**RADWARE LTD. AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2002**

**IN U.S. DOLLARS**

## INDEX



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ERNST & YOUNG

**REPORT OF INDEPENDENT AUDITORS**

**TO THE SHAREHOLDERS OF**

**RADWARE LTD.**

We have audited the accompanying consolidated balance sheets of Radware Ltd. ("the Company) and its subsidiaries as of December 31, 2002, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year ended December 31, 2002. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2002, and the consolidated results of their operations and cash flows for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

Tel-Aviv, Israel
February 2, 2003

**KOST FORER & GABBAY**
A Member of Ernst & Young Global

**This is a copy of the previously issued Independent Public Accountants' report of Arthur Andersen.
The report has not been reissued by Arthur Andersen.**

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of
Radware Ltd.:

We have audited the accompanying consolidated balance sheets of Radware Ltd. (an Israeli Corporation) and its subsidiaries as of December 31, 2000 and 2001, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. 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 auditing standards generally accepted in the United States and in Israel, including those prescribed under the Auditors' Regulations (Auditor's Mode of Performance), 1973. 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 financial position of Radware Ltd. and its subsidiaries as of December 31, 2000 and 2001, and the consolidated results of its operations and the consolidated cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

| | |
|---|---|
| Tel-Aviv, Israel | Luboshitz Kasierer |
| January 31, 2002 | Arthur Andersen |

**CONSOLIDATED BALANCE SHEETS**

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

| | December 31, 2001 | December 31, 2002 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 340 | $ 16,097 |
| Short-term bank deposits | 59,862 | - |
| Marketable securities | 65,478 | 36,177 |
| Trade receivables (net of allowance for doubtful accounts of $ 675 and $ 1,742 as of December 31, 2002 and 2001, respectively) (*) | 7,868 | 8,695 |
| Other accounts receivable and prepaid expenses | 1,174 | 1,152 |
| Inventories | 4,781 | 2,988 |
| Total current assets | 139,503 | 65,109 |
| LONG-TERM INVESTMENTS: | | |
| Long-term bank deposits | - | 59,079 |
| Long-term marketable securities | - | 13,948 |
| Severance pay fund | 882 | 1,107 |
| Total long-term investments | 882 | 74,134 |
| PROPERTY AND EQUIPMENT, NET | 4,037 | 3,644 |
| SECURITY DEPOSITS | 39 | 111 |
| Total assets | $ 144,461 | $ 142,998 |

(*) See Note 12.

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

**CONSOLIDATED BALANCE SHEETS**

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

| | December 31, 2001 | December 31, 2002 |
|---|---|---|
| LIABILITIES AND SHREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Trade payables (*) | $ 2,541 | $ 2,612 |
| Deferred revenues | 4,209 | 5,290 |
| Other accounts payable and accrued expenses (*) | 7,842 | 6,517 |
| Total current liabilities | 14,592 | 14,419 |
| ACCRUED SEVERANCE PAY | 930 | 1,191 |
| MINORITY INTEREST | 1 | 31 |
| Total liabilities | 15,523 | 15,641 |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY: | | |
| Share capital | | |
| Ordinary shares of NIS 0.1 par value: | | |
| Authorized - 30,000,000 shares at December 31, 2002 and 2001; Issued - 17,046,814 and 16,520,836 shares at December 31, 2002 and 2001, respectively; Outstanding - 17,014,114 and 16,520,836 shares at December 31, 2002 and 2001, respectively | 413 | 424 |
| Additional paid-in capital | 131,615 | 132,005 |
| Treasury stock, at cost | - | (254) |
| Deferred stock compensation | (394) | (98) |
| Accumulated other comprehensive income | - | 89 |
| Accumulated deficit | (2,696) | (4,809) |
| Total shareholders' equity | 128,938 | 127,357 |
| Total liabilities and shareholders' equity | $ 144,461 | $ 142,998 |

(*) See Note 12.

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

## CONSOLIDATED STATEMENTS OF OPERATIONS

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

| | Year ended December 31, | | |
|---|---|---|---|
| | **2000** | **2001** | **2002** |
| Revenues (*) | $ 38,353 | $ 43,327 | $ 43,663 |
| Cost of revenues (*) | 6,123 | 7,709 | 7,946 |
| Gross profit | 32,230 | 35,618 | 35,717 |
| Operating expenses: (*) | | | |
| Research and development | 5,465 | 8,293 | 7,809 |
| Selling and marketing, net | 24,622 | 29,986 | 30,019 |
| General and administrative | 3,127 | 4,543 | 4,219 |
| Total operating expenses | 33,214 | 42,822 | 42,047 |
| Operating loss | 984 | 7,204 | 6,330 |
| Financial income, net | 7,434 | 6,312 | 4,240 |
| Income (loss) before taxes on income | 6,450 | (892) | (2,090) |
| Taxes on income | 387 | 389 | - |
| Income (loss) after taxes on income | 6,063 | (1,281) | (2,090) |
| Loss in respect of an investment in an affiliate | - | (6,333) | - |
| Minority interest in losses (earnings) of a subsidiary | 23 | 37 | (23) |
| Net income (loss) | $ 6,086 | $ (7,577) | $ (2,113) |
| Earnings (loss) per share: | | | |
| Basic net earnings (loss) per Ordinary share | $ 0.38 | $ (0.46) | $ (0.13) |
| Diluted net earnings (loss) per Ordinary share | $ 0.35 | $ (0.46) | $ (0.13) |

(*) See Note 12.

