSOLIDATED FINANCIAL DATA

We have derived the following selected consolidated financial data presented below from our consolidated financial statements and notes included in this prospectus. Our consolidated financial statements have been prepared in U.S. dollars and in accordance with generally accepted accounting principles in the United States. You should read the selected consolidated financial data together with the section of this prospectus entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements included elsewhere in this prospectus. The selected consolidated financial data for the nine months ended September 30, 1998 and 1999 are derived from the unaudited consolidated financial statements, which, in the opinion of management, have been prepared on the same basis as the audited consolidated financial statements. The results for the nine months ended September 30, 1999 may not be indicative of the results which will be attained for the year ending December 31, 1999. Please see notes 2 and 10 of the notes to our consolidated financial statements for an explanation of the number of shares used in computing per share data.

	April 1997 (inception) through December 31, 1997	Year ended December 31, 1998	Nine months ended September 30, 1998	Nine months ended September 30, 1999
			(unaudited)	(unaudited)
	(In thousands, except per share data)			
Statement of Operations Data:				
Sales	$1,159	$ 4,900	$ 3,087	$ 9,136
Cost of sales	599	899	666	1,462
Gross profit	560	4,001	2,421	7,674
Operating expenses:				
Research and development expenses	411	1,080	761	1,369
Less — participation by the Chief Scientist of the Government of Israel	—	341	264	327
Research and development expenses, net	411	739	497	1,042
Marketing and selling expenses, net	248	4,205	2,821	6,293
General and administrative expenses	142	299	211	714
Total operating expenses	801	5,243	3,529	8,049
Operating loss	(241)	(1,242)	(1,108)	(375)
Financing income (expenses), net	9	(11)	(39)	138
Net loss	$ (232)	$(1,253)	$(1,147)	$ (237)
Basic and diluted net loss per ordinary share	$(0.04)	$ (0.16)	$ (0.16)	$ (0.02)
Weighted average number of ordinary shares used in computing basic and diluted net loss per ordinary share	6,350	7,778	7,188	10,083

	December 31, 1997	December 31, 1998	September 30, 1998	September 30, 1999
			(unaudited)	(unaudited)
	(In thousands)			
Balance Sheet Data:				
Cash and cash equivalents	$3,647	$1,677	$2,114	$10,624
Working capital	3,646	2,507	2,571	11,007
Total assets	4,111	3,833	3,770	15,519
Shareholders' equity (deficit)	(232)	2,705	2,757	11,723

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read together with our consolidated financial statements and the related notes which appear elsewhere in this prospectus. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs and involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this prospectus, particularly in the section entitled "Risk Factors."

Overview

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 $56,770,000.

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. For the nine months ended September 30, 1999, we derived approximately 70% 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.

We sell our products in North America directly and through indirect distribution channels and outside North America exclusively through indirect distribution channels. For the nine months ended September 30, 1999, approximately 65% of our sales were in North America and 35% were outside North America, of which approximately 13% of our sales were in Europe, 14% were in the Far East and 8% were in other foreign countries. Other than the United States, no single country accounted for more than 5% of our sales for the first nine months of 1999.

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 the first nine months of 1999, we received grants from the Office of the Chief Scientist for the development of our products totalling approximately $341,000 and $327,000.

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 convertible debentures and preferred shares, 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	Nine months ended September 30, 1998	Nine months ended September 30, 1999
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	51.7	18.3	21.6	16.0
Gross profit	48.3	81.7	78.4	84.0
Operating expenses:				
Research and development expenses, net	35.5	15.1	16.1	11.4
Marketing and selling expenses, net	21.4	85.8	91.4	68.9
General and administrative expenses	12.2	6.1	6.8	7.8
Total operating expenses	69.1	107.0	114.3	88.1
Operating loss	(20.8)	(25.3)	(35.9)	(4.1)
Financing income (expenses), net	0.8	(0.3)	(1.3)	1.5
Net loss	(20.0)%	(25.6)%	(37.2)%	(2.6)%

Nine Months Ended September 30, 1999 Compared with Nine Months Ended September 30, 1998

Sales. Sales in the first nine months of 1999 were approximately $9.1 million, an increase of approximately $6.0 million compared with sales of approximately $3.1 million in the same period 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 $1.5 million in the first nine months of 1999, an increase of approximately $796,000 compared with cost of sales of approximately $666,000 in the same period in 1998. This increase is primarily attributable to the increase in sales. Cost of sales as a percentage of sales declined to 16.0% in the first nine months of 1999 from 21.6% in the same period 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 $1.4 million in the first nine months of 1999, an increase of approximately $609,000 compared with gross research and development expenses of approximately $761,000 in the same period 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 15.0% in the first nine months of 1999 from 24.6% in the same period in 1998. Grants from the Office of the Chief Scientist of the Ministry of Industry and Trade, totaling approximately $327,000 and approximately $264,000 in the nine months ended September 30, 1999 and 1998, are applied as reductions to gross research and development expenses. Research and development expenses, net were approximately $1.0 million in the first nine months of 1999, or 11.4% of sales, compared with approximately $497,000, or 16.1% of sales, in the same period 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 $6.3 million in the first nine months of 1999, an increase of approximately $3.5 million compared with marketing and selling expenses, net of approximately $2.8 million in the same period 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 the first nine months of 1999. We received approximately $35,000 from the marketing fund in the first nine months of 1998. Marketing and selling expenses, net as a percentage of sales decreased to 68.9% in the first nine months of 1999 from 91.4% in the same period in 1998, primarily as a result of the greater percentage increase in sales than in marketing and selling expenses, net in the first nine months of 1999.

General and Administrative Expenses. General and administrative expenses were approximately $714,000 in the first nine months of 1999, an increase of approximately $503,000 compared with general and administrative expenses of approximately $211,000 in the same period in 1998. This increase is primarily attributable to the expansion of our business. General and administrative expenses as a percentage of sales increased to 7.8% in the first nine months of 1999 from 6.8% in the same period in 1998.

Financing Income (Expenses), Net. Financing income, net was approximately $138,000 in the first nine months of 1999, compared with financing expenses, net of approximately $39,000 in the same period 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.

Quarterly Results of Operations

The tables below set forth statement of operations data for each of the seven consecutive quarters ended September 30, 1999, both in dollar amounts and as a percentage of sales. This information has been derived from our unaudited consolidated financial statements. The unaudited consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements contained elsewhere in this prospectus and include all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of such information. The information should be read in conjunction with our consolidated financial statements and the related notes appearing elsewhere in this prospectus.

	Quarter Ended						
	March 31, 1998	June 30, 1998	Sept. 30, 1998	Dec. 31, 1998	March 31, 1999	June 30, 1999	Sept. 30, 1999
U.S. dollars in thousands:							
Sales	$ 697	$ 978	$1,412	$1,813	$2,511	$3,022	$3,603
Cost of sales	172	294	200	234	342	542	578
Gross profit	525	684	1,212	1,579	2,169	2,480	3,025
Operating expenses:							
Research and development expenses, net	150	169	178	242	270	348	424
Marketing and selling expenses, net	778	927	1,116	1,384	1,894	1,920	2,479
General and administrative expenses	64	65	82	87	182	228	304
Total operating expenses	992	1,161	1,376	1,713	2,346	2,496	3,207
Operating loss	(467)	(477)	(164)	(134)	(177)	(16)	(182)
Financing income (expenses), net	(22)	(25)	10	26	17	(1)	122
Net loss	$(489)	$ (502)	$ (154)	$ (108)	$ (160)	$ (17)	$ (60)

	Quarter Ended						
	March 31, 1998	June 30, 1998	Sept. 30, 1998	Dec. 31, 1998	March 31, 1999	June 30, 1999	Sept. 30, 1999
As a percentage of sales:							
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	24.7	30.0	14.2	12.9	13.6	17.9	16.0
Gross profit	75.3	70.0	85.8	87.1	86.4	82.1	84.0
Operating expenses:							
Research and development expenses, net	21.5	17.3	12.6	13.3	10.8	11.5	11.8
Marketing and selling expenses, net	111.6	94.8	79.0	76.3	75.4	63.6	68.8
General and administrative expenses	9.2	6.6	5.8	4.8	7.2	7.5	8.4
Total operating expenses	142.3	118.7	97.4	94.4	93.4	82.6	89.0
Operating loss	(67.0)	(48.7)	(11.6)	(7.3)	(7.0)	(0.5)	(5.0)
Financing income (expenses), net	(3.2)	(2.6)	0.7	1.5	0.7	0.0	3.4
Net loss	(70.2)%	(51.3)%	(10.9)%	(5.8)%	(6.3)%	(0.5)%	(1.6)%

Our quarterly results of operations may be subject to significant fluctuations due to various factors, including, among others:

- size, timing and shipment of orders;
- the timing of new product upgrade or enhancement announcements or introductions by our competitors and us;
- customer order deferrals in anticipation of new products, upgrades or enhancements;
- hardware or software bugs or other quality problems; and
- the relatively low level of general business activity during the summer months in some markets, such as the European market.

Our customers generally require the delivery of products promptly after we accept their orders and, therefore, we generally do not have a significant backlog of accepted orders. Consequently, revenues in any quarter generally depend on orders received and accepted in that quarter. The deferral of the placing and acceptance of any large order from one quarter to another could materially adversely affect results of operations for the former quarter. Furthermore, we anticipate that our operating expenses will continue to increase significantly. If sales in any quarter do not increase correspondingly, our financial results for that quarter would be materially adversely affected. For these reasons, we believe that quarter-to-quarter comparisons of our results of operations are not necessarily meaningful and that our results of operations in any particular quarter should not be relied upon as indications of future performance.

Liquidity and Capital Resources

Since our inception, we have financed our operations through a combination of sales of our debt and equity securities, including our initial public offering, 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.

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 $1,200,000 as of September 30, 1999 and approximately $1,164,000 as of December 31, 1998. In connection with our marketing efforts, as of September 30, 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 September 30, 1999, our obligations for royalties in respect of marketing participation payments received or accrued was $53,000.

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 nine months ended September 30, 1999 were approximately $163,000, $130,000 and $612,000. 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 $891,000 for the nine months ended September 30, 1999. Net cash provided by operating activities during the nine months ended September 30, 1999 was primarily due to increases in accounts payable and accrued expenses, partially offset by an increase in 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 $682,000 for the nine months ended September 30, 1999. Cash was used during this period to purchase equipment and machinery. Net cash used in investing activities was approximately $144,000 in 1997 and approximately $130,000 in 1998.

Net cash provided by financing activities was approximately $8.7 million for the nine months ended September 30, 1999, primarily due to 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 September 30, 1999, we had cash and cash equivalents of approximately $10.6 million, as compared to approximately $1.7 million on December 31, 1998. The increase was primarily due to a private placement of our Series B preferred shares that resulted in proceeds of approximately $9.0 million. 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 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 initial public offering and this offering 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 twelve months following this offering. 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.

Similarly, 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 such expenses or payables are linked to the dollar. Such a devaluation also has the effect of decreasing the dollar value of any asset which consists of NIS or receivables payable in NIS, unless such 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.

In recent years, the rate of devaluation of the NIS against the dollar has exceeded the rate of inflation, a reversal from prior years which has benefitted us. For example, in 1995 and 1996, the rate of inflation in Israel was 8.1% and 10.6%, and the devaluation of the NIS against the dollar was 3.9% and 3.7%. This trend was reversed during 1997 and 1998, when the rate of inflation was 7.0% and 8.6% and the rate of devaluation was 8.8% and 17.6%. We cannot assure you that this reversal will continue or that we will not be materially adversely affected in the future if inflation in Israel exceeds the devaluation of the NIS against the dollar or if the timing of such devaluation lags behind increases in inflation in Israel.

Exchange rates between the NIS and the dollar fluctuate continuously, and therefore 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 translations 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 nine months ended September 30, 1999, the Chief Scientist provided grants for research and development efforts of approximately $341,000 and $327,000, representing 31.6% and 23.9% 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 $1,200,000 as of September 30, 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 and 1998 and the nine months ended September 30, 1999, we paid or accrued to the Israeli Government approximately $5,000, $152,000 and $311,000. 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 September 30, 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.

Year 2000 Readiness

The Year 2000 issue is the result of computer systems and programs using two digits rather than four to identify a given year. Any computer systems or programs that have date-sensitive software or embedded chips may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations or other computer errors, causing disruptions of operations for any company using such computer systems or programs. The potential for failures encompasses all aspects of our business including our products, third party software, suppliers and customers. These failures could cause, among other things, disruptions in our operations and a temporary inability to process transactions, send invoices or engage in normal business activities.

State of Readiness Assessment. We are a comparatively new enterprise, and, accordingly, the majority of the software and hardware we use to manage our business has been purchased or developed by us within the last 24 months and the information technology we use to manage our business is not based upon "legacy system" hardware and software. "Legacy system" is a term often used to describe hardware and software systems which were developed in previous decades when there was less awareness of Year 2000 issues. Generally, hardware and software design in this decade and the past several years in particular has given greater consideration to Year 2000 issues and is generally Year 2000 compliant. Accordingly, we believe that, except for the third party software discussed below under "—Third Party Software", the software and hardware that we use to manage our business which has been purchased or developed by us within the last 24 months is Year 2000 compliant. For example, all of the software code we have internally developed for our current products uses four digits to define the applicable year and is therefore Year 2000 compliant.

