
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 20-F

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the fiscal year ended
December 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report _____

Commission file number 0-30324

RADWARE LTD.

(Exact name of registrant as specified in its charter)

Israel

(Jurisdiction of incorporation or organization)

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(Address of principal executive offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class
Ordinary Shares,
NIS 0.1 par value per share

Name of each exchange on which registered
The Nasdaq Stock Market LLC

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

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report (December 31, 2011):

21,250,300 Ordinary Shares, NIS 0.1 par value per share

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

- U.S. GAAP
- International Financial Reporting Standards as issued by the International Accounting Standards Board
- Other

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

Item 17 Item 18

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

Yes No

INTRODUCTION

Unless the context otherwise requires, all references in this annual report to:

- “we,” “us,” “our,” the “Company,” and “Radware” are to Radware Ltd. and its subsidiaries;
- “ordinary shares” are to our Ordinary Shares, par value NIS 0.1 per share;
- “Companies Law” or the “Israeli Companies Law” are to the Israeli Companies Law, 5759-1999 (as amended);
- the “SEC” are to the U.S. Securities and Exchange Commission;
- “U.S. GAAP” are to generally accepted accounting principles in the United States;
- “NASDAQ” are to the NASDAQ Global Market (formerly, the Nasdaq National Market);
- “dollars”, “\$” or “US \$” are to U.S. dollars; and
- “NIS” or “shekels” are to New Israeli Shekels.

We have registered trademarks for, among others, “Radware®”, “APSObsolute®”, “Web Server Director®”, “FireProof®”, “LinkProof®”, “Triangulation®”, “Smart Nat®”, “DefensePro®”, “StringMatch Engine®”, “CID®”, “CID – Content Inspection Director®”, “SIPDirector®”, “AppDirector®”, “AppXcel®”, “AppXML®”, “SecureFlow®”, “OnDemand Switch®”, “AppWall®”, “Absolute Insite®”, “APSObsolute Vision®”, “vAdapter®”, VADI® and “Alteon®” and we have trademark applications pending for, among others, “Virtual Director™”, “ALTEON VA™”, “vDirect™”, “ADC Fabric™”, “Radware ADC Fabric™”, “FastView™” and “AppShape™”. Unless the context otherwise indicates, all other trademarks and trade names appearing in this annual report are owned by their respective holders.

Our consolidated financial statements appearing in this annual report are prepared in dollars and in accordance with U.S. GAAP, and are audited in accordance with the standards of the Public Company Accounting Oversight Board in the United States.

On March 25, 2012, the exchange rate between the NIS and the dollar, as quoted by the Bank of Israel, was NIS 3.735 to \$1.00. Unless the context otherwise indicates, statements in this annual report that provide the dollar equivalent of NIS amounts or provide the NIS equivalent of dollar amounts are based on such exchange rate.

Statements made in this annual report concerning the contents of any contract, agreement or other document are summaries of such contracts, agreements or documents and are not complete descriptions of all of their terms. If we filed any of these documents as an exhibit to this annual report or to any registration statement or annual report that we previously filed, you may read the document itself for a complete description of its terms, and the summary included herein is qualified by reference to the full text of the document which is incorporated by reference into this annual report.

**CAUTIONARY STATEMENT REGARDING
FORWARD-LOOKING STATEMENTS**

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

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

Table of Contents

<u>PART I</u>	8
<u>ITEM 1.</u> <u>Identity of Directors, Senior Management and Advisers</u>	8
<u>ITEM 2.</u> <u>Offer Statistics and Expected Timetable</u>	8
<u>ITEM 3.</u> <u>Key Information</u>	9
A. <i>Selected Financial Data</i>	9
B. <i>Capitalization and Indebtedness</i>	10
C. <i>Reasons for the Offer and Use of Proceeds</i>	10
D. <i>Risk Factors</i>	10
<u>ITEM 4.</u> <u>Information on the Company</u>	25
A. <i>History and Development of the Company</i>	25
B. <i>Business Overview</i>	25
C. <i>Organizational Structure</i>	35
D. <i>Property, Plants and Equipment</i>	36
<u>ITEM 4A.</u> <u>UNRESOLVED STAFF COMMENTS</u>	37
<u>ITEM 5.</u> <u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	38
A. <i>Operating Results</i>	38
B. <i>Liquidity and Capital Resources</i>	51
C. <i>Research and Development, Patents and Licenses, etc.</i>	53
D. <i>Trend Information</i>	54
E. <i>Off-Balance Sheet Arrangements</i>	54
F. <i>Tabular Disclosure of Contractual Obligations</i>	54
<u>ITEM 6.</u> <u>Directors, Senior Management and Employees</u>	55
A. <i>Directors and Senior Management</i>	55
B. <i>Compensation</i>	58
C. <i>Board Practices</i>	59
D. <i>Employees</i>	65
E. <i>Share Ownership</i>	67
<u>ITEM 7.</u> <u>Major Shareholders and Related Party Transactions</u>	70
A. <i>Major Shareholders</i>	70
B. <i>Related Party Transactions</i>	72
C. <i>Interests of Experts and Counsel</i>	73
<u>ITEM 8.</u> <u>Financial Information</u>	73
A. <i>Consolidated Statements and other Financial Information Legal Proceedings</i>	73
B. <i>Significant Changes</i>	76

<u>ITEM 9.</u>	<u>The Offer and Listing</u>	77
	<i>A. Offer and Listing Details</i>	77
	<i>B. Plan of Distribution</i>	78
	<i>C. Markets</i>	78
	<i>D. Selling Shareholders</i>	78
	<i>E. Dilution</i>	78
	<i>F. Expenses of the Issue</i>	78
<u>ITEM 10.</u>	<u>Additional information</u>	79
	<i>A. Share Capital</i>	79
	<i>B. Memorandum and Articles of Association</i>	79
	<i>C. Material Contracts</i>	84
	<i>D. Exchange Controls</i>	84
	<i>E. Taxation</i>	84
	<i>F. Dividends and Paying Agents</i>	95
	<i>G. Statement by Experts</i>	95
	<i>H. Documents on Display</i>	95
	<i>I. Subsidiary Information</i>	96
<u>ITEM 11.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	97
<u>ITEM 12.</u>	<u>Description of Securities other than Equity Securities</u>	98
<u>PART II</u>		99
<u>ITEM 13.</u>	<u>Defaults, Dividend Arrearages and Delinquencies</u>	99
<u>ITEM 14.</u>	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	99
<u>ITEM 15.</u>	<u>Controls and Procedures</u>	99
<u>ITEM 16A.</u>	<u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	100
<u>ITEM 16B.</u>	<u>CODE OF ETHICS</u>	100
<u>ITEM 16C.</u>	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	101
<u>ITEM 16D.</u>	<u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	101
<u>ITEM 16E.</u>	<u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	102
<u>ITEM 16F.</u>	<u>CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT</u>	102

ITEM 16G.	CORPORATE GOVERNANCE	102
ITEM 16H.	MINE SAFETY DISCLOSURE	102
PART III		103
ITEM 17.	Financial Statements	103
ITEM 18.	Financial Statements	103
ITEM 19.	Exhibits	104

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following tables present selected information from our consolidated statement of operations and balance sheet data for the periods and as of the dates indicated. We derived the selected consolidated statement of operations for the years ended December 31, 2009, 2010 and 2011 and the selected balance sheet data as of December 31, 2010 and 2011 from our audited consolidated financial statements included elsewhere in this annual report, which have been prepared in accordance with U.S. GAAP. The selected consolidated statement of operations data for the years ended December 31, 2007 and 2008 and the selected balance sheet data as of December 31, 2007, 2008 and 2009 are derived from our audited consolidated financial statements not included in this annual report, which have been prepared in accordance with U.S. GAAP.

You should read the following selected financial data together with the section of this annual report entitled "Operating and Financial Review and Prospects" and our consolidated financial statements together with the notes thereto included elsewhere in this annual report.

	Year ended December 31,				
	2007	2008	2009	2010	2011
	(US \$ in thousands except per share data)				
Statement of Operations Data:					
Revenues:					
Products	\$ 59,422	\$ 59,678	\$ 65,021	\$ 89,358	\$ 103,285
Services	29,209	34,903	43,883	54,761	63,735
	<u>88,631</u>	<u>94,581</u>	<u>108,904</u>	<u>144,119</u>	<u>167,020</u>
Cost of revenues:					
Products	13,133	15,143	16,609	21,306	24,231
Services	5,895	6,431	6,666	7,898	9,126
	<u>19,028</u>	<u>21,574</u>	<u>23,275</u>	<u>29,204</u>	<u>33,357</u>
Gross profit	<u>69,603</u>	<u>73,007</u>	<u>85,629</u>	<u>114,915</u>	<u>133,663</u>
Operating expenses:					
Research and development	23,515	28,357	25,674	31,660	36,064
Sales and marketing	57,977	63,591	55,130	64,609	69,543
General and administrative	7,114	12,066	11,930	10,190	9,629
Total operating expenses	<u>88,606</u>	<u>104,014</u>	<u>92,734</u>	<u>106,459</u>	<u>115,236</u>
Operating income (loss)	<u>(19,003)</u>	<u>(31,077)</u>	<u>(7,105)</u>	<u>8,456</u>	<u>18,427</u>
Financial income, net	7,420	3,612	1,987	2,057	4,200
Income (loss) before income taxes	<u>(11,583)</u>	<u>(27,395)</u>	<u>(5,118)</u>	<u>10,513</u>	<u>22,627</u>
Income taxes	(428)	(3,627)	(818)	(879)	(1,290)
Net income (loss)	<u>\$ (12,011)</u>	<u>\$ (31,022)</u>	<u>\$ (5,936)</u>	<u>\$ 9,634</u>	<u>\$ 21,337</u>
Basic net earnings (loss) per share*	<u>\$ (0.62)</u>	<u>\$ (1.60)</u>	<u>\$ (0.31)</u>	<u>\$ 0.49</u>	<u>\$ 1.02</u>
Diluted net earnings (loss) per share*	<u>\$ (0.62)</u>	<u>\$ (1.60)</u>	<u>\$ (0.31)</u>	<u>\$ 0.44</u>	<u>\$ 0.93</u>

* Please see notes 2(w) and 12 to our consolidated financial statements for an explanation regarding the computation of basic and diluted net earnings (loss) per ordinary share.

	Year ended December 31,				
	2007	2008	2009 (in thousands)	2010	2011
Weighted average number of ordinary shares used in computing basic net earnings (loss) per share	19,477	19,440	18,879	19,558	20,953
Weighted average number of ordinary shares used in computing diluted net earnings (loss) per share	19,477	19,440	18,879	21,734	22,888

	As of December 31,				
	2007	2008	2009 (US \$ in thousands)	2010	2011

Balance Sheet Data:

Cash and cash equivalents, short-term bank deposits and marketable securities	\$ 152,110	\$ 88,796	\$ 59,090	\$ 90,925	\$ 116,493
Long-term bank deposits, structured deposit and marketable securities	2,735	45,112	67,021	87,864	102,644
Working capital	149,954	82,292	49,573	67,456	95,999
Total assets	216,067	185,464	208,900	260,635	295,598
Shareholders' equity	176,713	148,062	149,473	184,990	219,321
Capital Stock	176,486	186,450	192,406	219,099	233,881

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

You should carefully consider the following risks before deciding to purchase, hold or sell our ordinary shares. Our business, operating results and financial condition could be seriously harmed due to any of the following risks. The following risks are not the only risk factors facing our Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. The trading price of our ordinary shares could decline due to any of these risks. You should also refer to the other information contained or incorporated by reference in this annual report, before making any investment decision regarding our Company.

Risks Related to Our Business and Our Industry

We have incurred losses in the past, and may incur losses in the future.

Although we were profitable in the past two years, we incurred losses from 2006 through 2009. We had net income of approximately \$21.3 million in 2011 and net income of approximately \$9.6 million in 2010, but had a net loss of approximately \$5.9 million in 2009.

Our results for 2011 reflect our continued growth, combined with the growth in the information technology ("IT") market in which we operate. In 2011, we increased our profitability as a result of a combination of several factors, including increased revenues and continued expense controls, which enabled us to increase our operating expenses at a slower pace as compared to the increase in our revenues. Our ability to sustain profitability in the future depends in part on the global economy; the rate of growth of, and changes in technology trends in, our market and other industries in which we currently or may in the future operate; our ability to develop and manufacture new products and technologies in a timely manner; the competitive position of our products; the continued acceptance of our products by our customers and in the industries that we serve; and our ability to manage expenses. In the future, we may have to undertake cost reduction initiatives to remain profitable, which could lead to a deterioration of our competitive position, and any difficulty in reducing our cost structure could negatively impact our results of operations and cash flows. We cannot assure you that we will continue to remain profitable.

Our revenues also may not grow or continue at their current level, which could negatively impact our results of operations and cash flows. For example, the growth rate in 2010 compared to 2009 was approximately 32% and the growth rate in 2011 compared to 2010 was approximately 16%.

We may also seek to increase our operating expenses during future periods. Our decision to increase operating expenses and the scope of such increase will depend upon several factors, including the market situation and the results that our past expenditures produce. We may continue to make additional expenditures in anticipation of generating higher revenues, which we may not realize, if at all, until sometime in the future. For example, in March 2009 we completed the purchase of certain assets from Nortel Networks Ltd., Nortel Networks Inc. and other Nortel entities ("Nortel") in relation to the "Alteon®" product line (the "Alteon Acquisition"). During 2011, we continued our investment in developing and enhancing new and existing products, such as in the release and deployment of our new Alteon 10000 chassis base solution. We may not recognize increased revenues from these products, and a failure of any acquisitions or product developments to produce increased revenues could have a material adverse effect on our operations and profitability.

In parallel to our investments in our products portfolio, we have invested in marketing plans and product promotion efforts. Our marketing efforts and any related go-to-market strategies may not result in increased revenues. If our revenues do not increase as anticipated, or if our expenses increase, we may incur losses.

Severe global economic conditions and volatility of the market for our products, including slow-down in expenditures and other trends in our industry, could have a material adverse effect on our results of operations.

Our business is dependent on current and anticipated market demand for our products. Starting in late 2008 and lasting through much of 2009, the overall market's IT spending decreased due to the global real estate and financial slowdown which led to a recessionary period. More recently, credit and sovereign debt issues have destabilized certain European economies, thereby increasing global macroeconomic uncertainties. Uncertainty about current global economic conditions continue to pose a risk as customers may postpone or reduce spending in response to restraints on credit. Should the economic slowdown resume, and/or companies in our target markets reduce capital expenditures, we may experience a reduction in sales, as well as downward pressure on the price of our products. In addition, if the market is flat and customers experience low visibility we may not be able to increase our sales (whether direct sales or indirect sales through our distributors). Each of the above scenarios would have a material adverse effect on our business, operating results and financial condition. In addition, in March 2011, a significant portion of Japan suffered damage from a major earthquake and accompanying tsunami. Damage to Japan's energy supplies, infrastructure and distribution channels was significant and we witnessed a decrease in revenues from Japanese customers during 2011. This decrease was immaterial to our overall annual revenues throughout the year; however, we may experience adverse consequences in the future as pending or future purchase orders from Japan may be delayed or cancelled as a result.

If we are unable to realize our investment objectives, our financial condition and results of operations may be adversely affected.

Financial income is an important component of our net income. As of December 31, 2011, our investment portfolio, including cash and cash equivalents, had a carrying value of \$219.1 million, compared with \$178.8 million as of December 31, 2010. For the years ended December 31, 2011, 2010 and 2009, we had \$4.2 million, \$2.1 million and \$2.0 million, respectively, of financial income. This increase is attributed mainly to the increase in our average cash balance (including bank deposits and marketable securities) in 2011 compared to 2010 and 2009, as well as to the impact of changes in exchange rates in 2011 compared to 2010 and 2009, which affect the foreign currency translation differences included in our financial income.

The outlook for our financial income is dependent on the future direction of interest rates, exchange rates, the amount of any share repurchases or acquisitions that we make and the amount of cash flows from operations that are available for investment. The performance of the capital markets affects the values of our funds that are held in marketable securities. These assets are subject to market fluctuations and will yield uncertain returns. Due to certain market developments, including investments' rating downgrades, the fair value of these investments may decline. If market conditions continue to fluctuate, the fair value of our investments may be impacted accordingly. Although our investment guidelines stress diversification and capital preservation, our investments are subject to a variety of risks, including risks related to general economic conditions, interest rate fluctuations and market volatility.

During 2011, the European economy experienced a significant downturn which affected the European, U.S. and other capital markets. We are exposed to significant capital markets risk, including changes in interest rates, credit spreads and equity prices. Our investment portfolio is affected by the changes in the capital markets. In addition, benchmark interest rates, such as the U.S. Federal Funds Rate, are currently at historic lows, which is likely to significantly impact our investment income. Changes in interest rates and credit quality may result in fluctuations in the income derived from, or the valuation of, our fixed income securities. Our investment portfolios include a significant amount of interest rate-sensitive instruments, such as bonds, which may be adversely affected by changes in interest rates. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. Increases in interest rates will decrease the value of our investments in fixed-income securities. If increases in interest rates occur during periods when we sell investments to satisfy liquidity needs, we may experience investment losses. Conversely, if interest rates decline, reinvested funds will earn less than expected.

Our investment portfolio policy is buy and hold, while minimizing credit risk by setting maximum concentration limit per issuer and credit rating. Our investments consist primarily of government and corporate debentures and bank deposits. Although we believe that we generally adhere to conservative investment guidelines, if the turmoil in the financial markets experienced during 2008 and 2009 or 2011 reoccurs in the future, it may result in impairments of the carrying value of our investment assets since we classify our investments in marketable securities as available-for-sale. Changes in the fair value of investments classified as available-for-sale are not recognized as income during the period, but rather are recognized as a separate component of equity until realized. Realized losses in our investments portfolio may adversely affect our financial position and results. For example, if we had reported all the changes in the fair values of our investments into income during the year ended December 31, 2011, our reported net income would have decreased by \$1.8 million.

Any significant decline in our financial income or the value of our investments as a result of continued low interest rates, deterioration in the credit worthiness of the securities in which we have invested or general market conditions could have an adverse effect on our results of operations and financial condition.

We may experience significant fluctuations in our quarterly financial performance because of our limited order backlog, our need to develop new products, the long sales cycles of our products, and the seasonal fluctuations in our sales.

Our quarterly operating results have varied significantly in the past and may vary significantly in the future as a result of various factors, many of which are outside of our control, including our limited order backlog, our need to develop and introduce new and enhanced products and features, and the long sales cycles of our products.

In addition, our quarterly operating results have been, and are likely to continue to be, influenced by seasonal fluctuations in the sales of our products and services. Because our sales have grown year-over-year since our inception, these fluctuations may not be apparent from our historical financial statements. However, we believe that our sales and sales growth 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 during the first quarter of 2012 due to our customers' annual purchasing budget planning process and the third quarter of 2012 due to a slowdown in business activities during the summer months in Europe. Conversely, our sales during the fourth quarter of 2012 may be increased because some of our customers tend to make greater capital expenditures towards the end of their fiscal years. Based on these anticipated fluctuations in our markets, 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.

If the markets for Application Delivery and Network Security solutions do not continue to develop, we will not be able to sell enough of our products to maintain profitability.

The Application Delivery and Network Security markets in which we operate are rapidly evolving and we cannot assure you that they will continue to develop and grow. In addition, we cannot assure you that our products and technology will keep pace with the changes to these markets. Market acceptance of Application Delivery and Network Security solutions 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 Application Delivery and Network Security solutions does not continue to grow, we may not be able to sell enough of our products to maintain and increase our profitability.

Competition in the market for Application Delivery and Network Security solutions and our industry in general is intense. As a result, we may lose market share and we may be unable to maintain profitability.

The IT marketplace is competitive and has very few barriers to entry. In particular, the Application Delivery and Network Security markets in which we focus are highly competitive. We expect competition to intensify in the future, and we may lose market share if we are unable to compete effectively with our competitors.

Most of our competitors have greater financial, personnel and other resources than us, which may limit our ability to effectively compete with them. Our principal competitors in the Application Delivery solutions market include: F5 Networks, Inc., Cisco Systems, Inc., Citrix Systems, Inc. and Brocade Communications Systems, Inc. (Foundry Networks, Inc). In addition, we face competitors in the Network Security space, with respect to our Intrusion Prevention Systems from: Juniper Networks, Inc., Hewlett Packard, TippingPoint Technologies, Inc., Intel-McAfee, Inc., Sourcefire, Inc., and IBM Corporation (Internet Security Systems). We expect to continue to face additional competition as new participants enter the market or extend their portfolios into related technologies. Larger companies with substantial resources, brand recognition and sales channels may form alliances with or acquire competing Application Delivery or Network Security 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, maintain and increase profitability. Furthermore, the dynamic market environment poses a challenge in predicting market trends and expected growth. We cannot assure you that we will be able to implement our business strategy in a manner that will allow us to be competitive. If any of our competitors offer products or services that are more competitive than ours, we could lose market share and our business, financial condition and results of operations could be materially and adversely affected as a result.

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

The markets for Application Delivery and Network Security solutions are characterized by rapid technological change, frequent new product introductions, changes in customer requirements and evolving industry standards. Our products typically constitute a critical portion of our customers' data centers. In recent years, the capacity of transactions in such data centers has been steadily increasing. Due to such increases in capacity and in order to remain competitive in our industry, we must address the increased needs of our customers by developing more powerful platforms for our products. Additionally, we must address increased demands by our customers for advancements in our applications in order to support our customers' growing needs and evolutions in their data centers. In order to meet this challenge and remain competitive in the market, we must introduce new enhancements to our existing product lines.

Accordingly, our future success will generally 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 and enhancements to our existing products. Our development of new products and enhancement of current products is undertaken in an effort to remain competitive in our market, and our failure to do so could result in a decrease in our revenues. In addition, we must invest in research and development in order to remain competitive in our industry. However, there can be no assurances that continued investment and higher costs of research and development will ultimately result in us maintaining or increasing our market share, which would result in a decline to our operating results. If our research and development expenses increase without a corresponding increase in our revenues, it could have a material adverse effect on our operating results. We may not be able to successfully complete the development and market introduction of new products or product enhancements. If we fail to develop and deploy new products and product enhancements on a timely basis, or if we fail to gain market acceptance of our new products, our revenues will decline and we may lose market share to our competitors.

During 2011, we invested in, and plan to continue to invest in 2012 in developing or when appropriate, acquiring, capabilities to advance our products and market vision. There is no assurance that we will be successful in marketing and selling our next generation Application Delivery and Network Security solutions, or that we will be able to grow revenues to justify our investments.

Our failure to develop and market new products or product enhancements on a timely basis or our failure to gain market acceptance of our new products which could result in our loss of market share and our business, financial condition and results of operations could be materially and adversely affected as a result.

We may make acquisitions or pursue mergers that could disrupt our business and harm our financial condition.

As part of our business strategy, we may invest in or acquire other businesses, technologies or assets or enter into joint ventures or other strategic relationships with third parties. For example, in the last five years, we have acquired the business of Covelight and the "Alteon" product line of Nortel. In connection with future acquisitions, we may assume liabilities, incur acquisition related costs, incur amortization expenses or realize write-offs on assets no longer being used or phased out. In addition, the future valuation of these acquisitions may decrease from the market price paid by us which could result in the impairment of our goodwill associated with the relevant assets. For example, during 2008 we had an impairment charge of \$2.0 million in connection with intangible assets acquired as a result of the Covelight acquisition. Moreover, our operation of any acquired or merged businesses, technologies or assets could involve numerous risks, including:

- post-merger integration problems resulting from the combination of any acquired operations with our own operations or from the combination of two or more operations into a new merged entity;
- diversion of management's attention from our core business;
- substantial expenditures, which could divert funds from other corporate uses;
- entering markets in which we have little or no experience; and
- loss of key employees of the acquired operations.

We cannot be certain that any future acquisitions or mergers will be successful. If the operation of the business of any future acquisitions or mergers disrupts our operations, our results of operations may be adversely affected, and even if we successfully integrate the acquired business with our own, we may not receive the intended benefits of the acquisition. In addition, our pursuit of potential acquisitions may divert our management's attention from our core business and require considerable cash outlays at the expense of our existing operations, whether or not such transactions are consummated.

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

We have a limited order backlog which makes revenues in any quarter highly dependent on orders received and delivered in that quarter. Consequently, a delay in our recognition of revenue may have a negative impact on our results of operations for a given quarter. We base our decisions regarding our operating expenses on anticipated revenue trends and our expense levels are relatively fixed. As such, because only a small portion of our expenses are dependent on our revenues, if our revenues fall below our expectations, our earnings and profitability for that period will be materially and adversely affected.

We depend upon independent distributors to sell our products to customers. If our distributors do not succeed in selling our products, we may not be able to operate profitably.

We sell our products primarily to independent distributors, including value added resellers (VARs), original equipment manufacturers (OEMs) and system integrators, and are highly dependent upon these distributors' active marketing and sales efforts. We currently have several dozen active independent distributors and resellers that sell our products to the end-user customer. Our distribution agreements with our distributors generally are non-exclusive, one-year agreements with no obligation on the part of our distributors to renew the agreements. Our distribution agreements also typically do not prevent our distributors from selling products of our competitors and do not contain minimum sales or marketing performance requirements. As a result, our distributors may give higher priority to products of our competitors or their own products, thereby reducing their efforts to sell our products. In addition, we may not be able to maintain our existing distribution relationships, and we may not be successful in replacing them on a timely basis or at all. We may also need to develop new distribution channels for new products, and we may not succeed in doing so. Any changes in our distribution channels or our inability to establish distribution channels for new products will impair our ability to sell our products and result in a material adverse effect on our business, financial condition and results of operations.

Our products generally have long sales cycles, which increase our costs in obtaining orders and reduce 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. As a result, our pre-sales process is often subject to delays associated with budgetary constraints, lengthy approval processes and procurement 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 long sales cycle results in a delay to our recognition of revenue and results in our need to make significant investments in marketing and sales. Long sales cycles also subject us to risks not usually encountered in a short sales cycle, including our customers' budgetary constraints and internal acceptance reviews and processes prior to purchase. In addition, orders expected in one quarter could shift to another because of the timing of our customers' procurement decisions. Furthermore, customers may defer orders in anticipation of new products or product enhancements introduced by us or by our competitors. These factors complicate our planning processes and reduce the predictability of our earnings.

We must manage our anticipated growth effectively in order to maintain and increase our profitability.

We have actively expanded our operations in the past and may continue to expand them in the future in order to gain market share in the evolving market for Application Delivery and Network Security solutions. This expansion has required, and may continue to require, managerial, operational and financial resources.

We cannot assure you that we will continue to expand our operations successfully. 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.

In addition, as we continue our growth efforts, we may need new or enhanced systems, procedures or controls. For example, starting in 2009, we began the process of implementing a companywide Oracle customer relationship management and cloud computing service based system, which is designed to help us manage customers and potential customer relationships. The transition to new systems, procedures or controls, as well as any delay in transitioning to new or enhanced systems, procedures or controls, may result in increased costs and harm our ability to accurately forecast sales demand and manage our customer relationships.

Our international sales may expose us to additional risks

We currently offer our products in over 40 countries, including the U.S. For the years ended December 31, 2011 and 2010, our sales outside the Americas represented approximately 74% and 72%, respectively, of our total sales. Our international business activity involves varying degrees of risk and uncertainty inherent in doing business in so many different jurisdictions. Such risks include, among others, the possibility of unfavorable circumstances arising from host country laws or regulations, including unexpected changes of interpretations thereof; partial or total expropriation, export duties and quotas; local tax exposure; insurrection or war; differences in business practices; and recessionary environments in multiple foreign markets, such as those that occurred in some European countries during 2011. For example, we are required to comply with European Union Directives with respect to product quality assurance standards and environmental standards.

Currency exchange rates and fluctuations of exchange rates could have a material adverse effect on our results of operations.

We are impacted by exchange rates and fluctuations thereof in a number of ways, including:

- A large portion of our expenses in Israel, principally salaries and related personnel expenses, are paid in shekels, whereas most of our revenues are generated in U.S. dollars and Euros. During 2011, we witnessed a strengthening of the average exchange rate of the shekel against the U.S. dollar, which increased the U.S. dollar value of Israeli expenses. If the shekel continues to strengthen against the U.S. dollar, as happened in 2011, the value of our Israeli expenses will increase.

- A portion of our international sales are denominated in currencies other than U.S. dollars, such as the Euro, thereby exposing us to gains and losses on non-U.S. currency transactions.
- We incur expenses in several other currencies in connection with our operations in Europe and Asia.
- The devaluation of the U.S. dollar relative to such local currencies causes our operational expenses to increase.
- The majority of our international sales are denominated in U.S. dollars. Accordingly, devaluation in the local currencies of our customers relative to the U.S. dollar could cause our customers to decrease orders or default on payment.

We do not presently engage in any hedging or other transactions intended to manage risks relating to foreign currency exchange rate fluctuations. We do not currently have any plans to hedge against future risks related to currency risk.

Consequently, we are exposed to risks related to changes in currency exchange rates and fluctuations of exchange rates, any of which could result in a material adverse effect on our business, financial condition and results of operations. For a further discussion of the impact on currency exchange rates on our business, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk."

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

As we grow, we may need to increase our research and development, sales and marketing, and support staff. Our products require a sophisticated marketing and sales effort targeted at several levels within a prospective customer's organization. Accordingly, we need highly-trained sales, marketing and customer support personnel. Competition for such qualified personnel is intense. Consequently, we may not be able to hire sufficient personnel to support our business operations, which could result in a material adverse effect on our business, financial condition and results of operations.

We are dependent on Roy Zisapel, our President and Chief Executive Officer, 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 President and Chief Executive Officer. Although we have employment contracts with our senior management and key personnel, including Mr. Zisapel, we do not carry life insurance on our senior management or key personnel. Any loss of the services of Mr. Zisapel, other members of senior management or other key personnel could negatively affect our business.

Undetected defects and 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 defects or errors, especially when first introduced or when new versions are released, due to defects or errors that we fail to detect, including in components supplied by third parties. These defects or errors may be found after the commencement of commercial shipments. In addition, 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 defects or errors, we will then need to divert the attention of our engineering personnel from our product development efforts to address the detection and correction of these errors and defects. In the past, we have not incurred significant warranty or repair costs, nor have we been subject to liability claims for damages related to product errors or defects nor experienced any material lags or delays as a result thereof. 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 coverage that we maintain may not provide sufficient protection should a claim be asserted. Moreover, the occurrence of errors and defects, whether caused by our products or the components supplied by another vendor, may result in significant customer relations problems and injure our reputation, thereby impairing the market acceptance of our products.

We rely on three third-party assembly and manufacturing vendors to provide our finished products. If such vendors are not able to provide us with adequate supplies of the products, we may be delayed in fulfilling orders or we may not be able to deliver sufficient quantities of our products to satisfy demand.