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

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

| | Ordinary shares | Share capital | Additional paid-in capital | Treasury stock | Deferred stock compensation | Accumulated other comprehensive income | Retained earnings (accumulated deficit) | Total comprehensive income (loss) | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| Balance as of January 1, 2000 | 14,604,209 | $ 360 | $ 71,817 | $ - | $ (1,553) | $ - | $ (1,205) | | $ 69,419 |
| Shares issued in secondary offering, net | 1,250,000 | 31 | 59,759 | - | - | - | - | | 59,790 |
| Issuance of shares upon exercise of options | 467,266 | 10 | - | - | - | - | - | | 10 |
| Deferred stock compensation | - | - | 63 | - | (63) | - | - | | - |
| Forfeited options | - | - | (98) | - | 98 | - | - | | - |
| Amortization of deferred stock compensation | - | - | - | - | 626 | - | - | | 626 |
| Net income | - | - | - | - | - | - | 6,086 | $ 6,086 | 6,086 |
| Total comprehensive income | | | | | | | | $ 6,086 | |
| Balance as of December 31, 2000 | 16,321,475 | 401 | 131,541 | - | (892) | - | 4,881 | | 135,931 |
| Issuance expenses | - | - | (56) | - | - | - | - | | (56) |
| Issuance of shares upon exercise of options and upon ESPP | 199,361 | 12 | 86 | - | - | - | - | | 98 |
| Deferred stock compensation | - | - | 44 | - | (44) | - | - | | - |
| Amortization of deferred stock compensation | - | - | - | - | 542 | - | - | | 542 |
| Net loss | - | - | - | - | - | - | (7,577) | $ (7,577) | (7,577) |
| Total comprehensive loss | | | | | | | | $ (7,577) | |
| Balance as of December 31, 2001 | 16,520,836 | 413 | 131,615 | - | (394) | - | (2,696) | | 128,938 |
| Repurchase of Treasury shares | (32,700) | - | - | (254) | - | - | - | | (254) |
| Issuance of shares upon exercise of options and upon ESPP | 525,978 | 11 | 401 | - | - | - | - | | 412 |
| Deferred stock compensation | - | - | (11) | - | 296 | - | - | | 285 |
| Comprehensive loss: | | | | | | | | | |
| Unrealized gains from available for sale securities, net | - | - | - | - | - | 89 | - | $ 89 | 89 |
| Net loss | - | - | - | - | - | - | (2,113) | (2,113) | (2,113) |
| Total comprehensive loss | | | | | | | | $ (2,024) | |
| Balance as of December 31, 2002 | 17,014,114 | $ 424 | $ 132,005 | $ (254) | $ (98) | $ 89 | $ (4,809) | | $ 127,357 |

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

**U.S. dollars in thousands**

RADWARE LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

| | Year ended December 31, | | |
|---|---|---|---|
| | 2000 | 2001 | 2002 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income (loss) | $ 6,086 | $ (7,577) | $ (2,113) |
| Adjustments required to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation | 616 | 1,211 | 1,721 |
| Amortization of deferred stock compensation | 626 | 542 | 285 |
| Minority interest in losses (earnings) of a subsidiary | (23) | (37) | 23 |
| Amortization of debenture premium, accretion of discounts and accrued interest on available-for-sale securities | - | - | (197) |
| Accrued interest on bank deposits | (593) | - | (1,727) |
| Accrued severance pay, net | (4) | 52 | 36 |
| Loss in respect of an investment in an affiliate | - | 6,333 | - |
| Decrease (increase) in trade receivables | (6,339) | 1,386 | (827) |
| Decrease (increase) in other accounts receivable and prepaid expenses | (613) | 439 | 22 |
| Decrease (increase) in inventories | (3,392) | (1,190) | 1,793 |
| Increase (decrease) in trade payables | 4,864 | (4,136) | 71 |
| Increase in deferred revenues and in other accounts payable and accrued expenses | 3,522 | 3,030 | 2,007 |
| Other | - | 6 | 4 |
| Net cash provided by operating activities | 4,750 | 59 | 1,098 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property and equipment (*) | (2,404) | (1,891) | (1,335) |
| Proceeds from sale of property and equipment | 37 | 1 | 10 |
| Short-term bank deposits | (125,732) | 983 | 59,862 |
| Security deposits | (45) | 6 | (72) |
| Purchase of available for sale marketable securities | - | - | (1,818) |
| Proceeds from redemption of available for sale marketable securities | - | - | 17,457 |
| Long-term bank deposits | - | - | (57,352) |
| Investment in an affiliate | (721) | (3,361) | (2,251) |
| Net cash provided by (used in) investing activities | (128,865) | (4,262) | 14,501 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from shares issued to minority shareholders | 69 | - | - |
| Proceeds from employee options exercised and ESPP | 10 | 98 | 412 |
| Proceeds from shares issued in a secondary offering, net | 59,790 | (56) | - |
| Repurchase of shares | - | - | (254) |
| Net cash provided by financing activities | 59,869 | 42 | 158 |
| Increase (decrease) in cash and cash equivalents | (64,246) | (4,161) | 15,757 |
| Cash and cash equivalents at the beginning of the year | 68,747 | 4,501 | 340 |
| Cash and cash equivalents at the end of the year | $ 4,501 | $ 340 | $ 16,097 |
| Supplemental disclosure of cash flow activities: | | | |
| Cash paid during the year for income taxes | $ 13 | $ 68 | $ 52 |