Products. We have tested all of our current products for Year 2000 compliance. We have derived our testing method from our review and analysis of the Year 2000 testing practices of other significant external vendors, relevant industry Year 2000 compliance standards and the specific functionality and operating environments of our products. The tests are run on all supported platforms for each current release of a product and include testing for date calculations and internal storage of date information with test numbers starting in 1999 and going beyond the Year 2000. Based on these tests, we believe our current products to be Year 2000 compliant with respect to date calculations and internal storage of date information. We have represented to our distributors and customers that our current products are Year 2000 compliant, and if that turns out to be untrue, these parties may make claims against us which may result in litigation. In addition, we warrant to our customers that our current products that are date sensitive are Year 2000 compliant. However, previous versions of our products may not be Year 2000 compliant. To the extent these products are still being used by our customers, we are subject to the risk that these products will not function properly with respect to the Year 2000.

Our products are generally integrated into larger networks involving sophisticated hardware and software products supplied by other vendors. Each of our customers' networks involves different combinations of third party products. We cannot evaluate whether all of their products are Year 2000 compliant. We may face claims based on Year 2000 problems in other companies' products or based on issues arising from the integration of multiple products within the overall network. Although no such claims have been made, we may in the future be required to defend our products in legal proceedings which could be expensive regardless of the merits of such claims.

Third Party Software. In addition to our internally developed software, we utilize software developed by third parties for both our programming and internal information and financial systems. To date, we have not carried out any testing of such third-party software to determine Year 2000 compliance. We have, however, received the written assurances of the two providers of the key software applications used in our internal operations that their software is Year 2000 compliant.

Suppliers. RAD Network Devices, our principal supplier, has indicated that it has achieved Year 2000 compliance in its manufacturing operations.

Costs of Addressing Year 2000 Compliance. We have not incurred any significant expenses to date, and we do not anticipate that the total costs associated with our Year 2000 remediation efforts, including both expenses incurred and any to be incurred in the future, will exceed $250,000. However, if we, our customers, our suppliers or our distributors fail to remedy any Year 2000 issues, our operations could be interrupted and we could experience a material loss of revenues.

Risks Posed by Year 2000 Issues. We expect to identify and resolve all Year 2000 issues that could adversely affect our business operations. However, we believe that it is not possible to determine with complete certainty that all Year 2000 issues affecting us have been identified or corrected. The number of devices that could be affected and the interactions among these devices are simply too numerous. In addition, no one can accurately predict how many Year 2000 problem-related failures will occur or the severity, duration or financial consequences of these potential failures. As a result, we believe that the following consequences are possible:

- a significant number of operational inconveniences and inefficiencies for us, our suppliers, our distributors and our customers that will divert our time and attention and financial and human resources from ordinary business activities;
- business disputes and claims for pricing adjustments or penalties due to Year 2000 issues by our distributors and customers; and
- a number of serious business disputes alleging that we failed to comply with the terms of contracts or industry standards of performance, some of which could result in litigation or contract termination.

BUSINESS

Overview

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.

Our products have won numerous awards which, we believe, evidence our technological leadership in Internet traffic management solutions. For example, our Web Server Director product finished in first place in four of the six head-to-head industry tests conducted to date. Based upon these tests, we received the following awards:

- PC Magazine Editor's Choice Award (1997);
- ZD Internet Lab's NetBest Award (1998);
- Network Magazine's Product of the Year Award (1998); and
- Network Computing Magazine's Editor's Choice Award (1998).

In addition, we received the following awards:

- The Spring Internet World '98, Los Angeles, Best of Show Award (1998);
- The Fall Internet World '98, New York, Best of Show Award (1998); and
- Network Computing Magazine's Well Connected Award (1999).

Our products have been purchased by over 300 customers worldwide, including Bell Atlantic, France Telecom, Gateway, GTE, Intel, NEC, NTT, Sony, Sprint, UUNet and Vanguard Financial Services.

Industry Background

Emergence of Internet Protocol

The Internet has emerged as a significant global communications and commercial medium enabling millions of people to share information, communicate and conduct business electronically. The Internet is a global network of separately administered public and private networks. These networks connect with each other using the Internet protocol, the networking communication standard that underlies the Internet infrastructure. IP traffic is growing exponentially, driven by increasing numbers of Internet users, connected devices and applications and transactions. In addition, an increasing number of organizations are relying upon IP-based intranets and extranets to communicate with their employees, customers and suppliers. International Data Corporation, an industry research firm, forecasts continued dramatic growth worldwide in Internet and other IP traffic. For example, according to International Data Corporation:

- the number of Web users is forecast to grow from approximately 142 million in 1998 to approximately 502 million in 2003;
- the number of computers and other devices accessing the Web is forecast to grow from approximately 150 million in 1998 to more than 720 million by 2003; and

- electronic commerce, or e-commerce, revenues on the Internet are forecast to grow from approximately $50 billion at the end of 1998 to approximately $1.3 trillion by the end of 2003.

As a result of the proliferation of e-commerce and other IP-based applications, such as Web sites, electronic mail, electronic data transfers and multimedia content accessible over the Internet, IP has become the global networking standard for electronic communications and transactions.

Increased Strain on Network Infrastructures

The dramatic growth in Internet and other IP traffic has strained the network infrastructure of many organizations, requiring them to expand their network capacity. Today, most IP-based applications operate 24 hours a day, 7 days a week. This continuous operation leaves no time for maintenance and upgrades. Network infrastructures are further strained by the fact that the amount of traffic that seeks to access the networks at any particular time is unpredictable and by the increased variety of data, including multimedia components and video clips, which traverses these networks. The brunt of the traffic strain is experienced by Web servers, which are computers shared within a network that store data and applications comprising a Web site accessible to users throughout the network. Web servers are continuously called upon to process and respond to end-user requests and display requested text, graphics or video content. Increased IP traffic also strains the network security filters, or firewalls, which organizations deploy to protect their network from unauthorized access to sensitive information. Firewalls act as gateways through which all network traffic must pass, ensuring controlled access from the Internet to the data within the organization's servers in order to enforce the organization's security policy. The increased traffic can overload a server or firewall, leading to malfunction, which can have the effect of disabling the Web site served by the Web server or barring incoming and outgoing traffic through the failed firewall.

As organizations are increasingly migrating to IP-based networks and applications for communicating and transacting with customers, network availability and performance are increasingly viewed as a key strategic and competitive advantage. Delayed response times may encourage frustrated customers to pursue business with a competitor, particularly if the customer has a time-sensitive request. Research by Jupiter Communications, an industry research firm, shows that 45% of online users have used alternative sites when their preferred site has experienced technical difficulties.

In this environment, organizations often deploy a group, or farm, of shared computers that interconnect and operate together to perform the same or related applications. From the perspective of the end-user, the grouping is transparent and the end-user interfaces with what appears to be a single large server or firewall. This grouping into farms can reduce system failure by providing multiple devices that can perform the same application in the event one device fails. This grouping can also increase the potential capacity, or scalability, of the system by providing the flexibility to add additional devices as needed. Organizations frequently deploy several farms in multiple geographical locations to enable easier and faster access for end-users in geographically dispersed locations.

In order to accommodate the growth in IP traffic, organizations have also employed computers known as cache servers which temporarily store, or cache, at a location generally closer to the end-user, data that has been retrieved from a remote source. This caching eliminates the need to traverse the entire network in order to retrieve the data again. Cache servers are designed to enhance the efficiency of network infrastructure by reducing the amount of redundant traffic. Cache servers are also deployed in farms to provide scalability and increased capacity.

Limitations of Network Expansion Solution

Expanded uses of the Internet and increased demand for IP-based services, applications and content are driving an expansion of network infrastructures. Organizations seek to increase network capacity by increasing transmission capacity, or bandwidth, and by expanding their network resources, either by upgrading to faster, larger capacity servers or by increasing the number of servers through the deployment of a group of servers in a farm. While expanding network infrastructure may temporarily alleviate network congestion, increasing network capacity solely by adding resources does not address the following problems:

- *Single Points of Failure.* Increasing the speed or capacity of network devices does not alleviate the risk of single point of failure inherent in network resources that are used independently without regard to the availability of other resources with similar functionalities. Even the most powerful device can fail, resulting in all traffic routed to that device being discarded. The same risk of failure is applicable to devices deployed in farms. For example, if traffic is routed to a specific server within a farm of servers which has malfunctioned or is off-line, the end-user will not receive a response to his request, despite the availability of other on-line servers in the server farm which could have responded to the request.
- *Sub-optimal Use of Network Infrastructure.* The lack of integration among the servers within a farm can result in less than optimal use of the network infrastructure. Unmanaged server farms are unlikely to efficiently distribute traffic among available servers. As a result, a server in a farm can become overloaded, impairing the network's overall performance, while other servers in the farm remain under-utilized.
- *Substantial Costs of Increased Capacity.* Increasing bandwidth and adding servers and firewalls can be prohibitively expensive. In addition to the substantial cost of each additional server or firewall, deployment costs can be significant, particularly for networks with many remote sites and international networks.
- *Complex Network Management.* As the number of network resources increases to accommodate increasing traffic, the operational and administrative burden and cost significantly increase. For example, each server in the server farm must be separately managed by the network administrator, creating a complex array of multiple management systems.

The Internet Traffic Management Opportunity

As increasing IP traffic competes for limited network capacity, organizations require solutions which cost-effectively and efficiently increase network capacity, manage traffic and ensure application performance. Moreover, as the complexity of network infrastructures increases, organizations seek solutions that integrate easily into their existing networks and are cost-effective to deploy and maintain.

As noted above, the expansion of network resources provides only a limited solution to the problems caused by increased strain on network infrastructures. An alternative solution is the utilization of traditional traffic management products such as routers, which are devices that connect networks with similar network communications protocol such as the Internet protocol and manage traffic between these networks. However, these traditional traffic management products are generally not adequate to address network capacity constraints because these products are not typically designed to bypass system failures to ensure the availability of vital network resources and applications. Moreover, these traditional traffic management products do not provide adequate manageability and scalability required for organizations coping with increasing traffic demands.

Our Solution

We offer a broad range of Internet traffic management solutions to manage IP traffic across networks. Our solutions enable uninterrupted availability and enhanced performance of IP-based applications by distributing traffic among available network resources. We enable organizations to provide their end-users continuous access to their IP-based services, applications and content, while optimizing the performance of their existing network infrastructures. We believe that our products provide the following benefits to our customers:

Continuous Access. Our products continuously monitor network, server, firewall, router and application availability to enable real-time detection of resource and application misconfiguration, degradation or failure. Based on this information, our products direct end-users to functioning resources and applications by bypassing off-line and failed resources. This provides end-users with continuous access and eliminates the threat of the end-users being denied service by being routed to off-line or failed resources. The need for continuous availability is particularly important for e-commerce businesses and service providers that depend on the continuous performance of their Web sites and other IP-based applications to attract and retain customers. End-users experiencing an off-line or slow response will likely switch to an alternate vendor or Web site. The off-line or slow site will have lost a customer. E-commerce businesses and service providers who implement Internet traffic management solutions gain a significant competitive advantage.

Optimal Use of Available Resources. Our products are designed to efficiently allocate IP traffic among locally and geographically dispersed network resources. Our products monitor the capacity of network resources, the distribution of traffic among resources and application response time. This information is used to optimally balance traffic among available resources and redirect end-user requests to the resource with the fastest response time. By efficiently allocating traffic throughout the network, our solutions reduce network overload conditions and optimize the use of available network resources.

Scalability of Network Infrastructure. Our products provide scalability by enabling our customers to increase the capacity and productivity of their existing network resources to accommodate increased traffic demands by allowing them to add resources without the need to upgrade or replace existing resources. By building upon, and optimizing the use of, their existing network resources, organizations are able to protect their investments in their existing systems.

Ease and Flexibility of Network Management. Our products enable our customers to manage an array of network resources from a single access point anywhere within the network. In addition, our products are designed to be easily and quickly installed without impact to an existing network structure.

Strategy

Our objective is to increase our share of the Internet traffic management solutions market. Key elements of our strategy to achieve this objective include:

Provide Comprehensive Solutions to Manage IP Traffic. Our products are designed to provide manageable and scalable traffic management solutions to organizations who require uninterrupted availability of their Web sites and other IP-based services, applications and content. Our slogan, *Always On-Line,* encapsulates our corporate strategy to provide traffic management solutions that ensure that our customers' applications that may be critical to their businesses are always on-line and accessible by their end-users. We intend to continue to introduce products which offer our customers the ability to effectively respond to increasing levels of IP traffic without compromising availability or quality of service.