We rely on Nexcom International Co. Ltd. ("Nexcom"), USR Electronic Systems (1987) Ltd. ("USR") and Emerson Electric Co. ("Emerson") for the production of our products. For the year ended December 31, 2011, we purchased approximately 72%, 12%, 8% and 8% of our products from Nexcom, USR, Emerson and Sanmina SCI Corporation ("Sanmina"), respectively. In 2012 we intend to significantly reduce our purchases from Sanmina and increase our purchases from Emerson. If we are unable to continue to acquire products from these manufacturers on acceptable terms, or should any of these manufacturers cease to supply us with such products for any reason, we may not be able to identify and integrate an alternative source of supply in a timely fashion or at the same costs. Any transition to one or more alternate manufacturers would likely result in delays, operational problems and increased costs, and may limit our ability to deliver our products to our customers on time for such transition period, any of which could result in a material adverse effect on our business, financial condition and results of operations.

A shortage of components or manufacturing capacity could cause a delay in our ability to fulfill orders or increase our manufacturing costs

Our growth and ability to meet customer demands depend in part on our ability to obtain timely deliveries of parts from our suppliers and contract manufacturers. We cannot assure you that we will not encounter supply and fulfillment issues in the future. Although in many cases we use standard parts and components for our products, certain components are presently available only from a single source or limited sources. We may not be able to diversify sources in a timely manner, which could harm our ability to deliver products to customers and seriously impact present and future sales.

We may experience a shortage of certain component parts as a result of our own manufacturing issues, manufacturing issues at our suppliers or contract manufacturers, capacity problems experienced by our suppliers or contract manufacturers, or strong demand in the industry for those parts, especially if there is growth in the overall economy. If there is growth in the economy, such growth is likely to create greater pressures on us and our suppliers to accurately project overall component demand and component demands within specific product categories and to establish optimal component levels. If shortages or delays persist, the price of these components may increase, or the components may not be available at all.

We may also encounter shortages if we do not accurately anticipate our needs. We may not be able to secure enough components at reasonable prices or of acceptable quality to build new products in a timely manner in the quantities or configurations needed. Accordingly, our revenues and gross margins could be materially and adversely affected until other sources can be developed.

In addition, our operating results could be materially and adversely affected if we anticipate greater demand than actually develops and we commit to the purchase more components than we actually require.

Any disruption in our supply chain could result in a material adverse effect on our business, financial condition and results of 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 ("IP") rights or misappropriate our technologies and trademarks for their own businesses.

Our success depends, in part, upon the protection of our proprietary software installed in our products, our trade secrets and our trademarks. We seek to protect our IP rights through a combination of trademark and patent law, trade secret protection, confidentiality agreements and other contractual arrangements with our employees, affiliates, distributors and others. In the United States and several other countries, we have registered or acquired trademarks. In addition, we have registered patents in the U.S. and have pending patent applications and provisional patents in connection with several of our products' features.

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 IP 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 IP could devalue our proprietary content and impair our ability to compete effectively. Furthermore, defending our IP 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 claims that we have violated a patent, trademark, copyright or other proprietary IP right belonging to them. As is characteristic of our industry, there can be no assurance that our products do not or will not infringe the proprietary rights of third parties, that third parties will not claim infringement by us with respect to patents or other proprietary rights or that we would prevail in any such proceedings. We have received in the past, and may receive in the future, communications asserting that the technology used in some of our products requires third-party licenses. For example, see “Item 8. Financial Information – Legal Proceedings – SNMP Intellectual Property Claim.” Any infringement claims, whether or not meritorious, could result in costly litigation or arbitration and divert the attention of technical and management personnel. Any adverse outcome in litigation alleging infringement could require us to develop non-infringing technology or enter into royalty or licensing agreements. If, in such situations, we are unable to obtain licenses on acceptable terms, we may be prevented from manufacturing or selling products that infringe such intellectual property of a third party. An unfavorable outcome or settlement regarding one or more of these matters could have a material adverse effect on our business and operating results.

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

We currently have non-competition agreements with most of our employees. These agreements prohibit our employees, in the event they cease working for us, from directly competing with us or working for some of our competitors for a limited period after termination of employment. The laws of the United States, Israel and other countries in which we have employees may limit or prohibit our ability to enforce these non-competition agreements or may allow us to enforce them only to a limited extent. In the event that we are unable to enforce any of these agreements, competitors that employ our former employees could benefit from the expertise our former employees gained while working for us.

Our bank deposits and investments in Israel are not insured, and some of our bank deposits in the United States may be in excess of insured limits.

The majority of our cash and cash equivalents, and short-term and long-term bank deposits are invested in banks in Israel and, to a smaller extent, in banks in the United States. The Israeli bank deposits are not insured, while the deposits made in the United States may be in excess of insured limits and are not otherwise insured. If one or more of these financial institutions were to become insolvent, the loss of these investments would have a material adverse effect on our financial condition.

We are subject to certain tax audits, which could adversely affect our financial condition.

We operate our business in various countries, and we attempt to utilize an efficient operating model to optimize our tax payments based on the laws in the countries in which we operate. This can cause disputes between us and various tax authorities in the countries in which we operate.

For example, in December 2010, following an audit of our Israeli tax returns for the 2004 and 2005 fiscal years, the Israeli Tax Authority (“ITA”) issued orders challenging our positions on several matters and demanded the payment of additional taxes in the aggregate amount of NIS 16.1 million (approximately \$4.3 million) for 2004 and NIS 15.5 million (approximately \$4.1 million) for 2005, including interest as of the assessment date.

In addition, in January 2012, following an audit of our Israeli tax returns for the 2006 through 2008 fiscal years, the ITA issued orders challenging our positions on several matters and demanded the payment of additional taxes in the aggregate amount of NIS 25.2 million (approximately \$6.7 million) for 2006 and NIS 8.1 million (approximately \$2.2 million) for 2008, including interest as of the assessment date.

We have appealed the orders relating to the four years mentioned above with the Tel Aviv District court, and these appeals are currently pending.

There can be no assurance that the court will accept our positions on matters raised, and in such an event, we may be required to pay all or a portion of the amounts of these orders. Such a payment could result in a material adverse effect on our business, financial condition and results of operations.

Risks Related to the Market for Our Ordinary Shares

Yehuda Zisapel, our chairman of the board, and Roy Zisapel, our chief executive officer, may exert significant influence in the election of our directors and over the outcome of other matters requiring shareholder approval.

As of March 25, 2012, Yehuda Zisapel, the Chairman of our Board of Directors, beneficially owned 13.3% of our ordinary shares outstanding and Yehuda Zisapel's son, Roy Zisapel, our Chief Executive Officer, President and director, beneficially owned approximately 6.1% of our ordinary shares outstanding (see "Item 6E – Directors, Senior Management and Employees - Share Ownership"). As a result, if these shareholders acted together, they could exert significant influence on the election of our directors and on decisions by our shareholders on matters submitted to shareholder vote, including mergers, consolidations and the sale of all or substantially all of our assets. This concentration of ownership of our ordinary shares could delay or prevent proxy contests, mergers, tender offers, or other purchases of our ordinary shares that might otherwise give our shareholders the opportunity to realize a premium over the then-prevailing market price for our ordinary shares. This concentration of ownership may also adversely affect our share price.

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 (i) 75% or more of our gross income is passive income, or (ii) at least 50% of the fair market value of our assets, averaged quarterly over our taxable year, are held for the production of, or produce, passive income, we would be characterized as a passive foreign investment company ("PFIC") for U.S. federal income tax purposes. If we are classified as a PFIC, our U.S. shareholders could suffer adverse U.S. tax consequences, including having gain realized on the sale of our ordinary shares treated as ordinary income, as opposed to capital gain income, and having potentially punitive interest charges apply to such sales proceeds. Similar rules apply to certain "excess distributions" made with respect to our ordinary shares.

For our 2011 taxable year, the average percentage of our passive assets to the fair market value of our total assets was below 50%. Therefore, we do not believe that we should be classified as a PFIC for 2011. There can be no assurance, however, that the U.S. Internal Revenue Service ("IRS") will not challenge this treatment, and it is possible that the IRS could attempt to treat us as a PFIC for 2011 and prior taxable years. The tests for determining PFIC status are applied annually, and it is difficult to make accurate predictions of our future income and assets and the future price of our ordinary shares, all of which are relevant to the PFIC determination. There can also be no assurance that we will not become a PFIC in future taxable years. 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 more detailed discussion of the rules relating to PFICs and related tax consequences, please see the section of this annual report entitled "Item 10 – Additional Information – Taxation – United States Federal Income Tax Considerations."

We do not intend to pay cash dividends.

While we may engage from time to time in "buy-back" programs of our shares, our policy is to retain earnings for use in our business operations. For this reason, we do not intend to pay cash dividends on our ordinary shares in the foreseeable future.

Our share price has decreased significantly in the past and could continue to fluctuate and further decrease in the future.

The market price for our ordinary shares, as well as the prices of shares of other technology companies, has been volatile. Our share price decreased significantly during 2008, but has since recovered. The highest closing price of our shares during the first quarter of 2012 (through the date of this document) was \$35.80, compared to the highest closing price during 2011 of \$42.73, and compared to the lowest closing price of \$4.99 during 2008. Numerous factors, many of which are beyond our control, may cause the market price of our ordinary shares to fluctuate significantly and further decrease, including:

- fluctuations in our quarterly revenues and earnings and those of our publicly-traded competitors;
- shortfalls in our operating results from levels forecast by securities analysts;
- announcements concerning us or our competitors;
- the introduction of new products and new industry standards;
- changes in pricing policies by us or our competitors;
- general market conditions and changes in market conditions in our industry;
- the general state of the securities market (particularly the technology sector); and
- political, economic and other developments in the State of Israel, the U.S. and worldwide.

Risks Related to Operations in Israel

Security and political and economic instability in the Middle East may harm our business.

We are incorporated under Israeli law and our principal offices and manufacturing and research and development facilities are located in Israel. Accordingly, our operations and financial results could be adversely affected if political, economic and military events curtailed or interrupted trade between Israel and its present trading partners or if major hostilities involving Israel should occur in the Middle East.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Since October 2000, there has been a high level of violence between the Palestinians and Israel, which has strained Israel's relationship with its Arab citizens, Arab countries and, to some extent, other countries around the world. In addition, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. In 2011, riots and popular uprisings in several countries in the Middle East have led to severe political instability in those countries. This instability may lead to deterioration of the political and trade relationships that exist between Israel and some of these countries. In addition, this instability may affect the global economy and marketplace.

We do not believe that the political and security situation has had a material impact on our business to date; however, there can be no assurance that this will be the case for future operations. We could be adversely affected by any major hostilities, including acts of terrorism or any other hostilities involving or threatening Israel, the interruption or curtailment of trade between Israel and its trading partners or a significant downturn in the economic or financial condition of Israel. Furthermore, several countries restrict business with Israel and Israeli companies, and additional countries or companies may restrict doing business with Israel and Israeli companies as the result of the aforementioned hostilities. No predictions can be made as to whether or when a final resolution of the area's problems will be achieved or the nature thereof and to what extent the situation will impact Israel's economic development or our operations.

Some of our directors and officers as well as many of our Israeli employees are obligated to perform annual military reserve duty in Israel. We cannot assess the potential impact of these obligations on our business.

Some of our directors, officers and employees are, unless exempt, obligated to perform annual military reserve duty, depending upon their age and prior position in the army. They may also be subject to being called to active duty at any time under emergency circumstances. Roy Zisapel, our Chief Executive Officer and President, and Avi Chesla, our Chief Technical Officer, are among our key employees subject to the military service. Our operations could be disrupted by the absence, for a significant period, of one of more of these officers or other key employees due to military service, and any disruption in our operations could harm our business. The full impact on our workforce or business if some of our officers and employees will be called upon to perform military service, especially in times of national emergency, is difficult to predict.

The change in the exchange rate between the New Israeli Shekel against the U.S. dollar and/or the U.S. dollar against the Euro and other currencies is volatile, and may negatively impact our costs.

The majority of our revenues worldwide is denominated in U.S. dollars or is dollar-linked. Our sales to most European countries are in Euros. The substantial portion of our expenses is incurred in U.S. dollars, but we incur a portion of our expenses, principally salaries and related personnel expenses, in other currencies, mainly in Israel - in NIS, in Europe - in Euros and in Asia-Pacific - in several local currencies. If the NIS increases in value relative to the dollar, the dollar cost of our operations in Israel will increase and our dollar-measured results of operations will be adversely affected. In addition, if the Euro increases in value relative to the dollar and sales in Euros do not exceed expenses incurred in Euros, the dollar cost of our operations in Europe will increase and our operating profit will be adversely affected. If the Euro decreases in value relative to the dollar and sales in Euros exceed expenses incurred in Euros, our operating profit will be negatively affected as a result of a decrease in the dollar value of our sales. If the dollar decreases in value relative to Chinese, Indian, Australian and/or Japanese currencies, the dollar cost of our operations in Asia-Pacific will increase and our operating profit will be negatively affected. For example, during 2011, the average value of the dollar decreased in relation to the NIS and the Euro. As a result, during 2011, we had an increase in the dollar value of our expenses in Israel, which are mostly denominated in NIS, and in the dollar value of our expenses in Europe, which are mostly denominated in Euro. By contrast, due to the fact that our sales to most European countries are also denominated in Euro, we were positively impacted by the strengthening of the Euro value relative to the dollar. We cannot provide assurances that we will not be materially adversely affected by the rate of inflation in Israel or exchange rate fluctuations in the future. See also "Currency exchange rates and fluctuations of exchange rates could have a material adverse effect on our results of operations" above in this section.

We have obtained substantial benefits from the Israeli Office of Chief Scientist, which subjects us to ongoing restrictions. In addition, these benefits may not continue or in the future may be limited or restricted.

We received, and may in the future apply for, royalty-bearing or non-royalty-bearing grants from the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor (the "Chief Scientist") for research and development programs that meet specified criteria. The terms of the Chief Scientist grants limit our ability to manufacture products or transfer technologies outside of Israel if such products or technologies were developed using know-how developed with or based upon Chief Scientist grants. In addition, any non-Israeli who becomes a holder of 5% or more of our share capital or voting rights, is entitled to appoint one or more of our directors or our chief executive officer (including by way of holding 25% or more of the voting power, equity or the right to nominate directors in such direct holder), or is serving as one of our directors or as our chief executive officer, is required to notify the Chief Scientist and to undertake to observe the law governing the grant programs of the Chief Scientist, the principal restrictions and penalties of which are the transferability limits described above.

Further, the Chief Scientist grants may be terminated in the future or the available benefits may be reduced or impacted, including, among other possible circumstances, should we transfer certain research and development and/or manufacturing activities outside the State of Israel. The termination or curtailment of these programs or the loss or reduction of such benefits could have a material adverse effect on our business, financial condition and results of operations.

The tax benefits we may receive in connection with our approved enterprise program or benefited enterprise program require us to satisfy prescribed conditions and may be terminated or reduced in the future. This would increase taxes and decrease our net profit.

We have in the past received, and may in the future apply to receive, certain Israeli government grants and may in the future utilize certain tax benefits in Israel by virtue of these programs. To remain eligible for these grants and tax benefits, we must continue to meet certain conditions, including making some specified investments in fixed assets and maintaining a certain level of foreign investors' holdings in our ordinary shares. If we fail to comply with these conditions in the future, the benefits we receive could be canceled and we may have to pay certain taxes or refund payments previously received under these programs (with interest and linkage differentials). We cannot guarantee that these programs and tax benefits will be continued in the future, at their current levels or at all. If these programs and tax benefits are ended, our business, financial condition and results of operations could be materially and adversely affected.

Provisions of Israeli law and of our Articles of Association could delay, prevent or make difficult a change of control of us, thereby depressing the price of our ordinary shares.

Provisions of Israeli corporate and tax law and our Articles of Association may have the effect of delaying, preventing or making an acquisition of us more difficult. For example, under the Companies Law, upon the request of a creditor of either party to a proposed merger, an Israeli court may delay or prevent the merger if it concludes that there is a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, our Articles of Association provide that our directors, other than our external directors, are elected in three staggered classes by a majority vote of our shareholders. These provisions could cause our ordinary shares to trade at prices below the price for which third parties might be willing to pay to gain control over us. Third parties who are otherwise willing to pay a premium over prevailing market prices to gain control of us may be unwilling to do so because of these provisions of Israeli law and the classified structure of our board of directors. For additional information on this topic, see "Item 10B – Additional Information – Memorandum and Articles of Association – Mergers and Acquisitions under Israeli law."

It may be difficult to enforce a U.S. judgment against us or our officers and directors and to assert U.S. securities laws claims in Israel.

We are incorporated under the laws of Israel. Service of process upon us and our directors and officers, substantially all of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, because the majority of our assets and investments, 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 or officers may not be collectible within the United States.

It may be difficult to assert U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws because Israel may not be the most appropriate forum to bring such a claim. In addition, even if an Israeli court agrees to hear such a claim, it may determine that Israeli law and not U.S. law is applicable. If U.S. law is found to be applicable, the content of applicable U.S. law must be proven as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel addressing these matters.

Subject to specified time limitations and legal procedures, under the rules of private international law currently prevailing in Israel, Israeli courts may enforce a U.S. final judgment in a civil matter, including a judgment based upon the civil liability provisions of the U.S. securities laws and a monetary or compensatory judgment in a non-civil matter, provided that:

- the judgment is enforceable in the state in which it was given;
- adequate service of process has been effected and the defendant has had a reasonable opportunity to present his arguments and evidence;
- the judgment and its enforcement 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 U.S. court.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Radware Ltd. was organized in May 1996 as a corporation under the laws of the State of Israel and commenced operations in 1997. Our principal executive offices are located at 22 Raoul Wallenberg Street, Tel-Aviv 69710, Israel and our telephone number is 972-3-766-8666. Our website address is www.radware.com (information contained on our website is not incorporated herein by reference and shall not constitute part of this annual report).

As of September 1, 1998, we established Radware Inc., a wholly-owned subsidiary in the United States, which conducts the sales and marketing of our products in the Americas and is our authorized representative and agent in the United States. The principal offices of Radware Inc. are located at 575 Corporate Dr., Lobby 2, Mahwah, NJ 07430 and its telephone number is 201-512-9771. We also have several wholly-owned subsidiaries world-wide handling local support and promotion activities.

In September 1999, we conducted the initial public offering of our ordinary shares and our ordinary shares commenced trading on the NASDAQ. In January 2000, we completed a secondary public offering.

In December 2005, we acquired the business of V-Secure, which included the acquisition of IP, technology, customers' relationship and goodwill. In April 2007, we acquired Covelight, a U.S.-based company providing web channel intelligence technology, which added enhanced capabilities to our portfolio. In March 2009, we completed the acquisition of Nortel's Layer 4-7 application delivery business. See "Item 10C—Additional Information – Material Contracts." Each of these acquisitions has added enhanced capabilities to our business.

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

B. Business Overview

General

Our products and activities are focused on delivering availability, performance and security to enterprises' and carriers' data centers. This market sector is comprised of a few solution domains, among which we focus on the following two domains:

- *The Application Delivery* solution domain consists of simple load balancing application switches (Layer 4-7) targeted at:
 - o the medium- to large-size business sector for simple applications (SLB);
 - o advanced application delivery (ADC) platforms targeted at the medium- to large-size enterprise sector; and
 - o wide area network (WAN) optimization controllers (WOC).

The Application Delivery solution domain is also referred to by select industry analysts as the Application Acceleration market. Our Application Delivery product portfolio consists of advanced application delivery platforms, which offer, in addition to Layer 4-7 switching, benefits in terms of business continuity and resiliency, agility and efficiency by optimizing the delivery of applications across IP and web-based networks. Among others, our products offer sophisticated features, including Web application firewall, Extensible Markup Language (XML) validation, Session Initiation Protocol (SIP) Load Balancing, Application Program Interfaces (APIs), and content transformation, all of which are designed to meet complex networking infrastructure and data center demands.

- *The Network Security* solution domain is more diffuse and consists of firewall/Virtual Private Networks (VPN), Unified Threat Management (UTM), intrusion detection systems, intrusion prevention systems, network behavioral analysis (NBA) systems and Secure Sockets Layer/ Internet Protocol Security (SSL/IPSec) VPN appliances. Our proprietary offering to this domain focuses on attack mitigation systems, which are in-line devices that monitor network and/or system activities for malicious or unwanted behavior and can react, in real-time, to block or prevent those activities.

We develop, manufacture and market integrated networking solutions that allow our enterprise and carrier customers to deliver their mission critical applications successfully between data centers and remote locations, over all critical points in the network. Our solutions, in substantially all situations, include both Application Delivery and Network Security solutions.

Our Application Delivery and Network Security solutions enable customers to manage their network infrastructure, bypass systems failures, scale their application performance and secure their Internet protocol ("IP") traffic. In addition, our solutions enable our customers to pay for the exact capacity they need, eliminate the risks of capacity planning and scale and pay as they grow without having to replace the devices. Our solutions help customers increase business agility, save capital and operating expenditures, improve productivity and extract the greatest value from investments in network infrastructures.

Over the years, our products have won a number of awards for performance. Most recently, we have received the following recognition and awards:

- *Internet Telephony Magazine* (2011 Excellence Award)
- *Internet Telephony Magazine* (2011 TMC Labs Innovation Award)
- *Next Generation Networks* (2011 NGN Leadership Award)
- *Info Security Products Guide* (2011 Finance Executive of the Year Award, Tomorrow's Technology Today Award, and Finalist, Global Excellence for Intrusion Prevention, Integrated Security, and Network Security)

All of our products are Underwriters Laboratories (UL) and ISO 9001:2000 Quality of Management compliant. Some of our products have also achieved significant industry certification, including:

- the **Common Criteria Evaluation & Validation Scheme (CCEVS)** EAL 3 through the National Security Agency (NSA) program; and
- FIPS 140-2 through the National Institute of Standards (NIST).

In addition, we have been recognized in our respective markets by independent, third-party IT analysts such as Forrester Research, Frost & Sullivan, IDC and Yankee Group and as a market leader in the application delivery market by Gartner.

During 2011, our key activities regarding our product offering included the following:

- We released the VADI 2.0 offering, an extensive ADC Fabric solution extending our VADI support for Virtual Data Centers and accelerated Application deployment.
- We continued our investments in our ADC-VX virtual ADC which facilitates ADC consolidation in a data center on a single hardware appliance.
- We released our new Alteon 10000 chassis base solution conforming to the ATCA Telecom standards, delivering OnDemand Hardware scalability for high-end enterprises and carriers requiring an ADC solution with up to 80Gbps of throughput.
- We released the Alteon 5224 platform featuring OnDemand Scalability from 1Gbps and up to 16Gbps with up to 24vADC, to bring ADC consolidation and ADC predictable and isolation for every application which is hosted on a single ADC to the mid-range ADC market.
- We enhanced our VADI offering with various ADC Fabric functions including unique Software image support every virtual ADC (vADC) hosted on our ADC-VX, Migration of Physical ADC to vADC, clustered ADC-VX, backup of a vADC between ADC-VX and a SoftADC to control backup expenditures and more.

- We continued our investments in the Alteon VA, a SoftADC virtual Appliance, by adding and extending support for Server Virtualization Infrastructure environments, including VMWare Inc. -vSphere, RedHat Inc. – KVM and OpenXen, which is primarily targeted to cloud providers with high scale ADC requirements in a multi-tenant service environment.
- Our Alteon Product line was enhanced with multiple features and functions as required by the ADC market, such as support for the DNS emerging protocol DNSec. We also certified our solution for IPv6 interoperability between IT and networking vendors, with the IPv6 Forum and the Alteon product acquired an IPv6 Ready Logo. We have also continued our Application Certification with leading enterprise Application Vendors.
- We continued our investment in our next generation central management system, APSolute Vision, which offers a modern concept and a highly usable user interface, thereby allowing our customers to centrally manage our Appliance base products.
- We extended our Vision support with our AppShape technology facilitating quick deployment and on-going operations of leading enterprise Applications.
- Vision was enhanced to deliver a central management solution for most of our product portfolio. In addition, we continued our investments in our existing Application Delivery product lines with AppDirector®, LinkProof® and AppWall® appliances for the enterprise sector, and continued to enhance our Network Intrusion Prevention System (IPS) DefensePro® product.
- We also continued our investment in product developments for the carrier sector with the SIPDirector® and CID® 3.0 line of products.

Products and Services

We sell application delivery and network security products (“Devices”) that are delivered on top of a unified hardware switching platforms family (OnDemand Switch series) with various levels of processing power, throughput, port density, and speed depending on the selected model. Our products run different configurations of embedded software to deliver features specific to the intended operation of the appliance. Multiple Radware Devices can be managed through our common management tool and dashboard (Apsolute Vision).

Products

Radware’s product offering consists of the following product families:

Application Delivery

- *Alteon® Application Switch* Application Delivery Controller delivers a reliable Layer 4-7 switching and operation simplicity. Built around the patented, distributed processing Virtual Matrix scalable architecture, these switches provide uncompromising performance and value. Alteon Application Switch supports local, global and transparent load-balance and Application Acceleration as well as multi-homing network load-balance and bandwidth management capabilities. Alteon ADC-VX enhances the Alteon Application Switch with the ability of executing multiple Virtual ADC instances (vADC) on the same ADC physical OnDemand Switch Hardware appliance, allowing our customers to consolidate multiple Physical ADC on a single Alteon ADC-VX. Our Alteon VA (Virtual Appliance) which runs Alteon Application Switch on top of general purpose server hardware under the server Hypervisor Virtual Machine matches the Alteon Application Switch functionality and primarily addresses cloud providers’ needs for high ADC scalability.
- *AppDirector® Intelligent Application Delivery Controller* (ADC) ensures a reliable, fast and secure delivery of mission critical data center applications, eliminating the costs of application downtime and service degradation while enhancing productivity. AppDirector provides for data center optimization with advanced Layer 4-7 policies and granular packet classification in order to eliminate traffic surges, server bottlenecks, connectivity disconnects and downtime for ensured business continuity. AppDirector also improves the response time of applications with several technologies for web compression, caching, content acceleration, offloading intensive tasks from servers and optimizing bandwidth consumption.

Application Delivery Firewall/Gateway

- *AppXML*® provides secure, high-performance XML and web services communications for Service Oriented Architecture (SOA) based mission-critical applications between an enterprise and its business partners.

Multi-homing solutions

- *LinkProof*® manages multiple wide area networks (WAN) and Internet traffic for networks, commonly referred to as multi-homed networks, which access the Internet through multiple connections via several Internet Service Providers, to provide fault tolerant, optimized performance and cost effective WAN connectivity.

Carrier solutions

- *CID - Content Inspection Director*® is our transparent, smart redirection and dynamic policy enforcement device and is designed to meet contemporary carrier needs. Using a deep packet/flow inspection (DPI/DFI) engine, CID enables carriers and service providers to provide fast time-to-market and value-added service deployments.
- *SIP Director*® is a comprehensive Session Initiation Protocol (SIP) SIP-aware application delivery controller for application vendors, telecom equipment manufacturers (TEMs) and system integrators (SIs). SIP director ensures the delivery of a reliable, fast and secure SIP service in a cost effective manner.

Attack Mitigation (AM) Solutions

- *DefensePro*® is a real-time network attack prevention device that protects the user's application infrastructure against network and application downtime, application vulnerability exploitation, malware spread, network anomalies, information theft and other emerging network attacks at up to 12-Gigabit speeds.
- *AppWall*® is a web application firewall (WAF) appliance that secures web applications. It enables Payment Card Industry (PCI) compliance by mitigating web application security threats and vulnerabilities to prevent data theft and manipulation of sensitive corporate and customer information. AppWall incorporates advanced, patent-protected web application security filtering technologies to effectively detect threats, block attacks and report events.

Real-Time Intelligence

- *Inflight*™ is a hardware device that provides online, network-based pervasive monitoring solutions that deliver actionable, real-time business-level events to any back-end analytic system to optimize business processes and ensure compliance.

Central Management Solutions

- *APolute Vision*® is an appliance-based management and monitoring system for IT staff to centrally manage distributed devices and check the health, real-time status, performance and security of enterprise-wide application delivery infrastructures.

OnDemand Switch Platforms

Radware's APSolute product suite is powered by the OnDemand Switch®, our hardware platform, which provides high performance and on-demand throughput and service scalability. Based on its "scale-as-you-grow" approach, no forklift upgrade is required even when there are new business requirements. Customers only pay for the exact capacity currently required. Throughput capacity, application-aware services or applications acceleration services can be scaled *on-demand* to meet new or changing application infrastructure needs. The advantages to this on-demand approach are short-term and long-term savings on CAPEX and OPEX for full investment protection without a compromise on performance.

The OnDemand Switch addresses the requirements of low to high-end Data Center environments, supporting up to 20 Gigabit-per-second (Gbps) in all layer 4-7 network requirements. The OnDemand Switch v1 Series features nominal throughput from 0 to 4 Gbps with 8 traffic ports of gigabit Ethernet (GbE); while the OnDemand Switch v2 Series features nominal throughput from 1 to 4 Gbps and 16 traffic ports of gigabit Ethernet. The OnDemand Switch v3 Series, which delivers the same acclaimed on demand, "pay-as-you-grow" software license upgrade capability, features scalability and investment protection up to 20 Gbps of throughput capacity, high port density including 4 10GbE and 8 GbE traffic ports. All of our OnDemand Switches support dual power redundancy with dual AC/DC power supply.

During 2011, we released our new Alteon 10000 chassis base solution conforming to the ATCA Telecom standards, delivering OnDemand Hardware scalability for high-end enterprises and carriers requiring an ADC solution with up to 80Gbps of throughput. We also released the Alteon 5224 platform featuring large OnDemand scalability from 1Gbps to 16Gbps with up to 24vADC, to bring ADC consolidation and ADC predictability and isolation to every application which is hosted on a single ADC to the mid-range ADC market.

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 services, e-mail, voice, Peer to Peer (P2P), Enterprise Resource Planning (ERP), Customer Relationship Management (CRM), network applications such as Domain Name System (DNS), Remote Authentication Dial-In User Service (RADIUS), Dynamic Host Configuration Protocol (DHCP), mobile value added services such as Short Message Service (SMS), Multi Media Message Service (MMS), Wireless Application Protocol (WAP), and many others.

Management Tool (APSSolute Vision)

APSSolute Vision is the management and monitoring tool for the APSSolute family of application delivery and security solutions. It permits the setup, configuration and management of all our products from one central unified console. As the central element for the entire APSSolute product family, APSSolute Vision provides immediate visibility to health, real-time status, performance and security of enterprise-wide application delivery and network and application security infrastructures. This enables configuration and true performance management, along with advanced monitoring and reporting capabilities, as well as full visibility into the customer's network security. It lets network administrators proactively monitor network activity and tune network behavior by quickly detecting, isolating and resolving problems before they impact user and business productivity. These capabilities do not rely on any specific middleware, software or custom code.

Virtual Application Delivery Infrastructure Architecture

Our Virtual Application Delivery Infrastructure (VADI™) architecture, which transforms computing resources, ADC and virtualization services into an integrated, agile and scalable on-demand application delivery infrastructure, is designed to bridge the underlying hardware resources and cater to the various application needs in terms of service level agreements (SLAs) and performance predictability, while delivering agility to the application delivery space. Our VADI transforms standard application delivery infrastructure into a virtual application delivery control plane, enabling easy and simple migration between the different ADC form factors, according to the dynamic performance needs of applications.