(*) See Note 12.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

**U.S. dollars in thousands**

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

**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 application switching solutions that enable continuous, high quality access to Web sites and other Internet Protocol (IP) services, applications and content. The Company's products are marketed worldwide.

b. During 1999, 2000 and 2001 the Company established wholly owned subsidiaries in the United States, France, Germany, Sweden, the United Kingdom, the Netherlands, Japan and Italy. In addition, the Company established branches and representative offices in China, Singapore and Korea. In Australia, the Company holds approximately 75% of a subsidiary. Subsequent to the balance sheet date, the Company purchased additional approximately 8% of the subsidiary and has an option to purchase the remaining 17%.

All of the subsidiaries are engaged in marketing and sales activities.

c. The Company depends on a single supplier for some components for its products. If such supplier fails to deliver the necessary components, the Company may be required to seek alternative sources of supply. A change in suppliers could result in manufacturing delays, which could cause a possible loss of sales and, consequently, could adversely affect the Company's results of operations and financial position.

d. The Company relies upon independent distributors to market and sell its products to customers. A loss of a major distributor, or any event negatively affecting such distributor's financial condition, could cause a material adverse effect on the Company's result of operations and financial position.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements are prepared according to accounting principles generally accepted in United States ("U.S. GAAP").

a. Use of estimates:

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

b. Financial statements in U.S. dollars:

Substantially all of the revenues of the Company and its subsidiaries are generated in U.S., dollars ("dollar"). In addition, a substantial portion of the Company's and its subsidiaries costs are incurred in dollars. The Company's management believes that the dollar is the primary currency of the economic environment in which the Company and its subsidiaries operate. Thus, the functional and reporting currency of the Company and its subsidiaries is the dollar.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Accordingly, monetary accounts maintained in currencies other than the dollar are remeasured into U.S. dollars in accordance with Statement of the Financial Accounting Standard Board No. 52 "Foreign Currency Translation" ("SFAS No. 52"). All transactions gains and losses from the remeasurement of monetary balance sheet items are reflected in the statements of operations as financial income or expenses as appropriate.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Inter-company balances and transactions including profits from inter-company sales not yet realized outside the group, have been eliminated upon consolidation.

d. Cash equivalents:

Cash equivalents include short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less.

e. Marketable securities:

Management determines the classification of investments in obligations with fixed maturities and marketable equity securities at the time of purchase and reevaluates such designations as of balance sheet date. Management classifies the marketable securities in accordance with Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). At December 31, 2001, all marketable securities were classified as trading and were stated at market value. At December 31, 2002 all marketable securities were designated as available-for-sale. Accordingly, these securities are stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), a separate component of shareholders' equity, net of taxes. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the consolidated statement of operations.

f. Inventories:

Inventories are stated at the lower of cost or market value. Inventory write-offs are provided to cover risks arising from slow-moving items, dead inventory or technological obsolescence.

Cost is determined as follows:

Raw materials and components - using the "first-in, first-out" method.

Work-in-progress - represents the cost of subcontractors.

Finished products - are recorded on the basis of direct subcontractors costs with the addition of allocable indirect costs.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

g. Short and long-term bank deposits:

Bank deposits with maturities of more than three months but less than one year are included in short-term bank deposits, the deposits bear an average annual interest rate of approximately 2%.

A bank deposit with maturities of three years is included as a long-term bank deposit, and presented at its cost including accrued interest. The deposit is in U.S. dollars and bears annual interest at a rate of 4.8%.

h. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets at the following annual rates:

| | % |
|---|---|
| Motor vehicles | 15 |
| Computer and peripheral equipment | 25-33 |
| Office furniture and equipment | 7-15 |
| Leasehold improvements | Over the term of the lease |

i. Revenue recognition:

The Company sells its products primarily through distributors and resellers, all of which are considered end-users.

The Company generally recognizes product revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is probable. Post contract customer support, which represents mainly software subscription and unit replacement, is recognized ratably over the contract period, which is typically one year. Deferred revenues include mainly unearned amounts under post contract customer support. The Company provides a warranty for up to 12 months at no extra charge.

The Company records a provision for product returns in accordance with Statement of Financial Accounting Standard No. 48 “Revenue Recognition when the Right of Return Exists” (“SFAS No. 48”). The provision was deducted from revenues.

j. Research and development costs:

Research and development costs are charged to the statement of operations as incurred.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

k. Income taxes:

The Company and its subsidiaries account for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes". This Statement prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

l. Concentrations of credit risks:

Financial instruments that potentially subject the Company and its subsidiaries to concentrations of credit risk consist of cash and cash equivalents, short-term bank deposits, marketable securities, trade receivables and long-term bank deposits.

The majority of the Company's cash and cash equivalents, short-term and long-term bank deposits are invested in major banks in the United States in U.S. dollars. Management believes that the financial institutions that hold the Company's investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments. Such deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions.