Offer Diverse Products That Address Multiple Internet Traffic Management Needs. Our product lines are designed to address multiple needs within the Internet traffic management market. In addition to our Web Server Director product line designed to provide a local and global traffic management solution for Web server farms, we offer FireProof, a traffic management solution for firewall farms, Cache Server Director, a traffic management solution for cache servers, and LinkProof, a traffic management solution for networks that connect to the Internet through multiple Internet service providers. Each product is designed to alleviate strain at a different node of the network and can be deployed independently to manage traffic at that node alone or as an integrated end-to-end solution together with our other products to manage traffic throughout the network. We believe that the end-to-end solution that we offer our customers who deploy our suite of products throughout their network provides a competitive advantage when compared to other products which are principally focused on Web server availability. We intend to continue to build upon this competitive advantage by developing products which expand the scope of the traffic management solutions we offer our customers.

Capitalize on Our Technological Expertise. Since our inception, we have dedicated our efforts to providing technologically advanced solutions to our customers. We believe we have established a differentiated market position in terms of our technological expertise and early market presence. We believe that our Web Server Director for Distributed Sites was the first global traffic management solution introduced that is capable of redirecting traffic based on server availability and that our Web Server Director for Network

Proximity was the first global traffic management solution with the ability to redirect traffic based on proximity of the site to the end-user as well as server availability. In addition, we believe that our FireProof product was the first dedicated solution to firewall traffic management. We intend to continue to devote significant resources to research and development activities in order to maintain and enhance our technological expertise, to increase the performance and functionality of our existing products and to develop more efficient and cost-effective Internet traffic management solutions.

Establish Strategic Alliances and Original Equipment Manufacturer Relationships to Broaden the Market for Our Products. We seek to enter into strategic alliances and original equipment manufacturer relationships with vendors of networking and Internet infrastructure solutions. These relationships will enable us to utilize and build upon the marketing strengths and customer base of these vendors, as well as to penetrate the markets served by these vendors. We intend to devote significant resources to establishing strategic alliances and original equipment manufacturer relationships as a means of enhancing our sales prospects and identifying new business opportunities.

Establish New and Strengthen Existing Distribution Channels and Sales Teams. We continue to develop and expand our worldwide distribution channels. We currently have over 130 independent distributors, including value added resellers, original equipment manufacturers and systems integrators, that sell our products in over 28 countries. We intend to devote significant resources to expanding our global presence. To this end, we are expanding our sales team in the United States and increasing our U.S. and international distribution channels by establishing additional relationships with independent distributors. We are also planning to open offices in key countries in Asia and Europe to establish a local presence in those markets. We intend to continue to invest a significant amount of marketing and sales resources to develop and support existing and new distribution relationships. We believe this strategy will enable us to increase the worldwide deployment of our products.

Enhance Our Brand Recognition. We intend to continue to invest resources in aggressive marketing efforts, including participation in trade shows and trade events, advertising in print and on the Web and direct marketing campaigns. These efforts are directed at enhancing our brand recognition and building our reputation as a provider of technologically advanced Internet traffic management solutions, known for the performance, functionality, ease of use and quality of our products as well as our customer service and responsiveness.

Maintain and Improve Close Working Relationships With Our Customers. We maintain close working relationships with our customers and are committed to providing our customers with responsive and dedicated customer service and support. We maintain a dedicated technical support team and, in cooperation with our distributors, provide our customers with technical support and customer service. Our relationships with our customers provide us with direct insight into their changing requirements. We plan to invest marketing and sales resources to improve our customer service and support to facilitate rapid integration of our products and to remain responsive to our customers' changing needs.

Products

We offer our customers a diversified range of products which 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*™ distributes IP traffic among multiple servers and applications to enable continuous access to the servers and to optimize utilization of available capacity.
- *FireProof*™ 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*™ 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*™ 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 which 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. 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:

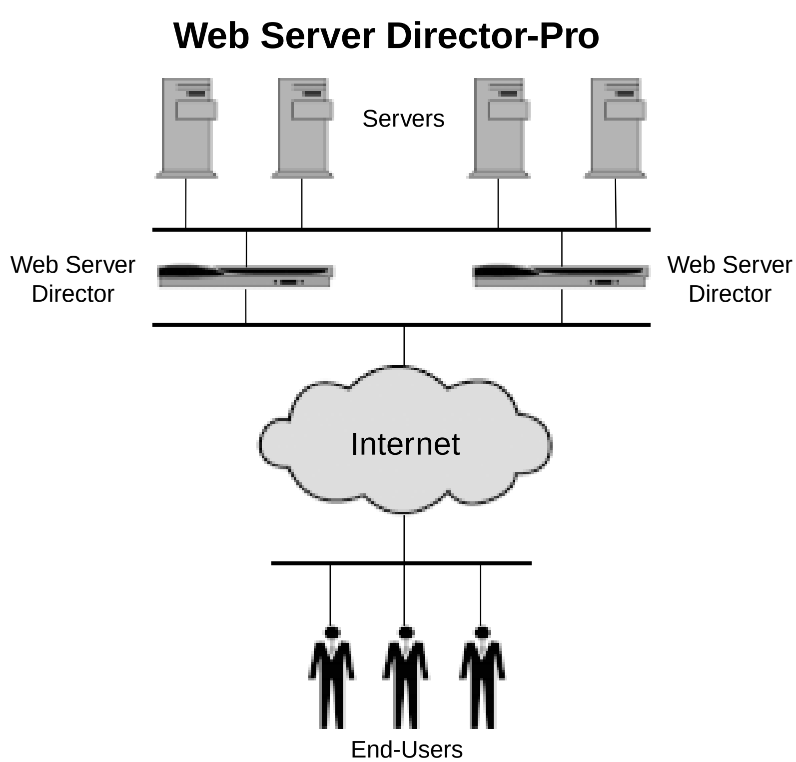
Single Access Address Per Server Farm	End-users access the Web site by typing in a single Internet address. Web Server Director-Pro intercepts the end-user request and, based on the current traffic volumes and server capacity, distributes the traffic in real time among the available servers within the server farm. From the perspective of the end-user, Web Server Director-Pro transforms the servers within a server farm which 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 which 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.

A typical configuration of Web Server Director-Pro within a network is shown below:



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:

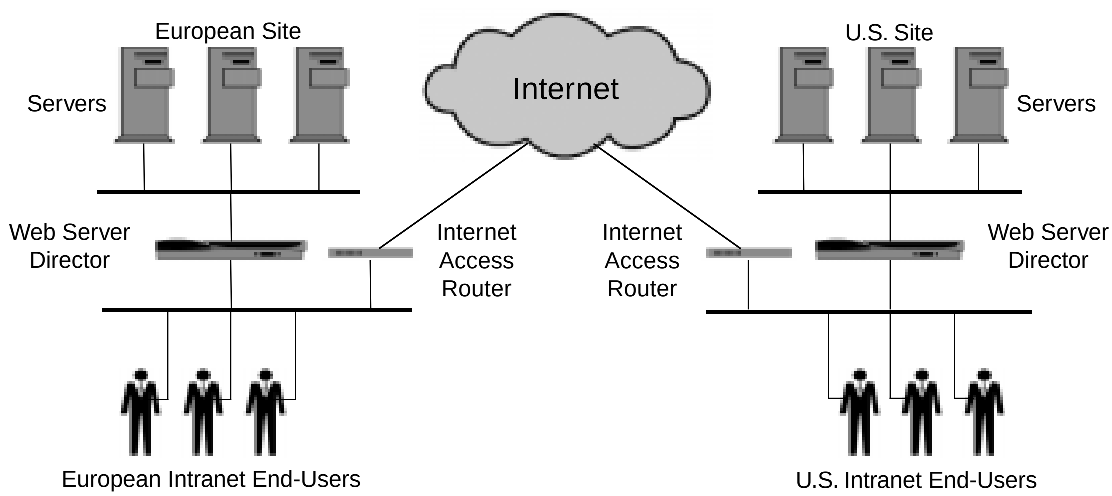
Combined local and global functionalities	Although Web Server Director for Distributed Sites is a global solution, it contains all the functionalities of the Web Server Director-Pro and acts as a local traffic management solution for the server farm situated at the site within the network where the Web 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 which 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.

A typical configuration of Web Server Director for Distributed Sites within a global network with multiple sites is shown below:

Web Server Director for Distributed Sites



Web Server Director for Network Proximity

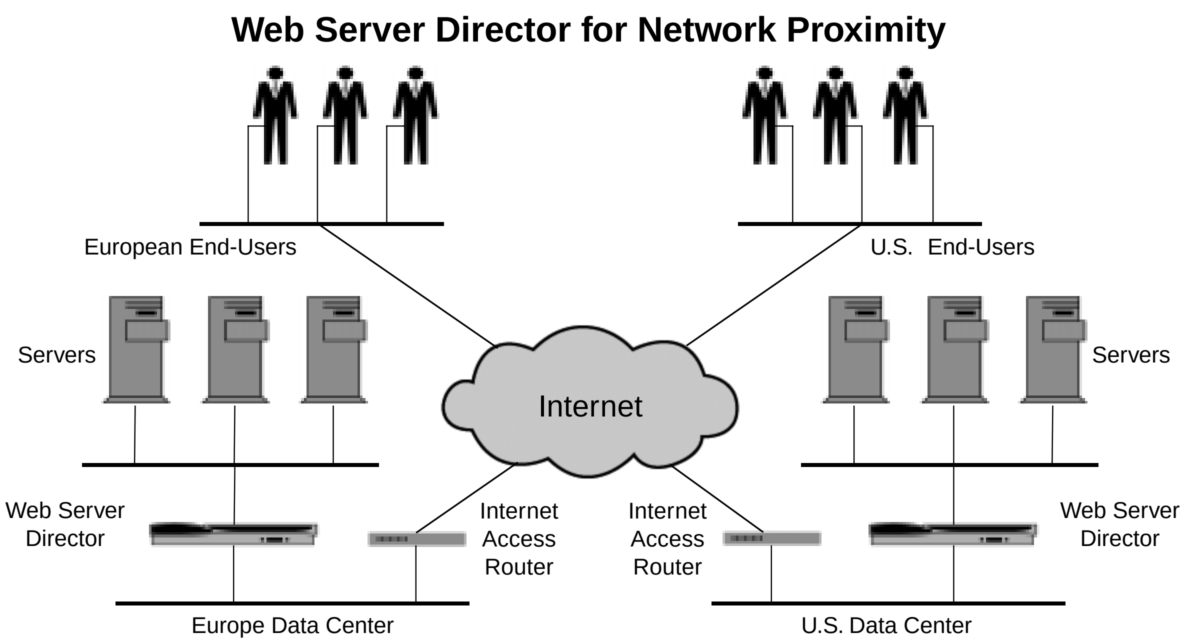
Our Web Server Director for Network Proximity offers a global traffic management solution designed to identify the most appropriate site according to both site availability and network proximity of the site to the end-user. Network proximity, as opposed to physical geographic proximity, is measured by 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 which 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 which 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.

A typical configuration of Web Server Director for Network Proximity is shown below:

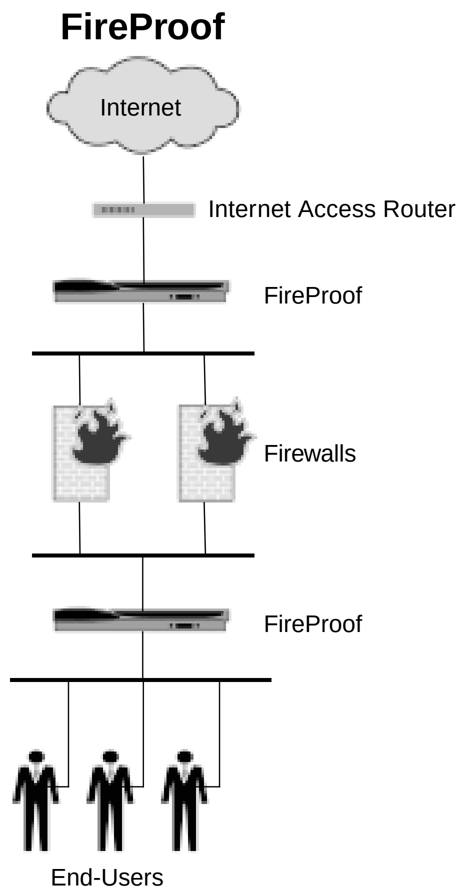


FireProof Product Line

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 which 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.