Security Update Service

The Security Update Service, available as an optional subscription service, consists of Periodic Updates, Emergency Updates, and Custom Filters, which are supported by a Security Operations Center (Vulnerability & Exploit Detection; Security Risk Assessment, and Threat Mitigation). The service provides immediate and ongoing security updates to protect customers against the latest threats.

Emergency Response Team (ERT) Service

Our Emergency Response Team (“ERT”) service is designed to provide 24x7 security services for customers facing a denial-of-service (“DoS”) attack or a malware outbreak. Often, these attacks require immediate assistance. The ERT provides instantaneous expert security assistance in order to restore network and service operational status. The ERT is staffed by experts that have vast knowledge and experience with network threats, their detection and mitigation, and in-depth experience of the DefensePro family of products. In addition, the ERT takes learning from each customer engagement and simulates the same scenario internally for further analysis and proactive implementation of defense techniques for other customers that may face a similar security threat.

Customers and End-Users

With the exception of our limited direct sales to selected customers, we sell our products through distributors or resellers who then sell our products to end users.

We have a globally diversified end-user base, consisting of corporate enterprises, including banks, insurance companies, manufacturing and retail, government agencies, media companies and service providers, such as telecommunication carriers, internet service providers and application service providers. Customers in these different vertical markets deploy Radware products for availability, performance and security of their applications from headquarters to branch offices.

In 2011, approximately 26% of our sales were in the Americas (principally in the United States), 35% were in EMEA (Europe, Middle East and Africa) and 39% in Asia-Pacific, compared to 28%, 31% and 41%, respectively, in 2010, and 27%, 33% and 40%, respectively, in 2009. The United States accounted for 20%, 20% and 21% of our revenues for the years ended December 31, 2011, 2010 and 2009, respectively. China accounted for 11%, 10% and 10% of our revenues for the years ended December 31, 2011, 2010 and 2009, respectively. No other single country accounted for more than 10% of our sales for 2011.

In 2011 and 2010, approximately 62% of our sales derived from product sales and 38% derived from service sales, compared to approximately 60% and 40%, respectively, in 2009. For the years ended December 31, 2011, 2010 and 2009, no single customer accounted for more than 10% of our sales. As of December 31, 2011, 2010 and 2009, no single customer represented more than 10% of the trade receivables balance.

For additional details regarding the breakdown of our revenues by geographical distribution and by activity, see “Item 5A – Operating and Financial Review and Prospects – Operating Results”.

Seasonality

Our quarterly operating results have been, and are likely to continue to be, influenced by seasonal fluctuations in our sales and by seasonal purchasing patterns of some of our customers. Some of our customers plan their annual purchasing budget at the beginning of each year which causes operating results in our first quarter of the year to be lower than other quarters. In addition, our operating results in the third quarter tend to be lower than other quarters due to the slowdown in business activities during the summer months in Europe. Furthermore, certain of our customers tend to make greater capital expenditures towards the end of their own fiscal years thus increasing our sales for the fourth quarter.

Sales and Marketing

Sales. We market and sell our products primarily through an indirect sales channel that consists of distributors and resellers located in North America, Europe and Asia. In addition, we generate direct sales to select customers mainly in the United States. Our sales channels are supported by our sales managers who are also responsible for recruiting potential distributors and resellers and for initiating and managing marketing projects in their assigned regions. The sales managers are supported by our internal sales support staff that help generate and qualify leads for the sales managers. As of December 31, 2011, we employed a total of 152 sales managers and sales staff, of which 43 persons were employed in the Americas with locations in various states. We have subsidiaries and representative offices and branches in several countries, which promote and market our products and provide customer support in their respective regions.

Marketing Strategy. Our marketing strategy is to enhance brand recognition and maintain our reputation as a provider of technologically advanced, quality Application Delivery and Network Security solutions to help drive demand for our products. 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, generating demand and providing support to our distributors/resellers to promote sales. We participate in major trade shows, regionally-based events/seminars and offer support to our distributors and resellers who participate in these events. We also invest in online and search engine advertising campaigns, global public relations and regionalized field marketing campaigns. In addition to our independent marketing efforts, we invest in joint marketing efforts with our distributors, value added resellers and other companies that have formed strategic alliances with us.

We have entered into co-marketing arrangements with companies in other complementary sectors in order to broaden our customer base by selling joint solutions comprised of such complementary products. As an example, an applications vendor could sell our AppDirector® to its customers in conjunction with its application in order to load-balance and optimize the application performance. Such co-marketing arrangements include: ArcSight Inc; Converse; Hewlett Packard Company; IBM, Inc.; InfoSys Technologies Ltd; Microsoft Corporation; Oracle Corporation; SAP AG.; Juniper Networks, Inc.; and VMWare, Inc. However, there is no assurance that the above co-marketing and strategic alliance agreements would result in a substantial increase in our revenues.

Strategic Alliances and Original Equipment Manufacturer Agreements. We have entered into strategic alliances and original equipment manufacturer (OEM) agreements with other software and hardware vendors, as well as mutual channel information sharing arrangements. We believe that these companies have significant customer relationships and offer products which complement our products. The products are usually branded with our name. These agreements are standard distributor agreements, purchase agreements, OEM agreements or other specific agreements. We plan to further invest in the development of strategic alliances in order to provide greater access to our target markets and enhance our brand name. We have also entered into OEM agreements with several software vendors, in which we incorporate such vendors' software into our products to create additional value to our customers.

Technical Management

Our technical team, which consisted of 162 employees worldwide as of December 31, 2011, supports our sales force during the sales process, assists our customers and distributors with the initial installation, set-up and ongoing support of our products, trains distributors and customers to use our products and provides software updates and product upgrades for our products. In addition, our technical team trains and certifies our distributors to provide limited technical support in each of the geographical areas in which our products are sold, and is directly responsible for remote support. Our Certainty Support Program provides offerings which allow customers to automatically get new software versions of their products and obtain optimized performance by purchasing any of the following five optional offerings: extended warranty, software updates, 24x7 help-desk (directly to our customers and through our distributors), on-site support and unit replacement. Some of our on-site services are provided by third party contractors.

Research and Development

In order to maintain our share of the Application Delivery and Network Security markets, we place considerable emphasis on research and development to expand the capabilities of our existing products, develop new products and improve our existing technologies and capabilities. We believe that our future success will depend upon our ability to maintain our technological expertise, enhance our existing products and introduce, on a timely basis, new commercially viable products that will continue to address the needs of our customers. Accordingly, we intend to continue devoting a significant portion of our personnel and financial resources to research and development. In order to identify market needs and to define appropriate product specifications, as part of the product development process we seek to maintain close relationships with current and potential distributors, customers and vendors in related industry sectors.

As of December 31, 2011, our research and development staff consisted of 208 employees and 98 subcontractors. Research and development activities take place mainly at our facilities in Israel, Bangalore, India and North Carolina. We employ established procedures for the requirement management, development and quality assurance of our new product developments. Our research and development organization is divided into Security, Application Delivery and Management groups. Within those groups the organization is divided according to our existing products. Each product group is headed by a group leader and includes team leaders and engineers. Each group has a dedicated quality assurance team. In addition, we have an infrastructure department responsible for the development of our platforms which are the basis for all products, serving all product groups, which consist of a senior group leader, group leaders, team leaders, and engineers. The heads of all research and development divisions report to the Chief Operating Officer.

Manufacturing and Suppliers

Our quality assurance testing, packaging and shipping operations as well as part of our final assembly activities are primarily performed at our facility in Jerusalem, Israel.

We rely on third-party manufacturing vendors to provide our finished products. In this respect Nexcom, Sanmina and Emerson provide us with assembly services in order to deliver the finished goods while we perform the final assembly of the products provided by USR. All components and subassemblies included in our products are supplied to USR, Nexcom, Sanmina and Emerson by several suppliers and subcontractors. Each of USR, Nexcom, Sanmina and Emerson monitors each stage of the components production process, including the selection of components and subassembly suppliers. Thereafter, each of Nexcom, Sanmina and Emerson make the final assembly in their own facility while we perform the final assembly of the products provided by USR in our facilities in Jerusalem. USR is ISO 9002 certified and Nexcom, Sanmina and Emerson are ISO 9001 certified, indicating that each of their manufacturing processes adhere to established quality standards.

USR supplies us with Radware's legacy products. Sanmina supplies us with Alteon legacy products. In addition, we rely on Nexcom to provide us with our OnDemand Switch platforms. Emerson is our supplier for the On-Demand Blade Switch Platform.

In 2011, we used Nexcom, USR, Sanmina and Emerson to manufacture our products, purchasing approximately 72%, 12%, 8% and 8% of our products, respectively, from each of those manufacturers. If we are unable to continue to acquire those products from those manufacturers on acceptable terms, or should any of these suppliers cease to supply us with such products for any reason, we may not be able to identify and integrate an alternative source of supply in a timely fashion or at the same costs. Any transition to one or more alternate suppliers would likely result in delays, operational problems and increased costs, and may limit our ability to deliver our products to our customers on time for such transition period, although we believe we have levels of inventory that will assist us to transition to alternate suppliers smoothly. In 2012, we intend to significantly reduce our purchases from Sanmina and increase our purchases from Emerson.

Proprietary Rights

We rely on patent, trademark and trade secret laws, as well as confidentiality agreements and other contractual arrangements with our employees, distributors and others to protect our technology. We have a policy that requires our employees to execute employment agreements, including confidentiality and non-compete provisions.

We have registered trademarks for, among others, “Radware®”, “APSSolute®”, “Web Server Director®”, “FireProof®”, “LinkProof®”, “Triangulation®”, “Smart Nat®”, “DefensePro®”, “StringMatch Engine®”, “CID®”, “CID – Content Inspection Director®”, “SIPDirector®”, “AppDirector®”, “AppXcel®”, “AppXML®”, “SecureFlow®”, “OnDemand Switch®”, “AppWall®”, “Absolute Insite®”, “APSSolute Vision®”, “vAdapter®, VADI® and “Alteon®” and we have trademark applications pending for, among others, “Virtual Director™”, “ALTEON VA™”, “vDirect™”, “ADC Fabric™”, “Radware ADC Fabric™”, “FastView™” and “AppShape™”. We do not currently own any registered copyrights.

We have registered patents in the United States for, among others, our triangle redirection method used for the global load balancing in our AppDirector product; our mechanism for efficient management and optimization of multiple links used in our LinkProof product; our method for load balancing by global proximity used in our AppDirector product; our method for controlling traffic on links between autonomous BGP systems; the stateful distribution of copied SSL traffic; the transparent inspection of encrypted client traffic; our passive monitoring and event detection mechanisms used for business event monitoring in our Inflight product; the activation of multiple virtual services on a switching platform; the behavioral analysis and detection of zero-day and DoS network attack patterns in our DefensePro product; our hypertext transfer protocol (HTTP) DoS attack mitigation behavioral mechanisms in our DefensePro; a geographically based traffic distribution; a generic proximity based site selection for global load balancing; an internal hardware connectivity plane architecture; and a specific proximity based site selection for global load balancing of HTTP transactions implemented in our Alteon products. We have pending patent applications and provisional patents in connection with several methods and features used in our products. These applications may not result in any patent being issued, and, if issued, the patents 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 a patent 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 intellectual property to the same extent as 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

The Application Delivery and Network Security markets are highly competitive and we expect competition to intensify in the future. We may lose market share if we are unable to compete effectively with our competitors.

Our principal competitors are:

- in the Application Delivery solutions market: F5 Networks, Inc., Cisco Systems, Inc., Citrix Systems, Inc., A10 Networks, Inc. and Brocade Communications Systems, Inc. (Foundry Networks, Inc.), and Riverbed Technology, Inc. (Zeus Technology); and
- in the Network Security space, with respect to our Intrusion Prevention Systems, Juniper Networks, Inc., 3Com Systems, Inc. (which was acquired by HP), TippingPoint Technologies Inc., Intel-McAfee, Inc., Sourcefire, Inc., and IBM Corporation (Internet Security Systems).

We expect to continue to face additional competition as new participants enter the market or extend their portfolios into related technologies. Larger companies with substantial resources, brand recognition and sales channels may also form alliances with or acquire competing Application Delivery or Network Security solutions and emerge as significant competitors. For example, Brocade became a competitor in the Application Delivery market by acquiring Foundry, and, more recently, Riverbed Technology became a competitor in the Application Delivery market by acquiring Zeus Technology. 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 maintain and increase profitability. Furthermore, the dynamic market environment, which is demonstrated by the above acquisitions, poses a challenge in predicting market trends and expected growth.

We believe that our success will depend primarily on our ability to provide more technologically advanced and cost-effective Application Delivery and Network Security 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 which will negatively impact our business and financial condition.

Government Regulations

Environmental Regulations

Our activities in Europe require that we comply with European Union Directives with respect to product quality assurance standards and environmental standards. The "RoHS" Directive requires products sold in Europe to meet certain design specifications, which exclude the use of hazardous substances. Directive 2002/96/EC on Waste Electrical and Electronic Equipment (known as the "WEEE" Directive) requires producers of electrical and electronic equipment to register in different European countries and to provide collection and recycling facilities for used products. We are currently in compliance with the RoHs and WEEE regulations.

Israeli Office of Chief Scientist

From time to time, eligible participants may receive grants under programs of the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor, or the Chief Scientist. Grants received are generally repaid through a mandatory royalty based on revenues from the sale of products (and ancillary services) incorporating know-how developed, in whole or in part, with the grants. This governmental support is conditioned upon the participant's ability to comply with certain applicable requirements and conditions specified in the Chief Scientist's program and with the provisions of the Law for the Encouragement of Research and Development in the Industry, 1984, as amended, and the regulations promulgated thereunder, or the Research and Development Law.

Under the Research and Development Law, research and development programs that meet specified criteria and are approved by the Research Committee of the Chief Scientist are eligible for grants usually of up to 50% of certain approved expenditures of such programs, as determined by said committee. In exchange, the recipient of such grants is required to pay the Chief Scientist royalties from the revenues derived from products incorporating know-how developed within the framework of each such program or derived therefrom (including ancillary services in connection therewith), up to an aggregate of 100% of the dollar-linked value of the total grants received in respect of such program, plus interest.

By December 31, 2001, we repaid by way of royalties the full amount we owed to the Chief Scientist. In 2004, we applied, together with another company, to obtain a grant from the Chief Scientist under the "consortium R&D project" track. The Chief Scientist approved the maximum grant to the project of approximately \$0.2 million. In 2005, we applied to obtain an additional grant from the Chief Scientist, under the same project. The Chief Scientist approved an additional grant to the project in an additional maximum amount of approximately \$0.2 million. During 2005 and 2006, we have received an aggregate amount of \$0.4 million for this project from the Chief Scientist. No future grants are expected in relation to this project.

The Research and Development Law also provides that know-how developed under an approved research and development program may not be transferred to third parties in Israel without the approval of the Research Committee. Such approval is not required for the export of any products resulting from such research or development. The Research and Development Law further provides that the know-how developed under an approved research and development program may not be transferred to third parties outside Israel, except in certain special circumstances and subject to the Chief Scientist's prior approval. The Chief Scientist may approve the transfer of Chief Scientist-funded know-how outside Israel, generally in the following cases: (a) the grant recipient pays to the Chief Scientist a portion of the sale price paid in consideration for such Chief Scientist-funded know-how (according to certain formulas), (b) the grant recipient receives know-how from a third party in exchange for its Chief Scientist-funded know-how, or (c) such transfer of Chief Scientist-funded know-how arises in connection with certain types of cooperation in research and development activities.

The Research and Development Law imposes reporting requirements with respect to certain changes in the ownership of a grant recipient. The law requires the grant recipient and its controlling shareholders and foreign interested parties to notify the Chief Scientist of any change in control of the recipient or a change in the holdings of the means of control of the recipient that results in a non-Israeli becoming an interested party directly in the recipient and requires the new interested party to undertake to the Chief Scientist to comply with the Research and Development Law. In addition, the rules of the Chief Scientist may require additional information or representations in respect of certain of such events. For this purpose, "control" is defined as the ability to direct the activities of a company other than any ability arising solely from serving as an officer or director of the company. A person is presumed to have control if such person holds 50% or more of the means of control of a company. "Means of control" refers to voting rights or the right to appoint directors or the chief executive officer. An "interested party" of a company includes a holder of 5% or more of its outstanding share capital or voting rights, its chief executive officer and directors, someone who has the right to appoint its chief executive officer or at least one director, and a company with respect to which any of the foregoing interested parties owns 25% or more of the outstanding share capital or voting rights or has the right to appoint 25% or more of the directors. Accordingly, any non-Israeli who acquires 5% or more of our ordinary shares will be required to notify the Chief Scientist that it has become an interested party and to sign an undertaking to comply with the Research and Development Law.

The Israeli authorities have indicated in the past that the government may further reduce or abolish the Chief Scientist grants in the future. Even if these grants are maintained, we cannot presently predict what would be the amounts of future grants, if any, that we might receive.

In addition to these grants, we obtain grants from the Chief Scientist to fund certain other research and development projects as part of our participation in the MAGNET Consortium Program. These grants may amount to up to \$0.4 million, subject to our compliance with the terms of the MAGNET Consortium Program. The MAGNET Consortium Program of the Chief Scientist sponsors innovative generic industry-oriented technologies to strengthen the country's technological expertise and enhance competitiveness. These grants do not bear any royalty repayment obligations.

C. Organizational Structure

We have a wholly-owned subsidiary in the United States, Radware Inc., which conducts the sales and marketing of our products in the United States. We also have subsidiaries in Australia, France, Germany, the United Kingdom, Italy, Japan, Singapore, Korea, Canada, India and Israel. An additional subsidiary of ours is Covelight Systems, Inc., acquired in April 2007 and located in the United States. We have also established representative offices in China and Taiwan. Our wholly-owned subsidiaries include:

Name of Subsidiary	Country of Incorporation
Radware Inc.	New Jersey, United States of America
Radware UK Limited	United Kingdom
Radware France	France
Radware Srl	Italy
Radware GmbH	Germany
Nihon Radware KK	Japan
Radware Australia Pty. Ltd.	Australia
Radware Singapore Pte. Ltd.	Singapore
Radware Korea Ltd.	Korea
Radware Canada Inc.	Canada
Radware India Pvt. Ltd.	India
Radyoos Media Ltd.*	Israel
Covelight Systems, Inc.	Delaware, United States of America

* We own 85% of this subsidiary.

Yehuda Zisapel, one of our co-founders and shareholders, is the Chairman of our Board of Directors and the father of our Chief Executive Officer and President, Roy Zisapel. Individually or together with his brother, Zohar Zisapel, who is also one of our shareholders, Yehuda Zisapel is also a founder, director and/or principal shareholder of several other companies which, together with our Company and our subsidiaries listed above, are known as the RAD-Bynet Group. These companies include, among others:

AB-NET Communications Ltd.	Ceragon Networks Ltd.	WISAIR Inc.
BYNET Data Communications Ltd.	Internet Binat Ltd.	Sanrad Inc.
BYNET Electronics Ltd.	Packetlight Networks Ltd.	RADVision Ltd.
BYNET SEMECH (outsourcing) Ltd.	RAD-Bynet Properties and Services (1981) Ltd.	RADWIN Ltd.
Bynet Software Systems Ltd.	RADCOM Ltd.	Silicom Ltd.
Bynet System Applications Ltd.	RAD Data Communications Ltd.	Rabbit Computers, Inc.
Chanellot Ltd.	Radiflow Ltd.	

The RAD-Bynet Group also includes several other holdings, real estate companies, biotech and pharmaceutical companies. The above list does not constitute a complete list of the investments of Messrs. Yehuda and Zohar Zisapel.

In addition to engaging in other businesses, members of the RAD-Bynet Group are actively engaged in designing, manufacturing, marketing and supporting data communications products, none of which currently compete with our products. Some of the products of members of the RAD-Bynet Group are complementary to, and may be used in connection with, our products. See also "Item 7B – Major Shareholders and Related Party Transactions - Related Party Transactions".

D. Property, Plants and Equipment

We operate from leased premises mainly in Tel Aviv and Jerusalem in Israel and New Jersey and North Carolina in the United States. We also lease premises in several locations in Europe and Asia-Pacific for the activities of our subsidiaries, representative offices and branches. Our aggregate annual rent expenses under these leases were approximately \$3.9 million in 2011 compared to \$3.6 million in 2010.

Israel. Our headquarters and principal administrative, finance, research and development and marketing operations are located in approximately 66,000 square feet of leased office space in Tel Aviv, Israel, in two buildings: one, consisting of approximately 36,000 square feet, with a lease expiring in November 2012, and the other consisting of 30,000 square feet, with a lease expiring in May 2014. Both facilities are leased from companies owned by Messrs. Yehuda and Zohar Zisapel. For more information see – "Item 7 - Major Shareholders and Related Parties Transactions."

In addition, we lease approximately 6,300 square feet of space in Jerusalem for development facilities from a company owned by Messrs. Yehuda and Zohar Zisapel. The lease expires in February 2014. We also sublease approximately 9,700 square feet for warehousing in Jerusalem from an unaffiliated company. For more information, see "Item 7 - Major Shareholders and Related Parties Transactions."

The aggregate annual rent for the premises in Israel for 2011 was approximately \$1.6 million compared to \$1.5 million in 2010.

Other locations. In the United States, we lease approximately 14,900 square feet of property, consisting of approximately 10,600 square feet of office space and 4,300 square feet of warehouse space, in Mahwah, New Jersey from a company owned by Messrs. Yehuda and Zohar Zisapel. The lease for such property is set to expire in April 2013. For more information see – “Item 7 - Major Shareholders and Related Party Transactions.”

We lease approximately 6,900 square feet of property for our research and development facilities in North Carolina, the lease for which will expire in October 2012. In addition, we lease approximately 2,350 square feet of property in San Mateo, California. The lease for such property is set to expire in November 2013.

We lease facilities for the operation of our subsidiaries and representative offices in several locations in Europe and Asia-Pacific, all from unrelated third parties.

The aggregate annual rent for our premises located outside Israel was approximately \$2.3 million in 2011 and \$2.1 million in 2010.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Our discussion and analysis of our financial condition and results of operation are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. Our operating and financial review and prospects should be read in conjunction with our financial statements, accompanying notes thereto and other financial information appearing elsewhere in this annual report.

A. Operating Results

Overview

General. We are a provider of integrated application delivery and network security solutions, assuring availability, performance and security of business critical networked applications. We began selling our products in 1997, and currently have local offices, subsidiaries or branches in 13 countries in Asia-Pacific, Europe and the Americas.

We sell to a large extent through sales channels such as resellers and distributors. Most of our direct sales are to strategic customers.

Most of our revenues are generated in dollars or are dollar-linked and the majority of our expenses are incurred in dollars and, as such, the dollar is our functional currency. Our consolidated financial statements are prepared in dollars and in accordance with U.S. GAAP.

2011 Highlights. Our operating results in 2011 improved significantly compared to 2010, resulting in operating income of \$18.4 million compared to operating income of \$8.5 million in 2010. The improvement is mainly due to an increase in sales, a slight improvement in our gross margins and our continued control of expenses that resulted in a lower rate of increase in our operating expenses compared to the increase in our sales.

Sales in 2011 were \$167.0 million compared with sales of \$144.1 million in 2010, an increase of 16%. This increase continues the trend of sequential increase in sales year-over-year since our inception and is attributed primarily to the growing demand for our types of products in connection with cloud computing and virtualization trends, growth of mobile data consumption (such as smart-phones, tablet computers and other application based appliances), increased demand for Application Security products (which we believe is associated with the numerous cyber attacks reported in the world media in the past year) and our ability to develop new technologies to address our customers' enhanced network infrastructure and growing needs in terms of complexity, bandwidth and security. According to analysts' estimates, the Application Acceleration market (applicable to our application delivery solutions) has grown in 2011 by 10% compared to 2010, and the Intrusion Prevention sector (applicable to our network security solutions) has grown by 19% in 2011 compared to 2010, as indicated by Gartner.

Our operating expenses increased 8% in 2011 to \$115.2 million from \$106.5 million in 2010. Research and development expenses increased in an amount of \$4.4 million, selling and marketing expenses increased in an amount of \$4.9 million, while general and administrative expenses decreased in an amount of \$0.6 million.

The increase in our operating expenses in 2011 was primarily due to an increase in our salary costs, which was due to higher average headcount and salary raises performed in all regions. During 2011, we gradually increased our headcount, mainly in sales and technical support personnel. Our average headcount in 2011 was 724 employees and subcontractors, compared to an average of 687 employees and subcontractors in 2010, an increase of 5%. Since the average number of employees and subcontractors increased, employee related costs also increased in 2011 compared to 2010.

In addition, the net impact of the changes in the average exchange rates of foreign currencies in 2011, compared to 2010, on our operating expenses amounted to an increase of approximately \$2.5 million. The weakening of the dollar compared to the NIS and other Asian currencies increased the dollar value of our operating expenses by approximately \$2.0 million in Israel and in some countries in the Asia-Pacific. In addition, the weakening of the dollar compared to the Euro that occurred in part of 2011 increased the dollar value of our operating expenses in Europe by approximately \$0.5 million. The increase in our operating expenses is also due to an increase in other expenses as described in the following paragraphs.

The improvement in our operating results also resulted in net cash generated from operations in 2011 in an amount of \$42.0 million, compared to an amount of \$41.0 million in 2010.

Outlook. The Application Acceleration market, worldwide market revenue is estimated by Gartner to increase to \$3.6 billion during 2012 from \$3.1 billion in 2011, representing an increase of 19%. In the Intrusion Prevention sector of the network security market, the market according to Gartner is estimated to increase to \$1.9 billion in 2012 from \$1.7 billion in 2011, representing an increase of 11%.

In 2012, we intend to increase our investments in developing new products and enhancing existing products, to support continued growth in our sales and enhancement of market acceptance for our offerings. As a result we expect our operating expenses to increase as compared to 2011, mainly in research and development and in sales and marketing.

We may also face certain challenges during 2012. Our ability to sustain profitability depends, in part, on the global economy and the growth rates and changes in technology trends in industries in which we operate. In the past year, credit and sovereign debt issues have destabilized certain European economies and thereby increased global macroeconomic uncertainties. As such, our results may be adversely affected if there is a decrease in our revenues due to a further economic slowdown, a decrease in the overall market's IT spending or a reduction in the capital expenditures by companies in our target markets. In addition, our profitability may be adversely affected by fluctuations in currency exchange rates. If the shekel continues to strengthen against the dollar during 2012, the value of our expenses will increase as compared to our revenues, since a large portion of our expenses are paid shekels, whereas most of our revenues are generated in dollars.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with U.S. GAAP. These accounting principles require management to make certain estimates, judgments and assumptions based upon information available at the time that they are made, historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented.

In many cases, the accounting treatment of a particular transaction is specifically dictated in U.S. GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting among available alternatives would produce a materially different result. The Company's management has reviewed these critical accounting policies and related disclosures with the Company's Audit Committee. See note 2 to our Consolidated Financial Statements included in this annual report, which contains additional information regarding our accounting policies and other disclosures required by U.S. GAAP.

Our management believes that the significant accounting policies which affect its more significant judgments and estimates used in the preparation of its consolidated financial statements and which are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

- Revenue recognition;
- Reserve for product return and stock rotation;
- Allowance for doubtful accounts;
- Impairment of marketable securities;
- Goodwill;

- Realizability of long-lived assets;
- Stock-based compensation; and
- Income taxes.

Revenue Recognition. We sell products through distributors and resellers which are considered as end users. We recognize product revenue upon delivery, net of estimated returns, provided that persuasive evidence of an agreement exists, the vendor's fee is fixed or determinable, and collectability is reasonably assured.

We also sell post-contract customer support ("PCS") elements, which include a limited period of telephone support updates, repair or replacement of any failed product or component that fails during the term of the agreement, bug fixes, rights to upgrades, when and if available, and security update service. Such revenues are recognized ratably over the contract period, which is typically one year to five years.

Revenues in arrangements with multiple deliverables entered into until December 31, 2010 are recognized under the "residual method" when Vendor Specific Objective Evidence ("VSOE") of fair value exists for all undelivered elements and all other revenue recognition criteria are satisfied.

Starting January 1, 2011, we adopted the guidance of ASU 2009-13, *Multiple-Deliverable Revenue Arrangements*, (amendments to FASB ASC Topic 605, Revenue Recognition). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendment eliminates the residual method of revenue allocation and requires revenue to be allocated using the relative selling price method. As such, we prospectively applied these provisions to all revenue arrangements entered into or materially modified after January 1, 2011.

We determine the selling price in multiple-element arrangements as follows:

- VSOE for PCS is determined based on the price charged when such element is sold separately (renewals). The price may vary in the territories and vertical markets in which we conduct business. Price is determined by using a consistent percentage of our products price lists, in the same territories and markets.
- For the product, the selling price is determined by reviewing historical transactions and considering several other external and internal factors, including pricing practices (such as discounting), margin objectives, and competition. The determination of estimated selling price ("ESP") is made through consultation with and approval of management, taking into consideration the pricing model and go-to-market strategy.

Reserve for Product Returns and Stock Rotation. In some instances, product revenue from distributors is subject to agreements allowing rights of return and stock rotation. Product returns and stock rotations are estimated based on historical experience and are recorded at the time revenues are recognized. Accordingly, we reduce recognized revenue for estimated future returns and stock rotations at the time revenue is recorded. When rights of return are present and we cannot estimate returns, revenue is recognized when such rights lapse. The estimates for returns and stock rotations are adjusted periodically based upon changes in historical rates and other related factors. It is possible that these estimates will change in the future or that the actual amounts could vary from our estimates.

Allowance for doubtful accounts. We maintain an allowance for doubtful accounts for losses that may result from the failure of our channel partners to make required payments. We estimate this allowance based on our judgment as to our ability to collect outstanding receivables. We form this judgment based on an analysis of significant outstanding invoices, the age of the receivables, our historical collection experience and current economic trends. If the financial condition of our channel partners were to deteriorate, resulting in their inability to make payments, we would need to increase the allowance for doubtful accounts.

Impairment of Marketable Securities. All marketable securities are classified as available-for-sale securities. We assess our available-for-sale marketable securities on a regular basis for other-than-temporary impairment. Pursuant to the accounting guidance in ASC 320 "Investments- Debt and Equity Securities", if we have a security with a fair value less than its amortized cost and we intend to sell the security or it is more likely than not that we will be required to sell the security before it recovers in value, an other-than-temporary impairment has occurred and we must record the entire amount of the impairment in earnings. If we do not intend to sell the security or it is not more likely than not that we will be required to sell the security before it recovers in value, we must estimate the net present value of cash flows expected to be collected. If the amortized cost exceeds the net present value of cash flows, such excess is considered a credit loss and an other-than-temporary impairment has occurred. The credit loss component is recognized in earnings and the residual portion of the other-than-temporary impairment is recorded in other comprehensive income. The determination of credit losses requires significant judgment and actual results may be materially different than our estimate. We may consider the likely reason for the decline in value, the period of time the fair value was below amortized cost, changes in and performance of the underlying collateral, the ability of the issuer to meet payment obligations, changes in ratings and market trends and conditions.