The Company's marketable securities include investments in securities of U.S. corporations, the U.S. government, asset backed and commercial securities. Management believes that the Company's investments in securities are diversified among high-credit quality securities, in accordance with the Company's investment policy, and accordingly, minimal credit risk exists with respect to these marketable securities.

The trade receivables of the Company and its subsidiaries are mainly derived from sales to customers located primarily in the U.S., Europe, the Middle East and Asia Pacific. The Company performs ongoing credit evaluations of its customers. An allowance for doubtful accounts is determined with respect to those amounts that the Company has determined to be doubtful of collection. In certain circumstances, the Company may require letters of credit, other collateral or additional guarantees.

The Company has no off-balance-sheet concentration of credit risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**U.S. dollars in thousands**

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

m. Accounting for stock-based compensation:

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

Pro forma information under SFAS No. 123:

| | Year ended December 31, | | |
|---|---|---|---|
| | **2000** | **2001** | **2002** |
| Net income (loss) as reported | $ 6,086 | $ (7,577) | $ (2,113) |
| Add: Stock-based compensation expenses included in reported net income | $ 626 | $ 542 | $ 285 |
| Deduct: Stock-based compensation expense determined under fair value method for all awards | $ (4,825) | $ (10,577) | $ (7,274) |
| Pro forma net income (loss) | $ 1,887 | $ (17,612) | $ (9,102) |
| Pro forma basic net earnings (loss) per share | $ 0.12 | $ (1.07) | $ (0.55) |
| Pro forma diluted net earnings (loss) per share | $ 0.11 | $ (1.07) | $ (0.55) |

n. Severance pay:

The Company's liability for severance pay for its Israeli employees is calculated pursuant to the Israeli severance pay law based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date. Employees are entitled to one month's salary for each year of employment or a portion thereof. The Company's liability for all of its employees is fully provided by monthly deposits with insurance policies and by an accrual. The value of these policies is recorded as an asset in the Company's balance sheet.

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to the Israeli severance pay law or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies, and includes immaterial profits.

Severance expenses for the years ended December 31, 2000, 2001, and 2002 amounted to approximately $ 418, $ 258 and $ 261, respectively.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

o. Fair value of financial instruments:

The following methods and assumptions were used by the Company and its subsidiaries in estimating their fair value disclosures for financial instruments:

The carrying amount reported in the balance sheet for cash and cash equivalents, short-term bank deposits; trade receivables and trade payables approximate their fair values due to the short-term maturities of such instruments.

The fair values for marketable securities are based on quoted market prices.

The carrying amount of the Company's long-term bank deposit is estimated by discontinuing the future cash flows using the current interest rates for deposits of similar terms and maturities.

p. Basic net and diluted earnings (loss) per share:

Basic net earnings (loss) per share is calculated based on the weighted average number of ordinary shares outstanding during each year. Diluted net earnings (loss) per share is calculated based on the weighted average number of Ordinary shares outstanding during each year, plus dilutive potential Ordinary shares considered outstanding during the year, in accordance with Statement of Financial Standard No. 128, "Earnings per Share" (SFAS No. 128). The total weighted average number of shares related to the outstanding options excluded from the calculation of diluted net loss per share was 3,213,834 for the year ended December 31, 2002.

q. Advertising expenses:

Advertising expenses are charged to the statements of operations as incurred.

r. Reclassification:

Certain amounts from prior years have been reclassified to conform with current period presentation. The reclassification had no effect on previously reported net loss, shareholders' equity or cash flows.

s. Impact of recently issued accounting standards:

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which addresses significant issues regarding the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities. SFAS No. 146 requires that costs associated with exit or disposal activities be recognized when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is effective for all exit or disposal activities initiated after December 31, 2002. The Company does not expect the adoption of SFAS No. 146 to have a material impact on its results of operations or financial position.

U.S. dollars in thousands

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In November 2002, the FASB issued FASB Interpretation No. 45," Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", an interpretation of FASB Statements No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34"("FIN No. 45"). FIN No. 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. It also incorporates, without change, the guidance in FASB Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others", which is being superseded. The disclosure provisions of FIN No. 45 are effective for financial statements of interim or annual periods that end after December 15, 2002 and the provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002, irrespective of a guarantor's year-end results. The Company does not expect the adoption of FIN No. 45 to have a material impact on its results of operations or financial position.

## NOTE 3:- MARKETABLE SECURITIES

**The following is a summary of available-for-sale securities:**

| | December 31, 2002 | | | |
|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Market value |
| Available-for-sale: | | | | |
| U.S. government securities | $ 12,834 | $ 25 | $ (18) | $ 12,841 |
| Asset backed securities | 9,091 | - | (95) | 8,996 |
| Commercial securities | 4,582 | 2 | - | 4,584 |
| Corporate securities | 23,529 | 178 | (3) | 23,704 |
| Total marketable securities | $ 50,036 | $ 205 | $ (116) | $ 50,125 |

The unrealized holding gains on available-for-sale securities included as a separate component of shareholders' equity, other comprehensive income, totaled $ 89 in 2002. The amortized cost and estimated fair value of debt and marketable securities as of December 31, 2002, by contractual maturity, are shown below.