A typical configuration of FireProof in a network is shown below:



Cache Server Director Product Line

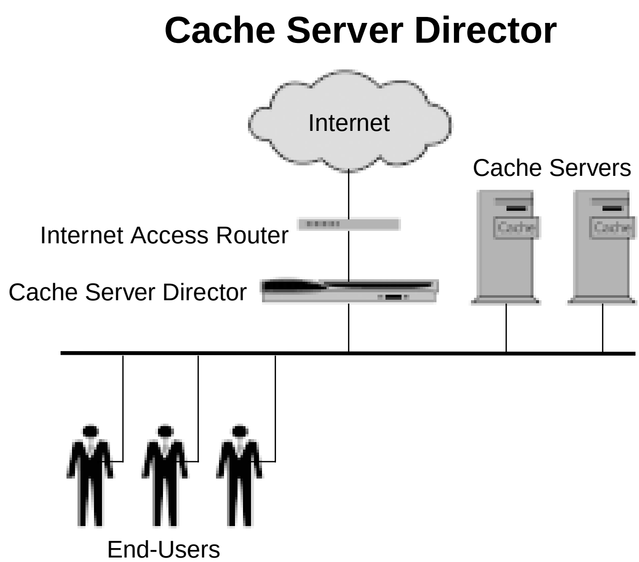
Our Cache Server Director product line is a cache server management and traffic distribution system. Designed for organizations that employ cache server farms on their networks, Cache Server Director is designed to maximize the performance of cache server farms and provide optimal utilization of Internet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

A typical configuration of Cache Server Director in a network is shown below:



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 which 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 2,000 units either directly or through resellers to over 300 final customers. The following is a list of our seven largest distributors as of September 30, 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
- Bell Atlantic
- BMC Software
- Concentric Network
- Deutsche Bahn AG
- Deutsche Sport Fernseher
- Deutsche Telekom AG
- First National Bank of Omaha
- France Telecom
- Gateway
- GTE
- Intel Corporation
- KDD
- Mellon Financial Corporation
- NEC
- NTT
- OKI Electric
- Saritel Telematica Italiana
- Sony
- Sprint
- State of Minnesota
- Uproar Services Limited
- USinternetworking
- U S WEST
- UUNET
- Vanguard
- AB Volvo

Sales and Marketing

Sales. We market and sell our products through an indirect sales force which 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 "Related Party Transactions — The RAD-BYNET Group."

As of September 30, 1999, we employed 15 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 nine 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.

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 September 30, 1999, our research and development staff consisted of 19 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 the first nine months of 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 Network Devices, 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 Network Devices supplies us with finished circuit boards for final assembly. The other components and subassemblies included in our products are supplied to RAD Network Devices from a limited group of suppliers and subcontractors. RAD Network Devices monitors each stage of the circuit board production process, including the selection of components and subassembly suppliers. RAD Network Devices 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 Network Devices. 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 submitted trademark applications in the United States for the names Web Server Director, Cache Server Director, FireProof, LinkProof and Triangulation. 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.

Employees

As of September 30, 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.

Legal Proceedings

We are not party to any material legal proceedings.

Facilities

As of September 30, 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 Network Devices, 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.

MANAGEMENT

Directors and Executive Officers

The following table lists our current directors and executive officers:

Name	Age	Position
Yehuda Zisapel(1)	57	Chairman of the Board of Directors
Roy Zisapel(2)	28	Chief Executive Officer, President and Director
Meir Moshe	45	Chief Financial Officer
Yael Langer	34	General Counsel and Secretary
Sharon Trachtman	33	Vice President, Marketing
Amir Peles	28	Vice President, Research and Development
Doron Meirom	42	President of Radware Inc.
Zohar Zisapel(1)	50	Director
Yiftach Atir(2)(4)	50	Director
Avigdor Willenz(3)(4)	43	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. 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. 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.

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 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.

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 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.

Independent Directors

We are subject to the provisions of the Israeli Companies Ordinance (New Version), 1983, as amended. Under the Companies Ordinance, Israeli companies which have offered securities to the public are required to appoint at least two independent directors who have been approved by a statutory committee. The District Court of Tel Aviv ruled in 1993 that companies registered under the laws of Israel whose shares have been offered to the public outside Israel are also required to comply with the Israeli independent director requirements. However, this judgment was vacated by the Israeli Supreme Court in February 1997. As a result, it is unclear whether companies registered under the laws of Israel whose shares have been offered to the public outside of Israel like our company are also required to comply with these Israeli independent director requirements. We do not intend to appoint independent directors within the meaning of the Companies Ordinance after this offering.

However, under the new Israeli Companies Law that is scheduled to be effective February 1, 2000, companies incorporated under the laws of Israel whose shares have been offered to the public in or outside of Israel will be required to appoint two external directors. This law provides that a person may not be appointed as an external director if the person or the person's relative, partner, employer or any entity under the person's control, has, as of the date of the person's appointment to serve as external director, or had, during the two years preceding that date, 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;
- business or professional relationship maintained on a regular basis;

• control; and

• service as an office holder.

These directors must be residents of Israel. 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.

External directors are to be elected by a majority vote at a shareholders' meeting, provided that either: (1) 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 election of the director or (2) the total number of shares of non-controlling shareholders voted against the election of the director does not exceed one percent of the aggregate voting rights in the company. The initial term of an external director will be three years and may be extended for an additional three years. Each committee of a company's board of directors will be required to include at least one external director. Pursuant to the provisions of the new Companies Law, we intend to call a general meeting of our shareholders as soon as practicable after the effective date of the new Companies Law at which it will be proposed to elect two directors as external directors under the new Companies Law.

In addition, we are obligated under the requirements for quotation on the Nasdaq National Market to have at least two independent directors on our board of directors and to establish an audit committee, at least a majority of whose members are independent of management. Yiftach Atir and Avigdor Willenz qualify as independent directors under the Nasdaq National Market requirements.

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

Audit Committee

Pursuant to the Companies Ordinance and the new 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 the chairman of the board of directors, general manager, chief executive officer or certain other officers, and, under the new Companies Law, excluding a controlling shareholder. See "— Committees" for information relating to our audit committee.

Under the new Companies Law, the board of directors must also appoint an internal auditor, in accordance with the proposal of the audit committee. The role of the internal auditor is to examine, among other matters, whether the company's actions comply with the law, integrity and orderly business procedure. Under the new Companies Law, the internal auditor may be an employee of the company but not an office holder, or an affiliate, or a relative of an office holder or affiliate, and he may not be the company's independent accountant or its representative. We intend to appoint an internal auditor in accordance with the requirements of the new Companies Law after the effective date of the new Companies Law.

Approval of Specified Transactions Under Israeli Law

The Companies Ordinance and the new Companies Law codify the fiduciary duties that "office holders", including directors and executive officers, owe to a company. An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of loyalty includes avoiding any conflict of interest between the office holder's position in the company and his personal affairs, avoiding any competition with the company, avoiding exploiting any business opportunity of the company in order to receive personal advantage for himself or others, and revealing to the company any information or documents relating to the company's affairs which the office holder has received due to his position as an office holder. Each person listed in the table under "— Directors and Executive Officers" above is an office holder. Under the Companies Ordinance, all arrangements as to compensation of office holders who are not directors require approval of the board of directors. Arrangements regarding the compensation of directors also require audit committee and shareholder approval.

The Companies Ordinance and the new Companies Law require that an office holder of the company promptly disclose any personal interest that he or she may have and all related material information known to him or her, in connection with any existing or proposed transaction by the company. In addition, if the transaction is an extraordinary transaction as defined under Israeli law, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing, or by any corporation in which the office holder is a 10% or greater shareholder, or under the new Companies Law, 5% or greater shareholder, director or general partner or in which he or she has the right to appoint at least one director or the general manager. An extraordinary transaction is defined as a transaction other than in the ordinary course of business, otherwise than on market terms, or that is likely to have a material impact on the company's profitability, assets or liabilities. Under the Companies Ordinance, once the office holder complies with the above disclosure requirement, the company may approve the transaction in accordance with the provisions of its articles of association. The new Companies Law stipulates that only board approval is required unless the articles of association of the company provide otherwise. Under both laws, the transaction must not be adverse to the company's interest. Furthermore, if the transaction is an extraordinary transaction, then, in addition to any approval stipulated by the articles of association, it also must be approved by the company's audit committee and then by the board of directors, and, under certain circumstances, by a meeting of the shareholders of the company. An office holder who has a personal interest in a matter which is considered at a meeting of the board of directors or the audit committee may not be present at this meeting or vote on this matter.

The new Companies Law applies the same disclosure requirements to a controlling shareholder of a public company, which includes a shareholder that holds 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in the company. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and the terms of compensation of a controlling shareholder who is an office holder, require the approval of the audit committee, the board of directors and the shareholders of the company. The shareholder approval must include at least one-third of the shareholders who have no personal interest in the transaction and are present, in person or by proxy, at the meeting. However, the transaction can be approved by shareholders without this one-third approval if the total shareholdings of those who have no personal interest in the transaction who vote against the transaction do not represent more than one percent of the voting rights in the company. In addition, a private placement of securities that will increase the relative holdings of a shareholder that holds five percent or more of the company's outstanding share capital or that will cause any person to become, as a result of the issuance, a holder of more than five percent of the company's outstanding share capital, requires approval by the board of directors and the shareholders of the company. The provisions of the new Companies Law with respect to the approval of related party transactions are otherwise substantially similar to the provisions of the Companies Ordinance.

Under the new Companies Law, a shareholder has a duty to act in good faith towards the company and other shareholders and refrain from abusing his power in the company including, among other things, voting in the general meeting of shareholders on the following matters:

- any amendment to the articles of association;
- an increase of the company's authorized share capital;
- a merger; or
- approval of some of the acts and transactions which require shareholder approval.

In addition, any controlling shareholder, any shareholder who knows that it possesses power to determine the outcome of a shareholder vote and any shareholder that, pursuant to the provisions of the Company's articles of association, has the power to appoint an office holder in the company, is under a duty to act in fairness towards the company. The new Companies Law does not describe the substance of this duty.

For information concerning the direct and indirect personal interests of certain of our office holders and principal shareholders in certain transactions with us, see the section of this prospectus entitled "Related Party Transactions."

Indemnification of Directors and Officers

The Companies Ordinance provides that an Israeli company cannot exempt an office holder from liability with respect to a breach of his duty of care or his duty of loyalty. However, our articles of association provide that, subject to the provisions of the Companies Ordinance, we may enter into a contract for the insurance of the liability of any of our office holders with respect to:

- a breach of his duty of care to us or to another person;
- a breach of his duty of loyalty to us, provided that the office holder acted in good faith and had reasonable cause to assume that his act would not prejudice our interests; or
- a financial liability imposed upon him in favor of another person in respect of an act performed by him in his capacity as an office holder.

In addition, we may indemnify an office holder against:

- a financial liability imposed on him in favor of another person by any judgment, including a settlement or an arbitrator's award approved by a court, in respect of an act performed in his capacity as an office holder; and
- reasonable litigation expenses, including attorneys' fees, expended by such office holder or charged to him by a court, in proceedings we institute against him or instituted on our behalf or by another person, or in a criminal charge from which he was acquitted, all in respect of an act performed in his capacity as an office holder.

These provisions are specifically limited in their scope by the Companies Ordinance, which provides that a company may not indemnify an office holder, nor enter into an insurance contract which would provide coverage, for any monetary liability incurred as a result of any of the following:

- a breach by the office holder of his duty of loyalty unless he acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach by the office holder of his duty of care if such breach was done intentionally or in disregard of the circumstances of the breach or its consequences;
- any act or omission done with the intent to derive an illegal personal benefit; or
- any fine levied against the office holder as a result of a criminal offense.

Under the new Companies Law, our articles of association may include any of the following provisions:

- A provision authorizing us to grant in advance an undertaking to indemnify an office holder, provided that the undertaking is limited to certain type of events which the board of directors deems to be anticipated and limited in amount determined by the board of directors to be reasonable under the circumstances.
- A provision authorizing us to indemnify retroactively an office holder.

In addition, pursuant to the Companies Ordinance, indemnification of, and procurement of insurance coverage for, our office holders must be approved by our audit committee and our board of directors and, in specified circumstances, our shareholders.

We have agreed to indemnify our office holders to the fullest extent permitted under the Companies Ordinance. We have obtained directors and officers liability insurance for the benefit of our office holders.

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

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 new Companies Law whose term is three years, as required by law.

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.

Compensation of Directors and Officers

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 nine persons	$574,000	$52,000

As of September 30, 1999, our directors and officers as a group, consisting of nine persons, held options to purchase an aggregate of 1,254,717 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.

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 September 30, 1999, 1,814,400 ordinary shares have been reserved for option grants under the plan, of which we have granted options to purchase 1,600,736 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.

Employment Agreements

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.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of our ordinary shares as of the date of this prospectus, as adjusted to reflect the sale of the ordinary shares in this offering, by:

- each person or entity known to own beneficially more than 5% of our outstanding ordinary shares;
- each shareholder who is selling shares in this offering; and
- all directors and executive officers as a group.

Unless otherwise noted below, each shareholder's address is c/o RADWARE Ltd., Atidim Technological Park, Building 4, Tel Aviv 61131, Israel.