During the years ended December 31, 2009, 2010 and 2011, no other-than temporary impairments were recorded related to our marketable securities.

Goodwill. Goodwill is measured as the excess of the cost of acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. We review goodwill for impairment annually on December 31 and whenever events or changes in circumstances indicate its carrying value may not be recoverable in accordance with Accounting Standards Codification ("ASC") 350 "Intangibles – Goodwill and other." Goodwill impairment is deemed to exist if the carrying value of a reporting unit exceeds its fair value. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we would record an impairment loss equal to the difference.

We operate in one operating segment, and this segment comprises our only reporting unit. In calculating the fair value of the reporting unit, we used our market equity capitalization. If the carrying value of a reporting unit exceeds its fair value, we then calculate the goodwill's implied fair value by performing a hypothetical allocation of the reporting unit's fair value to the underlying assets and liabilities, with the residual being the implied fair value of goodwill. This allocation process involves using significant estimates, including estimates of future cash flows, future short-term and long-term growth rates, weighted average cost of capital, and assumptions about the future deployment of the long-lived assets of the reporting unit. Other factors we consider are the brand awareness and the market position of the reporting unit and assumptions about the period of time we will continue to use the brand in our product portfolio. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for our goodwill. Our most recent annual goodwill impairment analysis, which was performed during the fourth quarter of 2011, did not result in an impairment charge.

Realizability of long-lived assets. We are required to assess the impairment of tangible and intangible long-lived assets, subject to amortization, under ASC 360 "Property, Plant and Equipment", on a periodic basis, when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment indicators include any significant changes in the manner of our use of the assets or the strategy of our overall business, significant negative industry or economic trends and significant decline in our share price for a sustained period.

Upon determination that the carrying value of a long-lived asset may not be recoverable based upon a comparison of aggregate undiscounted projected future cash flows from the use of the asset or asset group to the carrying amount of the asset, an impairment charge is recorded for the excess of carrying amount over the fair value. We measure fair value using discounted projected future cash flows. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for our tangible and intangible long-lived assets.

We did not record any impairment losses for the years ended December 31, 2009, 2010 and 2011.

Stock-based compensation. We account for equity-based compensation in accordance with ASC 718 "Compensation – Stock Compensation." Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense over the requisite service periods. Determining the fair value of stock-based awards at the grant date requires the exercise of judgment, including the amount of stock-based awards that are expected to be forfeited. If actual forfeitures differ from our estimates, equity-based compensation expense and our results of operations would be impacted.

We estimate the fair value of employee stock options using a Black-Scholes-Merton valuation model. The fair value of an award is affected by our stock price on the date of grant as well as other assumptions, including the estimated volatility of our stock price over the expected term of the awards, and the estimated period of time that we expect employees to hold their stock options. The risk-free interest rate assumption is based upon U.S. treasury interest rates appropriate for the expected life of the awards. We use the historical volatility of our publicly traded stock options in order to estimate future stock price trends. In order to determine the estimated period of time that we expect employees to hold their stock options, we use historical behavioral patterns rates of employee groups by job classification. Our expected dividend rate is zero since we do not currently pay cash dividends on our common stock and do not anticipate doing so in the foreseeable future. In case of grants having complex vesting terms, we use other models such as the lattice model.

Income Taxes. We are subject to income taxes in Israel, the United States and numerous foreign jurisdictions. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Based on the guidance in ASC 740 "Income Taxes" we use a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement.

Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit, the refinement of an estimate or changes in tax laws. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related interest and penalties.

Accounting for tax positions requires judgments, including estimating reserves for potential uncertainties. We also assess our ability to utilize tax attributes, including those in the form of carry forwards for which the benefits have already been reflected in the financial statements. We do not record valuation allowances for deferred tax assets that we believe are more likely than not to be realized in future periods. While we believe the resulting tax balances as of December 31, 2011 and 2010 are appropriately accounted for, the ultimate outcome of such matters could result in favorable or unfavorable adjustments to our consolidated financial statements and such adjustments could be material. See Note 13 to our Consolidated Financial Statements for further information regarding income taxes. We have filed or are in the process of filing local and foreign tax returns that are subject to audit by the respective tax authorities. The amount of income tax we pay is subject to ongoing audits by the tax authorities, which often result in proposed assessments. See "2011 Results of Operations – Taxes" below.

While we believe that we have adequately provided for any reasonably foreseeable outcomes related to tax audits and settlement, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, audits are closed or when statutes of limitation on potential assessments expire.

Results of Operations

The following table sets forth, for the periods indicated, certain financial data concerning our operating results:

	<u>2009</u>	<u>2010</u>	<u>2011</u>
	(U.S. \$ in thousands)		
Revenues:			
Products	\$ 65,021	\$ 89,358	\$ 103,285
Services	43,883	54,761	63,735
	<u>108,904</u>	<u>144,119</u>	<u>167,020</u>
Cost of revenues:			
Products	16,609	21,306	24,231
Services	6,666	7,898	9,126
	<u>23,275</u>	<u>29,204</u>	<u>33,357</u>
Gross profit	<u>85,629</u>	<u>114,915</u>	<u>133,663</u>
Operating expenses:			
Research and development, net	25,674	31,660	36,064
Sales and marketing	55,130	64,609	69,543
General and administrative	11,930	10,190	9,629
Total operating expenses	<u>92,734</u>	<u>106,459</u>	<u>115,236</u>
Operating income (loss)	(7,105)	8,456	18,427
Financial income, net	1,987	2,057	4,200
Income (loss) before taxes on income	(5,118)	10,513	22,627
Taxes on income	(818)	(879)	(1,290)
Net income (loss)	<u>(5,936)</u>	<u>9,634</u>	<u>21,337</u>

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

	2009	2010	2011
Revenues:			
Products	60%	62%	62%
Services	40	38	38
	<u>100</u>	<u>100</u>	<u>100</u>
Cost of Revenues:			
Products	15	15	15
Services	6	5	5
	<u>21</u>	<u>20</u>	<u>20</u>
Gross profit	<u>79</u>	<u>80</u>	<u>80</u>
Operating expenses:			
Research and development, net	23	22	21
Sales and marketing	51	45	42
General and administrative	11	7	6
Total operating expenses	<u>85</u>	<u>74</u>	<u>69</u>
Operating income (loss)	<u>(6)</u>	<u>6</u>	<u>11</u>
Financial income, net	<u>2</u>	<u>1</u>	<u>3</u>
Income (loss) before taxes on income	<u>(4)</u>	<u>7</u>	<u>14</u>
Taxes on income	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>
Net income (loss)	<u>(5)%</u>	<u>6%</u>	<u>13%</u>

Revenues.

Our revenues are derived from sales of our products and from sales of post-contract customer support through our Certainty Support program. We generally recognize product revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, no further obligation exists and collectability is probable. Post-contract customer support, which represents mainly software update subscriptions, help-desk support and unit repairs or replacements, is recognized ratably over the contract period.

We operate in one reportable market segment and our revenues are attributed to geographic areas based on the location of the end-users.

The following table provides a breakdown of our revenues by type of revenues and relative percentages during the last three fiscal years (dollars in thousands):

	2009		2010		2011		% Change		% Change	
							2011 vs. 2010		2010 vs. 2009	
Products	65,021	60%	89,358	62%	103,285	62%	16%	16%	37%	
Services	43,883	40%	54,761	38%	63,735	38%	16%	16%	25%	
Total	108,904	100%	144,119	100%	167,020	100%	16%	16%	32%	

The following table shows a breakdown of our total revenues by geographical distribution both in dollars and as a percentage of total revenues for the years ended December 31, 2009, 2010 and 2011:

	Year Ended December 31,					
	2009		2010		2011	
	(in thousands of U.S. \$)	(by percentage)	(in thousands of U.S. \$)	(by percentage)	(in thousands of U.S. \$)	(by percentage)
North, Central and South America (principally the United States)(*)	29,704	27%	40,492	28%	43,695	26%
EMEA (Europe, the Middle East and Africa)	36,226	33%	44,231	31%	57,648	35%
Asia-Pacific(**)	42,974	40%	59,396	41%	65,677	39%
Total	108,904	100%	144,119	100%	167,020	100%

(*) For the years ended December 31, 2011, 2010 and 2009, our revenues from the United States were \$33.9 million, \$28.5 million and \$22.4 million, respectively, representing 20%, 20% and 21% of total revenues for these years, respectively.

(**) For the years ended December 31, 2011, 2010 and 2009, our revenues from China were \$18.5 million, \$14.2 million and \$11.3 million, respectively, representing 11%, 10% and 10% of total revenues for these years, respectively.

No other single country accounted for more than 10% of our sales for 2011.

The 16% increase in product sales in 2011 compared to 2010, is attributed to all of our major product lines, in large part as a result of the global growth in IT market spending during 2011 and the growing demand for our types of products in connection with cloud computing and virtualization trends, growth of mobile data consumption (such as smart-phones, tablet computers and other application based appliances), and increased demand for Application Security products (which we believe is associated with the numerous cyber attacks reported in the world media in the past year). In 2011, revenues from the enterprise market represented approximately 72% and revenues from the carrier market represented approximately 28% of our total revenues, compared to approximately 75% and 25%, respectively, in 2010. Revenues from services increased in parallel with the increase in product sales (a 16% increase compared to 2010), due primarily to the fact that most of our products are sold with post-contract customer support.

Our revenues in absolute figures increased in all regions during 2011 compared to 2010. Revenues from the EMEA region have increased by 30% year over year, the Americas by 8% and Asia-Pacific by 11%. Revenues from the EMEA region have increased at a higher rate than revenues from the Americas and Asia-Pacific regions due to increased demand for our products in EMEA and a higher win rate versus our competition in this region.

The 37% increase in products sales in 2010 compared to 2009 was attributed to all our major product lines in large part as a result of the global growth in IT market spending during 2010. In addition, the Alteon acquisition which took place on March 31, 2009 had a full year impact on our revenues in 2010, compared to 9 months of impact in 2009. In 2010 and 2009, revenues from the enterprise market represented approximately 75% and revenues from the carrier market represented approximately 25% of our total revenues. Revenues from services increased in parallel with the increase in product sales (a 25% increase compared to 2009), due primarily to sales of post-contract customer support in relation to the Alteon installed products base. Our revenues in absolute figures increased in all regions during 2010 compared to 2009. Revenues from the America and Asia-Pacific regions increased at a higher rate than revenues from the EMEA region, mainly due to our increased success in generating revenues in regards to the Alteon customers in these two regions.

Cost of Revenues.

Cost of revenues refers to both products and service revenues and consists primarily of the cost of circuit boards and other components required for the assembly of our products, salaries and related personnel expenses for those engaged in the final assembly and in providing maintenance service of our products, amortization of acquired technology and other overhead costs. Most of our cost of revenues expenses are not fixed costs and are directly related to our revenues.

The following table sets forth a breakdown of our cost of revenues between products and services for the periods indicated, in absolute figures (dollars in thousands) and as a percentage of the relative revenues:

	<u>2009</u>		<u>2010</u>		<u>2011</u>	
Cost of Products	\$ 16,609	25.5%	\$ 21,306	23.8%	\$ 24,231	23.5%
Cost of Services	6,666	15.2%	7,898	14.4%	9,126	14.3%
Total	<u>\$ 23,275</u>	<u>21.4%</u>	<u>\$ 29,204</u>	<u>20.3%</u>	<u>\$ 33,357</u>	<u>20.0%</u>

Cost of products sales as a percentage of products sales decreased slightly year-over-year from 23.8% in 2010 to 23.5% in 2011. Cost of product sales in 2011 included amortization of intangible assets in the amount of \$2.2 million, compared to an amortization of intangible assets in the amount of \$1.8 million in 2010. Our cost of product sales as a percentage of product sales, excluding these items, represented approximately 21.4% of product sales in 2011, compared to 21.9% in 2010.

The decrease in cost of products as a percentage of product sales is due to the different mix of products sold during 2011 compared to 2010. During 2011, our virtualized solutions became a significant part of our product sales. Such sales generally have higher gross margins than our regular hardware products sales. Cost of sales related to services as a percentage of service revenues in 2011 was 14.3% compared to 14.4% in 2010. Since a major portion of these costs are fixed costs (mainly salaries of technical personnel), the increase in sales did not correlate into the same rate of increase in costs.

Cost of products sales as a percentage of products sales decreased slightly year-over-year from 25.5% in 2009 to 23.8% in 2010. Cost of product sales in 2010 included amortization of intangible assets in the amount of \$1.8 million, compared to an amortization of intangible assets in the amount of \$1.4 million in 2009. Our cost of product sales as a percentage of product sales, excluding these items, represented approximately 21.9% of product sales in 2010 which included in 2010 higher volume of sales of higher-margin products, compared to 23.4% in 2009. The decrease in cost of products as a percentage of product sales is due to the different mix of products sold during 2010 compared to 2009. Cost of sales related to services as a percentage of service revenues in 2010 was 14.4% compared to 15.2% in 2009. Since a major portion of these costs are fixed costs (mainly salaries of technical personnel), the increase in sales did not correlate into the same rate of increase in costs.

Operating Expenses.

The following table sets forth a breakdown of our operating expenses (dollars in thousands) for the periods indicated:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>% Change 2011 vs. 2010</u>	<u>% Change 2010 vs. 2009</u>
Research and development	\$ 25,674	\$ 31,660	\$ 36,064	14%	23%
Selling and marketing	55,130	64,609	69,543	8%	17%
General and administrative	11,930	10,190	9,629	(6)%	(15)%
Total	<u>\$ 92,734</u>	<u>\$ 106,459</u>	<u>\$ 115,236</u>	8%	15%

Research and Development Expenses.

Research and development expenses consist primarily of salaries and related personnel expenses, costs of subcontractors and prototype expenses related to the design, development, quality assurance and enhancement of our products, and depreciation of equipment purchased for the development and testing processes. All R&D costs are expensed as incurred. We believe that continued investment in R&D is critical to attaining our strategic product objectives.

Research and development expenses were \$36.1 million in 2011, an increase of \$4.4 million, or 14%, compared with research and development expenses of \$31.7 million in 2010. This increase was primarily attributable to (1) an increase of \$2.8 million from a higher average number of R&D employees, including subcontractors and consultants which assist and promote certain R&D projects, as well as salary raises performed in April 2011, (2) a \$0.3 million increase in travel costs and overhead associated with the increase in the number of our employees, (3) an increase of approximately \$0.9 million from the weakening of the dollar against the NIS during 2011 compared with 2010, and (4) an increase of \$0.5 million from an increase in depreciation, mainly in relation with material purchases of lab equipment in the past two years. Stock-based compensation expenses decreased by \$0.1 million, mainly due to the net impact of the increase in our average share price in 2011 compared to 2010, as explained below under "*Stock based compensation expenses*", offset by a decrease in the number of options granted in 2011 to our R&D employees compared to 2010. Excluding the exchange rates effect, we expect our R&D expenses in 2012 to be higher than in 2011, mainly due to an expected increase in the number of employees in research and development positions.

Research and development expenses were \$31.7 million in 2010, an increase of \$6.0 million, or 23%, compared with research and development expenses of \$25.7 million in 2009. An increase of \$4.6 million was due to the higher average number of R&D employees, including subcontractors and consultants which assisted and promoted certain R&D projects, and salary raises performed in April 2010. An increase of approximately \$0.8 million was due to the weakening of the dollar against the NIS during 2010 compared with 2009, and \$0.6 million of the increase is attributed to increase in stock-based compensation expenses as discussed below.

Sales and Marketing Expenses.

Sales and marketing expenses consist primarily of salaries, commissions and related personnel expenses for those engaged in the sales and marketing of our products, operational costs of our offices which are located outside Israel and are engaged in the promotion, marketing and support of our products, in addition to the related trade shows, advertising, promotions, web site maintenance and public relations expenses, and amortization of intangible assets.

Sales and marketing expenses were \$69.5 million in 2011, an increase of \$4.9 million, or 8%, compared with sales and marketing expenses of \$64.6 million in 2010. Intangible assets amortization expenses in 2011 decreased in an amount of \$0.5 million from \$2.2 million in 2010 to \$1.7 million in 2011. Excluding these amortization expenses, sales and marketing expenses increased by \$5.4 million, of which (1) \$2.0 million was attributable to an increase in the average number of sales, technical support and marketing employees in EMEA and the United States, as well as salary raises performed in the beginning of 2011 to some of our employees, (2) \$1.4 million was the net impact of the weakening of the dollar compared to the NIS and Euro and Asian currencies (for a discussion of the impact of foreign currency fluctuations our business, see "Item 11. Quantitative and Qualitative Disclosures about Market Risk"), (3) \$0.5 million of the increase was attributed to higher travel costs and overheads associated with the increase in the number of our employees, (4) \$0.8 million of the increase was attributed to an increase in stock-based compensation expenses due to the increase in our average share price in 2011 compared to 2010, as explained below under "*Stock based compensation expenses*", and (5) an increase in depreciation expenses of approximately \$0.7 million, mainly in relation with purchases of demo equipment during the past two years. Excluding the effect of exchange rates, we expect our sales and marketing expenses in 2012 to be higher than in 2011, mainly due to the increase in the number of our employees engaged in marketing and sales positions and marketing activities to promote our new and improved products.

Sales and marketing expenses were \$64.6 million in 2010, an increase of \$9.5 million, or 17%, compared with sales and marketing expenses of \$55.1 million in 2009. Intangible assets amortization expenses in 2010 increased in an amount of \$0.3 million from \$1.9 million in 2009 to \$2.2 million in 2010. The increase was due to higher amortization of the acquired intangible assets in the Alteon Acquisition being amortized over one full year in 2010 compared to only nine months in 2009. Excluding these amortization expenses, sales and marketing expenses increased \$9.2 million, of which \$7.0 million was attributable to an increase in the average number of sales, technical support and marketing employees in EMEA and the United States and salary raises to our employees. An amount of \$0.4 million of the increase was the net impact of the weakening of the dollar compared to the NIS and other Asian currencies, offset by the impact of the strengthening of the dollar compared to the Euro. For a discussion of the impact of foreign currency fluctuations our business, see "Item 11. Quantitative and Qualitative Disclosures about Market Risk." An amount of \$1.0 million of the increase in our sales and marketing expense was attributed to higher travel costs and overheads associated to the new headcount, and \$0.4 million of the increase was attributed to higher marketing spending, mainly on trade shows, events and seminars. An amount of \$1.2 million of the increase was attributed to increase in stock-based compensation expenses. Decrease in depreciation expenses offset the increases in our sales and marketing expenses by approximately \$0.8 million.

General and Administrative Expenses.

General and administrative expenses consist primarily of salaries and related personnel expenses for executive, accounting and administrative personnel, professional fees (which include legal, audit and additional consulting fees), bad debt expenses, acquisition related costs and other general corporate expenses.

General and administrative expenses were \$9.6 million in 2011, a decrease of \$0.6 million, or 6%, compared with general and administrative expenses of \$10.2 million in 2010. General and administrative expenses in 2011 included stock-based compensation expenses of \$1.1 million, compared to stock-based compensation expenses of \$1.8 million in 2010. Excluding stock based compensation expenses, the general and administrative expenses in 2011 totaled \$8.5 million, compared to \$8.4 million in 2010. Of these expenses, (1) \$0.2 million was attributable to an increase in the average number of general and administrative employees and salary raises to our employees, (2) \$0.2 million was attributed to the impact of the strengthening of the NIS compared to the dollar, and (3) a decrease in bad debt expenses in an amount of \$0.3 million. The decrease of \$0.7 million in stock based compensation expenses was due to a decrease of \$0.3 million in relation to options granted on December 31, 2007 to our CEO (these compensation expenses are recognized over the estimated requisite service period on an accelerated method basis). A decrease in an amount of \$0.2 million was due to cancellation of options granted to one of our subcontractors during 2010, who terminated his service during 2011, and the rest of the decrease was due to higher expiration of stock options in 2011, compared to 2010, in regards to the rest of our employees, which was partially offset due to the increase in our average share price in 2011 compared to 2010, as explained below under "*Stock based compensation expenses*".

General and administrative expenses were \$10.2 million in 2010, a decrease of \$1.7 million, compared with general and administrative expenses of \$11.9 million in 2009. General and administrative expenses in 2010 included stock-based compensation expenses of \$1.8 million, compared to stock-based compensation expenses of \$2.2 million in 2009. Our 2009 general and administrative expense also included \$2.3 million of Alteon Acquisition related expenses. Excluding these items, the general and administrative expenses in 2010 totaled \$8.4 million, compared to \$7.4 million in 2009. This increase is attributed to an increase in average headcount and salaries in an amount of \$0.4 million, the impact of the strengthening of the NIS compared to the dollar in an amount of \$0.1 million, an increase in bad debts in an amount of \$0.3 million, and an increase in subcontractors' costs incurred in relation with the maintenance of our ERP system in an amount of \$0.2 million. The decrease of \$0.4 million in stock based compensation expenses is due to a decrease of \$1.1 million recognized in 2010 in relation to options granted on December 31, 2007 to our CEO (these compensation expenses are recognized over the estimated requisite service period on an accelerated method basis). This decrease was offset by an increase in stock compensation expenses recognized in 2010 in an amount of \$0.7 million in relation to options granted to the rest of our employees, as explained below under "*Stock based compensation expenses*".

Stock based compensation expenses.

Our expenses also include amortization of stock-based compensation, which is allocated among cost of sales, 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. The stock-based compensation is amortized to operating expenses over the requisite service period of the individual options.

Grant date fair values of our equity-based payment awards granted during 2011 increased compared to fair values of awards granted during 2010, due to the increase in our average share price in 2011 compared to 2010. Grant date fair values of our equity-based payment awards granted during 2010 increased compared to fair values of awards granted during 2009, due to the increase in our average share price in 2010 compared to 2009. Because these values are recognized as an expense based on the accelerated attribution method over the requisite service period of each award, a large portion of these values is being recognized as an expense in the first year since grant date of each award, which resulted in higher stock-based compensation expenses in 2011 compared to 2010 and in 2010 compared to 2009.

Financial Income, Net.

Financial income, net consists primarily of interest earned on short-term and long-term bank deposits, amortization of premiums, accretion of discounts, interest and dividends earned on investments in marketable securities, and from income and expenses from the translation of monetary balance sheet items denominated in non-dollar currencies.

Financial income, net was \$4.2 million in 2011, compared with \$2.1 million in 2010. An increase of \$1.1 million is attributed mainly to an increase of approximately \$47 million in our average cash balance (including bank deposits and marketable securities) in 2011 compared to 2010. An increase of \$1.0 million is attributed to the impact of changes in exchange rates in 2011, compared to 2010, which affected the foreign currency translation differences included in our financial income.

Financial income, net was \$2.1 million in 2010, compared with \$2.0 million in 2009. An increase of \$0.5 million was attributed to higher average yield on our investments portfolio of 2.2% in 2010 compared to 1.9% in 2009 and which was based on higher market prevailing interest rates in 2010 as compared to 2009. An increase of \$0.5 million resulted from an increase of approximately \$31.0 million in our average cash balance (including cash, bank deposits and marketable securities) in 2010 compared to 2009. These increases were offset by a decrease of \$0.9 million attributable to foreign currency translation differences based on changes in currency exchange rates between our functional currency (U.S. dollar) and the currency in which a transaction is denominated.

Income Taxes.

Israeli companies are generally subject to corporate tax on their taxable income at the rate of 24% for the 2011 tax year and 25% for the 2012 tax year. However, we have established an approved enterprise program, which is eligible for the tax benefits described below under the heading "Corporate Tax Rate." These benefits result in part of our income being tax exempt or taxed at a lower rate for some time after we begin to report taxable income. The tax rate depends upon the percentage of our income derived at that time from the approved enterprise program. The tax benefits depend on our meeting the requirements of the approved enterprise program and there is no assurance that we will be able to obtain such benefits. In addition, we and our U.S. subsidiary have carry-forward tax losses to offset against future taxable profit. We provided a partial valuation allowance with respect to these carry-forward tax losses due to uncertainty in part of their future utilization. Other subsidiaries of ours are taxed according to the laws in their countries of incorporation and tax expenses are recorded accordingly. We may incur tax expenses in 2012 which we anticipate to be at a rate of up to 12% of our pre-tax income.

We operate our business in various countries and attempt to utilize an efficient operating model to optimize our tax payments based on the laws in the countries in which we operate. This can cause disputes between us and various tax authorities in different parts of the world. In particular:

- in December 2010, following an audit of our Israeli tax returns for the 2004 and 2005 fiscal years, the Israeli Tax Authority ("ITA") issued orders challenging our positions on several matters and demanded the payment of additional taxes in the aggregate amount of NIS 16.1 million (approximately \$4.3 million) for 2004 and NIS 15.5 million (approximately \$4.1 million) for 2005, including interest as of the assessment date; and
- in January 2012, following an audit of our Israeli tax returns for the 2006 through 2008 fiscal years, the ITA issued orders challenging our positions on several matters and demanded the payment of additional taxes in the aggregate amount of NIS 25.2 million (approximately \$6.7 million) for 2006 and NIS 8.1 million (approximately \$2.2 million) for 2008, including interest as of the assessment date.

We have appealed the orders relating to the four years mentioned above with the Tel Aviv District court, and these appeals are currently pending.

There can be no assurance that the courts will accept our positions on matters raised, and in such an event, we may be required to pay all or a portion of the amounts of these orders. Such a payment could result in a material adverse effect on our business, financial condition and results of operations.

Income taxes were approximately \$1.3 million in 2011 (in and outside Israel), compared with \$0.9 million in 2010. This increase is attributed mainly to the increase in our pre-tax income in 2011 compared to 2010.

Income taxes were approximately \$0.9 million in 2010 (in and outside Israel), compared with \$0.8 million in 2009.

For additional disclosure and explanations regarding our income taxes, see note 13 to our financial statements.

Business Combinations.

On March 31, 2009, we acquired from Nortel certain assets and liabilities related to Nortel's Layer 4-7 Application Delivery Business (Alteon), which included inventory, property and equipment, warranty and support service liabilities, and intangible assets including customer relationships, brand name, developed technology, in-process research and development and goodwill. The total consideration for the Alteon Acquisition was \$18.0 million. Under business combination accounting, the purchase price was allocated by our management, with the assistance of a third party valuation firm, to the identifiable intangible assets acquired and liabilities assumed based upon their estimated fair values. In performing the purchase price allocation, we considered, among other factors, analyses of historical financial performance, highest and best use of the acquired assets and estimates of future performance of Alteon's products. The fair value of intangible assets was determined by management, based on market participant approach to valuation performed by a third party valuation firm using an income approach and based on estimates and assumptions provided by management. The third-party valuation specialist assisted our management in (i) providing benchmarks and applying economic factors upon which the economical models were developed; and (ii) compiling information regarding similar companies and transactions in our industry in order to evaluate certain economic factors, such as control premium, used in the valuation. See "Item 10C – Additional Information – Material Contracts."

Impact of recently issued Accounting Standards

In June 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-05 presentation of comprehensive income topic 220, which amended existing guidance by allowing only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous financial statement, statement of comprehensive income or (2) in two separate but consecutive financial statements, consisting of an income statement followed by a separate statement of other comprehensive income. The guidance requires retrospective application, and it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on our financial statements. We are still evaluating whether to present other comprehensive income in a single continuous statement of comprehensive income or in two separate but consecutive statements.

In September 2011, the FASB issued ASU 2011-08 on the annual testing of goodwill for impairment. The amended guidance will allow companies to assess qualitative factors to determine if it is more likely than not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on our financial statements.

Impact of Currency Fluctuations

Information required by this section is set forth in "Item 11 – Qualitative and Quantitative Disclosures about Market Risk" and incorporated herein by reference.

B. Liquidity and Capital Resources

In our opinion, the Company's working capital is sufficient for the Company's present requirements. Since our inception, we have financed our operations through a combination of issuing debt and/or equity securities, including two public offerings, research and development and/or marketing grants from the Government of Israel and cash generated by operations. Capital expenditures for the years ended December 31, 2011, 2010 and 2009 were \$5.8 million, \$5.7 million and \$5.7 million, respectively. These expenditures were mainly comprised of machinery and equipment, computers, lab equipment and testing tools. We may have additional capital spending in the future to support possible growth in our operations, infrastructure and personnel.

Net cash provided by operating activities for 2011 was \$42.0 million compared to net cash provided by operating activities of \$41.0 million for 2010 and net cash provided by operating activities of \$14.4 million for 2009. Our net income in 2011 and 2010 was \$21.3 million and \$9.6 million, respectively. In 2009 we had a net loss of \$5.9 million.

Net cash provided by operating activities in 2011 consisted primarily of net income adjusted for non-cash activity, including stock-based compensation expenses, depreciation, amortization of intangible assets, and amortization of premiums, accretion of discounts and accrued interest on available-for-sale marketable securities plus decrease in trade receivables and an increase in other payables and accrued expenses, partially offset by an increase in inventories and deferred income taxes. Net cash provided by operating activities in 2010 consisted primarily of net income adjusted from non-cash activity, including stock-based compensation expenses, depreciation, amortization of intangible assets, and amortization of premiums, accretion of discounts and accrued interest on available-for-sale marketable securities plus increase in deferred revenue and other payables and accrued expenses. Net cash provided by operating activities in 2009 consisted primarily of net loss adjusted from non-cash activity, including stock-based compensation expenses, depreciation and amortization of intangible assets, plus increase in deferred revenues, partially offset by increase in trade receivables, net.

Net cash used in investing activities was \$49.2 million for 2011, compared to net cash used in investing activities of approximately \$66.7 million for 2010, and net cash used in investing activities of approximately \$24.1 million for 2009. Cash was used in investing activities in 2011 mainly for purchase of bank deposits, marketable securities and purchase of property and equipment. Cash was used in investing activities in 2010 mainly for the purchase of bank deposits, marketable securities and purchase of intangible assets, property and equipment. Cash was used in investing activities in 2009 mainly for the Alteon Acquisition and for purchase of property and equipment.

Net cash provided by financing activities in 2011 was \$9.3 million, compared to net cash provided by financing activities of \$21.2 million for 2010 and net cash provided by financing activities of \$1.5 million for 2009. The cash provided by financing activities in 2011 and in 2010 was generated from options exercises by our employees under the Key Employee Share Option Plans and Employee Stock Purchase Plans (see "Item 6E – Directors Senior Management and Employees – Share Ownership - Key Employee Share Incentive Plan and Employee Stock Purchase Plan"). The cash provided by financing activities in 2009 was generated from options exercises by our employees under the Key Employee Share Option Plans and Employee Stock Purchase Plans and from adjustment of excess tax benefit from stock based compensation, partially offset by amounts used for the repurchase of our ordinary shares.