U.S. dollars in thousands

## NOTE 3:- MARKETABLE SECURITIES (Cont.)

| | December 31, 2002 | |
|---|---|---|
| | Amortized cost | Market value |
| Available-for-sale: | | |
| Matures in one year | $ 35,987 | $ 36,177 |
| Matures in one to five years | 11,448 | 11,347 |
| Matures in more than five years | 2,601 | 2,601 |
| | $ 50,036 | $ 50,125 |

## NOTE 4:- INVENTORIES

| | December 31, | |
|---|---|---|
| | 2001 | 2002 |
| Materials and components | $ 264 | $ 358 |
| Work-in-progress | 2,338 | 1,337 |
| Finished products | 2,179 | 1,293 |
| | $ 4,781 | $ 2,988 |

## NOTE 5:- PROPERTY AND EQUIPMENT, NET

| | | |
|---|---|---|
| Cost: | | |
| Computer and peripheral equipment | $ 4,418 | $ 5,597 |
| Leasehold improvements | 417 | 426 |
| Motor vehicles | 443 | 442 |
| Office furniture and equipment | 685 | 799 |
| | 5,963 | 7,264 |
| Accumulated depreciation: | | |
| Computer and peripheral equipment | 1,499 | 2,969 |
| Leasehold improvements | 126 | 157 |
| Motor vehicles | 155 | 236 |
| Office furniture and equipment | 146 | 258 |
| | 1,926 | 3,640 |
| Depreciated cost | $ 4,037 | $ 3,644 |

Depreciation expenses for the years ended December 31, 2000, 2001 and 2002 were $ 616, $ 1,211 and $ 1,721, respectively.

U.S. dollars in thousands

## NOTE 6:- OTHER PAYABLES AND ACCRUED EXPENSES

| | December 31, 2001 | December 31, 2002 |
|---|---|---|
| Accrued expenses | $ 4,773 | $ 3,637 |
| Employees and government authorities | 1,811 | 1,232 |
| Provision for warranty costs | 415 | 539 |
| Other | 843 | 1,109 |
| | $ 7,842 | $ 6,517 |

## NOTE 7:- COMMITMENTS AND CONTINGENCIES

a. Lease commitments:

The Company and its subsidiaries rent their facilities and their motor vehicles under various operating lease agreements, which expire on various dates, the latest of which is in 2010. Aggregate minimum rental payments under non-cancelable operating leases as of December 31, 2002, are as follows:

| | Year ended December 31, |
|---|---|
| 2003 | $ 1,750 |
| 2004 | 1,182 |
| 2005 | 841 |
| 2006 | 187 |
| 2007 and thereafter | 312 |
| | $ 4,272 |

Rent expenses for the years ended December 31, 2000, 2001 and 2002 were approximately $ 545, $ 1,342 and $ 1,541, respectively.

b. Royalty commitments:

The Israeli Government, through the Fund for the Encouragement of Marketing Activities, awarded the Company grants as participation in expenses for foreign marketing. The Company received an amount aggregating to grants of $ 150.

The Company is committed 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. During 2002, the Company paid the Fund for Encouragement of Marketing Activities royalties in the amount of $23.

As of December 31, 2002 the commitment is in the amount of approximately $ 127.

## NOTE 7:- COMMITMENTS AND CONTINGENCIES (Cont.)

c. Litigation

In December 2001, the Company, its Chairman, its President and Chief Executive Officer and its Chief Financial Officer were named as defendants in a class action complaint alleging violations of the federal securities laws, in the United States District Court, Southern District of New York.

The essence of the complaint is that the defendants issued and sold the Company's Ordinary shares pursuant to the Registration Statement for the September 30, 1999, Initial Public Offering ("IPO") without disclosing to investors that certain underwriters in the offering had solicited and received excessive and undisclosed commissions from certain investors.

The complaints also allege that the Registration Statement for the IPO failed to disclose that the underwriters allocated Company shares in the IPO to customers in exchange for the customers' promises to purchase additional shares in the aftermarket at predetermined prices above the IPO price, thereby maintaining, distorting and/or inflating the market price for the shares in the aftermarket. The action seeks damages in an unspecified amount.

The action is being coordinated with over three hundred other nearly identical actions filed against other companies. No date has been set for any response to the complaint. The Company intends to vigorously defend the actions.

From time to time, the Company is involved in routine trade litigation. In 2002, the Company pursued a customer for non-payment for products he had purchased from the Company. In response, the customer filed a lawsuit against the Company claiming € 4,223,619 in commercial damages and loss of clients related to the products non-performance. The Company believes this claim is without merit and intends to vigorously defend this lawsuit

In March 2003, F5 Networks Inc., the Company's competitor, issued a press release stating that it had filed a patent infringement lawsuit against the Company and two other companies. The Company has not yet been served in this lawsuit but has obtained a copy of the complaint. The Company believes that this claim is without merit and intends to vigorously defend it.

## NOTE 8:- SHAREHOLDERS' EQUITY

a. Public offerings:

In October 1999, the Company issued 3,500,000 Ordinary shares in an Initial Public Offering on the NASDAQ National Market in consideration for $ 56,831 (net of issuance expenses).

In January 2000, the Company issued 1,250,000 Ordinary shares in a secondary offering on the NASDAQ National Market in consideration for $ 59,790 (net of issuance expenses).