Name	Ordinary shares beneficially owned before this offering(1)		Ordinary shares to be sold in this offering	Ordinary shares beneficially owned after this offering	
	Number	Percent(2)		Number	Percent(3)
Yehuda Zisapel(4)(5)	4,257,927	29.2%	646,700	3,611,227	22.8%
Polaris Group(6)	1,559,622	10.7%	236,878	1,322,744	8.3%
Evergreen Group(7)	1,559,541	10.7%	—	1,559,541	9.8%
Zohar Zisapel(4)(8)	1,344,600	9.2%	204,219	1,140,381	7.2%
Roy Zisapel(4)(9)	907,173	5.8%	—	907,173	5.4%
HarbourVest International Private Equity Partners III — Direct Fund, L.P.(10)	872,424	6.0%	108,811	763,613	4.8%
Eucalyptus Group(11)	348,678	2.4%	43,488	305,190	1.9%
Avi Hirsch(12)	19,845	*	9,904	9,941	*
All directors and executive officers as a group (9 persons)(13)	6,596,831	42.4%	850,919	5,745,912	34.2%

* Less than 1%.

(1) Except as otherwise noted and pursuant to applicable community property laws, each person or entity named in the table has sole voting and investment power with respect to all ordinary shares listed as owned by such person or entity. Shares beneficially owned include shares that may be acquired pursuant to options that are exercisable within 60 days of the date of this prospectus.

(2) Based on 14,604,209 ordinary shares outstanding prior to this offering. Ordinary shares deemed beneficially owned by virtue of the right of any person or group to acquire such shares within 60 days of the date of this prospectus are treated as outstanding only for purposes of determining the percent owned by such person or group.

(3) Based on 15,854,209 ordinary shares outstanding immediately following this offering.

(4) This person is party to a voting agreement pursuant to which each party has agreed to vote its shares in favor of director nominees named by the parties to the agreement. See "Related Party Transactions — Voting Agreement."

(5) Includes 1,000,000 ordinary shares owned of record by Carm-AD Ltd. Yehuda Zisapel has granted the underwriters an option to purchase up to 194,010 ordinary shares to cover over-allotments. If this option is exercised in full, Mr. Zisapel will own 3,417,217 shares, or 21.6% of our ordinary shares after this offering.

(6) Consists of 555,758 ordinary shares owned by Polaris Fund II (Tax Exempt Investors), L.L.C., 366,799 ordinary shares owned by Polaris Fund II, L.L.C., 138,957 ordinary shares owned by Polaris Fund II, L.P., 326,549 ordinary shares owned by DS Polaris Trust Company (Foreign Residents) (1997) Ltd., 15,616 ordinary shares owned by DS Polaris Ltd. and 155,943 ordinary shares owned by Canada-Israel Opportunity Fund. The address of the Polaris Group is 37 Shaul Hamelech Blvd., Tel Aviv, Israel. Rami Kalish, managing general partner of the Polaris funds, disclaims beneficial ownership of the ordinary shares held by the Polaris Group except to the extent of his proportional interest therein. The Polaris Group has granted the underwriters an option to purchase up to 71,063 ordinary shares to cover over-allotments. If this option is exercised in full, the Polaris Group will own 1,251,681 shares, or 7.9% of our ordinary shares after this offering.

(7) Consists of 37,895 ordinary shares owned by Evergreen Canada-Israel Management Ltd., 633,127 ordinary shares owned by the Periscope I Fund, L.P., 162,271 ordinary shares owned by the 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 Cathy Technologies (HK) Ltd. The address of IJT Technologies Ltd. and Periscope I Fund, Israeli Partnership is 96 Rothschild Blvd., Tel Aviv, Israel. The address of the other members of the Evergreen Group is 55 St. Claire Avenue, West, Suite 225, Toronto, Ontario M4V 2Y7 Canada. Yiftach Atir, an officer of the Evergreen Group and a director of our company, disclaims beneficial ownership of the ordinary shares held by the Evergreen Group except to the extent of his proportional interest therein.

(8) 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. Zohar Zisapel has granted the underwriters an option to purchase up to 61,266 ordinary shares to cover over-allotments. If this option is exercised in full, Mr. Zisapel will own 1,079,115 shares, or 6.8% of our ordinary shares after this offering.

(9) Consists of 907,173 ordinary shares issuable upon exercise of options exercisable within 60 days of the date of this prospectus.

(10) The address of HarbourVest is One Financial Center, Boston, Massachusetts 02111. The sole general partner of HarbourVest International Private Equity Partners III — Direct Fund L.P. is HIPEP III — Direct Associates L.L.C., the managing member of which is HarbourVest Partners, LLC. The members of HIPEP III Direct Associates L.L.C. and HarbourVest Partners, LLC may be deemed to have an indirect pecuniary interest (within the meaning of Rule 16a-1 under the Exchange Act) in an indeterminate portion of the shares beneficially owned by HarbourVest International Private Equity Partners III — Direct Fund L.P. Such members disclaim beneficial ownership of these shares within the meaning of Rule 13d-3 of the Exchange Act. HarbourVest has granted the underwriters an option to purchase up to 32,643 ordinary shares to cover over-allotments. If this option is exercised in full, HarbourVest will own 730,970 shares, or 4.6% of our ordinary shares after this offering.

(11) Consists of 16,011 ordinary shares owned by Eucalyptus Ventures L.P. (Israel), 4,509 ordinary shares owned by Eucalyptus Ventures Affiliates Fund, 318,546 ordinary shares owned by Eucalyptus Ventures L.P. (Delaware), and 9,612 ordinary shares owned by Eucalyptus Ventures (Cayman) L.P. The address of the Eucalyptus Group is 96 Rothschild Blvd., Tel Aviv, Israel. Eldad Tamir, managing general director of the Eucalyptus Group, disclaims beneficial ownership of the ordinary shares held by the Eucalyptus Group except to the extent of his proportional interest therein. The Eucalyptus Group has granted the underwriters an option to purchase up to 13,046 ordinary shares to cover over-allotments. If such option is exercised in full, the Eucalyptus Group will own 292,144 shares, or 1.8% of our ordinary shares after this offering.

(12) Avi Hirsch has granted the underwriters an option to purchase up to 2,972 ordinary shares to cover over-allotments. If this option is exercised in full, Mr. Hirsch will own 6,969 ordinary shares in the aggregate after this offering.

(13) Includes 960,755 ordinary shares issuable upon the exercise of options exercisable within 60 days of the date of this prospectus. Our directors and executive officers have granted the underwriters options to purchase, in the aggregate, up to 255,276 ordinary shares to cover over-allotments. If these options are exercised in full, our directors and executive officers as a group will own 5,490,636 shares, or 32.7% of our ordinary shares after this offering.

RELATED PARTY TRANSACTIONS

The RAD-BYNET Group

Yehuda and Zohar Zisapel are co-founders, directors and principal shareholders of our company. One or both of Yehuda Zisapel and Zohar Zisapel are also founders, directors and principal shareholders of several other companies which, together with us and their respective subsidiaries and affiliates, are known as the RAD-BYNET group. These corporations include RAD Data Communications, RND Networks, RAD Network Devices, RADLAN Computer Communications Ltd., RADWIZ Ltd., RIT Technologies Ltd., RADView Software Ltd., RADVision Ltd., RADGuard Ltd., SILICOM, RADCOM, BYNET SEMECH Ltd., BYNET Systems Applications Ltd., BYNET Data Communications Ltd. (a non-exclusive distributor in Israel for our company) and its subsidiaries, BYNET Electronics Ltd., TIMEBE Ltd., AB-NET Ltd., COMMERCENET Ltd., RADWIN Ltd., RAD-OP Ltd., IP-RAD Ltd., GIGANET Ltd. and several real estate and pharmaceutical companies.

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 is currently the same as any of 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. We and other members of the RAD-BYNET group market several of our products through the same distribution channels. Such products may, to an extent which cannot be determined, compete with one another for the distributors' time and efforts.

Each of RAD Data Communications and BYNET Data Communications 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 $15,000, $20,000 and $82,000 in 1997, 1998 and the first nine months of 1999.

Agreement with RND Networks

In November 1997, we entered into a technology transfer agreement with RND Networks, 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 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 equals 100% of the dollar linked amount received by RND Networks 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, net of royalties paid or accrued, totaled approximately $1.2 million as of September 30, 1999.

Agreements with RADLAN

In January 1998, we entered into a development agreement with RADLAN, our affiliate and a member of the RAD-BYNET group, pursuant to which RADLAN agreed to develop for us a standard hardware product for an aggregate amount of $82,000.

In August 1998, we entered into a license agreement with RADLAN pursuant to which we granted RADLAN a non-exclusive, non-royalty bearing, perpetual license to use the network management software which operates on our hardware platforms in exchange for a one-time license fee of $44,484. In addition, RADLAN agreed to reimburse us for any new development costs relating to the licensed software.

Agreements with RAD Network Devices

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

In addition, we sublease from RAD Network Devices 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 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 Placements

In November 1997, we issued in a private placement to the Polaris Group and members of the Evergreen Group convertible debentures in the aggregate principal amount of approximately $4.0 million, convertible into our preferred shares. During 1998, all of the convertible debentures were converted into our preferred shares.

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

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 expires one year following the date of this prospectus, 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. After giving effect to the sale of the ordinary shares offered hereby, 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.

SHARES ELIGIBLE FOR FUTURE SALE

Sales of substantial amounts of our ordinary shares in the public market could adversely affect prevailing market prices of our ordinary shares and our ability to raise equity capital in the future.

Upon completion of this offering, we will have outstanding an aggregate of 15,854,209 ordinary shares, assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options. Of these shares, the 4,025,000 shares sold by us and some of our shareholders in our initial public offering as well as all of the shares sold by us and the selling shareholders in this offering will be freely tradable without restriction or further registration under the Securities Act, unless such shares are purchased by "affiliates" as that term is defined in Rule 144 under the Securities Act. The remaining ordinary shares held by shareholders are "restricted securities" as that term is defined in Rule 144 under the Securities Act. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144 promulgated under the Securities Act, which rules are summarized below.

As a result of the contractual restrictions described below and the provisions of Rule 144, the restricted securities will be available for sale in the public market subject to the volume limitations and other conditions of Rule 144 and the expiration of any applicable lock-up period.

The following table indicates approximately when the 9,329,209 ordinary shares that will be restricted securities at the time this offering is complete will be eligible for sale into the public market:

Eligibility of Restricted Shares for Sale in Public Market

March 27, 2000	2,063,280
90 days after the date of this prospectus	7,153,096
Within 365 days after the date of the initial public offering	112,833
	9,329,209

Lock-up Agreements

Our officers and directors and substantially all our existing shareholders at the time of our initial public offering signed lock-up agreements in connection with our initial public offering under which they agreed not to dispose of or hedge any ordinary shares or any securities convertible into or exchangeable for ordinary shares prior to March 27, 2000. In connection with this offering, the selling shareholders have signed similar lock-up agreements extending the lock-up period with respect to these shareholders for 90 days from the date of this prospectus. In either case, dispositions can be made sooner with the prior written consent of Salomon Smith Barney Inc.

Rule 144

In general, under Rule 144 as currently in effect, a person who has beneficially owned ordinary shares for at least one year would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- 1% of the number of ordinary shares then outstanding, which will equal approximately 158,542 ordinary shares immediately after this offering; or
- the average weekly trading volume of the ordinary shares on the Nasdaq National Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 144(k)

Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, including the holding period of any prior owner other than an affiliate, is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Therefore, unless otherwise restricted, "144(k) shares" may be sold immediately upon the completion of this offering.

Rule 701

In general, under Rule 701, any of our employees, directors, officers, consultants or advisors who purchased ordinary shares from us in connection with a compensatory stock or option plan or other written agreement before our initial public offering is entitled to resell these shares in reliance on Rule 144, without having to comply with certain restrictions, including the holding period, contained in Rule 144.

The Securities and Exchange Commission has indicated that Rule 701 will apply to typical stock options granted by an issuer before it becomes subject to the reporting requirements of the Securities Exchange Act of 1934, along with the shares acquired upon exercise of these options, including exercises after the issuer becomes subject to these reporting requirements. Securities issued in reliance on Rule 701 are restricted securities and, subject to the contractual restrictions described above, may be sold by persons other than affiliates subject only to the manner of sale provisions of Rule 144 and by affiliates under Rule 144 without compliance with its one year minimum holding period requirement.

Stock Options

We intend to file a registration statement on Form S-8 under the Securities Act covering 1,814,400 ordinary shares reserved for issuance under our share option plan. The registration statement on Form S-8 will become effective automatically upon filing. As of September 30, 1999, options to purchase 1,600,736 ordinary shares were issued and outstanding, of which options to purchase 1,008,383 ordinary shares had vested. Accordingly, ordinary shares registered under the registration statement will, subject to vesting provisions and Rule 144 volume limitations applicable to our affiliates, be available for sale in the open market, subject to the expiration of any applicable lock-up agreements.

Registration Rights

Commencing on the first anniversary of our initial public offering, the holders of 8,581,336 ordinary shares are entitled to request that we register their ordinary shares under the Securities Act. After these ordinary shares are registered, they will become freely tradable without restriction under the Securities Act. Any sales of securities by these shareholders could have a material adverse effect on the trading price of our ordinary shares.