As of December 31, 2011, we had cash and cash equivalents, including short-term and long-term bank deposits and marketable securities, of \$219.1 million, compared to \$178.8 million as of December 31, 2010 and \$126.1 million as of December 31, 2009. As of December 31, 2011, approximately 98% of our cash, cash equivalents and marketable securities are held by Radware Ltd. in Israeli or U.S. financial institutions. There are no material legal restrictions, taxes or other costs associated with transferring our funds held in U.S. financial institutions to Israeli financial institutions, and we have access to all of our cash as needed for our operations. Although we have various subsidiaries throughout the world, there are no material legal, tax or other cost impediments to our transferring cash to these subsidiaries for operations as and when needed or to such subsidiaries transferring cash to Radware to meet its own cash obligations. Further, Radware generates sufficient cash from its Israeli operations to fund its operating and capital requirements and, therefore, does not need or intend to repatriate any of the earnings of its foreign subsidiaries.

Quarterly days sales outstanding ("DSO"), is calculated by dividing quarter-end accounts receivable by average daily sales for the relevant fiscal quarter. The average DSO calculation for the four quarters of 2011 amounted to 33 days compared to 35 days in 2010. On an annual basis, DSO for 2011 amounted to 27 days, compared to 42 days in 2010. This decline is mainly due to a more even distribution of shipping dates throughout the last months of 2011, compared to the last months of 2010. Consequently, during 2011 we were able to collect more of our invoices which were issued within the year, compared to 2010.

Our capital requirements depend on numerous factors, including market acceptance of our products and the resources we allocate to our operating expenses. Since our inception, we have experienced substantial increases in our expenditures consistent with growth in our operations and personnel, and we may increase our expenditures in the foreseeable future in order to execute our strategy. As indicated above, in March 2009 we purchased Nortel's Layer 4-7 application delivery business for total consideration of \$18.0 million. Additional transaction related costs amounted to a total of \$2.5 million.

We anticipate that operating activities as well as capital expenditures will demand the use of our cash resources. We believe that our cash balances will provide sufficient cash resources to finance our operations and the projected marketing and sales activities and research and development efforts for a period of no less than the next twelve months.

Related Parties

We have entered into a number of agreements with certain companies, of which Yehuda and Zohar Zisapel are co-founders, directors and/or principal shareholders, collectively known as the RAD-Bynet Group. Of these agreements, the lease for our headquarters in Tel-Aviv, Israel is material to our operations. We believe that the terms of the transactions in which we have entered with members of the RAD-Bynet Group are not different in any material respect from terms we could obtain from unaffiliated third parties. The pricing of the transactions was arrived at based on negotiations between the parties. Members of our management reviewed the pricing of the agreements and confirmed that they were not different in any material respect than that which could have been obtained from unaffiliated third parties.

In addition, we purchase different services from third parties at special rates offered to the RAD-Bynet Group, such as car leases, maintenance, insurance and communication services. If we cease to be a member of the RAD-Bynet Group, we may not be able to obtain the current rates for such services.

Market Risk

Information about market risk is set forth in "Item 11 – Qualitative and Quantitative Disclosures about Market Risk" and incorporated herein by reference.

C. Research and Development, Patents and Licenses, etc.

In order to accommodate the rapidly changing needs of our markets, we place considerable emphasis on research and development projects designed to improve our existing product lines, develop new product lines and customize our products to meet our customers' needs. As of December 31, 2011, we had 208 employees and 98 subcontractors engaged primarily in research and development activities, compared to 207 employees and 108 subcontractors at the end of 2010.

For a further discussion of research and development, see "Item 5A – Operating and Financial Review and Prospects – Operating Results."

For a discussion regarding the benefits provided under programs of the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor, see "Item 4B – Information on the Company – Business Overview – Israeli Office of Chief Scientist."

D. Trend Information

For a discussion of recent market trends, see “Item 5A – Operating and Financial Review and Prospects – Operating Results – Outlook.”

E. Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as such term is defined under Item 5E of the instructions to Form 20-F, that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

F. Tabular Disclosure of Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2011 and the effect those commitments are expected to have on our liquidity and cash flow.

Contractual obligations	Payments Due By Period (US \$ in thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases(1)	3,623	2,301	1,322	-	-
Total contractual cash obligations (2)(3)	3,623	2,301	1,322	-	-

(1) Consists of outstanding operating leases for the Company’s facilities. The lease agreements expire in the years 2012 to 2014, although certain of our leases have renewal options. The data in this row details our future minimum payments under non-cancelable operating lease agreements at December 31, 2011.

(2) Payments for uncertain income tax positions of \$1.7 million under ASC 740 are due upon settlement. Since we are unable to reasonably estimate the timing of settlement, such payments are not included in the table. See also Notes 2(q) and 13(a) of our Consolidated Financial Statements.

(3) Severance payments of \$3.5 million are payable only upon termination, retirement or death of the respective employee and there is no obligation for benefits accrued prior to 2007 if the employee voluntarily resigns. Of this amount, \$0.5 million is unfunded. Since we are unable to reasonably estimate the timing of settlement, such payments are not included in the table. See also Note 2(s) of our Consolidated Financial Statements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table lists our current directors and executive officers:

Name	Age	Position
Roy Zisapel (1)	41	Chief Executive Officer, President and Director
Meir Moshe	58	Chief Financial Officer
Gadi Meroz	43	VP, General Counsel and Secretary
Ilan Kinreich	54	Chief Operating Officer
Avi Chesla	39	Chief Technology Officer
Sharon Trachtman	45	VP, Global Marketing
Shai Schiller	51	VP, Corporate Development
Yehuda Zisapel (2)	70	Chairman of the Board of Directors
Yair Tauman (1)(3)(4)(5)	63	Director
David Rubner (2)(3)(4)(5)	72	Chairman of the Audit Committee and Director
Hagen Hultzsich (4)(5)(6)	71	Chairman of the Compensation Committee and Director
Yael Langer (6)	47	Director
Avraham Asheri (2)(4)(7)	74	Director

- (1) Term as director expires at the annual meeting of shareholders to be held in 2013.
- (2) Term as director expires at the annual meeting of shareholders to be held in 2012.
- (3) External Director, as defined in the Israeli Companies Law.
- (4) Qualified as an independent director, as determined under the NASDAQ rules.
- (5) Serves on the Audit and Compensation Committees of the Board of Directors.
- (6) Term as director expires at the annual meeting of shareholders to be held in 2014.
- (7) Serves on the Audit Committee of the Board of Directors.

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

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. Mr. Moshe holds a B.Sc. in economics and accounting from Tel Aviv University, Israel and is a certified public accountant.

Gadi Meroz has served as our General Counsel and Secretary since April 2010 was promoted to Vice President, General Counsel and Secretary in July 2011. From July 2001 to November 2008 Mr. Meroz was an Executive Vice President and General Counsel of IXI Mobile, Inc. Prior to that, Mr. Meroz was an attorney at Volovelsky, Dinstein, Sneh & Co., a law firm specializing in commercial and corporate law, where Mr. Meroz focused on business and venture funding, representing public and private companies as well as venture investors. Mr. Meroz holds an L.L.B. from the University of Leicester, UK School of Law, and holds an L.L.M. degree from Tel-Aviv University in collaboration with Boalt Hall School of Law University of California, Berkeley. In addition, Mr. Meroz holds an MBA degree from the University of Leicester, UK. Mr. Meroz is admitted to the Israeli Bar and is a member of the Law Society of England & Wales.

Ilan Kinreich has served as our Chief Operating Officer since December 2007. From 1993 until 2005, Mr. Kinreich was the founder and CEO of Radview Software Ltd., a company that developed performance testing and management solutions and thereafter, until September 2007, he was its Chief Strategic Officer. From 1989 until 1991 Mr. Kinreich was a co-founder and Vice President R&D of Mercury Interactive. From 1984 until 1989 Mr. Kinreich was R&D manager at Daisy Systems. Mr. Kinreich began his career in 1977 at the technology units of the Israel Defense Forces where he oversaw the deployment of command and control systems and reached the rank of a Captain. Mr. Kinreich holds a B.S. degree in Mathematics and Computer Sciences from Bar-Ilan University, Israel.

Avi Chesla has served as our Chief Technology Officer since August 2011. Prior to that, he led our security division as VP of Security Products since October 2006. Between 2000 and 2005, Mr. Chesla held several senior positions with V-Secure Technologies Ltd., a start-up security solutions company. Mr. Chesla has authored a number of articles for major publications in the areas of advanced network behavioral analysis and information security and has contributed to numerous patents in these areas. Mr. Chesla holds a B.S. degree in physics and mathematics from Tel Aviv University, Israel.

Sharon Trachtman has served as our Global Marketing Vice President since September 2008. Prior to that, since September 1997 she held various senior positions in Radware, such as Product Management Vice President and Marketing Vice President. From November 1994 to September 1997, Ms. Trachtman was a product line marketing manager for Scitex Corporation. Ms. Trachtman holds a B.A. degree in computer science and philosophy from Bar-Ilan University, Israel.

Shai Schiller has served as our Corporate Development Vice President since September 2011. Prior to joining Radware, he held various management positions, including as CEO and Chairman of Axismobile Ltd. between 2003 and 2007, and as CEO of Geo Interactive Ltd., an FSTE company. Mr. Schiller also served in various positions in the venture capital industry, including as a general partner in Concord Ventures between 2000 and 2007. From 2007 until September 2011, Mr. Schiller was involved in several ventures, including the founding of SBA Capital, an investment firm, holding a directorship position in Terrogeance Ltd. and founding and serving as Chairman at Capital Nature from 2010. Mr. Schiller holds a B.Sc. in Computer Science and an MBA degree from the University of Maryland.

Yehuda Zisapel, co-founder of our Company, has served as a member of our Board of Directors since our inception in May 1996 and served as Chairman of our Board of Directors from May 1996 until August 2006 and again since November 2009. In addition, Mr. Zisapel serves as a director of Radware Inc. and other subsidiaries. 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 and serves as a director of other companies in the RAD-Bynet Group. Mr. Zisapel has a B.Sc. and a M.Sc. degree in electrical engineering as well as an Award of Honorary Doctorate (DHC-Doctor Honoris Causa) from the Technion, Israel Institute of Technology and an M.B.A. degree from Tel Aviv University, Israel. Yehuda Zisapel is the father of Roy Zisapel, a director and President and Chief Executive Officer of the Company.

Prof. Yair Tauman has served as a member of the Board of Directors since October 2010. He has been the Dean of the Arison School of Business in the Interdisciplinary Center (IDC) in Herzliya, Israel since January 2010 and is also a Professor of Economics and the Director of the Center for Game Theory in Economics at Stony Brook University, New York. His areas of research include game theory and industrial organization. Prof. Tauman currently serves on the board of directors of several companies from different sectors including online auctions, financial information, education and IT, one of which, ADVFN Plc, is traded on the London Stock Exchange. Prof. Tauman obtained his Ph.D. and M.Sc. degrees in mathematics as well as a B.Sc. in mathematics and statistics from The Hebrew University in Jerusalem, Israel.

David Rubner has served as a member of the Board of Directors since October 2009. Mr. Rubner is the Chairman and Chief Executive Officer of Rubner Technology Ventures Ltd., and a Partner in Hyperion Israel Advisors Ltd., a venture capital firm. During the years 1991 to 2000, he was President and Chief Executive Officer of ECI Telecom Ltd. ("ECT"). Prior to that, Mr. Rubner held several senior positions within ECI, such as Chief Engineer, Vice President of Operations and Executive Vice President, General Manager of the Telecommunications division. Prior to joining ECI, Mr. Rubner was a senior engineer in the Westinghouse Research Laboratories in Pittsburgh, Pennsylvania. Mr. Rubner serves on the boards of Check Point Software Ltd., Elbit Imaging, Ltd. and other public and private companies. He also serves on the boards of trustees of Bar-Ilan University, Shaare Zedek Hospital and is Chairman of the Petah Tikva Foundation. Mr. Rubner holds a B.Sc. degree in engineering from Queen Mary College, University of London and an M.S. degree from Carnegie Mellon University.

Dr. Hagen Hultzs has served as a member of our Board of Directors since January 2005. Dr. Hultzs served on the Board of Management of Deutsche Telekom AG from 1993 until 2001. Since 2001, Dr. Hultzs has served on the boards or advisory boards of several companies and academic institutions. Dr. Hultzs serves as a board member of the T-Systems Solutions for Research GmbH, Zimory AG and others and he is a member of the advisory boards of several private and public technology companies. Dr. Hultzs holds a PhD. degree in Physics from Mainz University.

Yael Langer has served as a member of the Board of Directors since July 2009. Ms. Langer has served as the general counsel and secretary of RAD Data Communications Ltd. and several other companies in the RAD-BYNET group since July 1998. Since December 2000, Ms. Langer has served as a director in Ceragon Networks Ltd., a company publicly-traded on NASDAQ and the Tel-Aviv stock markets. 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., the underwriting and investment banking subsidiary of Bank Hapoalim. Prior to that, Ms. Langer was an attorney in the firm of Shimron, Molcho, Persky in Jerusalem. Ms. Langer holds an L.L.B. degree from The Hebrew University in Jerusalem, Israel.

Avraham Asheri has served as a member of the Board of Directors since July 2009. Mr. Asheri currently serves on the board of directors and several committees of the following companies: Elron Electronic Industries Ltd., Elbit Systems Ltd., Koor Industries Ltd., Discount Mortgage Bank Ltd. and Micronet Ltd. Mr. Asheri was the President and Chief Executive Officer of Israel Discount Bank ("DB") during the years 1991 to 1998. Prior to that, from 1983 until 1991 he served as Executive Vice President of DB and a member of its Management Committee. Before that, Mr. Asheri served at the Israel Ministry of Industry and Trade and at the Israel Ministry of Finance, including in the positions of Director General of the Ministry of Industry and Trade, Managing Director of Israel Investment Center, and Trade Commissioner of Israel to the United States. Mr. Asheri acts as chairman of the Audit Committee of the Board of Governors of the Hebrew University, member of the Executive Committee of the Jerusalem Institute for Israel Studies, member of the Executive Committee of Hadassah Academic College and Chairman of its Finance Committee, and member of the Audit Committee of the Jerusalem Foundation and Board member and Chairman of Finance Committee of Mishkenot Sha'ananim. Mr. Asheri holds a BA degree in economics and political science from The Hebrew University in Jerusalem, Israel.

Additional Information

Under NASDAQ requirements, a majority of the members of our Board of Directors are required to be "independent" as defined under NASDAQ Marketplace Rules. We currently satisfy this requirement because four of our seven directors (Mr. David Rubner, Prof. Yair Tauman, Mr. Avraham Asheri and Dr. Hagen Hultzs) qualify as "independent directors" under the NASDAQ Marketplace Rules.

Yehuda Zisapel, the Chairman of the Board of Directors, co-founder of the Company, and its largest shareholder, is the father of Roy Zisapel, a director and the Company's President and Chief Executive Officer. In accordance with the Companies Law, Mr. Zisapel's service as our Chairman was approved by our shareholders in September 2011. There are no other family relationships between any of the directors or members of senior management named above.

B. Compensation

General

The following table sets forth all compensation we paid with respect to all of our directors and officers as a group for the periods indicated. 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.

	Salaries, fees, commissions and bonuses	Pension, retirement and other similar benefits
2010 - All directors and officers as a group, consisting of 13 persons	\$ 1,806,000	\$ 345,000
2011 - All directors and officers as a group, consisting of 13 persons	\$ 1,945,000	\$ 274,000

An external director is entitled to consideration and reimbursement of expenses only as provided in regulations promulgated under the Israeli Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with his service as an external director.

As of March 25, 2012, our directors and officers, as a group consisting of 13 persons, held options to purchase an aggregate of 1,372,250 ordinary shares.

Our non-employee directors, including external directors, are entitled to the following compensation: (i) annual compensation in the amount of NIS 120,800 (currently equivalent to approximately \$32,500) per year of service; (ii) per meeting remuneration of NIS 3,600 (currently equivalent to approximately \$1,000) for each board or committee meeting attended, provided that the director is a member of such committee; (iii) compensation for telephonic participation in board and committee meetings in an amount of 60% of what is received for physical participation; and (iv) compensation for board and committee meetings held via electronic means without physical participation in an amount of 50% of what is received for physical meeting. All amounts payable under items (i), (ii), (iii) and (iv) are subject to adjustment for changes in the Israeli consumer price index after December 2007 and changes in the amounts payable pursuant to Israeli law from time-to-time.

In addition, our non-employee directors, including external directors, are entitled to a grant of options under our stock option plans to purchase 10,000 ordinary shares for each year in which such non-employee director holds office. The options will be granted for three years in advance, and every director receives an initial grant of options to purchase 30,000 ordinary shares which vest over a period of three years, with a third (10,000) to vest upon each anniversary of service, provided that the director still serves on the Company's Board of Directors on the date of vesting. The grant will be made on the date of the director's election (or the date of commencement of office, if different), and thereafter, every three years, if reelected, an additional grant of options to purchase an additional 30,000 ordinary shares will be made on the date of each annual meeting in which such director is reelected. The exercise price of all options shall be equal to the fair market value of the ordinary shares on the date of the grant (i.e., an exercise price equal to the market price of our ordinary shares on the date of the annual meeting approving the election or reelection of a director or the date of commencement of office, if different).

The above compensation policy was approved by our Compensation Committee, Board of Directors, Audit Committee and shareholders.

During 2011, we granted to our directors and officers listed in Item 6A above options to purchase 146,000 ordinary shares, in the aggregate, at a weighted average exercise price of \$25.35. The options expire sixty-two months after grant.

Chief Executive Officer Compensation

On December 31, 2007, our shareholders approved the increase of our Chief Executive Officer's compensation, entitling him to a base salary in NIS equivalent to \$250,000 per annum. Pursuant to our shareholders' approval on October 5, 2010, effective as of 2010, our Chief Executive Officer is entitled to an annual bonus structure which is comprised of two components, where (i) reaching 100% achievement of the milestones will entitle our Chief Executive Officer to a bonus of \$175,000 and (ii) outperformance (achievements exceeding 100% of the milestones) or other extraordinary targets set by the Compensation Committee (as approved by the Audit Committee and the Board of Directors) will entitle our Chief Executive Officer to an additional bonus of up to \$75,000. Based on the 2011 milestones, our Chief Executive Officer was granted a bonus of \$122,500 for 2011. Based on the 2010 milestones, our Chief Executive Officer was granted a bonus of \$210,000 for 2010.

On December 31, 2007, following the approval of our shareholders, we granted 500,000 stock options to our Chief Executive Officer with an exercise price of \$15.22 per share, which expire seven years from the grant date, i.e. on December 31, 2014. The exercise of these options is contingent upon the increase in the market price of our ordinary shares compared to the closing share price on NASDAQ immediately prior to the time that the shareholder meeting was convened as follows:

- 125,000 options shall vest one year after the Company's closing share price on NASDAQ shall be \$19.00 or more for 22 consecutive trading days at any time following December 31, 2007. Based on the market price history of our ordinary shares, these options became fully vested on April 16, 2011.
- 125,000 options shall vest one year after the Company's closing share price on NASDAQ shall be \$21.00 or more for 22 consecutive trading days at any time following December 31, 2007. Based on the market price history of our ordinary shares, these options became fully vested on April 23, 2011.
- 125,000 options shall vest one year after the Company's closing share price on NASDAQ shall be \$23.00 or more for 22 consecutive trading days at any time following December 31, 2007. Based on the market price history of our ordinary shares, these options became fully vested on September 21, 2011.
- 125,000 options shall vest one year after the Company's closing share price on NASDAQ shall be \$25.00 or more for 22 consecutive trading days at any time following December 31, 2007. Based on the market price history of our ordinary shares, these options became fully vested on October 6, 2011.

On July 19, 2009, following the approval of our shareholders, we granted 400,000 stock options to our Chief Executive Officer to purchase ordinary shares with an exercise price of \$8.78 per share. Half (50%) of these options are exercisable two years following the grant, 25% of those options are exercisable three years following the grant and the remainder is exercisable four years following the grant. The options expire 62 months from the grant date, i.e., on September 18, 2014.

C. Board Practices

Introduction

Since we are incorporated as an Israeli company, we are subject to the provisions of the Companies Law and the regulations adopted thereunder.

According to the Companies Law and our Articles of Association, the oversight of the management of our business is vested in our Board of Directors. The Board of Directors may exercise all powers and may take all actions that are not specifically granted to our shareholders. As part of its powers, our Board of Directors may cause us to borrow or secure payment of any sum or sums of money for our purposes, at times and upon terms and conditions as it determines, including the grant of security interests in all or any part of our property.

Our Articles of Association provide for a Board of Directors of not less than five and not more than nine directors. Currently, our Board of Directors consists of seven directors, including the external directors (as described below). In accordance with current NASDAQ requirements, nominees for election as directors are approved and recommended to the Board of Directors by a decision of a majority of our independent directors. Under the Companies Law, our Board of Directors is required to determine the minimum number of directors having accounting and financial expertise, as defined in regulations promulgated under the Companies Law, that our Board of Directors should have. In determining the number of directors required to have such expertise, the Board of Directors must consider, among other things, the type and size of the company and the scope and complexity of its operations. Our Board of Directors has determined that we require at least one director with the requisite financial and accounting expertise and that Mr. Avraham Asheri has such expertise.

In addition, we are subject to the rules of the NASDAQ applicable to listed companies since our ordinary shares are listed on the NASDAQ Global Select Market.

Staggered Board

In accordance with the terms of our Articles of Association, our Board of Directors (other than our external directors) is divided into three classes with each class of directors serving until the third annual meeting following their election as follows:

Class	Term expiring at the annual meeting for the year	Directors
Class I	2012	Yehuda Zisapel and Avraham Asheri
Class II	2013	Roy Zisapel
Class III	2014	Hagen Hultzsch and Yael Langer

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 such election. Directors, other than external directors, are elected by a simple majority of the votes cast by our shareholders at an annual general meeting, whereas a director's removal from office requires the vote of at least seventy-five percent of the voting power represented at the general meeting. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, to the nearest extent 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 Mr. David Rubner and Prof. Yair Tauman, who were appointed as external directors and whose term of appointment ends in 2012 and 2013, respectively.

For a description of how long our directors and officers have served in their current positions, please see "Item 6A - Directors, Senior Management and Employees – Directors and Senior Management".

External Directors

Qualifications of External Directors

Under the Companies Law, companies incorporated under the laws of Israel whose shares are listed for trading on a stock exchange or have been offered to the public in or outside of Israel are required to appoint at least two external directors. External directors are required to possess professional qualifications as set out in regulations promulgated under the Companies Law. To qualify as an external director, an individual (or the individual's relative, partner, employer or any entity under the individual's control) may not have, and may not have had at any time during the previous two years, any "affiliation" with:

- the company, the company's controlling shareholder or its relative, or another entity affiliated with the company or its controlling shareholder, or
- a company without a controlling shareholder (or a shareholder that owns more than 25% of its voting power), such as Radware, any person who, at the time of appointment, is the chairman, the chief executive officer, the chief financial officer or a 5% shareholder of the company.

The term affiliation includes:

- an employment relationship;
- a business or professional relationship;
- control; and
- service as an office holder, excluding service as a director that was appointed to serve as an external director of a company that is about to make its initial public offering.

The Companies Law defines the term “office holder” of a company to include a director, the chief executive officer, the chief financial officer, a vice president and any officer of the company that reports directly to the chief executive officer.

No person can serve as an external director if the person’s position or other business creates, or may create, a conflict of interest with the person’s responsibilities as an external director or may otherwise interfere with the person’s ability to serve as an external director.

Until the lapse of two years from termination of office as an external director, a company and its controlling shareholder may not provide compensation to an external director or his or her spouse and children or engage such persons to serve as an office holder and cannot employ or receive services from such persons, either directly or indirectly, including through a corporation controlled by that person. The same restriction applies to other family members of the external director but until the lapse of one year from termination of office as an external director.

Election of External Directors

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

- at least a majority of the shares of non-controlling shareholders voted at the meeting in favor of the election; or
- the total number of shares voted against the election of the external director does not exceed 2% of the aggregate voting rights in the Company.

The initial term of an external director is three years and may be extended for up to two additional three-year terms. Thereafter, he or she may be reelected by our shareholders for additional periods of up to three years each only if the Audit Committee and Board of Directors confirm that, in light of the external director’s expertise and special contribution to the work of the Board of Directors and its committees, the reelection for such additional period is beneficial to the Company. Reelection of an external director may be effected through one of the following mechanisms: (1) the board of directors proposed the reelection of the nominee and the election was approved by the shareholders by the majority required to appoint external directors for their initial term as described above; or (2) a shareholder holding 1% or more of the voting rights proposed the reelection of the nominee, and the reelection is approved by a majority of the votes cast by the shareholders of the company, excluding the votes of controlling shareholders and those who have a personal interest in the matter as a result of their relations with the controlling shareholders; provided that the aggregate votes cast in favor of the reelection by such non-excluded shareholders constitute more than 2% of the voting rights in the company.

External directors may be removed from office only by the vote of the same percentage of shareholders as is required for their election or by a court but only if they cease to meet the statutory qualifications for appointment or if they violate their duty of loyalty to the Company.

Each committee of the Company’s board of directors is required to include at least one external director, except for the Audit Committee which is required to be comprised of all the external directors.

Currently, Mr. David Rubner and Prof. Yair Tauman qualify as external directors under the Companies Law and were elected by the general shareholders meetings held in July 2009 and October 2010, respectively, to serve as our external directors for three-year terms ending in 2012 and 2013, respectively.

Under the Companies Law and regulations promulgated thereunder, (1) an external director must have either "accounting and financial expertise" or "professional qualifications" (as such terms are defined in regulations promulgated under the Companies Law) and (2) at least one of the external directors must have "accounting and financial expertise." However, companies whose shares are registered for trade outside of Israel, such as us, are in compliance with such requirements if all of their external directors have "professional qualifications" and one of their other independent directors has "accounting and financial expertise". Our Board of Directors has determined that Mr. Avraham Asheri, one of our other independent directors, has "accounting and financial expertise" and that Mr. David Rubner and Prof. Yair Tauman, our external directors, have "professional qualifications", and, therefore, we believe we satisfy these requirements.

Our Committees

The Board of Directors appoints committees to help carry out its duties. Each committee reports the results of its meetings to the full Board of Directors. The Board of Directors established its Audit Committee and Compensation Committee in 1999. Only non-employee directors serve on our Audit Committee and Compensation Committee.

Audit Committee

NASDAQ Requirements

Our ordinary shares are listed on the NASDAQ Global Select Market, and we are subject to the rules of the NASDAQ applicable to listed companies. Under the NASDAQ rules, we are required to have an audit committee consisting of at least three independent directors, all of whom are financially literate and one of whom has accounting or related financial management expertise.

Our Board has determined that all directors serving on our Audit Committee (Mr. Avraham Asheri, Mr. David Rubner, Dr. Hagen Hultsch and Prof. Yair Tauman) meet the independence standards required of Audit Committee members by the Securities Exchange Act of 1934 and the NASDAQ Marketplace Rules. In addition, the Board of Directors has determined that Mr. Avraham Asheri is considered an "audit committee financial expert" (as defined by SEC rules).

In accordance with the NASDAQ Marketplace Rules, the Audit Committee has adopted a charter that sets forth the Audit Committee's purpose and responsibilities, which include, among other things, (1) assisting the Board of Directors in fulfilling its responsibility for oversight of the quality and integrity of our accounting, auditing and financial reporting practices and financial statements and the independence qualifications and performance of our independent auditors, and (2) selecting, evaluating and, where appropriate, recommending to replace the independent auditors (or to nominate the independent auditors subject to shareholder approval) and to pre-approve audit engagement fees and all permitted non-audit services and fees. The Audit Committee must also review and approve all related party transactions specified under Item 7B of Form 20-F.

The Audit Committee also functions as our Qualified Legal Compliance Committee, or the QLCC. In its capacity as the QLCC, the Audit Committee is responsible for investigating reports made by attorneys appearing and practicing before the SEC in representing us of perceived material violations of U.S. federal or state securities laws, breaches of fiduciary duty or similar violations by us or any of our agents.

Israeli Companies Law Requirements

Under the Companies Law, our Audit Committee must be comprised of at least three directors, include all of the external directors, a majority of its members must satisfy the independence standards under the Companies Law, and the chairman thereof is required to be an external director.

In accordance with the Companies Law, the duties of our Audit Committee, in addition to the requirements imposed by the NASDAQ rules, include, among other things, to (1) identify irregularities in the business management of the Company, including in consultation with the internal auditor and/or the Company's independent accountants, and to recommend remedial measures to the Board of Directors, (2) review, and, where appropriate, approve certain interested party transactions specified under the Companies Law, as more fully described below under the heading "Approval of Specified Related Party Transactions under Israeli Law", and (3) examine and monitor the work of our internal auditor.

Compensation Committee

The Compensation Committee was created in 1999 as the Share Incentive Committee and was renamed the Compensation Committee in 2004. Pursuant to its charter, the Compensation Committee is authorized to make decisions regarding executive compensation and terms and conditions of employment, to follow market trends and provide recommendations to the Board of Directors in connection with the Company's general compensation philosophy and policies, as well as to recommend that the Board of Directors issue options under our stock option plans. The Compensation Committee reviews and determines, on behalf of the Board of Directors, the amounts and types of compensation to be paid to the Company's Chief Executive Officer and other executive officers.

The Compensation Committee currently consists of Mr. David Rubner and Prof. Yair Tauman, who are also our external directors, and Dr. Hagen Hultzsch, all of whom are independent directors.

Nomination of Directors

Our independent directors consider and vote upon nominations to our Board of Directors.

Board and Committee Meetings

Name of Body	No. of Meetings in 2011	Average Attendance Rate
Board of directors	7	95%
Audit committee	6	90%
Compensation committee	4	83%

Each director attended at least 75% of all Board meetings.

Directors' Service Contracts

Except as described in Item 6B above, we do not, as of the date of filing of this Annual Report, have service or employment contracts with our directors providing for benefits upon termination of employment.

Internal Auditor

Under the Companies Law, the board of directors of a public company must appoint an internal auditor proposed by the audit committee. The role of the internal auditor is to examine, among other things, whether the company's conduct complies with applicable law and orderly business procedure. The internal auditor may participate in all audit committee meetings and has the right to demand that the chairman of the audit committee convene a meeting. Under the Companies Law, the internal auditor may be an employee of the company but may not be an interested party, an office holder or a relative of any of the foregoing, nor may the internal auditor be the company's independent accountant or its representative. Mrs. Sharon Vitkovski-Tabib, CPA, of BDO Ziv Haft, CPAs, is our internal auditor.

Approval of Specified Related Party Transactions under Israeli Law

Fiduciary Duties of Office Holders

The Companies Law imposes a duty of care and a duty of loyalty on all office holders of a company.

The duty of care requires an office holder to act with the level of care with which a reasonable office holder in the same position would have acted under the same circumstances. The duty of care includes a duty to use reasonable means to obtain:

- Information regarding the advisability of a given action submitted for his or her approval or performed by him or her by virtue of his or her position; and
- All other important information pertaining to these actions.