U.S. dollars in thousands

**NOTE 8:- SHAREHOLDERS' EQUITY (Cont.)**

b. Treasury stock:

In November 2002 the Company's Board of Directors authorized the repurchase of up to 1,500,000 shares of the Company's Ordinary shares in the open market or $10 million, subject to normal trading restrictions. On December 19, 2002, the Company received court approval, which is required under Israeli law under certain conditions, as specified in the law. During 2002, the Company purchased 32,700 of its own Ordinary shares for a total consideration of $ 254.

c. Stock Option Plans:

Under the Company's Key Employee Share Incentive Plan (1997) and the "Directors and Consultants Option Plan" ("the Plans"), options may be granted to officers, directors, employees and consultants of the Company or its subsidiaries. The Options expire 62 months from the grant date. The options vest primarily over four years. Any options, which are forfeited or not exercised before expiration, become available for future grants.

Pursuant to the Plans, the Company reserved for issuance 4,810,000 Ordinary shares. As of December 31, 2002, an aggregate of 10,556 Ordinary shares of the Company are still available for future grant.

The Company approved an increase in the number of Ordinary shares reserved for option grants under the plans in the amount equal to 4% of the shares in both 2002 and 2003.

A summary of the Company's stock option activity, and related information for the year ended December 31, is as follows:

| | 2000 | | 2001 | | 2002 | |
|---|---|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Outstanding at the beginning of the year | 1,630,736 | $ 1.60 | 2,328,253 | $ 9.68 | 3,468,107 | $ 9.74 |
| Granted | 1,184,719 | $ 17.09 | 1,975,957 | $ 10.53 | 1,029,996 | $ 8.98 |
| Exercised | (467,266) | $ 0.03 | (184,627) | $ 0.05 | (488,989) | $ 0.14 |
| Forfeited | (19,936) | $ 17.57 | (651,476) | $ 14.64 | (345,052) | $ 18.00 |
| Outstanding at the end of the year | 2,328,253 | $ 9.68 | 3,468,107 | $ 9.74 | 3,664,062 | $ 10.03 |
| Exercisable at the end of the year | 767,442 | $ 0.03 | 734,087 | $ 2.52 | 653,524 | $ 9.41 |

U.S. dollars in thousands

## NOTE 8:- SHAREHOLDERS' EQUITY (Cont.)

The following table summarizes information about options outstanding and exercisable as of December 31, 2002:

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| Range of exercise price | Number outstanding at December 31, 2001 | Weighted average remaining contractual life (months) | Weighted average exercise price | Number outstanding at December 31, 2001 | Weighted average exercise price |
| $ 0.03 | 252,674 | 15 | $ 0.03 | 227,922 | $ 0.03 |
| $ 4.59-$ 5.73 | 132,138 | 23 | $ 5.48 | 51,852 | $ 5.42 |
| $ 8 - $ 11 | 2,550,500 | 49 | $ 9.51 | 40,000 | $ 10.25 |
| $ 16 - $ 18 | 728,750 | 31 | $ 16.14 | 333,750 | $ 16.29 |
| | 3,664,062 | | $ 10.03 | 653,524 | $ 9.41 |

Pro forma information regarding net earnings (loss) is required by SFAS No. 123 (for grants issued after December 1994), and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant, using the Black-Scholes Option Valuation Model, with the following weighted-average assumptions for each of the three years in the period ended December 31, 2000, 2001 and 2002: expected volatility of 103%, 97%, 37.5%, respectively; risk-free interest rates of 5%, 2.5% and 2.5% respectively, dividend yields of 0% for each year, and a weighted-average expected life of the option of 2.4, 2.5 and 2.5 years, respectively.

The Company has recorded deferred stock compensation for options issued with an exercise price below the fair market value of the Ordinary shares; the deferred stock compensation has been amortized and recorded as compensation expense ratably over the vesting period of the options. Compensation expense of approximately $626, $542 and $285 was recognized during the years ended December 31, 2000, 2001 and 2002, respectively

Options granted to employees and directors in 2002 have an exercise price equal to the fair market value of the stock at the grant date. The weighted average fair values of the options granted during 2000, 2001 and 2002, respectively were $ 10.05, $ 6.04 and $ 2.29, respectively.

**NOTE 8:- SHAREHOLDERS' EQUITY (Cont.)**

d. Employee share purchase plan ("ESPP"):

The Company's Board of Directors adopted three Employee Share Purchase Plans ("the Purchase Plans"), which provide for the issuance of a maximum of 750,000, 200,000 and 300,000 Ordinary shares, respectively. Eligible employees can have up to 10% of their earnings withheld, up to certain maximums, to be used to purchase Ordinary shares. The purchase plans are implemented with purchases every six-month. The price of Ordinary share purchased under the Purchase Plan will be equal to 85% of the lower of the fair market value of the Ordinary share on the commencement date of each offering period or on the semi-annual purchase date Pursuant to the plan. During 2002 51,724 shares were issued under the ESPP for an aggregate consideration of $ 348. As of December 31, 2002, an aggregate of 1,198,276 Ordinary shares of the Company are available for future grant.

e. Dividends:

Dividends, if any, will be paid in NIS. Dividends paid to shareholders outside Israel may be converted to U.S. dollars on the basis of the exchange rate prevailing at the date of the conversion. The Company does not intend to pay cash dividends in the foreseeable future.