DESCRIPTION OF ORDINARY SHARES

Our authorized share capital consists of 30,000,000 ordinary shares, NIS 0.10 par value per ordinary share. In October 1999, immediately prior to our initial public offering, we effected a 27-for-1 stock split in the form of a share dividend of 26 ordinary shares for each share outstanding immediately prior to our initial public offering. After this offering, there will be 15,854,209 ordinary shares issued and outstanding.

All our outstanding ordinary shares are, and the ordinary shares issued in this offering will be, validly issued and fully paid without preemptive rights. The ownership or voting of ordinary shares by non-residents of Israel is not restricted in any way by our memorandum of association, our articles of association or the laws of the State of Israel, except that nationals of certain countries which are, or have been, in a state of war with Israel may not be recognized as owners of ordinary shares.

Transfer of Shares and Notices. Fully paid ordinary shares are issued in registered form and may be freely transferred pursuant to our articles of association unless such transfer is restricted or prohibited by another instrument. Each shareholder of record is entitled to receive at least seven days' prior notice of an ordinary shareholders' meeting and at least 21 days' prior notice of any shareholders' meeting in which a special resolution is to be adopted.

Election of Directors. Our ordinary shares do not have cumulative voting rights in the election of directors. As a result, the holders of ordinary shares that represent more than 50% of the voting power have the power to elect all of our directors.

Dividend and Liquidation Rights. We may declare a dividend to be paid to the holders of ordinary shares according to their rights and interests in our profits. In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares in proportion to the nominal value of their respective holdings. Such right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future. The board of directors may declare interim dividends and propose the final dividend with respect to any fiscal year only out of retained earnings. Declaration of a final dividend requires approval by an ordinary shareholders' resolution, which may decrease but not increase the amount proposed by the board of directors. Under the new Companies Law, the declaration of a dividend does not require the approval of the shareholders of the company, unless the company's articles of association requires otherwise.

Voting, Shareholders' Meetings and Resolutions. Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. These voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future. The quorum required for an ordinary meeting of shareholders consists of at least two shareholders present in person or by proxy who hold or represent between them at least 33⅓% of the issued share capital. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place or any time and place as the directors designate in a notice to the shareholders. At such reconvened meeting the required quorum consists of any two members present in person or by proxy.

An ordinary resolution (such as a resolution for the declaration of dividends) requires approval by the holders of a majority of the voting rights represented at the meeting of which shareholders received at least seven days' prior notice, in person or by proxy, and voting thereon. A special or extraordinary resolution (such as a resolution amending our memorandum of association or articles of association or approving certain changes in capitalization, winding-up, authorization of a class of shares with special rights or other changes as specified in the Companies Ordinance) requires approval of the holders of 75% of the voting rights represented at the meeting, in person or by proxy, and voting thereon. A special resolution may only be considered if shareholders receive at least 21 days' prior notice of the meeting at which such resolution will be considered. Under the new Companies Law, which will become effective on February 1, 2000, unless otherwise provided in the articles of association or applicable law, all resolutions of the shareholders require a simple majority and all shareholders meetings require prior notice of at least 21 days. However, the new Companies Law requires that the first amendment of a company's articles of association following the effective date of the new Companies Law be approved by holders of 75% of the voting rights represented at the meeting, in person or by proxy, and voting thereon.

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, representing 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 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.

Anti-Takeover Provisions; Mergers and Acquisitions under Israeli Law

The Companies Ordinance requires an acquirer of a company, who wishes to acquire the company without the approval of its minority shareholders, to acquire 90% of all outstanding shares not held by the acquirer prior to the acquisition. Even if the acquirer acquires 90% of the outstanding shares, the remaining minority shareholders may seek to block the acquisition in court. Under the new Companies Law, the 90% threshold has been increased with respect to publicly held companies to 95%. Other provisions of the Companies Ordinance regarding "arrangements" between a company and its shareholders have also been used to effect acquisitions without approval of all of the minority shareholders, but those arrangements require approval of the transaction by at least 75% of the shares voting, and a majority of the shareholders voting, on the proposed transaction at a shareholders' meeting called on at least 21 days advance notice, as well as court approval. This entails the possibility of additional delay and the imposition of further approval requirements at the court's discretion. The new Companies Law does not significantly modify the provisions regarding "arrangements."

The new Companies Law requires that each company that is party to a merger approve the transaction by a vote of the majority of its outstanding shares, generally excluding shares voted by the other party to the merger or any person holding at least 25% of the other party to the merger, at a shareholders' meeting called on at least 21 days prior notice. In addition, the new law does not require court approval of a merger other than in specified situations. The new law contemplates the promulgation of regulations regarding implementation of mergers; however, no regulations have been proposed or adopted to date. In addition, a merger may not be completed unless at least 70 days have passed from the time that a proposal for approval of the merger has been filed with the Israeli Registrar of Companies.

Notwithstanding the approval requirements set forth in the new law, companies, such as ours, which have been incorporated prior to the new law coming into effect, must specifically amend their articles of association to provide for the shareholder voting requirements contained in the new law. The new law provides that adoption of this amendment requires approval of 75% of the voting power represented at the relevant shareholders' meeting.

The new law also provides that an open market acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% shareholder of the company. This rule does not apply if there already is another 25% shareholder in the company. Similarly, the new law provides that an open market acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% shareholder of the company. This rule does not apply if another party is already a majority shareholder in the company. However, under the new law, if following any acquisition of shares the acquiror will hold 90% or more of the company's shares, the acquisition must be made by means of a tender offer for all of the shares of the company. Furthermore, this rule does not apply if the acquisition is made by way of a merger. The new law contemplates the promulgation of regulations with respect to Israeli companies that are publicly traded outside of Israel; however, no regulations have been proposed or adopted. Accordingly, we do not know to what extent or how these rules will apply to Israeli companies, such as ours, that are publicly traded outside of Israel.

Finally, Israeli tax law treats certain acquisitions, such as a stock-for-stock swap between an Israeli company and a foreign company, less favorably than does U.S. tax law. For example, Israeli tax law may subject a shareholder who exchanges his ordinary shares for shares in a foreign corporation to immediate taxation.

Modification of Class Rights

The rights attached to any class (unless otherwise provided by the terms of such class), such as voting, rights to dividends and the like, may be varied by written consent of holders of 75% of the issued shares of that class, or by adoption of a special resolution at a special meeting of the holders of the shares of such class.

Israeli Securities Law Requirements

We and the selling shareholders have received from the Israeli Securities Authority an exemption from Israel's prospectus delivery requirements applicable to this offering. In connection with our initial public offering, we received from the Israeli Securities Authority an exemption from the reporting obligations to which Israeli companies whose shares are publicly traded are subject, provided that a copy of each of the reports filed by us pursuant to applicable United States law shall be available for public review at our offices.

Transfer Agent and Registrar

The Transfer Agent and Registrar for our ordinary shares is American Stock Transfer & Trust Company, New York, New York.

Listing

Our ordinary shares are listed for quotation on the Nasdaq National Market under the symbol "RDWR".

CONDITIONS IN ISRAEL

We are incorporated under the laws of, and our principal offices and manufacturing and research and development facilities are located in, the State of Israel. Accordingly, we are directly affected by political, economic and military conditions in Israel.

Political Conditions

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 from time to time in intensity and degree, has led to security and economic problems for Israel. Israel signed a peace treaty with Egypt in 1979 and a peace treaty with Jordan in 1994. Since 1993, a joint Israeli-Palestinian Declaration of Principles and several other agreements have been signed between Israel and the Palestinians. As of the date hereof, Israel has not entered into any peace agreement with Syria and Lebanon. There can be no assurance as to whether any peace agreement with Syria and Lebanon will be signed.

Despite the progress towards peace between Israel and its Arab neighbors and the Palestinians, certain countries, companies and organizations continue to participate in a boycott of Israeli firms and others doing business with Israel or with Israeli companies. Although we are precluded from marketing our products to such countries, we believe that in the past, the boycott has not had a material adverse effect on us. However, restrictive laws, policies or practices directed towards Israel or Israeli businesses could have an adverse impact on the expansion of our business.

All male adult citizens and permanent residents of Israel under the age of 48 are, unless exempt, obligated to perform up to 39 days of military reserve duty annually. Additionally, all such residents are subject to being called to active duty at any time under emergency circumstances. Many of our officers and employees are currently obligated to perform annual reserve duty. While we have operated effectively under these requirements since we began operations, we cannot assess the full impact of such 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.

Economic Conditions

Israel's economy has been subject to numerous destabilizing factors, including a period of rampant inflation in the early to mid-1980s, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. The Israeli Government has, for these and other reasons, intervened in various sectors of the economy, by utilizing, among other means, fiscal and monetary policies, import duties, foreign currency restrictions and control of wages, prices and foreign currency exchange rates. In 1998, the Israeli currency control regulations were liberalized significantly, as a result of which Israeli residents may deal in foreign currency and non-residents of Israel may purchase and sell Israeli currency and assets. The Israeli Government has periodically changed its policies in all these areas. There are currently no Israeli currency control restrictions on remittances of dividends on the ordinary shares or the proceeds from the sale of the shares; however, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time. In addition, Israeli residents and companies are required to file reports pertaining to actions or transactions generally relating to the purchase or holding of assets located outside of Israel and valued at $5 million or more, holdings of more than 5% of the shares of companies whose shares are traded outside of Israel and loans to and from sources outside of Israel valued at $100,000 or more.

The Israeli Government's monetary policy contributed to relative price and exchange rate stability in recent years, despite fluctuating rates of economic growth and a high rate of unemployment. There can be no assurance that the Israeli Government will be successful in its attempts to keep prices and exchange rates stable. Price and exchange rate instability may have a material adverse effect on us.

Trade Relations

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation. Israel is a member of the World Trade Organization and is signatory to the General Agreement on Trade in Services. In addition, Israel has been granted preferences under the Generalized System of Preferences from the United States, Australia, Canada and Japan. These preferences allow Israel to export the products covered by such programs either duty-free or at reduced tariffs.

Israel and the EEC, known now as the European Union, concluded a Free Trade Agreement in July, 1975 which confers certain advantages with respect to Israeli exports to most European countries and obligates Israel to lower its tariffs with respect to imports from these countries over a number of years. In 1985, Israel and the United States entered into an agreement to establish a Free Trade Area. The Free Trade Area has eliminated all tariff and certain non-tariff barriers on most trade between the two countries. On January 1, 1993, an agreement between Israel and the EFTA, which includes Austria, Norway, Finland, Sweden, Switzerland, Iceland and Liechtenstein, established a free-trade zone between Israel and the EFTA nations. In recent years, Israel has established commercial and trade relations with a number of other nations, including Russia, China, India, Turkey and other nations in Eastern Europe and Asia.

Assistance from the United States

Israel receives significant amounts of economic and military assistance from the United States, averaging approximately $3 billion annually over the last several years. In addition, in 1992, the United States approved the issuance of up to $10 billion of loan guarantees during U.S. fiscal years 1993 to 1998 to help Israel absorb a large influx of new immigrants, primarily from the republics of the former Soviet Union. Under the loan guarantee program, Israel issued up to $2 billion in principal amount of guaranteed loans each year. There is no assurance that foreign aid from the United States will continue at or near amounts received in the past. If the grants for economic and military assistance or the United States loan guarantees are eliminated or reduced significantly, the Israeli economy could suffer material adverse consequences.

TAXATION AND FOREIGN EXCHANGE REGULATION

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 offered hereby 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.

Prospective purchasers 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. See "— United States Federal Income Tax Considerations — Taxation of Ordinary Shares — Taxation on Dividends Paid on Ordinary Shares" and note 11 to the consolidated financial statements.

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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Government Grants" and note 9A to the consolidated financial statements.

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 offered by this prospectus 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 prospective investor 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 believe that 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.

UNDERWRITING

Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus, each underwriter named below has severally agreed to purchase, and we and the selling shareholders have agreed to sell to each underwriter, the number of ordinary shares set forth opposite the name of each underwriter.

Name	Number of Ordinary Shares
Salomon Smith Barney Inc.	1,000,000
Banc of America Securities LLC	500,000
CIBC World Markets Corp.	500,000
U.S. Bancorp Piper Jaffray Inc.	500,000
Total	2,500,000

The underwriting agreement provides that the obligations of the several underwriters to purchase the ordinary shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the ordinary shares, other than those covered by the over-allotment option described below, if they purchase any of the ordinary shares.

The underwriters propose to offer some of the ordinary shares directly to the public at the public offering price set forth on the cover page of this prospectus and some of the ordinary shares to dealers at the public offering price less a concession not in excess of $1.63 per ordinary share. The underwriters may allow, and the dealers may reallow, a concession not in excess of $0.10 per ordinary share on sales to other dealers. If all of the ordinary shares are not sold at the initial offering price, the underwriters may change the public offering price and the other selling terms.

The selling shareholders have granted the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to 375,000 additional ordinary shares at the public offering price less the underwriting discount. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, in connection with this offering. To the extent this option is exercised, each underwriter will be obligated, subject to various conditions, to purchase a number of additional ordinary shares approximately proportionate to that underwriter's initial purchase commitment.