The duty of loyalty of an office holder includes a duty to:

- Refrain from any conflict of interest between the performance of his/her duties in the company and the performance of his or her other duties or his or her personal affairs;
- Refrain from any activity that is competitive with the company;
- Refrain from exploiting any business opportunity of the company to receive a personal gain for himself/herself or others; and
- Disclose to the company any information or documents relating to the company's affairs which the office holder has received due to his/her position as an office holder.

Disclosure of Personal Interest of an Office Holder

The Companies Law requires that an office holder of a company disclose to the company any personal interest that he may have and all related material information known to him, in connection with any existing or proposed transaction by the company. The disclosure is required to be made promptly and in any event no later than the board of directors meeting in which the transaction is first discussed. If the transaction is an extraordinary transaction, the office holder's duty to disclose also applies to a personal interest of a relative of the office holder.

Under the Companies Law, an extraordinary transaction is a transaction:

- Other than in the ordinary course of business;
- Not on market terms; or
- That is likely to have a material impact on the company's profitability, assets or liabilities.

Once an office holder complies with the above disclosure requirement, the board of directors may approve a transaction between the company and an office holder, or a third party in which an office holder has a personal interest unless the articles of association provide otherwise. Nevertheless, a transaction that is adverse to the company's interest may not be approved.

If the transaction is an extraordinary transaction, approval is required of both the audit committee and the board of directors, in that order. Under specific circumstances, shareholder approval may also be required. A director 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, unless a majority of the members of the board of directors or the audit committee, as the case may be, has a personal interest in the matter. If a majority of members of the board of directors have a personal interest therein, shareholder approval is generally also required.

Under the Companies Law, all arrangements as to compensation of office holders in public companies such as ours generally require the approvals of the audit committee and the board of directors. Compensation of office holders who are directors must be also approved, subject to certain exceptions, by the shareholders.

Disclosure of Personal Interests of a Controlling Shareholder

Under the Companies Law, the disclosure requirements which apply to an office holder also apply to a controlling shareholder of a public company. A controlling shareholder is a shareholder who has the ability to direct the activities of a company, including a shareholder that owns 25% or more of the voting power in the company, if no other shareholder owns more than 50% of the voting power in the company, but excluding a shareholder whose power derives solely from his or her position on the board of directors or any other position with the company.

Extraordinary transactions of a public company with a controlling shareholder or with a third party in which a controlling shareholder has a personal interest, and the terms of engagement of a controlling shareholder as an office holder or employee, generally require the approval of the audit committee, the board of directors and the shareholders of the company in that order. The shareholder approval must be by a majority of the shares voted on the matter, provided that either:

- At least a majority of the shares of shareholders who have no personal interest in the transaction, and who are present and voting (in person, by proxy or by written ballot) vote in favor thereof; or
- The shareholders who have no personal interest in the transaction who vote against the transaction do not represent more than 2% of the voting power in the company.

In addition, any such extraordinary transaction whose term is longer than three years may require further shareholder approval every three years, unless, where permissible under the Companies Law, the audit committee approves that a longer term is reasonable under the circumstances.

General Duties of Shareholders

Under the Companies Law, each shareholder has a duty to act in good faith in exercising his rights and fulfilling his obligations toward the company and other shareholders and to refrain from abusing his power in the company, such as shareholder votes. Furthermore, specified shareholders have a duty of fairness toward the company. These shareholders include any controlling shareholder, any shareholder who knows that he/it possesses the power to determine the outcome of a shareholder vote, and any shareholder who, pursuant to the provisions of the articles of association, has the power to appoint or to prevent the appointment of an office holder or any other power toward the company.

D. Employees

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

The following table details certain data on our workforce (including temporary employees and subcontractors) as at the period indicated:

	As at December 31,		
	2011	2010	2009
<i>Approximate numbers of employees and subcontractors by geographic location</i>			
Israel	327	304	271
United States	120	116	107
Other	286(*)	299(*)	249(*)
Total workforce	733	719	627
<i>Approximate numbers of employees and subcontractors by category of activity</i>			
Research and development	306(*)	315(*)	253(*)
Sales, technical support, business development and marketing	340	323	292
Management, operations and administration	87	81	82
Total workforce	733	719	627

(*) Include 98, 108 and 72 subcontractors, as of December 31, 2011, 2010 and 2009, respectively.

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, our Israeli employees and we 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 governmental order. These provisions principally concern social benefits, cost of living increases, recreation pay and other conditions of employment. We generally provide our employees with benefits and working conditions above the required minimums.

Our employees are not represented by a labor union. The employees of our subsidiaries are subject to local labor laws, regulations and/or collective bargaining agreements that vary from country to country.

We consider our relations with our employees to be good, and we have never experienced a strike or work stoppage.

E. Share Ownership

The following table sets forth certain information regarding the beneficial ownership of our ordinary shares by our directors and officers as of March 25, 2012. The percentage of outstanding ordinary shares is based on 21,758,129 ordinary shares outstanding as of March 25, 2012.

Name	Number of ordinary shares	Percentage of outstanding ordinary shares
Yehuda Zisapel (1)	2,887,134	13.26%
Roy Zisapel (2)	1,368,083	6.09%
Meir Moshe (3)	*	*
Avraham Asheri (3)	*	*
Hagen Hultzs (3)	*	*
Yael Langer (3)	*	*
David Rubner (3)	*	*
Yair Tauman (3)	*	*
Ilan Kinreich (3)	*	*
Avi Chesla (3)	*	*
Sharon Trachtman (3)	*	*
Gadi Meroz (3)	*	*
Shai Schiller (3)	*	*
All directors and executive officers as a group (13 persons) (4)	4,415,049	19.53%

(1) Of the ordinary shares beneficially owned by Mr. Yehuda Zisapel, (i) 2,505,243 are held directly; (ii) 20,000 options to purchase ordinary shares are fully vested or will be fully vested within the next 60 days, at an exercise price of \$8.78 per share, expiring in September, 2014; (iii) 295,000 are held of record by Carm-AD Ltd., an Israeli company wholly-owned by Yehuda Zisapel; and (iv) 66,891 are held of record by Radbit Computers Inc. which is indirectly held by Yehuda Zisapel and his wife, Nava Zisapel. This information is based on information provided in the Amendment No.1 of Statement on Schedule 13D/A filed by Mr. Yehuda Zisapel on February 17, 2011.

(2) Consists of 668,083 shares and 700,000 options to purchase ordinary shares, which are fully vested or which will be fully vested within the next 60 days. The options consist of 200,000 options at an exercise price of \$8.78 per share which expire in September, 2014 and 500,000 options at an exercise price of \$15.22 per share which expire in December, 2014.

(3) Owns less than 1% of our outstanding ordinary shares (including options held by each such party, which are vested or shall become vested within 60 days of the date of this annual report) and have therefore not been separately disclosed.

(4) Consists of 3,571,049 shares and 844,000 options to purchase ordinary shares which are fully vested or which will be fully vested within the next 60 days. The options consist of 5,000 options at an exercise price of \$10.64 which expire in June, 2013, 10,000 options at an exercise price of \$6.77 which expire in January, 2014, 75,000 options at an exercise price of \$6.15 which expire in April, 2014, 240,000 options at an exercise price of \$8.78 which expire in September, 2014, 500,000 options at an exercise price of \$15.22 which expire in December, 2014, 4,000 options at an exercise price of \$23.87 which expire in June, 2015, and 10,000 options at an exercise price of \$34.58 which expire in December, 2015.

NASDAQ Listing Standards

Our ordinary shares are currently listed on the NASDAQ Global Select Market and are thereby subject to the rules and regulations established by the NASDAQ and applicable to listed companies. The Rule 5600 Series of the NASDAQ Stock Marketplace Rules imposes various corporate governance requirements on listed securities. Section (a)(3) of NASDAQ Marketplace Rule 5615 provides that foreign private issuers are required to comply with certain specific requirements of the Rule 5600 Series, but may comply with the laws of their home jurisdiction in lieu of the other requirements of the Rule 5600 Series and certain other enumerated rules. See “Item 16G – Corporate Governance” below for further information regarding our corporate governance practices as it relates to stock option plans.

Key Employee Share Incentive Plan

In August 1997, we adopted our Key Employee Share Incentive Plan (1997), or the Share Incentive Plan. Options granted pursuant to the Share Incentive Plan are for a term of sixty-two months from the date of the grant of the option. As of December 31, 2011, 11,097,318 ordinary shares have been reserved for option grants under the plan, of which we have granted options to purchase 10,722,828 ordinary shares at a weighted average exercise price of \$12.38 per ordinary share. We intend to grant further options under the Share Incentive Plan to our executive officers and employees.

The Share Incentive Plan is administered by the Compensation Committee subject to the provisions of the Companies Law. Pursuant to the plan, the Compensation Committee has the authority to determine (subject to applicable law), or advise the Board of Directors, 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 the Share Incentive Plan, all options, or shares issued upon exercise of options, are held in trust and registered in the name of a trustee who was selected by the Compensation Committee. The trustee will not release the options or ordinary shares to the option holder before the options are vested (unless pre-approved by us) or before the lapse of a longer period if so required under local tax laws and regulations. Our Board of Directors may terminate or amend the Share Incentive 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.

In order to comply with the provisions of Section 102 of the Israeli Income Tax Ordinance [New Version], 1961 (the “Tax Ordinance”), our Board of Directors adopted an addendum to the Share Incentive Plan with respect to options granted on or after January 1, 2003 to grantees who are residents of Israel.

On February 1, 2010, our Board of Directors adopted an additional addendum to the Share Incentive Plan allowing the allocation of short term options to grantees who are not residents of Israel or the United States, with a grant price of 90% of the closing sales price for the shares on the NASDAQ on the date of grant of a respective option award. As of December 31, 2011, 500,000 ordinary shares have been reserved for option grants under this addendum, of which we have granted options to purchase 118,347 ordinary shares at a weighted average exercise price of \$14.18 per ordinary share. This addendum does not affect the possibility of issuing options under the Share Incentive Plan as detailed above. However, any person who participates in the ESPP (as defined below) shall not be an eligible grantee for purposes of the additional addendum to the Share Incentive Plan.

Directors and Consultants Option Plan

In February 2000, we adopted a Directors and Consultants Option Plan, which is administered by our Compensation Committee. Options granted pursuant to our Directors and Consultants Options Plan are for a term of sixty-two months from the date of the grant of the option. The terms of the Directors and Consultants Option Plan are similar to the terms of the Share Incentive Plan. The Directors and Consultants Option Plan relies on the 11,097,318 ordinary shares reserved for option grants shares under the Share Incentive Plan which can be rolled over between such plans. The Compensation Committee may not grant options to members of the Committee or to a shareholder of over 10% of our issued and outstanding shares.

Employee Share Purchase Plan

In February 2010, our Board of Directors adopted the 2010 Employee Share Purchase Plan ("ESPP"), which provides for the issuance of a maximum of 1,000,000 ordinary shares. Pursuant to the ESPP, eligible employees (including only Israeli and United States residents) could have up to 10% of their net income withheld, up to certain maximums, to be used to purchase our ordinary shares. The ESPP is implemented with overlapping one year offering periods, each one consisting of two purchases, once in every six-month period. The price of each ordinary share purchased under the ESPP is equal to 90% of the closing price for the shares on the respective offering date. As of December 31, 2011, 127,780 shares have been purchased under the ESPP.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table sets forth certain information regarding the beneficial ownership of our ordinary shares as of March 25, 2012, by each person or entity known to own beneficially more than 5% of our outstanding ordinary shares based on information provided to us by the holders or disclosed in public filings with the SEC. The voting rights of all major shareholders are the same as for all other shareholders.

Name	Number of ordinary shares	Percentage of outstanding ordinary shares
Yehuda Zisapel (1)	2,887,134	13.26%
York Capital Management Global Advisors, LLC (2)	2,080,576	9.56%
Rima Management, LLC (3)	1,698,365	7.81%
Roy Zisapel (4)	1,368,083	6.09%
Federated Investors, Inc. (5)	1,391,438	6.40%
Cadian Capital Management, LLC (6)	1,107,866	5.09%

(1) Includes: (i) 2,505,243 ordinary shares held directly; (ii) 20,000 options to purchase ordinary shares which are fully vested or which will be fully vested within the next 60 days; (iii) 295,000 ordinary shares held of record by Carm-AD Ltd., an Israeli company wholly-owned by Yehuda Zisapel; and (iv) 66,891 ordinary shares held of record by Radbit Computers Inc., a New York corporation indirectly owned by Yehuda Zisapel and his wife, Nava Zisapel. This information is based on information provided in the Amendment No. 1 to Statement on Schedule 13D filed by Mr. Yehuda Zisapel on February 16, 2011. As of March 18, 2011 Mr. Zisapel owned 14.13% and as of April 10, 2010 Mr. Zisapel owned 16.91% of our outstanding shares.

(2) Shares are beneficially owned as follows: (i) 226,541 Ordinary shares directly owned by York Capital Management, L.P., a Delaware limited partnership ("York Capital"), the general partner of which is Dinan Management, L.L.C.; (ii) 411,041 Ordinary shares directly owned by York Multi-Strategy Master Fund, L.P., a Cayman Islands exempted limited partnership ("York Multi-Strategy"), the general partner of which is Dinan Management, L.L.C.; (iii) 470,880 Ordinary shares directly owned by York Select, L.P., a Delaware limited partnership ("York Select"), the general partner of which is York Select Domestic Holdings, LLC; (iv) 403,286 Ordinary shares directly owned by York Select Master Fund, L.P., a Cayman Islands exempted limited partnership ("York Select Master"), the general partner of which is York Select Domestic Holdings, LLC; (v) 105,547 Ordinary shares directly owned by York Global Value Master Fund, L.P., a Cayman Islands exempted limited partnership ("York Global Value"), the general partner of which is York Global Value Holdings, LLC; (vi) 23,111 Ordinary shares directly owned by Jorvik Multi-Strategy Master Fund, L.P., a Cayman Islands exempted limited partnership ("Jorvik"), the general partner of which is Dinan Management, L.L.C.; and (vii) 440,170 Ordinary shares directly owned by certain accounts (the "Managed Accounts") managed by York Managed Holdings, LLC ("York Managed Holdings") or York UCITS Holdings, LLC ("York UCITS Holdings"). York Capital Management Global Advisors, LLC, a New York limited liability company ("YGA"), the sole managing member of the general partner of each of York Capital, York Multi-Strategy, York Select, York Select Master, York Global Value and Jorvik and the sole managing member of York Managed Holdings and York UCITS Holdings, exercises investment discretion over such investment funds and the Managed Accounts and accordingly may be deemed to have beneficial ownership over the Ordinary shares directly owned by such investment funds and the Managed Accounts. This information is based on information provided in the Statement on Schedule 13G filed with the SEC by YGA on February 14, 2012. As of February 10, 2011, YGA and its related entities owned 9.67% of our outstanding ordinary shares. Prior to this, YGA had not publicly disclosed any beneficial ownership of our ordinary shares.

(3) Shares are beneficially owned by Rima Senvest Management, LLC, a Delaware corporation (“Rima”), and Richard Mashaal, a Canadian citizen. This information is based on information provided in the Amendment No. 5 to Statement on Schedule 13G filed with the SEC by Mr. Mashall and Rima on February 14, 2012. Based on previous amendments to the Schedule 13G filed with the SEC by Mr. Mashall and Rima, Rima beneficially owned, as of March 18, 2011, 7.35% of our outstanding ordinary shares and, as of April 10, 2010, 9.77% of our outstanding ordinary shares.

(4) Includes: (i) 668,083 ordinary shares held directly; and (ii) 700,000 options to purchase ordinary shares, which are fully vested or which will be fully vested within the next 60 days.

(5) Shares are beneficially owned by Federated Investors, Inc. (the “Parent”) the parent holding company of Federated Equity Management Company of Pennsylvania and Federated Global Investment Management Corp. (the “Investment Advisers”), which act as investment advisers to registered investment companies and separate accounts that own our ordinary shares of common stock. The Investment Advisers are wholly owned subsidiaries of FII Holdings, Inc., which is a wholly owned subsidiary of Federated Investors, Inc., the Parent. All of the Parent’s outstanding voting stock is held in the Voting Shares Irrevocable Trust (the “Trust”) for which John F. Donahue, Rhodora J. Donahue and J. Christopher Donahue act as trustees (collectively, the “Trustees”). This information is based on information provided in the Amendment No. 4 to Statement on Schedule 13G filed with the SEC by Parent, the Trust and the Trustees on February 9, 2012. Based on previous amendments to the Schedule 13G filed with the SEC by Federated Investors, Inc., it beneficially owned, as of March 18, 2011, 7.48% of our outstanding ordinary shares, and as of April 10, 2010, 10.05% of our outstanding ordinary shares.

(6) This information is based on information provided in the Amendment No. 1 to Statement on Schedule 13G filed with the SEC by Cadian Capital Management, LLC and Mr. Eric Bannasch on February 14, 2012. Based on the Schedule 13G previously filed with the SEC by Cadian and Mr. Bannasch, they beneficially owned, as of March 18, 2011, 5.22% of our outstanding ordinary shares.

Major Shareholders Voting Rights

Our major shareholders do not have different voting rights from those of other shareholders.
Record Holders

Based on a review of the information provided to us by our transfer agent, as of March 26, 2012, there were 30 holders of record of our ordinary shares, of which 16 record holders, holding approximately 12.14% of our ordinary shares, had registered addresses in Israel, and of which 12 record holders, holding approximately 87.86% of our ordinary shares, had registered addresses in the United States. These numbers are not representative of the number of beneficial holders of our ordinary shares nor is it representative of where such beneficial holders reside, since many of these ordinary shares were held of record by brokers or other nominees (including one U.S. nominee company, CEDE & Co., which held approximately 87.86% of our outstanding ordinary shares as of said date).

B. Related Party Transactions

We have entered into a number of agreements with certain companies, of which Yehuda and Zohar Zisapel are co-founders, directors and/or principal stockholders, collectively known as the RAD-Bynet Group. Of these agreements, the lease for our headquarters in Tel Aviv is material to our operations. We believe that the terms of the transactions to which we have entered with members of the RAD-Bynet Group are not different in any material respect from terms we could obtain from unaffiliated third parties. The pricing of the transactions was based on negotiations between the parties. Members of our management reviewed the pricing of the lease agreement, as well as, in some cases, used a third-party consulting firm, and confirmed that it was not different in any material respect than that which could have been obtained from unaffiliated third parties.

In addition, the Company purchases different services from third parties at special rates offered to the RAD-Bynet Group, such as car leases, maintenance, insurance and communication services. In the event that we cease to be a member of the RAD-Bynet Group, we may not be able to obtain the current rates for such services. We believe, however, that due to the affiliation between us and the RAD-Bynet Group, we have greater flexibility in obtaining certain terms and conditions that may not be available from unaffiliated third parties on similar products and services.

The RAD-Bynet Group consists of high-tech manufacturers of hardware and software products and data communication providers and distributors. The RAD-Bynet Group includes approximately 20 different companies dealing in advanced communication technology, networks, and integration. Companies within the RAD-Bynet Group provide a variety of services to their customers, including: engineering, purchasing and sub-contracting, production and final testing, planning and control, and support for end users. The RAD-Bynet Group also includes a few companies which provide services in order to support the activities of the other RAD-Bynet Group members, such as real estate leasing and administrative services. Each company in the RAD-Bynet Group is independent from the others. The ownership and Board of Directors structure of each RAD-Bynet Group member is different and certain of the RAD-Bynet Group members are publicly traded companies.

All transactions and arrangements with affiliated parties, including other members of the RAD-Bynet Group, require the approval of our Audit Committee and our Board of Directors and may, in certain circumstances, require approval by our shareholders.

Lease of Property

We lease the office space for our headquarters and principal R&D, administrative, finance and marketing and sales operations from private companies within the RAD-Bynet Group that are owned by Messrs. Zohar Zisapel and Yehuda Zisapel:

- One lease (the "Headquarters Lease") is a five-story building in Tel Aviv, Israel, consisting of approximately 36,000 square feet, plus storage and parking space. The lease expires in November 2012. The annual rent amounts to approximately \$644,000.
- The second lease consists of two floors in the Or Tower in Tel Aviv, Israel with approximately 30,000 square feet, plus parking spaces. The lease expires in May 2014. The annual rent for such 2 floors amounts was approximately \$644,000 until June 2011, and increased to approximately \$647,000 in June 2011.

In addition, we lease approximately 6,300 square feet of space in Jerusalem, Israel, for development facilities from an affiliated company owned by Messrs. Yehuda and Zohar Zisapel. This lease expires in February 2014. The annual rent amounts to approximately \$115,300.

We entered into an agreement with RAD Data Communications, Inc., a company controlled by Yehuda and Zohar Zisapel, pursuant to which we lease approximately 14,800 square feet in Mahwah, New Jersey, consisting of approximately 10,600 square feet of office space and 4,300 square feet of warehouse space, in consideration for annual rent of approximately \$226,000 (including taxes, electricity and management fees). The lease expires on April 20, 2012. We have exercised an option to extend such lease for an additional period of one year. During the extended period, the annual rent amounts to approximately \$226,000.

Distribution Agreement

Bynet Data Communications Ltd., a member of the RAD-Bynet Group, distributes our products in Israel on a non-exclusive basis. We have a written distributor agreement with Bynet Data Communications Ltd. under which we provide Bynet Data Communications with discounts similar to the discounts provided to third-party distributors in the region in the ordinary course of business. The total sales to Bynet Data Communications (and other companies in the RAD-Bynet Group) amounted to approximately \$6.2 million in 2011 and \$0.7 million during the first quarter of 2012.

Additional RAD-Bynet Group Services

The Company receives the following additional services from members of the RAD-Bynet Group: network management; information technology and communication services; equipment testing and repair; electricity charges; parking and building maintenance; reception services; vehicles and human resource administration; distribution services; and marketing services. Each of these additional services is not material, individually or in the aggregate, to the Company or the RAD-Bynet Group.

A portion of the above services, such as electricity charges, are “pass through” services for which we are charged on a “back-to-back” basis according to our actual usage (i.e., we are charged pro ratably based on the actual charge of the third party electricity company) due to the fact that we lease part of our facilities from a number of other RAD-Bynet Group members. Other services mentioned above, such as vehicles and human resource administration, are performed by one of the RAD-Bynet Group companies and are provided to all members of the RAD-Bynet Group, in order to achieve lower prices for these services based on economies of scale. In addition, since the RAD-Bynet Group is comprised of a number of companies which are engaged in our industry, the RAD-Bynet Group initiates marketing events from time to time, which we participate in, to promote the RAD-Bynet Group members’ products. The charges for these services are based on actual costs incurred and are allocated to the Company according to its relative part in such services (e.g., vehicles administration – according to the number of the Company’s vehicles out of the total vehicles of the RAD-Bynet Group; marketing events – according to the number of participants of the Company’s customers out of the total participants in the events).

All other services, such as communication and distribution services are provided to the Company on the same basis and terms as provided to unrelated companies outside the RAD-Bynet Group, and were compared to prices the Company could have obtained from unaffiliated third parties and were found to be equal or less expensive. All services are charged on a monthly basis and on terms which are generally typical for other third party providers of the Company.

Compensation of Chief Executive Officer

See discussion in Item 6A “Directors, Senior Management and Employees – Directors and Senior Management”.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and other Financial Information

Financial Statements

See “Item 18 - Financial Statements”.

Export Sales

For the year ended December 31, 2011, the amount of our export sales (i.e., sales outside Israel) was approximately \$164 million, which represents 98% of our total sales.

Legal Proceedings

We are, or may be, from time to time named as a defendant in certain routine litigation incidental to our business. However, we are currently not, and have not been in the recent past, a party to any legal proceedings which may have or have had in the recent past significant effects on our financial position or profitability, other than as set forth below.

Class Action

In December 2001, we, our Chairman Yehuda Zisapel, our President, Chief Executive Officer and Director Roy Zisapel and our Chief Financial Officer Meir Moshe (the "Individual Defendants") and several underwriters in the syndicates for our September 30, 1999 initial public offering and January 24, 2000 secondary offering, were named as defendants in a class action complaint alleging violations of the federal securities laws in the United States District Court for the Southern District of New York (the "district court"). The complaint sought unspecified damages as a result of alleged violations of Section 11 of the Securities Act of 1933, as amended (the "Securities Act") against all the defendants and Section 15 of the Securities Act against the Individual Defendants arising from activities purportedly engaged in by the underwriters in connection with our initial public offering and secondary offering. Plaintiffs allege that the underwriter defendants agreed to allocate stock in our initial public offering and secondary offering to certain investors in exchange for excessive and undisclosed commissions and agreements by those investors to make additional purchases of stock in the aftermarket at pre-determined prices. An amended complaint filed on April 19, 2002, which is now the operative complaint, added a claim under Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") against us and a claim under Section 20(a) of the Exchange Act against the Individual Defendants. Plaintiffs allege that the prospectuses for our initial public offering and secondary offering were false and misleading because they did not disclose these arrangements. The action is being coordinated with approximately three hundred other nearly identical actions filed against other companies before one judge in the district court. On October 9, 2002, the Court dismissed the Individual Defendants from the case without prejudice. This dismissal disposed of the Section 15 and 20(a) control person claims without prejudice, since these claims were asserted only against the Individual Defendants.

On December 5, 2006, the United States Court of Appeals for the Second Circuit (the "Second Circuit") vacated a decision by the district court granting class certification in six "focus" cases, which are intended to serve as test cases. Plaintiffs selected these six cases, which do not include us. On April 6, 2007, the Second Circuit denied a petition for rehearing filed by the plaintiffs, but noted that the plaintiffs could ask the district court to certify more narrow classes than those that were rejected.

Prior to the Second Circuit's decision, the majority of issuers, including the Company, had submitted a settlement agreement to the district court for approval. In light of the Second Circuit opinion, the parties agreed that the settlement could not be approved. On June 25, 2007, the district court approved a stipulation filed by the plaintiffs and the issuers that terminated the proposed settlement. On August 14, 2007, the plaintiffs filed amended complaints in the six focus cases. The six focus case issuers and the underwriters named as defendants in the focus cases filed motions to dismiss the amended complaints against them on November 14, 2007. On September 27, 2007, the plaintiffs filed a motion for class certification in the six focus cases. On March 26, 2008, the district court dismissed the Section 11 claims of those members of the putative classes in the focus cases who sold their securities for a price in excess of the initial offering price and those who purchased outside the previously certified class period. With respect to all the other claims, the motions to dismiss were denied. On October 10, 2008, at the request of Plaintiffs, Plaintiffs' motion for class certification was withdrawn, without prejudice.

The parties in the approximately 300 coordinated class actions, including Radware, the underwriter defendants in the Radware class action, and the plaintiffs in the Radware class action, have reached a settlement. The insurers for the issuer defendants in the coordinated cases will make the settlement payment on behalf of the issuers, including Radware. On October 5, 2009, the court granted final approval of the settlement and judgment was entered on January 10, 2010. A group of three objectors filed a petition to the Second Circuit seeking permission to appeal the District Court's final approval order on the basis that the settlement class is broader than the class previously rejected by the Second Circuit in its December 5, 2006 order vacating the District Court's certifying classes in the focus cases. Plaintiffs have filed an opposition to the petition. In addition, six notices of appeal to the Second Circuit have been filed by different groups of objectors, including the objectors that filed the petition to appeal. Two appeals proceeded. One appeal was dismissed and the second appeal was remanded to the district court for further proceedings. The district court ruled that the appellant lacked standing to appeal. The appellant appealed the district court decision to the Second Circuit. Subsequently, the class plaintiffs and the appellant entered into a settlement agreement pursuant to which the appellant withdrew and dismissed his appeal with prejudice. The settlement is therefore final and the case is concluded.

SNMP Intellectual Property Claim

In November 2011, SNMP Research International, Inc. and SNMP Research, Inc. commenced a lawsuit in the United States Bankruptcy Court for the District of Delaware against Nortel Networks, Inc. (and certain of its affiliates entities), Genband US LLC, GENBAND, Inc., Performance Technologies, Inc., Perftech (PTI) Canada, Avaya, Inc. and Radware, Ltd. The complaint alleges that we have infringed certain of SNMP's copyrights, misappropriated certain of SNMP's trade secrets, were unjustly enriched, and converted certain of SNMP's intellectual property. SNMP has asserted that as part of our acquisition of the Layer 4-7 Application Delivery business from Nortel Networks in March 2009, we received certain intellectual property of SNMP Research that was embedded in the Layer 4-7 business. The complaint does not specify the amount of damages and requests that such amount be determined at trial. We conducted an analysis, and based on that analysis we advised SNMP Research that we did not receive any of its intellectual property as part of the acquisition. We are currently awaiting a response from SNMP. If SNMP Research does not dismiss the lawsuit, we intend to vigorously defend the litigation which is in a preliminary stage, and we cannot estimate what impact, if any, the litigation may have on our results of operations, financial condition or cash flows.

Israeli Tax Authority Assessment Proceedings

In December 2010, following an audit of our Israeli tax returns for the 2004 and 2005 fiscal years, the Israeli Tax Authority ("ITA") issued orders challenging our positions on several matters and demanded the payment of additional taxes in the aggregate amount of NIS 16.1 million (approximately \$4.3 million) for 2004 and NIS 15.5 million (approximately \$4.1 million) for 2005, including interest as of the assessment date.

In addition, in January 2012, following an audit of our Israeli tax returns for the 2006 through 2008 fiscal years, the ITA issued orders challenging our positions on several matters and demanded the payment of additional taxes in the aggregate amount of NIS 25.2 million (approximately \$6.7 million) for 2006 and NIS 8.1 million (approximately \$2.2 million) for 2008, including interest as of the assessment date.

We have appealed the orders relating to the four years mentioned above with the Tel Aviv District court, and these appeals are currently pending.

There can be no assurance that the courts will accept our positions on matters raised, and in such an event, we may be required to pay all or a portion of the amounts of these orders. Such a payment could result in a material adverse effect on our financial condition and results of operations.

Dividend Distribution Policy

We have never paid and do not intend to pay cash dividends on our ordinary shares in the foreseeable future. While we may engage from time to time in "buy-back" programs of our shares, our policy is to retain earnings and other cash resources to continue the development and expansion of our business. Any future dividend policy will be determined by our Board of Directors and will be based upon conditions then existing, including our results of operations, financial condition, current and anticipated cash needs, contractual restrictions and other conditions. *See also Item 10B "Dividend and Liquidation Rights."*

B. Significant Changes

Except as otherwise disclosed in this annual report, we are not aware of any significant changes that have occurred since the date of the audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Our ordinary shares have been listed for quotation on the NASDAQ Global Select Market since September 30, 1999 under the symbol "RDWR". From May 12, 2004 to March 8, 2009, our ordinary shares were also listed on the Tel Aviv Stock Exchange, or TASE. We voluntarily delisted our ordinary shares from the TASE primarily due to low trading volume.