**NOTE 9:- TAXES ON INCOME**

a. Israeli income taxes

1. Measurement of taxable income under the Income Tax (Inflationary Adjustments) Law, 1985 ("the Israeli law"):

Under the Israeli law, results for tax purposes are measured in real terms, in accordance with the changes in the Israeli Consumer Price Index ("Israeli CPI"), or in the exchange rate of the dollar for a "foreign investors company". Until 2002, results for tax purposes were measured in terms of earnings in NIS after certain adjustments for increases in the Israeli CPI. Starting in 2003, the Company has elected to measure its taxable income and file its tax return under Israeli Income Tax Regulations (Principles Regarding the Management of Books of Account of Foreign Invested Companies and Certain Partnerships and the Determination of Their Taxable Income), 1986.

**NOTE 9:- TAXES ON INCOME (Cont.)**

2. Tax benefits under the Law for the Encouragement of Capital Investments, 1959:

The Company's production facilities in Israel (Tel-Aviv and Jerusalem) have been granted an "approved enterprise" status under the above law. The main benefit arising from such status is the reduction in tax rates on income derived from "approved enterprises". The Company is also a "foreign investors company", as defined by that law and, as such, is entitled to a 10-year period of benefits and to an additional reduction in tax rates up to a tax rate of 10% (based on the percentage of foreign ownership in each taxable year).

Income derived from "approved enterprises" and allocated to the Tel Aviv facility will be tax exempt for a period of two years and will be entitled to a reduced tax rate, depending on the level of foreign investment, for an additional period of five to eight years. Income derived from this approved enterprise program and allocated to the Jerusalem facility will be exempt from tax for a period of 10 years (but will not enjoy a reduced corporate tax rate after such period).

As mentioned above, the approval, which the Investment Center granted the Company, is for establishing an approved enterprise program in Tel-Aviv and Jerusalem, Israel. The income derived from the approved enterprise program shall be allocated between the facilities in Tel-Aviv and Jerusalem based on a mechanism yet to be determined.

The duration of tax benefits is subject to limitation of the earlier of 12 years from commencement of production, or 14 years from receipt of approval as an "Approved Enterprise" under the Law.

The entitlement to the above benefits is conditional upon the Company's fulfilling the conditions stipulated by the above law, regulations published thereunder and the letteres of approval for the specific investments in "approved enterprises". In the event of failure to comply with these conditions, the benefits may be canceled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest. As of December 31, 2002, management believes that the Company is meeting all of the aforementioned condition.

The tax-exempt income attributable to the "approved enterprise" can be distributed to shareholders without subjecting the Company to taxes only upon the complete liquidation of the Company.

If these retained tax-exempt profits are distributed in a manner other than in the complete liquidation of the Company they would be taxed at the corporate tax rate applicable to such profits as if the Company had not elected the alternative system of benefits. As of December 31, 2002, the accumulated deficit of the Company does not include tax-exempt profits earned by the Company’s "Approved Enterprise".

U.S. dollars in thousands

**NOTE 9:- TAXES ON INCOME (Cont.)**

As the Israeli Company currently has had no taxable income, the benefits have not yet commenced since inception.

Income from sources other than the "approved enterprise" during the benefit period will be subject to tax at the regular corporate tax rate of 36%.

3. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969:

The Company is an "industrial company", as defined by this law and, as such, is entitled to certain tax benefits, mainly accelerated depreciation of machinery and equipment, as prescribed by regulations published under the Inflationary Adjustments Law, the right to claim public issuance expenses as a deduction for tax purposes.

4. Net operating loss carryforwards:

As of December 31, 2002, the Company had Israeli carryforward tax losses totaling approximately $ 13 thousand, most of which can be carried forward and offset against taxable income indefinitely.

b. U.S. income taxes

As of December 31, 2002, the Company had U.S. federal net operating tax loss carryforwards of approximately $ 8 thousand. The net operating loss and credit carryforwards expire in various amounts between 2011 and 2021. Utilization of U.S. net operating losses may be subject to substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

c. Other foreign taxes

As of December 31, 2002, the Company has other foreign net operating tax loss carryforwards of approximately $ 3 thousand.

d. Income (loss) before income taxes is comprised as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2000 | 2001 | 2002 |
| Domestic | $ 15,941 | $ 13,679 | $ 1,113 |
| Foreign | (9,491) | (14,571) | (3,203) |
| Income (loss) before taxes | $ 6,450 | $ (892) | $ (2,090) |

U.S. dollars in thousands

## NOTE 9:- TAXES ON INCOME (Cont.)

e. Deferred taxes on income:

Deferred taxes on income reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows:

| | December 31, | |
|---|---|---|
| | 2001 | 2002 |
| Net deferred tax asset before valuation allowance | $ 1,400 | $ 1,708 |
| Valuation allowance | (1,400) | (1,708) |
| Net deferred tax asset | $ - | $ - |

The Company has provided valuation allowances in respect of deferred tax assets resulting from tax loss carryforwards, due to its history of operating losses and current uncertainty concerning its ability to realize these deferred tax assets in the future.

The subsidiary in the U.S. has provided valuation allowances in respect of deferred tax assets resulting from tax benefits related to employee stock option exercises, which will be credited to additional paid-in capital when realized. Management currently believes that it is more likely than not that those deferred tax deductions will not be realized in the foreseeable future.

f. Israeli tax reform:

On January 1, 2003, a comprehensive tax reform took effect in Israel. Pursuant to the reform, resident companies are subject to Israeli tax on income accrued or derived in Israel or abroad. In addition, the concept of "controlled foreign corporation" was introduced, according to which an Israeli company may become subject to Israeli taxes on certain income of a non-Israeli subsidiary if the subsidiary's primary source of income is passive income (such as interest, dividends, royalties, rental income or capital gains). The tax reform also substantially changed the system of taxation of capital gains.