We and the selling shareholders have agreed that, for a period of 90 days from the date of this prospectus, we and they will not, without the prior written consent of Salomon Smith Barney Inc., dispose of or hedge any ordinary shares or any securities convertible into or exchangeable for ordinary shares, except that we may issue shares upon the exercise of options granted prior to the date of this prospectus, and may grant additional options under our share option plan. Salomon Smith Barney Inc. in its sole discretion may release any of the securities bound by these lock-up agreements at any time without notice.

The ordinary shares are quoted on the Nasdaq National Market under the symbol "RDWR".

The following table shows the underwriting discount to be paid to the underwriters in connection with this offering. The underwriting discount is equal to the public offering price per ordinary share less the amount paid by the underwriters to us per ordinary share. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional ordinary shares.

		Total	
	Per Share	No Exercise	Full Exercise
Public offering price	$ 51.75	$129,375,000	$148,781,250
Underwriting discount paid by us	$ 2.72	$ 3,400,000	$ 3,400,000
Underwriting discount paid by the selling shareholders	$ 2.72	$ 3,400,000	$ 4,420,000

In connection with the offering, Salomon Smith Barney Inc., on behalf of the underwriters, may purchase and sell ordinary shares in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves syndicate sales of ordinary shares in excess of the number of ordinary shares to be purchased by the underwriters in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of the ordinary shares in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing transactions consist of bids or purchases of ordinary shares made for the purpose of preventing or retarding a decline in the market price of the ordinary shares while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Salomon Smith Barney Inc., in covering syndicate short positions or making stabilizing purchases, repurchases ordinary shares originally sold by that syndicate member.

Any of these activities may cause the price of the ordinary shares to be higher than the price that otherwise would exist in the open market in the absence of such transactions. These transactions may be effected on the Nasdaq National Market or in the over-the-counter market, or otherwise and, if commenced, may be discontinued at any time.

In addition, in connection with this offering, certain of the underwriters (and selling group members) may engage in passive market making transactions in the ordinary shares on the Nasdaq National Market, prior to the pricing and completion of the offering. Passive market making consists of displaying bids on the Nasdaq National Market no higher than the bid prices of independent market makers and making purchases at prices no higher than those independent bids and effected in response to order flow. Net purchases by a passive market maker on each day are limited to a specified percentage of the passive market maker's average daily trading volume in the ordinary shares during a specified period and must be discontinued when such limit is reached. Passive market making may cause the price of the ordinary shares to be higher than the price that otherwise would exist in the open market in the absence of such transactions. If passive market making is commenced, it may be discontinued at any time.

We will pay the offering expenses, including registration fees, Israeli taxes, costs of printing and engraving and legal and accounting fees, estimated to be, excluding the underwriting discount, approximately $1,000,000. We will also pay the expenses of the selling shareholders relating to this offering, estimated to be $100,000 in the aggregate.

Salomon Smith Barney Inc., CIBC World Markets Corp. and U.S. Bancorp Piper Jaffray Inc. acted as underwriters of our initial public offering in October 1999.

We and the selling shareholders have agreed to indemnify the underwriters against various liabilities, including liabilities under the Securities Act of 1933 and liabilities arising from breaches of representations and warranties contained in the underwriting agreement, or to contribute to payments the underwriters may be required to make in respect of any of those liabilities. However, indemnification for liabilities under the Securities Act of 1933 may be unenforceable as against public policy.

The underwriters have agreed that:

- they will not offer the ordinary shares in Israel to more than 35 offerees in the aggregate;
- they will deliver to us and to the Israel Securities Authority the names and addresses of these offerees within seven days of the consummation of this offering; and
- they will obtain representations from each of these offerees who purchases ordinary shares that he or she is purchasing ordinary shares for investment purposes only, and not for purposes of resale.

LEGAL MATTERS

The validity of the ordinary shares being offered hereby and certain other legal matters in connection with this offering with respect to Israeli law will be passed upon for us by Goldfarb, Levy, Eran & Co., Tel Aviv, Israel. Certain legal matters in connection with this offering with respect to United States law will be passed upon for us by Weil, Gotshal & Manges LLP, New York, New York. Certain legal matters in connection with this offering will be passed upon for the underwriters by Meitar, Liquornik, Geva & Co., Ramat Gan, Israel, with respect to Israeli law, and by Skadden, Arps, Slate, Meagher & Flom LLP, with respect to United States law.

EXPERTS

Our consolidated financial statements as of December 31, 1997 and 1998 and for the period of commencement of operations (April 1, 1997) to December 31, 1997 and the year ended December 31, 1998 appearing in this prospectus have been audited by Luboshitz Kasierer (a member firm of Arthur Andersen), independent public accountants, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon the report of such firm given upon the authority of such firm as experts in auditing and accounting.

ENFORCEABILITY OF CIVIL LIABILITIES

Service of process upon us and upon our directors and officers and the Israeli accountants named as experts in this prospectus, substantially all of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, because substantially all of our assets and substantially all of our directors and officers are located outside the United States, any judgment obtained in the United States against us or any of our directors and officers may not be collectible within the United States.

We have been informed by our legal counsel in Israel, Goldfarb, Levy, Eran & Co., that there is doubt as to the enforceability of civil liabilities under the Securities Act and the Exchange Act in original actions instituted in Israel. However, subject to specified time limitations, Israeli courts may enforce a United States final executory judgment in a civil matter obtained after due process before a court of competent jurisdiction according to the rules of private international law currently prevailing in Israel, the laws of which do not prohibit the enforcement of judgment of Israeli courts, provided that:

- adequate service of process has been effected and the defendant has had a reasonable opportunity to be heard;
- the judgment and the enforcement thereof are not contrary to the law, public policy, security or sovereignty of the State of Israel;
- the judgment was not obtained by fraud and does not conflict with any other valid judgment in the same matter between the same parties; and
- an action between the same parties in the same matter is not pending in any Israeli court at the time the lawsuit is instituted in the foreign court.

We have irrevocably appointed Radware Inc. as our agent to receive service of process in any action against us in any federal court or court of the State of New York arising out of this offering or any purchase or sale of securities in connection therewith.

If a foreign judgment is enforced by an Israeli court, it generally will be payable in Israeli currency, which can then be converted into non-Israeli currency and transferred out of Israel. The usual practice in an action before an Israeli court to recover an amount in a non-Israeli currency is for the Israeli court to render judgment for the equivalent amount in Israeli currency at the rate of exchange in force on the date thereof, but the judgment debtor may make payment in foreign currency. Pending collection, the amount of the judgment of an Israeli court stated in Israeli currency ordinarily will be linked to the Israeli consumer price index plus interest at the annual statutory rate set by Israeli regulations prevailing at such time. Judgment creditors must bear the risk of unfavorable exchange rates.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form F-1 under the Securities Act with respect to this offering of our ordinary shares. This prospectus does not contain all of the information contained in the registration statement. Statements made in this prospectus as to the contents of any contract, agreement or other document are necessarily summaries of these documents and are qualified in their entirety by reference to each such contract, agreement or other document which is filed as an exhibit to the registration statement. You may read and copy the registration statement, including the exhibits and schedules thereto, and 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.

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. 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 be 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.

RADWARE LTD.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and the Shareholders of
RADWARE Ltd.

We have audited the accompanying consolidated balance sheets of Radware Ltd. (an Israeli corporation) as of December 31, 1998 and 1997, and the related consolidated statements of operations, changes in shareholders' equity (deficiency) and cash flows for the year ended December 31, 1998 and for the period of 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 provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 1998 and 1997, and the results of operations, changes in shareholders' equity (deficiency) and cash flows for the year ended December 31, 1998 and for the period of 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
July 20, 1999

RADWARE LTD.

CONSOLIDATED BALANCE SHEETS

	Note	December 31, 1997	December 31, 1998	September 30, 1999 (Unaudited)	September 30, 1999 Pro forma Note 2 (Unaudited)
Current assets					
Cash and cash equivalents	(3)	$3,646,621	$ 1,676,493	$10,624,318	$67,394,318
Trade receivables, net	(4)	34,655	839,096	2,774,933	2,774,933
Other receivables and prepaid expenses	(4)	12,109	471,184	685,180	685,180
Inventories	(5)	272,156	564,948	511,873	511,873
Total current assets		3,965,541	3,551,721	14,596,304	71,366,304
Property and equipment	(6)				
Cost		142,193	271,809	870,910	870,910
Less — accumulated depreciation		9,431	53,313	146,605	146,605
Total property and equipment		132,762	218,496	724,305	724,305
Deposit with insurance companies	(8)	12,374	62,987	121,126	121,126
Security deposit		—	—	77,758	77,758
Total assets		$4,110,677	$ 3,833,204	$15,519,493	$72,289,493
Current liabilities					
Trade payables		$ 215,023	$ 335,605	$ 1,253,507	$ 1,253,507
Other payables and accrued expenses	(7)	104,546	709,518	2,335,621	2,335,621
Total current liabilities		319,569	1,045,123	3,589,128	3,589,128
Accured severance pay	(8)	23,113	83,174	207,130	207,130
Convertible debentures	(10)	4,000,004	—	—	—
Total liabilities		4,342,686	1,128,297	3,796,258	3,796,258
Commitments	(9)				
Shareholders' equity (deficiency)	(10)				
Ordinary shares of NIS 0.1 par value:					
Authorized — 11,988,000, 16,200,000 and 30,000,000 shares as of December 31, 1997 and 1998 and September 30, 1999; issued and outstanding — none, 9,526,869 and 11,104,209 shares as of December 31, 1997, 1998 and September 30, 1999; issued and outstanding pro forma — 14,604,209 shares as of September 30, 1999		—	15,658	17,081	98,933
Additional paid-in capital		—	4,262,194	15,080,029	71,768,177
Deferred compensation		—	(88,130)	(1,651,609)	(1,651,609)
Accumulated deficit		(232,009)	(1,484,815)	(1,722,266)	(1,722,266)
Total shareholders' equity		(232,009)	2,704,907	11,723,235	68,493,235
Total liabilities and shareholders' equity		$4,110,677	$ 3,833,204	$15,519,493	$72,289,493

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

RADWARE LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Note	For the period (*) ended December 31, 1997	For the year ended December 31, 1998	For the nine months ended September 30, 1998	For the nine months ended September 30, 1999
				(Unaudited)	
Sales	(12)	$1,158,994	$ 4,899,818	$ 3,086,648	$9,135,559
Cost of sales		598,917	899,117	665,870	1,461,567
Gross profit		560,077	4,000,701	2,420,778	7,673,992
Operating expenses					
Research and development expenses		411,212	1,080,528	760,546	1,369,074
Less-participation by the Chief Scientist of the Government of Israel		—	341,098	263,805	326,866
Research and development expenses, net		411,212	739,430	496,741	1,042,208
Marketing and selling expenses, net	(13)	248,339	4,204,459	2,821,041	6,292,767
General and administrative expenses		141,603	298,443	210,895	714,394
Total operating expenses		801,154	5,242,332	3,528,677	8,049,369
Operating loss		(241,077)	(1,241,631)	(1,107,899)	(375,377)
Financing income (expenses), net		9,068	(11,175)	(39,324)	137,926
Net loss		$ (232,009)	$(1,252,806)	$(1,147,223)	$ (237,451)
Basic and diluted net loss per ordinary share		$ (0.04)	$ (0.16)	$ (0.16)	$ (0.02)
Weighted average number of ordinary shares outstanding — basic and diluted		6,350,400	7,777,635	7,188,150	10,082,990

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

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

RADWARE LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

	Ordinary shares		Additional	Deferred	Accumulated	
	Shares	Amount	paid-in capital	compensation	deficit	Total
Shares issued	6,350,400	$ —	$ —	$ —	$ —	$ —
Net loss(*)	—	—	—	—	(232,009)	(232,009)
Balance as of December 31, 1997	6,350,400	—	—	—	(232,009)	(232,009)
Shares issued	—	6,652	—	—	—	6,652
Shares issued on conversion of debentures	3,176,469	9,006	4,120,645(**)	—	—	4,129,651
Deferred compensation	—	—	141,549	(141,549)	—	—
Amortization of deferred compensation	—	—	—	53,419	—	53,419
Net loss	—	—	—	—	(1,252,806)	(1,252,806)
Balance as of December 31, 1998	9,526,869	15,658	4,262,194	(88,130)	(1,484,815)	2,704,907
Shares issued in a private placement	1,577,340	1,423	8,737,588(***)	—	—	8,739,011
Deferred compensation	—	—	2,104,237	(2,104,237)	—	—
Amortization of deferred compensation	—	—	(23,990)	540,758	—	516,768
Net loss	—	—	—	—	(237,451)	(237,451)
Balance as of September 30, 1999 (unaudited)	11,104,209	$17,081	$15,080,029	$(1,651,609)	$(1,722,266)	$11,723,235

(*) For the period from April 1, 1997 to December 31, 1997.

(**) Net of issuance expenses of $38,682.

(***) Net of issuance expenses of $301,334.