The following table sets forth the high and low closing price for our ordinary shares as reported by the NASDAQ Global Select Market and TASE for the periods indicated:

Annual High and Low	NASDAQ Global Select Market		Tel Aviv Stock Exchange	
	High	Low	High	Low
2007	\$ 16.92	\$ 12.31	NIS 67.97	NIS 49.64
2008	\$ 14.84	\$ 4.99	NIS 59.40	NIS 18.11
2009	\$ 15.12	\$ 5.15	N/A	N/A
2010				
First Quarter	\$ 22.31	\$ 14.92	N/A	N/A
Second Quarter	\$ 23.87	\$ 18.21	N/A	N/A
Third Quarter	\$ 38.59	\$ 19.64	N/A	N/A
Fourth Quarter	\$ 39.77	\$ 30.53	N/A	N/A
ANNUAL	\$ 39.77	\$ 14.92	N/A	N/A
2011				
First Quarter	\$ 42.73	\$ 34.28	N/A	N/A
Second Quarter	\$ 36.82	\$ 31.40	N/A	N/A
Third Quarter	\$ 36.11	\$ 21.59	N/A	N/A
Fourth Quarter	\$ 31.15	\$ 19.81	N/A	N/A
ANNUAL	\$ 42.73	\$ 19.81	N/A	N/A
Most recent six months				
2011				
October	\$ 27.37	\$ 19.81	N/A	N/A
November	\$ 27.62	\$ 25.50	N/A	N/A
December	\$ 31.15	\$ 26.69	N/A	N/A
2012				
January	\$ 31.95	\$ 28.95	N/A	N/A
February	\$ 34.03	\$ 31.88	N/A	N/A
March (*)	\$ 35.80	\$ 32.87	N/A	N/A

*Through March 25, 2012

B. Plan of Distribution

Not applicable.

C. Markets

Our ordinary shares are listed for quotation on the NASDAQ Global Select Market under the symbol "RDWR".

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Set out below is a description of certain provisions of our Memorandum of Association and Articles of Association, and of the Companies Law related to such provisions. This description is only a summary and does not purport to be complete and is qualified by reference to the full text of the Memorandum and Articles which are incorporated by reference to exhibits to this annual report and by Israeli law.

We were first registered under Israeli law on May 16, 1996 as a private company, and on November 18, 1999 became a public company. Our registration number with the Israeli registrar of companies is 52-004437-1.

Objects and Purposes

Pursuant to our Articles of Association, our objective is to engage, directly or indirectly, in any lawful undertaking or business whatsoever, including, without limitation, as stipulated in our Memorandum of Association, which was filed with the Israeli Registrar of Companies.

Shares; Transfer of Shares

Our registered capital is divided into 30,000,000 ordinary shares of nominal (par) value NIS 0.10 each. There are no other classes of shares. All of our outstanding shares are fully paid and non-assessable. The shares do not entitle their holders to preemptive rights and fully paid ordinary shares may be freely transferred pursuant to our Articles of Association unless such transfer is restricted or prohibited by another instrument.

Dividend and Liquidation Rights

According to the Israeli Companies Law, a company may distribute dividends only out of its "profits," as such term is defined in the Israeli Companies Law, as of the end of the most recent fiscal year or as accrued over a period of two years, whichever is higher. Our Board of Directors is authorized to declare dividends, provided that there is no reasonable concern that payment of the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due, and provided further that our shareholders approve the final dividend declared by the Board of Directors, in an amount not to exceed the Board of Directors' recommendation. Notwithstanding the foregoing, even where there are no sufficient profits, dividends may be paid with the approval of a court, provided that there is no reasonable concern that payment of the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. Profits, for purposes of the Israeli Companies Law, means the greater of retained earnings or earnings accumulated during the preceding two years, after deduction of previous distributions that were not already deducted from the surplus, as evidenced by financial statements prepared no more than six months prior to the date of distribution.

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 their respective holdings. This liquidation right may be affected by the grant of preferential dividends or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

Voting, Shareholders' Meetings and Resolutions

We have two types of general shareholder meetings: the annual general meeting and the extraordinary general meeting. An annual general meeting must be held once in every calendar year, but not more than 15 months after the last annual general meeting. The Board of Directors may convene an extraordinary general meeting whenever it deems fit, and is obliged to do so upon the request of any of: (i) two directors or one fourth of the then serving directors; (ii) one or more shareholders who hold at least 5% of the issued share capital and at least 1% of the voting rights; or (iii) one or more shareholders who hold at least 5% of the voting rights.

In accordance with our Articles of Association, unless a longer period for notice is prescribed by the Israeli Companies Law, at least seven days and not more than forty-five days' notice of any general meeting of shareholders must be given. Under the Companies Law, shareholder meetings generally require prior notice of not less than 21 days or, with respect to certain matters, such as election of directors and affiliated party transactions, not less than 35 days.

Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. A shareholder may only vote the shares for which all calls have been paid, except in separate general meetings of a particular class.

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 35% of the outstanding voting shares unless otherwise required by applicable rules. A meeting adjourned for lack of a quorum, if convened upon requisition under the provisions of the Companies Law, shall be dissolved, but in any other case is adjourned to the same day in the following week at the same time and place or any time and place as the chairman may designate with the consent of a majority of the voting power represented at the meeting and voting on the matter adjourned. At such reconvened meeting, the required quorum consists of any two members present in person or by proxy.

Under the Companies Law, unless otherwise provided in the Articles of Association or applicable law, all resolutions of the shareholders require a simple majority of the shares present, in person or by proxy, and voting on the matter. However, our articles of association require approval of at least 75% of the shares present and voting to increase our share capital or to change its structure, grant any special rights to the holders of a class of shares with preferential rights or change such rights previously granted or remove directors from office.

Subject to the Companies Law, a resolution in writing signed by the holders of all of our ordinary shares entitled to vote at a meeting of shareholders or to which all such shareholders have given their written consent is required to adopt the resolution in lieu of a meeting.

General Duties of Shareholders

Under the Companies Law, each and every shareholder has a duty to act in good faith in exercising his rights and fulfilling his obligations towards the company and other shareholders and refrain from abusing his power in the company, such as in 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 certain related party transactions and actions, which require shareholder approval pursuant to the Companies Law.

In addition, each and every shareholder has the general duty to refrain from depriving rights of other shareholders.

Furthermore, any controlling shareholder, any shareholder who knows that it possesses the power to determine the outcome of a shareholder vote and any shareholder that, pursuant to the provisions of the articles of association, has the power to appoint or to prevent the appointment of an office holder in the company or any other power toward the company is under a duty to act in fairness towards the company. These various shareholder duties may restrict the ability of a shareholder to act in what the shareholder perceives to be its own best interests.

Restrictions on Non-Israeli Residents

The ownership or voting of our ordinary shares by non-residents of Israel, except with respect to citizens of countries which are in a state of war with Israel, is not restricted in any way by our Memorandum of Association or Articles of Association or by the laws of the State of Israel.

Mergers and Acquisitions under Israeli Law

There are no specific provisions of our Memorandum or Articles of Association that would have an effect of delaying, deferring or preventing a change in control of us or that would operate only with respect to a merger, acquisition or corporate restructuring involving us (or any of our subsidiaries), except those relating to the staggered board as described in Item 6 above and certain provisions of the Companies Law described below, which may have such effect.

The Israeli Companies Law includes provisions that allow a merger transaction and requires that each company that is party to a merger approve the transaction by its board of directors and a vote of the majority of its shares, voting on the proposed merger at a shareholders meeting. For purposes of the shareholder vote, unless a court rules otherwise, the merger will not be deemed approved if shares, representing a majority of the voting power present at the shareholders meeting and which are not held by the other party to the merger (or by any person who holds 25% or more of the voting power of the right to appoint 25% or more of the directors of the other party), vote against the merger. Upon the request of a creditor of either party of the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, a merger may not be completed unless at least (i) 50 days have passed from the time that a proposal of the merger has been filed with the Israeli Registrar of Companies by each merging company and (ii) 30 days have passed since the merger was approved by the shareholders of each merging company.

In addition, provisions of the Companies Law that deal with "arrangements" between a company and its shareholders may be used to effect squeeze-out transactions in which the target company becomes a wholly-owned subsidiary of the acquirer. These provisions generally require that the merger be approved by a majority of the participating shareholders holding at least 75% of the shares voted on the matter. In addition to shareholder approval, court approval of the transaction is required, which entails further delay. The Companies Law also provides for a merger between Israeli companies, after completion of the above procedure for an "arrangement" transaction and court approval of the merger.

The Companies Law also provides that an acquisition of shares of a public company must be made by means of a "special" tender offer if as a result of the acquisition (1) the purchaser would become a 25% or greater shareholder of the company and there is no 25% or greater shareholder in the company, or (2) the purchaser would become a 45% or greater shareholder of the company and there is no 45% or greater shareholder in the company. These requirements do not apply if, in general, the acquisition (1) was made in a private placement that received shareholder approval, (2) was from a 25% or greater shareholder of the company which resulted in the acquirer becoming a 25% or greater shareholder of the company, or (3) was from a 45% or greater shareholder of the company which resulted in the acquirer becoming a 45% or greater shareholder of the company. A "special" tender offer must be extended to all shareholders, but the offeror is not required to purchase more than 5% of the company's outstanding shares, regardless of how many shares are tendered by shareholders. In general, the tender offer may be consummated only if (i) at least 5% of the company's outstanding shares will be acquired by the offeror and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

If, as a result of an acquisition of shares, the acquirer will hold more than 90% of a company's outstanding shares, the acquisition must be made by means of a tender offer for all of the outstanding shares. In general, if less than 5% of the outstanding shares are not tendered in the tender offer and more than half of the offerees who have no personal interest in the offer tendered their shares, all the shares that the acquirer offered to purchase will be transferred to it. Shareholders may request appraisal rights in connection with a full tender offer for a period of six months following the consummation of the tender offer, but the acquirer is entitled to stipulate that tendering shareholders will forfeit such appraisal rights.

Finally, Israeli tax law treats stock-for-stock acquisitions between an Israeli company and a foreign company less favorably than does U.S. tax law. For example, Israeli tax law subjects a shareholder who exchanges his ordinary shares for shares in another corporation to taxation on half the shareholder's shares two years following the exchange and on the balance four years thereafter even if the shareholder has not yet sold the new shares.

Modification of Class Rights

Our Articles of Association provide that 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 seventy-five percent of the issued shares of that class, or by adoption by the holders of seventy-five percent of the shares of that class at a separate class meeting. Subject thereto, the conditions imposed by our Articles of Association governing changes in the rights of any class of shares, are no more stringent than is required by Israeli law.

Board of Directors

According to the Companies Law and our Articles of Association, the management of our business is vested in our Board of Directors. Our Articles of Association provide that the Board of Directors shall consist of not less than five and not more than nine directors as shall be determined by our shareholders (in October 2006 our shareholders fixed the maximum size of our Board of Directors at nine members). In accordance with our Articles of Association, our Board of Directors (other than our external directors) is divided into three classes with each class serving until the third annual meeting following their election, as more fully described in "Item 6– Directors, Senior Management and Employees – Board Practices – Staggered Board." There is no requirement under our Articles of Association or under Israeli law for directors to retire on attaining a specific age. Our Articles of Association do not require directors to hold our ordinary shares to qualify for election.

The Board of Directors may exercise all such powers and may take all such actions that are not specifically granted to our shareholders. As part of its powers, our Board of Directors may cause the Company to borrow or secure payment of any sum or sums of money for the purposes of the Company, at such times and upon such terms and conditions as it thinks fit, including the grants of security interests on all or any part of the property of the Company. In addition, the Companies Law requires that transactions between a company and its office holders (which term includes directors) or that benefit its office holders, including arrangements as to the compensation of office holders, be approved as provided for in the Companies Law and the company's Articles of Association, as more fully described in Item 6C under "Approval of Specified Related Party Transactions Under Israeli Law".

A resolution proposed at any meeting of the Board of Directors shall be deemed adopted if approved by a majority of the directors present and voting on the matter.

Exculpation, Insurance and Indemnification

Exculpation of Office Holders

Under the Companies Law, an Israeli company may not exempt an office holder from liability for a breach of his or her duty of loyalty, but may exempt in advance an office holder from his or her liability to the company, in whole or in part, for a breach of his duty of care (except in connection with distributions), provided that the articles of association of the company allow it to do so. Our Articles of Association allow us to exempt our office holders to the maximum extent permitted by law.

Insurance of Office Holders

As permitted by the Companies Law, our Articles of Association provide that we may enter into a contract for the insurance of the liability of any of our office holders, with respect to an act performed in the capacity of an office holder for:

- a breach of his or her duty of care to us or to another person;
- a breach of his or her duty of loyalty to us, provided that the office holder acted in good faith and had reasonable cause to assume that his or her act would not prejudice our interests;
- a financial liability imposed upon him or her in favor of another person;
- expenses he or she incurs as a result of administrative proceedings that may be instituted against him or her under Israeli securities laws, if applicable, and payments made to injured persons under specific circumstances thereunder; and
- any other matter in respect of which it is permitted or will be permitted under applicable law to insure the liability of an office holder in the Company.

Indemnification of Office Holders

As permitted by the Companies Law, our Articles of Association provide that we may indemnify any of our office holders against the following obligations and expenses imposed on the office holder with respect to an act performed in the capacity of an office holder:

- a financial liability incurred by, or imposed on him or her in favor of another person by a court judgment, including a settlement or an arbitration award approved by the court. Such indemnification may be approved (i) after the liability has been incurred or (ii) in advance, provided that our undertaking to indemnify is limited to events that our Board of Directors believes are foreseeable in light of our actual operations at the time of providing the undertaking and to a sum or criterion that our Board of Directors determines to be reasonable under the circumstances;
- reasonable litigation expenses, including attorney's fees, expended by the office holder as a result of an investigation or proceeding instituted against him or her by a competent authority, provided that such investigation or proceeding either (A) concluded without the filing of an indictment against him or her or (B) concluded with the imposition of financial liability in lieu of criminal proceedings other than with respect to a criminal offense that does not require proof of criminal intent or in connection with a financial sanction;
- reasonable litigation expenses, including attorneys' fees, expended by the office holder or charged to him or her by a court in connection with proceedings we institute against him or her or instituted on our behalf or by another person, a criminal indictment from which he or she was acquitted, or a criminal indictment in which he or she was convicted for a criminal offense that does not require proof of criminal intent;
- expenses he or she incurs as a result of administrative proceedings that may be instituted against him or her under Israeli securities laws, if applicable, and payments made to injured persons under specific circumstances thereunder; and
- any other matter in respect of which it is permitted or will be permitted under applicable law to indemnify an office holder in the Company.

Limitations on Insurance and Indemnification

The Companies Law provides that a company may not indemnify an office holder, or 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 or her duty of loyalty unless, with respect to indemnification or insurance coverage, the office holder 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 or her duty of care if the breach was done intentionally or recklessly unless the breach was done negligently;

- Any act or omission done with the intent to derive an illegal personal benefit; or
- Any fine levied against the office holder.

In addition, under the Companies Law, indemnification of, and procurement of insurance coverage for, our office holders must be approved by our Audit Committee and our Board of Directors and, if the beneficiary is a director, by our shareholders.

We currently hold directors and officers liability insurance for the benefit of our office holders. In addition, we provide our directors and officers indemnification pursuant to the terms of a Letter of Indemnification substantially in the form approved by our shareholders.

C. Material Contracts

On February 19, 2009 we entered into an asset purchase agreement (“APA”) with Nortel, whereby we agreed to purchase certain assets, including intellectual property, inventory and service contracts related to Nortel’s Layer 4-7 Application Delivery Business, for \$18.0 million in cash and hire certain Nortel employees dedicated to the purchased product line. The Application Delivery Business was acquired by Nortel in 2000 by way of its corporate acquisition of Alteon WebSystems, Inc. The APA contains very limited ongoing representations and undertakings by Nortel with respect to the purchased assets and assumed liabilities. Since the consummation of the transaction on March 31, 2009 Radware has offered Nortel’s application delivery products under a merged brand, Radware Alteon.

The foregoing description of the APA is only a summary and does not purport to be complete and is qualified by reference to the full text of the agreement filed by us as Exhibit 4.6 in Item 19.

See the summary of the terms of the Headquarters Lease in “Item 7B – Major Shareholders and Related Party Transactions – Related Party Transactions – Lease of Property”.

D. Exchange Controls

There are currently no Israeli currency control restrictions on payments of dividends or other distributions with respect to our ordinary shares or the proceeds from the sale of the shares, except for the obligation of Israeli residents to file reports with the Bank of Israel regarding certain transactions. However, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

E. Taxation

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

Israeli Tax Considerations

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

General Corporate Tax Structure

Generally, Israeli companies are subject to “Corporate Tax” on their taxable income at the rate of 24% for the 2011 tax year and 25% for the 2012 tax year. Following an amendment to the Tax Ordinance, which came into effect on January 1, 2012, the Corporate Tax rate is scheduled to remain at a rate of 25% for future tax years. Israeli companies are generally subject to Capital Gains Tax at the corporate tax rate. However, the effective tax rate payable by a company which derives income from an approved enterprise (as further discussed below) may be considerably less.

The law before the amendment of 2005

The Law for the Encouragement of Capital Investments, 1959, as in effect prior to April 1, 2005 (the "Investments Law"), provided 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 based its decision as to whether or not to approve an application, among other things, on the criteria set forth in the Investments 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 Investments Law provides that an approved enterprise is eligible for tax benefits on taxable income derived from its approved enterprise programs. The tax benefits under the Investments Law also apply to income generated by a company from the grant of a usage right with respect to know-how developed by the approved enterprise, income generated from royalties, and income derived from a service which is auxiliary to such usage right or royalties, provided that such income is generated within the approved enterprise's ordinary course of business. 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 Investments Law are not, generally, 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 Investments 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 Investments 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 corporate tax at the maximum rate of 25%, rather than the regular corporate tax rate, for the benefit period. This period is ordinarily seven years commencing with the year in which the approved enterprise first generates taxable income (after the commencement of production), and is limited to twelve years from commencement of production or 14 years from the start of the tax year in which approval is obtained, whichever is earlier (the "Years Limitation").

A company may elect to receive an alternative package of benefits. Under the alternative package of benefits, a company's undistributed income derived from the approved enterprise will be exempt from corporate 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. The Years Limitation does not apply to the exemption period. A company that has elected the alternative package of benefits, such as us, that subsequently pays a dividend out of income derived from the approved enterprise during the tax exemption period will be subject to corporate tax in respect of the gross 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 subject to withholding tax at the rate of 15% 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. However, in the event that the company qualifies as a Foreign Investors Company, the limitation of twelve years will not apply.

A company that has an approved enterprise program is eligible for further tax benefits if it qualifies as a foreign investors' company. A foreign investors' company is a company which more than 25% of its share capital and combined share and loan capital is owned by non-Israeli residents. A company that qualifies as a foreign investors' company and has an approved enterprise program is eligible for tax benefits for a ten-year benefit period. As specified above, depending on the geographic location of the approved enterprise within Israel, income derived from the approved enterprise program may be exempt from tax on its undistributed income for a period of between two to ten years, and will be subject to a reduced tax rate for the remainder of the benefits period. The tax rate for the remainder of the benefits period will be 25%, unless the level of foreign investment exceeds 49%, in which case the tax rate will be 20% if the foreign investment is more than 49% and less than 74%; 15% if more than 74% and less than 90%; and 10% if 90% or more.

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 Investments 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. We currently intend to reinvest any income derived from our approved enterprise program and not to distribute such income as a dividend.

The Investment Center has granted us an approval to establish an approved enterprise program under the Investments Law, at our facilities in Tel Aviv and Jerusalem.

The current benefits for an approved enterprise program in Jerusalem provide that income derived from the approved enterprise program allocated to the approved enterprise in Jerusalem is tax exempt for ten years commencing with the year in which the approved enterprise first generates taxable income and will be taxed at a reduced company tax rate of up to 25% (rather than the regular corporate tax rate) in the following years.

The current benefits for an approved enterprise program in Tel Aviv provide that income derived from the approved enterprise program and allocated to our Tel Aviv facility will be tax exempt for a period of two years and will be subject to a reduced tax rate, depending on the level of foreign investment, for an additional period of five to eight years.

As mentioned above, the Investment Center's approval is for establishing an approved enterprise program in both Tel Aviv and Jerusalem. The approval provides for the allocation of tax benefits between our facilities in Tel Aviv and Jerusalem such that the income derived from the approved enterprise program shall be allocated pro-rata between the aforementioned facilities based on the expenses borne by each facility. However, since part of our manufacturing and research and development facilities are located in Jerusalem, the Investment Center determined the method of allocation of tax benefits between our facilities in Jerusalem and Tel Aviv as follows: The method of allocation of the tax benefits between our facilities in Tel Aviv and Jerusalem will be based on the number of research and development and manufacturing employees in each of the facilities, provided, however that the average salary for such employees in our Jerusalem facility will not be less than 85% of the average salary of such employees in our Tel Aviv facility. In the years that such condition is not fulfilled, the method of allocation will be as follows: (i) 50% of our income will be allocated between our Jerusalem facility and our Tel Aviv facility, pro-rata according to the number of employees engaged in research and development or manufacturing activities in each facility; and (ii) 50% of our income will be allocated between our Jerusalem facility and our Tel Aviv facility, pro-rata according to the salaries paid to the employees engaged in research and development or manufacturing activities in each facility. We cannot assure you that our approved program and the benefits thereunder shall continue in the future at its current level or at any level. See "Item 3D – Key Information – Risks Related to Operations In Israel."

If the retained tax-exempt income is distributed, it would be taxed at the corporate tax rate applicable to such profits with respect to the gross amount as if the Company had not elected the alternative tax benefits (currently between 10% - 25%, based on percentage of foreign ownership at the date of declaration).

Income from sources other than the "Approved Enterprise" will be subject to the tax at the regular rate.

During 2004, the Company's production facilities in Israel (Tel Aviv and Jerusalem) were granted an expansion program to its Approved Enterprise status by the Investment Center. The Company applied for an amendment to this expansion program, according to which it requested an enlargement to this expansion program, neutralization of certain assets and an approval that the benefits period from such expansion program will commence in 2006. In 2010, the Investment Center granted an approval for the year 2006.

The 2005 Amendment to the Investments Law

An amendment to the Investments Law, which was published on April 1, 2005 (the "Amendment"), has changed certain provisions of the Law. As a result of the Amendment, a company is no longer obliged to obtain Approved Enterprise status in order to receive the tax benefits previously available under the Alternative Benefits provisions, and therefore generally there is no need to apply to the Investment Center for this purpose (Approved Enterprise status remains mandatory for companies seeking grants). Rather, the Company may claim the tax benefits offered by the Investments Law directly in its tax returns by notifying the ITA within 12 months of the end of that year, provided that its facilities meet the criteria for tax benefits set out by the Amendment. A company is also granted a right to approach the Israeli Tax Authority for a pre-ruling regarding their eligibility for benefits under the Amendment.

Tax benefits are available under the Amendment to production facilities (or other eligible facilities), which are generally required to derive more than 25% of their business income from export (referred to as a "Privileged Enterprise"). In order to receive the tax benefits, the Amendment states that the company must make an investment in the Privileged Enterprise exceeding a certain percentage or a minimum amount specified in the Investments Law. Such investment may be made over a period of no more than three years ending at the end of the year in which the company requested to have the tax benefits apply to the Privileged Enterprise (the "Year of Election"). Where the company requests to have the tax benefits apply to an expansion of existing facilities, then only the expansion will be considered a Privileged Enterprise and the company's effective tax rate will be the result of a weighted combination of the applicable rates. In this case, the minimum investment required in order to qualify as a Privileged Enterprise is required to exceed a certain percentage or a minimum amount of the company's production assets before the expansion.

The duration of tax benefits is subject to a limitation of the earlier of 7 to 10 years from the commencement year, or 12 years (and in certain circumstances 14 years) from the first day of the Year of Election. The tax benefits granted to a Benefited Enterprise are determined, as applicable to its geographic location within Israel, according to the following new tax route, which may be applicable to:

- Similar to the currently available alternative route, exemption from corporate tax on undistributed income for a period of two to ten years, depending on the geographic location of the Benefited Enterprise within Israel, and a reduced corporate tax rate of 10% to 25% for the remainder of the benefits period, depending on the level of foreign investment in each year. Benefits may be granted for a term of seven to ten years, depending on the level of foreign investment in the company. If the company distributes a dividend out of income derived from the Benefited Enterprise during the tax exemption period, such income will be subject to corporate tax at the applicable rate of the gross amount (10%-25%). The company is required to withhold tax at the source at a rate of 15% from any dividends distributed from income derived from the Privileged Enterprise; and

Generally, a company that is Abundant in Foreign Investment (as defined in the Investments Law) is entitled to an extension of the benefits period by an additional five years, depending on the rate of its income that is derived in foreign currency.

The Amendment will apply to approved enterprise programs in which the year of election under the Investments Law is 2004 or later, unless such programs received "Approved Enterprise" approval from the Investment Center on or prior to March 31, 2005, in which case the Amendment provides that terms and benefits included in any certificate of approval already granted will remain subject to the provisions of the Investments Law as they were on the date of such approval.

Should we elect to utilize tax benefits under the Amendment to the law, any such tax exempt profits might be subject to future taxation on the corporate level upon distribution to shareholders by a way of dividend or liquidation. Accordingly, we may be required to recognize deferred tax liability with respect to such tax exempt profits.

We elected 2009 as year of election according to the law prior to the reform mentioned below.

Reform of the Investments Law

On December 29, 2010, the Israeli parliament approved an amendment to the Investments Law, effective as of January 1, 2011, which constitutes a reform of the incentives regime under such law. This amendment revises the objectives of the Investments Law to focus on achieving enhanced growth in the business sector, improving the Israeli industry's competitiveness in international markets and creating employment and development opportunities in remote areas of Israel. The amendment allows enterprises meeting certain required criteria to enjoy grants as well as tax benefits. The amendment also introduces certain changes to the map of geographic development areas for purposes of the Investments Law, which will take effect in future years.

The amendment generally abolishes the previous tax benefit routes that were afforded under the Investment Law, specifically the tax-exemption periods previously allowed, and introduces new tax benefits for industrial enterprises meeting the criteria of the law, which include the following:

- A reduced corporate tax rate for industrial enterprises, provided that more than 25% of their annual income is derived from export, which will apply to the enterprise's entire preferred income so that in the tax years 2011 and 2012 the reduced tax rate will be 10% for preferred income derived from industrial facilities located in development area A and 15% for those located elsewhere in Israel, in the tax years 2013 and 2014 the reduced tax rate will be 7% for development area A and 12.5% for the rest of Israel, and in the tax year 2015 and onwards the reduced tax rate will be 6% for development area A and 12% for the rest of Israel.
- The reduced tax rates will no longer be contingent upon making a minimum qualifying investment in productive assets.
- A definition of "preferred income" was introduced into the Investments Law to include certain types of income that are generated by the Israeli production activity of a preferred enterprise.
- A reduced dividend withholding tax rate of 15% will apply to dividends paid from preferred income to both Israeli and non-Israeli investors, with an exemption from such withholding tax applying to dividends paid to an Israeli company.
- A special tax benefits route will be granted to certain industrial enterprises entitling them to a reduced tax rate of 5% for preferred income derived from industrial facilities located in development area A and 8% for those located elsewhere in Israel, provided certain threshold requirements are met and such enterprise can demonstrate its significant contribution to Israel's economy and promotion of national market objectives.

A "Preferred Company" (as defined in the Investments Law) may generally elect to apply the provisions of the amendment to preferred income produced or generated by it commencing on January 1, 2011. The amendment provides various transition provisions which allow, under certain circumstances, to apply the new regime to investment programs previously approved or elected under the Investments Law in its previous form.

A substantial portion of our taxable operating income is derived from our approved enterprise program and we expect that a substantial portion of any taxable operating income that we may realize in the future will be also derived from such program. There is no assurance that our Jerusalem facility and Tel Aviv facility will continue to enjoy such status in the future.

Tax Benefits 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. However, the amount of such deductible expenses shall be reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. Expenditures not so approved are deductible over a three-year period.

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

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

- 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;
- Accelerated depreciation rates on equipment and buildings; and
- Deductions over a three-year period of expenses involved with the issuance and listing of shares on a recognized stock market.

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 owned by an Industrial Company, 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.

Israeli Transfer Pricing Regulations

On November 29, 2006, Income Tax Regulations (Determination of Market Terms), 2006, promulgated under Section 85A of the Tax Ordinance, came into effect (the "TP Regs"). Section 85A of the Tax Ordinance and the TP Regs generally requires that all cross-border transactions carried out between related parties be conducted on an arm's length principle basis and will be taxed accordingly. The TP Regs are not expected to have a material effect on the Company.

Capital Gains Tax on Sales of Our Ordinary Shares

Israeli law generally imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares in Israeli companies, by non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. 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 or, in certain circumstances, a foreign currency exchange rate, 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.

Generally, as of January 1, 2012, the tax rate applicable to capital gains derived from the sale of shares, whether listed on a stock market or not, is 25% for Israeli individuals, unless such shareholder claims a deduction for financing expenses in connection with such shares, in which case the gain will generally be taxed at a rate of 30%. Additionally, if such shareholder is considered a "significant shareholder" at any time during the 12-month period preceding such sale, i.e., such shareholder holds directly or indirectly, including with others, at least 10% of any means of control in the company, the tax rate shall be 30%. However, the foregoing tax rates do not apply to: (i) dealers in securities; and (ii) shareholders who acquired their shares prior to an initial public offering (that may be subject to a different tax arrangement). Israeli companies are subject to the Corporate Tax rate on capital gains derived from the sale of listed shares.

The tax basis of our ordinary shares acquired prior to January 1, 2003 will generally be determined in accordance with the average closing share price in the three trading days preceding January 1, 2003. However, a request may be made to the tax authorities to consider the actual adjusted cost of the shares as the tax basis if it is higher than such average price.

Non-Israeli residents are exempt from Israeli capital gains tax on any gains derived from the sale of shares of Israeli companies publicly traded on a recognized stock exchange or regulated market outside of Israel, provided however that such capital gains are not derived from a permanent establishment in Israel and such shareholders did not acquire their shares prior to an initial public offering. However, non-Israeli corporations will not be entitled to such exemption if Israeli residents (i) have a controlling interest of 25% or more in such non-Israeli corporation, or (ii) are the beneficiaries or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In some instances where our shareholders may be liable to Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at the source.

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 "U.S.-Israel Tax Treaty"), 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. Such exemption will not apply if (i) 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, or (ii) the capital gains from such sale, exchange or disposition can be allocated to a permanent establishment in Israel. In such case, the sale, exchange or disposition of ordinary shares would be subject to 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 Dividends paid to 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. On distributions of dividends other than bonus shares, or stock dividends, income tax is applicable at the rate of 25%, or 30% for a shareholder that is considered a "significant shareholder" at any time during the 12-month period preceding such distribution, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence. However, under the Investments Law, dividends generated by an Approved Enterprise (or Benefited Enterprise) are taxed at the rate of 15%.

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, if the income out of which the dividend is paid is not generated by an Approved Enterprise (or Benefited Enterprise), and not more than 25% of our gross income consists of interest or dividends, dividends paid to a U.S. corporation holding at least 10% of our issued voting power during the part of the tax year which precedes the date of payment of the dividend and during the whole of its prior tax year, are generally taxed at a rate of 12.5%. Dividends generated by an Approved Enterprise (or Benefited Enterprise) are taxed at the rate of 15% under the U.S.-Israel Tax Treaty.