## NOTE 10:- GEOGRAPHIC INFORMATION

Summary information about geographic areas:

The Company adopted Statement of Financial Accounting Standard No. 131, "Disclosures About Segments of an Enterprise and Related Information", ("SFAS No. 131"). The Company operates in one reportable segment (see Note 1 for a brief description of the Company's business). The total revenues are attributed to geographic areas based on the location of the end customer.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 10:- GEOGRAPHIC INFORMATION (Cont.)**

The following presents total revenues for the years ended December 31, 2002, 2001 and 2000 and long-lived assets as of December 31, 2002 and 2001:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2000 | 2001 | 2002 |
| Revenues from sales to unaffiliated customers: | | | |
| America (principally U.S.A.) | $ 19,185 | $ 22,405 | $ 21,641 |
| EMEA *) | 12,364 | 12,102 | 11,731 |
| Asia pacific | 6,804 | 8,820 | 10,291 |
| | $ 38,353 | $ 43,327 | $ 43,663 |

| | December 31, | |
|---|---|---|
| | 2001 | 2002 |
| Long-lived assets, by geographic areas: | | |
| America | $ 827 | $ 1,131 |
| EMEA *) | 3,065 | 2,323 |
| Asia pacific | 145 | 190 |
| | $ 4,037 | $ 3,644 |

*) Europe, Middle East and Africa.

**NOTE 11:- SELECTED STATEMENTS OF OPERATIONS DATA**

a. Financial income (expenses):

| | Year ended December 31, | | |
|---|---|---|---|
| | 2000 | 2001 | 2002 |
| Financial income: | | | |
| Interest and others | $ 6,651 | $ 4,773 | $ 2,274 |
| Foreign currency translation differences | - | 76 | 292 |
| Amortization of premium, accretion of discounts and interest accrued. | 830 | 1,648 | 2,016 |
| | 7,481 | 6,497 | 4,582 |
| Financial expenses: | | | |
| Interest and other bank charges | (11) | (185) | (342) |
| Foreign currency translation differences | (36) | - | - |
| | (47) | (185) | (342) |
| | $ 7,434 | $ 6,312 | $ 4,240 |

U.S. dollars in thousands, except share data

## NOTE 11:- SELECTED STATEMENTS OF OPERATIONS DATA (Cont.)

b. Loss in respect of an investment in an affiliate:

In 2000, 2001 and 2002, the Company invested $ 721, $ 3,361 and $ 2,251, respectively, in a development stage company. In 2001, the investment balance was written-off. Additionally, a provision with respect of expected closing costs of the investee in the amount of $ 2,251 was recorded. During 2002, the affiliate ceased its business activities. As of December 31, 2002, the Company does not expect to incur additional expenses related to the investment.

c. Net earnings (loss) per share:

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

| | Year ended December 31, | | |
|---|---|---|---|
| | 2000 | 2001 | 2002 |
| Numerator: | | | |
| Net income (loss) to available shareholders of Ordinary shares | $ 6,086 | $ (7,577) | $ (2,113) |
| Numerator for diluted earnings (loss) per share-income (loss) available to shareholders of ordinary shares | $ 6,086 | $ (7,577) | $ (2,113) |
| Denominator: | | | |
| Denominator for basic earnings (loss) per share - weighted average of Ordinary shares | 15,874,172 | 16,422,971 | 16,654,784 |
| Effect of dilutive securities: | | | |
| Employee stock options and Treasury stock | 1,727,833 | *) - | *) - |
| Denominator for diluted earnings (loss) per share - adjusted weighted average shares and assumed conversions | 17,602,005 | 16,422,971 | 16,654,784 |

*) Antidilutive.

## NOTE 12:- RELATED PARTIES BALANCES AND TRANSACTIONS

a. The following related parties balances are included in the balance sheets:

| | December 31, | |
|---|---|---|
| | 2001 | 2002 |
| Trade receivables | $ 648 | $ 449 |
| Trade payables | $ 935 | $ 844 |
| Other accounts payable and accrued expenses | $ 266 | $ 185 |

U.S. dollars in thousands, except share data

NOTE 12:- RELATED PARTIES BALANCES AND TRANSACTIONS (Cont.)

b. The following related party transactions are included in the statements of operations:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2000 | 2001 | 2002 |
| Revenues | $ 3,940 | $ 2,285 | $ 1,331 |
| Cost of revenues - components (1) | $ 6,747 | $ 6,899 | $ 3,374 |
| Operating expenses, net - primarily rental, sub-contractors and communications (2) | $ 1,060 | $ 1,721 | $ 1,460 |
| Purchase of property and equipment | $ 313 | $ 331 | $ 31 |

(1) Represent purchases of certain components for the Company's products, mainly circuit boards from a related party. On February 2, 2003, the purchase agreement with a related party was assigned to a third party.

(2) The Company leases office space and purchases other miscellaneous services from certain companies, which are considered to be related parties. In addition, the Company subleases part of the office space to related parties and provides certain services to related parties.

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