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

RADWARE LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the period (*) ended December 31, 1997	For the year ended December 31, 1998	For the nine months ended September 30, 1998	For the nine months ended September 30, 1999
			(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	$ (232,009)	$(1,252,806)	$(1,147,223)	$ (237,451)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Income and expenses not affecting operating cash flows:				
Depreciation	10,546	43,882	29,284	96,812
Amortization of deferred stock compensation	—	53,419	—	516,768
Interest accrued on convertible debentures	—	168,329	168,329	—
Accrued severance pay and others	4,872	9,448	6,756	67,780
Changes in operating assets and liabilities:				
Increase in trade receivables	(34,655)	(804,441)	(394,197)	(1,935,837)
Increase in other receivables and prepaid expenses	(12,109)	(459,075)	(367,735)	(213,996)
Decrease (increase) in inventories	(272,156)	(292,792)	(265,240)	53,075
Increase in trade payables	221,107	120,582	275,146	917,902
Increase in other payables and accrued expenses	104,546	604,972	293,692	1,626,103
Net cash provided by (used in) operating activities	(209,858)	(1,808,482)	(1,401,188)	891,156
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(163,099)	(129,616)	(99,859)	(611,905)
Proceeds from sale of property and equipment	19,574	—	—	7,321
Deposit	—	—	—	(77,758)
Net cash used in investing activities	(143,525)	(129,616)	(99,859)	(682,342)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from convertible debentures issued	4,000,004	—	—	—
Proceeds from shares issued	—	6,652	6,652	9,040,345
Share issuance costs	—	(38,682)	(38,682)	(301,334)
Net cash provided by (used in) financing activities	4,000,004	(32,030)	(32,030)	8,739,011
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,646,621	(1,970,128)	(1,533,077)	8,947,825
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	—	3,646,621	3,646,621	1,676,493
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$3,646,621	$ 1,676,493	$ 2,113,544	$10,624,318
NONCASH ACTIVITIES				
Conversion of convertible debentures	$ —	$ 4,168,329	$ 4,168,329	$ —

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Information as of September 30, 1999 and for the nine months ended September 30, 1998 and 1999 is unaudited

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 (IP) 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 September 30, 1999 was US$1.00 — 4.276 New Israeli Shekel ("NIS") (September 30, 1998 — NIS 3.845; December 31, 1998 and 1997 — NIS 4.16 and NIS 3.536, respectively).

The consolidated financial statements include the unaudited consolidated balance sheet as of September 30, 1999, statements of operations and cash flows for the nine months ended September 30, 1998 and 1999 and statement of changes in shareholders' equity for the nine months ended September 30, 1999. This unaudited information has been prepared by the Company on the same basis as the audited consolidated financial statements and, in management's opinion, reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the financial information in accordance with generally accepted accounting principles for the periods presented. Operating results for the nine month period ended September 30, 1999 are not necessarily indicative of the results that may be expected for the year ending December 31, 1999.

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.

Information as of September 30, 1999 and for the nine months ended September 30, 1998 and 1999 is unaudited

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 basis of the "first-in, first-out" 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 ten years.

F. 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 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.

G. Research and Development Costs

Research and development cost, 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.

H. 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.

I. Fair Value of Financial Instruments

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

Information as of September 30, 1999 and for the nine months ended September 30, 1998 and 1999 is unaudited

J. Basic and Diluted Net Loss Per Share

Basic and diluted net loss per share are presented in accordance with SFAS No. 128, "Earnings per Share", for all periods presented.

Basic and diluted net loss per share has been computed using the weighted-average number of ordinary shares outstanding during the period.

Share options have been excluded from the calculation of basic and diluted net loss per share because all such options are antidilutive for all periods presented. The total number of shares related to the outstanding options excluded from the calculations of basic and diluted net loss per share were 982,692, 1,123,200 and 1,541,322 for the years ended December 31, 1997 and 1998 and the nine months ended September 30, 1999.

K. Unaudited Pro Forma Information

Subsequent to the balance sheet date, the Company issued 3,500,000 shares in an initial public offering in consideration for net proceeds of approximately $56,770,000. The pro forma September 30, 1999 balance sheet is presented to reflect the cash and the equity from the initial public offering of the Company's shares as if they were included in the financial statements as of September 30, 1999.

L. Share-Based Compensation

The Company accounts for shares subject to options issued to employees under Accounting Principles Board Opinion No. 25 -"Accounting for Stock Issued to Employees" ("APB 25").

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." SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet at its fair value. SFAS No. 133 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 No. 133 is effective for fiscal years beginning after June 15, 2000. The Company believes that the adoption of SFAS No. 133 will not have a material effect on its financial statements.

Information as of September 30, 1999 and for the nine months ended September 30, 1998 and 1999 is unaudited

Note 3 — *Cash and Cash Equivalents*

	December 31, 1997	December 31, 1998	September 30, 1999
Cash in banks	$ 288,967	$ 150,247	$ 1,114,890
Bank deposits			
In U.S. Dollars (bearing annual interest rate of 4.9%)	3,318,000	1,390,000	9,250,000
In NIS (bearing annual interest rate of 10.6%)	39,654	136,246	259,428
	$3,646,621	$1,676,493	$10,624,318

Note 4 — *Receivables*

A. Trade receivables are presented net of allowance for doubtful in the amount of $220,000 as of September 30, 1999 (December 31, 1998 and 1997 — none).

B. Other receivables and prepaid expenses include grants receivable in the amount of $311,779 and $335,073 as of December 31, 1998 and September 30, 1999, respectively (December 31, 1997 — none).

Note 5 — *Inventories*

	December 31, 1997	December 31, 1998	September 30, 1999
Materials and components	$ —	$ 99,509	$ 77,008
Work in progress	—	71,578	69,233
Finished goods	272,156	393,861	365,632
	$272,156	$564,948	$511,873

Note 6 — *Property and Equipment*

	December 31, 1997	December 31, 1998	September 30, 1999
COST			
Research and development equipment	$ 18,616	$ 44,070	$ 64,635
Computer equipment	21,249	53,701	254,640
Leasehold improvements	—	1,760	57,561
Motor vehicles	96,335	163,536	369,355
Office furniture and equipment	5,993	8,742	124,719
	142,193	271,809	870,910
ACCUMULATED DEPRECIATION			
Research and development equipment	1,435	11,006	22,871
Computer equipment	2,409	15,596	57,897
Leasehold improvements	—	—	5,787
Motor vehicles	2,652	25,567	46,233
Office furniture and equipment	2,935	1,144	13,817
	9,431	53,313	146,605
NET BOOK VALUE	$132,762	$218,496	$724,305

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

For the period ended December 31, 1997 and the year ended December 31, 1998 and for the nine months ended September 30, 1998 and 1999, depreciation expenses were $10,546, $43,882, $29,284 and $96,812, respectively.

Note 7 — *Other Payables and Accrued Expenses*

	December 31,		September 30,
	1997	1998	1999
Employees and employee institutions	$ 96,316	$181,466	$ 350,313
Deferred income	—	164,009	666,627
Accrued expenses	8,230	130,910	357,512
Related company	—	—	433,671
Provision for warranty costs	—	72,946	275,364
Other	—	160,187	252,134
	$104,546	$709,518	$2,335,621

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 and 1998 and September 30, 1998 and 1999 amounted to $23,113, $60,061, $46,328 and $96,293, respectively.

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 $1,800,000 (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 $1,200,000 as of September 30, 1999.

B. In connection with its marketing activities, the Company received participation payments from the Government of Israel — Fund for the Encouragement of Marketing Activities, in the total amount of $52,557. In return for the participation payments, the Company is committed to pay royalties at a rate of 4% of the Company's total increase in export sales, from the end of the second year of implementation of the marketing plan until the date at which the participation has been fully repaid.

C. 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 September 30, 1999, are approximately as follows:

2000	$ 275,000
2001	275,000
2002	260,000
2003	252,000
2004	82,000
	$1,144,000

Note 10 — *Shareholders' Equity (Deficiency)*

A. In 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. After the aforementioned changes, the Company's authorized share capital consists of 30,000,000 ordinary shares of NIS 0.1 par value each, of which 11,104,209 ordinary shares are issued and outstanding. In October 1999, the Company effected a 27 to 1 stock split in the form of 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 November 1997, the Company issued $4,000,000 in convertible debentures. In 1998, all of the convertible debentures were converted into 3,176,469 shares of the Company.

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 year ended December 31, 1998 and for the nine months ended September 30, 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:

	Outstanding options	Weighted average exercise price per share	Weighted average fair value of option
Inception	—	$ —	$ —
Options granted	982,692	—	—
Outstanding December 31, 1997	982,692	—	—
Options granted	140,508	—	1.01
Outstanding December 31, 1998	1,123,200	—	0.13
Options granted	468,126	1.77	4.70
Options forfeited	(50,004)	—	—
Outstanding September 30, 1999	1,541,322	$0.54	$1.52

Information as of September 30, 1999 and for the nine months ended September 30, 1998 and 1999 is unaudited

The following table summarizes information about options outstanding and exercisable at September 30, 1999:

	Options outstanding			Options exercisable	
Exercise price	Number outstanding at June 30, 1999	Weighted-average remaining contractual life	Weighted-average exercise price	Number outstanding at September 30, 1999	Weighted-average exercise price
$ —	1,389,339	3.47	$ —	894,983	$—
4.59	38,583	4.89	4.59	—	—
5.73	113,400	5.16	5.73	113,400	—
	1,541,322			1,008,383	

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 $141,549 and $2,080,247, for options granted in the year ended December 31, 1998 and in the nine months ended September 30, 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 September 30, 1999, is $1,651,609. Under APB 25, the deferred compensation that has been charged to operations for the period ended September 30, 1999 amounted to $516,768 (year ended December 31, 1998 — $53,419).

If deferred compensation had been determined under the alternative fair value accounting method provided for under SFAS Statement No. 123, "Accounting for Stock-Based Compensation", using the "minimum value" method with the following weighted average assumptions used for grants in all reported periods: (1); expected life of the options of 1.67, 2.5 and 1.99 for the period ended December 31, 1997 and the year ended December 31, 1998 and for the nine months ended September 30, 1999, respectively; (2) no dividend yield; (3) expected volatility of 0%; and (4) risk – free interest rate of 5%, the effect on the Company's net loss and net loss per share would have been immaterial for all reported periods.

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 additional 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 additional 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 during the relevant period of benefits, 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.

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 of December 31, 1998, the net operating loss carryforwards for tax purposes amounted to approximately $900,000. Such net operating losses may be carried forward indefinitely and offset against future taxable income. The Company expects that during the period in which these tax losses are utilized its income would be substantially tax exempt. Accordingly there will be no tax benefit available from such losses and no deferred income taxes have been included in these financial statements. Deferred taxes in respect of other temporary differences are immaterial.

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, 1997	For the year ended December 31, 1998	For the nine months ended September 30, 1998	For the nine months ended September 30, 1999
The Company's sales by geographic areas are as follows:				
North America (principally United States)	$1,124,351	$3,205,594	$1,761,212	$5,895,834
Europe	14,267	523,530	340,544	1,221,049
Far East	—	1,014,535	838,521	1,249,887
Other	20,376	156,159	146,371	768,789
	$1,158,994	$4,899,818	$3,086,648	$9,135,559

Information as of September 30, 1999 and for the nine months ended September 30, 1998 and 1999 is unaudited

Note 13 — *Marketing and Selling Expenses, Net*

	For the period ended December 31, 1997	For the year ended December 31, 1998	For the nine months ended September 30, 1998	For the nine months ended September 30, 1999
Marketing and selling expenses include:				
Royalties to the Government of Israel	$ 4,865	$ 151,940	$ 98,344	$ 311,105
Marketing and selling expenses	$248,339	$4,257,016	$2,856,079	$6,292,767
Participation by the Government of Israel	—	52,557	35,038	—
Marketing and selling expenses, net	$248,339	$4,204,459	$2,821,041	$6,292,767

Note 14 — *Concentration of Credit Risk*

For the periods ended December 31, 1997 and 1998 and September 30, 1998 and 1999, no single customer accounted for more than 10% of the Company's sales and 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, 1997	December 31, 1998	September 30, 1999
Trade receivables	$ 20,388	$700,048	$239,903
Trade payables	164,180	78,042	575,015
Other payables and accrued expenses	—	—	433,671

B. Transactions with Related Parties

	For the period ended December 31, 1997	For the year ended December 31, 1998	For the nine months ended September 30, 1998	For the nine months ended September 30, 1999
Sales	$1,144,739	$ 806,570	$ 718,313	$759,727
Cost of sales (1)	864,269	688,628	603,757	563,052
Operating expenses	262,284(2)	1,392,142	1,098,920	326,172
Purchase of property and equipment	—	—	—	171,045

(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 $250,000, 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.

2,500,000 Ordinary Shares

RADWARE Ltd.

Ordinary Shares

PROSPECTUS

January 24, 2000

Salomon Smith Barney

Banc of America Securities LLC

CIBC World Markets

U.S. Bancorp Piper Jaffray