United States Federal Income Tax Considerations

Subject to the limitations described herein, the following discussion summarizes certain United States federal income tax consequences to a U.S. Holder of our ordinary shares. A “U.S. Holder” means a holder of our ordinary shares who is:

- An individual citizen or resident of the United States for U.S. federal income tax purposes;
- A corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States or any political subdivision thereof or the District of Columbia;
- An estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- A trust (i) if, in general a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or (ii) that has in effect a valid election under applicable U.S. Treasury Regulations to be treated as a U.S. person.

This discussion considers only U.S. Holders that will own their ordinary shares as capital assets (generally, for investment) and 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 our ordinary shares. Certain aspects of U.S. federal income taxation relevant to a holder of our ordinary shares that is not a U.S. Holder (a “Non-U.S. Holder”) are also discussed below.

This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended (the “Code”), 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 U.S. federal income taxation that may be relevant to any particular U.S. Holder in light of such holder’s individual circumstances. In particular, this discussion does not address the potential application of the alternative minimum tax or U.S. federal income tax consequences to U.S. Holders that are subject to special treatment, including U.S. Holders that:

- Are broker-dealers or insurance companies;
- Have elected mark-to-market accounting;
- Are tax-exempt organizations or retirement plans;
- Are grantor trusts;
- Are S corporations;
- Are financial institutions or “financial services entities” ;
- Hold their shares as part of a straddle, “hedge” or “conversion transaction” with other investments;
- Certain former citizens or long-term residents of the United States;
- Acquired their shares upon the exercise of employee stock options or otherwise as compensation;
- Are real estate investment trusts or regulated investment companies;
- Own directly, indirectly or by attribution at least 10% of our voting power; or
- Have a functional currency that is not the U.S. dollar.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds our ordinary shares, the tax treatment of the partnership and a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its own tax advisor as to its tax consequences.

In addition, this discussion does not address any aspect of state, local or non-United States laws or the possible application of United States federal gift or estate taxes.

Each holder of our ordinary shares is advised to consult such holder's own tax advisor with respect to the specific tax consequences to such holder of purchasing, holding or disposing of our ordinary shares, including the applicability and effect of federal, state, local and foreign laws in such holder's particular circumstances.

Taxation of Ordinary Shares

Taxation of Dividends Paid On Ordinary Shares. Subject to the discussion below under "Passive Foreign Investment Company Status", a U.S. Holder will be required to include in gross income as dividend income the amount of any distribution paid on our ordinary shares, including any non-U.S. taxes withheld from the amount paid, to the extent the distribution is paid out of our current or accumulated earnings and profits as determined for U.S. 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 our ordinary shares and, to the extent in excess of such basis, will be treated as gain from the sale or exchange of our ordinary shares. The dividend portion of such distributions generally will not qualify for the dividends received deduction available to corporations.

Dividends that are received by non-corporate U.S. Holders will generally be taxed at the rate applicable to long-term capital gains (currently a maximum rate of 15%), provided that such dividends meet the requirements of "qualified dividend income." The reduced tax rate for qualified dividends is scheduled to expire on December 31, 2012, unless further extended by the United States Congress. Dividends that fail to meet such requirements, and dividends received by corporate U.S. Holders, are taxed at ordinary income rates. No dividend received by a U.S. Holder will be a qualified dividend (1) if the U.S. Holder held the ordinary share with respect to which the dividend was paid for less than 61 days during the 121-day period beginning on the date that is 60 days before the ex-dividend date with respect to such dividend, excluding for this purpose, under the rules of Code Section 246(c), any period during which the U.S. Holder has an option to sell, is under a contractual obligation to sell, has made and not closed a short sale of, is the grantor of a deep-in-the-money or otherwise nonqualified option to buy, or has otherwise diminished its risk of loss by holding other positions with respect to, such ordinary share (or substantially identical securities); or (2) to the extent that the U.S. Holder is under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in property substantially similar or related to the ordinary share with respect to which the dividend is paid. If we were to be a "passive foreign investment company" (as such term is defined in the Code) for any year, dividends paid on our ordinary shares in such year or in the following year would not be qualified dividends. In addition, a non-corporate U.S. Holder will be able to take a qualified dividend into account in determining its deductible investment interest (which is generally limited to its net investment income) only if it elects to do so; in such case the dividend will be taxed at ordinary income rates.

Distributions of current or accumulated earnings and profits paid in foreign currency to a U.S. Holder (including any non-U.S. taxes withheld therefrom) will generally 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 regardless of whether the foreign currency is converted into U.S. dollars. A U.S. Holder that receives a foreign currency distribution and converts the foreign currency into U.S. dollars after the date of receipt may 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 non-U.S. income taxes withheld on a dividend distribution either as a deduction from gross income or as a dollar-for-dollar credit against their U.S. 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 non-U.S. income taxes withheld, but such amount may be claimed as a credit against the individual's U.S. federal income tax liability. The amount of non-U.S. 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 U.S. Holder. These limitations include, among others, rules which limit foreign tax credits allowable with respect to specific classes of income to the U.S. federal income taxes otherwise payable with respect to each such class of income. A U.S. Holder will be denied a foreign tax credit with respect to non-U.S. income tax withheld from a dividend received on the ordinary shares if 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 with respect to such dividend, 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 required 16-day holding period. Distributions of current or accumulated earnings and profits generally will generally be foreign source passive income for U.S. foreign tax credit purposes.

Taxation of the Disposition of Ordinary Shares. Subject to the discussion below under “Passive Foreign Investment Company Status,” upon the sale, exchange or other disposition of our 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 such 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 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 our ordinary shares held more than one year is long-term capital gain, and may be eligible for a reduced rate of taxation for individuals. Gains recognized by a U.S. Holder on a sale, exchange or other disposition of our ordinary shares generally will be treated as U.S. source income for U.S. foreign tax credit purposes. A loss recognized by a U.S. Holder on the sale, exchange or other disposition of our ordinary shares is allocated to U.S. source income. The deductibility of a capital loss recognized on the sale, exchange or other disposition of our ordinary shares is subject to limitations. A U.S. Holder that receives foreign currency upon disposition of our ordinary shares and subsequently converts the foreign currency into U.S. dollars or disposes of such foreign currency, may 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.

Passive Foreign Investment Company Status. We will be a passive foreign investment company (a “PFIC”) if (taking into account certain “look-through” rules with respect to the income and assets of our corporate subsidiaries) either (i) 75 percent or more of our gross income in a taxable year is passive income or (ii) the average percentage (by value, determined on a quarterly basis) of our total assets that are passive assets during the taxable year is at least 50 percent. If we were a PFIC, each U.S. Holder would (unless it made one of the elections discussed below on a timely basis) be taxable on gain recognized from the disposition of our ordinary shares (including gain deemed recognized if the ordinary shares are used as security for a loan) and upon receipt of certain distributions with respect to our ordinary shares as if such income had been recognized ratably over the U.S. Holder’s holding period for the ordinary shares. The U.S. Holder’s income for the current taxable year would include (as ordinary income) amounts allocated to the current year and to any period prior to the first day of the first taxable year for which we were a PFIC. Tax would also be computed at the highest ordinary income tax rate in effect for each other period to which income is allocated, and an interest charge on the tax as so computed would also apply. Additionally, if we were a PFIC, U.S. Holders who acquire our ordinary shares from decedents (other than certain nonresident aliens) would be denied the normally-available step-up in basis for such shares to fair market value on the date of death and, instead, would generally have a tax basis in such shares equal to the lower of the decedent’s basis or the fair market value of such shares on the date of the decedent’s death. Further, if we are a PFIC, each U.S. Holder will generally be required to file an annual report with the IRS for taxable years beginning on or after March 18, 2010.

As an alternative to the tax treatment described above, a U.S. Holder could elect to treat us as a “qualified electing fund” (“QEF”), in which case the U.S. Holder would be required to include in income, for each taxable year that we are a PFIC, its pro rata share of our ordinary earnings as ordinary income and its pro rata share of our net capital gain as long-term capital gain, subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge. Any income inclusion will be required whether or not such U.S. Holder owns our ordinary shares for an entire taxable year or at the end of our taxable year. The amount so includable will be determined without regard to our prior year losses or the amount of cash distributions, if any, received from us. Special rules apply if a U.S. Holder makes a QEF election after the first year in its holding period in which we are a PFIC. We will supply U.S. Holders with the information needed to report income and gain under a QEF election if we are a PFIC. A U.S. Holder’s basis in its ordinary shares will increase by any amount included in income and decrease by any amounts not included in income when distributed because such amounts were previously taxed under the QEF rules. So long as a U.S. Holder’s QEF election is in effect beginning with the first taxable year in which we were a PFIC during the U.S. Holder’s holding period for its ordinary shares, any gain or loss realized by such holder on the disposition of its ordinary shares held as a capital asset ordinarily would be a capital gain or loss. Such capital gain or loss ordinarily would be long-term if such U.S. Holder had held such ordinary shares for more than one year at the time of the disposition. The QEF election is made on a shareholder-by-shareholder basis, applies to all ordinary shares held or subsequently acquired by an electing U.S. Holder and can be revoked only with the consent of the IRS.

As an alternative to making a QEF election, a U.S. Holder of PFIC stock which is “marketable stock” (e.g., “regularly traded” on the NASDAQ Global Select Market) may in certain circumstances avoid certain of the tax consequences generally applicable to holders of stock in a PFIC by electing to mark the stock to market as of the beginning of such U.S. Holder’s holding period for the ordinary shares. As a result of such election, in any taxable year that we are a PFIC, a U.S. Holder would generally be required to report gain or loss to the extent of the difference between the fair market value of the ordinary shares at the end of the taxable year and such U.S. Holder’s tax basis in its ordinary shares at that time. Any gain under this computation, and any gain on an actual disposition of the ordinary shares in a taxable year in which we are a PFIC, would be treated as ordinary income. Any loss under this computation, and any loss on an actual disposition of the ordinary shares in a taxable year in which we are a PFIC, generally would be treated as ordinary loss to the extent of the cumulative net-mark-to-market gain previously included. Any remaining loss from marking ordinary shares to market will not be allowed, and any remaining loss from an actual disposition of ordinary shares generally would be capital loss. A U.S. Holder’s tax basis in its ordinary shares is adjusted annually for any gain or loss recognized under the mark-to-market election. There can be no assurances that there will be sufficient trading volume with respect to the ordinary shares for the ordinary shares to be considered “regularly traded” or that our ordinary shares will continue to trade on the NASDAQ Global Select Market. Accordingly, there are no assurances that the ordinary shares will be marketable stock for these purposes. As with a QEF election, a mark-to-market election is made on a shareholder-by-shareholder basis, applies to all ordinary shares held or subsequently acquired by an electing U.S. Holder and can only be revoked with consent of the IRS (except to the extent the ordinary shares no longer constitute “marketable stock”).

As indicated above, we will be a PFIC for any taxable year if the average percentage (by fair market value determined on a quarterly basis) of our assets held for the production of, or that produce, passive income is at least 50 percent. The Code does not specify how a corporation must determine the fair market value of its assets for this purpose and the issue has not been definitively determined by the IRS or the courts. The market capitalization approach has generally been used to determine the fair market value of the assets of a publicly traded corporation. The IRS and the courts, however, have accepted other valuation methods besides the market capitalization approach in certain other valuation contexts. For our 2011 taxable year, the average percentage of our passive assets to the fair market value of our total assets was below 50%. Therefore, we believe that we should not be classified as a PFIC for 2011. However, there can be no assurance that the IRS will not challenge this treatment and it is possible that the IRS could attempt to treat us as a PFIC for 2011 and possibly prior taxable years. The tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of our future income and assets, and the future price of our ordinary shares which are all relevant to this determination of whether we are classified as a PFIC. Accordingly, there can be no assurance that we will not become a PFIC in 2012 or in other future taxable years.

U.S. Holders are urged to consult their tax advisors about the PFIC rules, including eligibility for and the manner and advisability of making, the QEF election or the mark-to market election.

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

Except as described in "Information Reporting and Backup 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, in the case of U.S. federal income taxes:

- 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; or
- 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 certain other requirements are met.

Information Reporting and Backup Withholding

U.S. Holders (other than certain exempt recipients, such as corporations) generally are subject to information reporting requirements with respect to dividends paid in the United States on ordinary shares and proceeds received from the sale, exchange, redemption or other disposition of ordinary shares. Under the Code, a U.S. Holder may be subject, under certain circumstances, to backup withholding (currently at a rate of up to 28%) with respect to dividends paid on our ordinary shares and proceeds received from the sale, exchange, redemption or other disposition of ordinary shares unless the holder provides proof of an applicable exemption or correct taxpayer identification number and otherwise complies with applicable requirements of the backup withholding rules.

A U.S. Holder of ordinary shares who does not provide a correct taxpayer identification number may be subject to penalties imposed by the IRS. Amounts withheld under the backup withholding rules are not an additional tax and may be refunded or credited against the holder's U.S. federal income tax liability, provided the required information is furnished to the IRS.

Non-U.S. Holders generally are not subject to information reporting or backup 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.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to the informational requirements of the Exchange Act, applicable to foreign private issuers and fulfill the obligations with respect to such requirements by filing reports with the SEC. You may read and copy any document we file with the SEC without charge at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Copies of such material may be obtained by mail from the Public Reference Branch of the SEC at such address, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Such materials are also available free of charge at the website of the SEC at www.sec.gov.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act.

We post our Annual Report on Form 20-F on our web site (www.radware.com) as soon as practicable following the filing of the Annual Report on Form 20-F with the SEC.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, including movements in interest rates and foreign currency exchange rates. Our primary market risk exposure occurs because we generate a portion of our revenues in Euro and incur a portion of our expenses in NIS and in Euro. We do not presently engage in any hedging or other transactions intended to manage risks relating to foreign currency exchange rate or interest rate fluctuations.

Impact of Interest Rate Fluctuations

We do not invest in, or otherwise hold, for trading or other purposes, any financial instruments subject to market risk, with the exception of the following:

Approximately half of our cash throughout the world is invested in fixed-income securities and is affected by changes in interest rates. Interest rates are highly sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions.

A decline in market interest rates, such as the significant global decline in 2008 and 2009, which continued through 2011, has had an adverse effect on our investment income. In a declining interest rate environment, borrowers may seek to refinance their borrowings at lower rates and, accordingly, prepay or redeem securities held earlier than initially expected. This action may cause us to reinvest the redeemed proceeds in lower yielding investments. Currently, approximately 3% of our marketable securities portfolio can be redeemed early. An increase in market interest rates could also have an adverse effect on the value of our investment portfolio, for example, by decreasing the fair values of the fixed income securities that comprise a substantial majority of our investment portfolio.

Our investments consist primarily of government and corporate debentures and bank deposits. As of December 31, 2011, approximately 33% of our portfolio was invested in foreign banks and government debentures, 18% in other corporate debentures and the rest of the funds were invested in bank deposits and money market funds. Although we believe that we generally adhere to conservative investment guidelines, the continuing turmoil in the financial markets may result in impairments of the carrying value of our investment assets. Realized losses in our investments portfolio may adversely affect our financial position and results.

Any significant decline in our investment income or the value of our investments as a result of falling interest rates, deterioration in the credit of the securities in which we have invested, or general market conditions, could have an adverse effect on our results of operations and financial condition.

We currently have no debt.

Impact of Currency Fluctuations

Most of our sales are denominated in dollars or are dollar-linked and we incur most of our expenses in dollars, NIS, and Euros. We believe that the dollar is the primary currency of the economic environment in which we operate. Thus, our functional and reporting currency is the dollar and monetary accounts maintained in currencies other than the dollar are re-measured into U.S. dollars in accordance with ASC No. 830 "Foreign Currency Matters". Changes in currency exchange rates between our functional currency and the currency in which a transaction is denominated are included in our results of operations as financial income (expense) in the period in which the currency exchange rates change.

Our revenues and expenses may be affected by fluctuations in the value of the dollar as it relates to foreign currencies, mainly the Euro and the NIS. For example, if there were no changes in the average exchange rates of the dollar relative to the Euro and to the NIS during the year in 2011 compared to the average exchange rates in 2010, our revenues were lower in an amount of \$1.6 million and our expenses were lower in an amount of \$2.3 million. Assuming our revenues and expenses in 2012 will remain at the same level and with the same currency mix as in 2012, a 10% weakening in the value of the dollar relative to all currencies in which we operate would result in an increase in revenues of \$4.7 million and in an increase in our expenses of \$8.4 million.

The following table presents information about the changes in the exchange rates of the U.S. dollar relative to the NIS and the U.S. dollar relative to the Euro:

<u>Year ended December 31,</u>	<u>U.S. dollar against NIS</u>	<u>U.S. dollar against Euro</u>
2007	(9.0)%	(10.5)%
2008	(1.1)%	5.6%
2009	(0.7)%	(3.3)%
2010	(6.0)%	8.0%
2011	7.7%	3.3%
2012 (1)	(2.3)%	(2.6)%

(1) January 1, 2012 through March 25, 2012

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

ITEMS 12A, 12B AND 12C

Not applicable.

ITEM 12D

The Company does not have any outstanding American Depositary Shares or American Depositary Receipts.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

ITEMS 14A, 14B, 14C AND 14D

Not applicable.

ITEM 14E

The effective date of the registration statement (Commission File Number 333-10752) for our initial public offering of our ordinary shares was September 29, 1999. The offering commenced on October 5, 1999, and terminated after the sale of all the securities registered. The managing underwriter of the offering was Salomon Smith Barney. We registered 4,025,000 ordinary shares in the offering, including shares issued pursuant to the exercise of the underwriters' over-allotment option. Of such shares, we sold 3,500,000 ordinary shares at an aggregate offering price of \$63.0 million (\$18.00 per share) and certain selling shareholders sold an aggregate of 525,000 ordinary shares at an aggregate offering price of \$9.45 million (\$18.00 per share). Under the terms of the offering, we incurred underwriting discounts of \$4.41 million. We also incurred estimated expenses of \$1.82 million in connection with the offering. None of the expenses consisted of amounts paid directly or indirectly to any of our directors, officers, general partners or their associates, any persons owning ten percent or more of any class of our equity securities, or any of our affiliates. The net proceeds that we received as a result of the offering were approximately \$56.8 million. None of the use of proceeds consisted of amounts paid directly or indirectly to any of our directors, officers, general partners or their associates, any persons owning ten percent or more of any class of our equity securities, or any of our affiliates.

In January 2000, we raised net proceeds of approximately \$60.0 million in a public offering of our ordinary shares.

The net proceeds of the two offerings are kept in short-term and long-term bank deposits and in marketable securities.

ITEM 15. CONTROLS AND PROCEDURES

a. Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15 (e) and 15d-15(e) under the Exchange Act), as of December 31, 2011. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2011, our disclosure controls and procedures were effective to provide reasonable assurance that: (1) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and (2) such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

b. Management's Annual Report on Internal Control Over Financial Reporting and Attestation Report of Registered Public Accounting Firm

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for us. Our internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets,
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2011. In conducting its assessment of internal control over financial reporting, our management based its evaluation on the framework in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our management has concluded based on its assessment, that our internal control over financial reporting was effective as of December 31, 2011 based on these criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2011, has been audited by Kost, Forer, Gabbay & Kasierer (A Member of Ernst & Young Global), an independent registered public accounting firm who audited and reported on the consolidated financial statements of the company for the year ended December 31, 2011.

c. Attestation Report of the Registered Public Accounting Firm

This annual report includes an attestation report of our registered public accounting firm regarding internal control over financial reporting on page F-3 of our audited consolidated financial statements set forth in "Item 18 – Financial Statements", and incorporated herein by reference.

d. Changes In Internal Control Over Financial Reporting

During the period covered by this annual report, no changes in our internal control over financial reporting have occurred that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that Mr. Avraham Asheri, a member of our Audit Committee, is a financial expert as defined in the applicable regulations, and has determined that such member is "independent" as such term is defined in the NASDAQ listing standards. The education and experience of the Audit Committee financial expert is presented in "Item 6 – Directors, Senior Management and Employees – Directors and Senior Management" and is incorporated herein by reference.

ITEM 16B. CODE OF ETHICS

We have adopted a Code of Conduct and Ethics which applies to all directors, officers and employees of the Company, including our Chief Executive Officer and President, Chief Financial Officer, Director of Finance and Corporate Controller. In July 2011, we made some technical changes to our Code of Conduct and Ethics. Our Code of Conduct and Ethics (as amended) has been posted on our Internet website, <http://www.radware.com/content/company/investorrelations>.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

In the annual meeting held on September 6, 2011, our shareholders re-appointed Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global (“Ernst & Young”), to serve as our independent auditors until the next annual meeting.

Fees for professional services provided by our independent auditors in each of the last two fiscal years in each of the following categories are:

	Year Ended December 31,			
	2010		2011	
	(US\$ in thousands)			
Audit Fees	268	77%	279	72%
Audit-Related Fees	21	6%	-	-
Tax Fees	59	17%	109	28%
All Other Fees	-	-	-	-
Total	348	100%	388	100%

Audit Fees include fees associated with the annual audit, including the audit of internal control over financial reporting, the reviews of the Company's quarterly financial statements, statutory audits required internationally, consents and assistance with and review of documents filed with the SEC.

Audit-related fees principally included due diligence in connection with acquisitions.

Tax fees included tax compliance, including the preparation of tax returns, tax planning and tax advice, including assistance with tax audits and appeals, advice related to acquisitions, transfer pricing and assistance with respect to requests for rulings from tax authorities.

Audit Committee's pre-approval policies and procedures

Our Audit Committee oversees our independent auditors. See also the description in “Item 6C- Directors, Senior Management and Employee - Board Practices.”

Our Audit Committee has adopted a policy requiring management to obtain the Committee's approval before engaging our independent auditors to provide any other audit or permitted non-audit services to us or our subsidiaries. Pursuant to this policy, which is designed to assure that such engagements do not impair the independence of our auditors, and which is discussed and approved at the end of each calendar year, the Audit Committee pre-approves annually a catalog of specific audit and non-audit services in the categories Audit Service, Audit-Related Service and Tax Consulting Services that may be performed by our auditors. In addition, the Audit Committee limited the aggregate amount in fees our auditors may receive during fiscal year for non-audit services in certain categories, unless pre-approved. Our Director of Finance reviews all individual management requests to engage our independent auditors as a service provider in accordance with this catalog and, if the requested services are permitted pursuant to the catalog, approve the request accordingly. We inform the Audit Committee about these approvals on a quarterly basis. Services that are not included in the catalog require pre-approval by the Audit Committee on a case-by-case basis. Our Audit Committee is not permitted to approve any engagement of our auditors if the services to be performed either fall into a category of services that are not permitted by applicable law or the services would be inconsistent with maintaining the auditors' independence.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

In October 2011, our Board of Directors authorized the Company to repurchase up to an aggregate of \$20 million of its ordinary shares. The repurchase program expires in October 2012. To date, no shares have been purchased.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

None.

ITEM 16G. CORPORATE GOVERNANCE

We are a foreign private issuer whose ordinary shares are listed on the NASDAQ Global Select Market. As such, we are required to comply with U.S. federal securities laws, including the Sarbanes-Oxley Act, and the NASDAQ rules, including the NASDAQ corporate governance requirements. The NASDAQ rules provide that foreign private issuers may follow home country practice in lieu of certain qualitative listing requirements subject to certain exceptions and except to the extent that such exemptions would be contrary to U.S. federal securities laws, so long as the foreign issuer discloses that it does not follow such listing requirement and describes the home country practice followed in its reports filed with the SEC. Below is a concise summary of the significant ways in which our corporate governance practices differ from the corporate governance requirements of NASDAQ applicable to domestic U.S. listed companies:

The NASDAQ rules require that an issuer have a quorum requirement for shareholders meetings of at least one-third of the outstanding shares of the issuer's common voting stock. We have chosen to follow home country practice with respect to the quorum requirements of an adjourned shareholders meeting. Our articles of association, as permitted under the Israeli Companies Law and Israeli practice, provide that the quorum requirements for an adjourned meeting are the presence of a minimum of two shareholders present in person.

The NASDAQ rules require shareholder approval of stock option plans available to officers, directors or employees. We have decided to follow home country practice in lieu of obtaining shareholder approval for our stock option plans. However, subject to exceptions permitted under the Companies Law, we are required to seek shareholder approval of any grants of options to directors and controlling shareholders or plans that require shareholder approval for other reasons. Additionally, we have chosen to follow our home country practice in lieu of the requirements of NASDAQ Rule 5250 (d)(1), relating to an issuer's furnishing of its annual report to shareholders. Specifically, we file annual reports on Form 20-F, which contain financial statements audited by an independent accounting firm, electronically with the SEC and post a copy on our website.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

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

ITEM 18. FINANCIAL STATEMENTS

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

ITEM 19. EXHIBITS

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

<u>Exhibit No.</u>	<u>Exhibit</u>
1.1	Memorandum of Association ¶ *
1.2	Amended and Restated Articles of Association *
4.1	Form of Directors and Officers Indemnity Deed (A)
4.2	Lease Agreement for the Company's Mahwah office (B)
4.3	Distributor Agreement with Bynet Data Communications Ltd. (B)
4.4	Summary of Material Terms of the Lease Agreements for the Company's Headquarters (C)
4.5	Asset Purchase Agreement by and between NORTEL NETWORKS INC., NORTEL NETWORKS LIMITED and some EMEA Nortel entities, as sellers, A. R. BLOOM, S. HARRIS, A. M. HUDSON AND C. HILL and A.R. BLOOM AND D. HUGHES, as Joint Administrators and the Company (C).
4.6	1997 Key Employee Share Incentive Plan, Appendix A to the Key Employee Share Incentive Plan (1997) (D) and Radware Ltd. Key Employee Share Incentive Plan (1997) – 2010 Addendum (for international grantees) (E)
4.7	Radware Ltd. – 2010 Employee Share Purchase Plan (E)
8.1	List of Subsidiaries*
12.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
12.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
13.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
13.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
15.1	Consent of Independent Registered Public Accounting Firm*

¶ Translated from Hebrew

* Filed herewith.

(A) Incorporated by reference to Annex B to the Proxy Statement filed as Exhibit 1.2 to Report of Foreign Private Issuer on Form 6-K submitted to the SEC on July 28, 2011.

(B) Incorporated by reference to the Annual Report on Form 20-F for the year ended December 31, 2001, filed with the SEC on April 5, 2002.

(C) Incorporated by reference to the Annual Report on Form 20-F for the year ended December 31, 2008, filed with the SEC on March 25, 2009.

(D) Incorporated by reference to the Company's Registration Statement on Form S-8, filed with the SEC on August 15, 2001 (File No. 333-13818) and Post-Effective Amendment No. 1 to that Registratic Statement on Form S-8, filed with the SEC on June 10, 2003 (File No. 333-13818).

(E) Incorporated by reference to the Annual Report on Form 20-F for the year ended December 31, 2009, filed with the SEC on April 29, 2010.

(F) Incorporated by reference to the Annual Report on Form 20-F for the year ended December 31, 2008, filed with the SEC on March 25, 2009.

SIGNATURE

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

RADWARE LTD.

By: /s/ Roy Zisapel
Roy Zisapel
Chief Executive Officer

Date: March 28, 2012

RADWARE LTD. AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011
U.S. DOLLARS IN THOUSANDS

INDEX

	<u>Page</u>
Reports of Independent Registered Public Accounting Firm	F2 - F4
Consolidated Balance Sheets	F5 - F6
Consolidated Statements of Operations	F7
Statements of Changes in Shareholders' Equity	F8
Consolidated Statements of Cash Flows	F9 - F10
Notes to Consolidated Financial Statements	F11 - F46



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

RADWARE LTD.

We have audited the accompanying consolidated balance sheets of Radware Ltd. ("the Company") and its subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, statements of changes in shareholders' equity and the consolidated statements of cash flows for each of the three years in the period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 and its subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 28, 2012 expressed an unqualified opinion thereon.

Tel-Aviv, Israel
March 28, 2012

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



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

**To the Board of Directors and Shareholders of
RADWARE LTD.**

We have audited Radware Ltd.'s (the "Company") and its subsidiaries internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.



Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company and its subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2011 and our report dated March 28, 2012 expressed an unqualified opinion thereon.

Tel-Aviv, Israel
March 28, 2012

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2010	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 15,284	\$ 17,386
Available-for-sale marketable securities	24,200	10,334
Short-term bank deposits	51,441	88,773
Trade receivables (net of allowance for doubtful accounts and sales reserves in a total amount of \$ 2,695 and \$ 1,440 in 2010 and 2011, respectively)	16,543	12,565
Other current assets and prepaid expenses	3,402	3,625
Inventories	9,722	12,147
Total current assets	120,592	144,830
LONG-TERM INVESTMENTS:		
Available-for-sale marketable securities	82,864	102,644
Long-term bank deposits	5,000	-
Severance pay fund	3,342	3,047
Total long-term investments	91,206	105,691
Property and equipment, net	11,801	11,084
Deferred tax asset, net	41	811
Intangible assets, net	12,011	8,163
Goodwill	24,465	24,465
Other assets	519	554
Total assets	\$ 260,635	\$ 295,598

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

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2010	2011
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 5,913	\$ 5,099
Deferred revenues	32,907	28,593
Other payables and accrued expenses	14,316	15,139
Total current liabilities	53,136	48,831
LONG TERM LIABILITIES:		
Deferred revenues	18,610	23,901
Accrued severance pay	3,899	3,545
Total long term liabilities	22,509	27,446
COMMITMENTS AND CONTINGENT LIABILITIES		
SHAREHOLDERS' EQUITY:		
Share capital -		
Ordinary shares of NIS 0.1 par value -		
Authorized: 30,000,000 at December 31, 2010 and 2011; Issued: 22,256,530 and 23,046,257 shares at December 31, 2010 and 2011, respectively; Outstanding: 20,460,573 and 21,250,300 shares at December 31, 2010 and 2011, respectively	506	528
Additional paid-in capital	218,593	233,353
Treasury stock	(18,036)	(18,036)
Accumulated other comprehensive income (loss)	125	(1,663)
Retained earnings (accumulated deficit)	(16,198)	5,139
Total shareholders' equity	184,990	219,321
Total liabilities and shareholders' equity	\$ 260,635	\$ 295,598

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2009	2010	2011
Revenues:			
Products	\$ 65,021	\$ 89,358	\$ 103,285
Services	43,883	54,761	63,735
Total revenues	108,904	144,119	167,020
Cost of revenues:			
Products	16,609	21,306	24,231
Services	6,666	7,898	9,126
Total cost of revenues	23,275	29,204	33,357
Gross profit	85,629	114,915	133,663
Operating expenses:			
Research and development	25,674	31,660	36,064
Sales and marketing	55,130	64,609	69,543
General and administrative	11,930	10,190	9,629
Total operating expenses	92,734	106,459	115,236
Operating income (loss)	(7,105)	8,456	18,427
Financial income, net	1,987	2,057	4,200
Income (loss) before taxes on income	(5,118)	10,513	22,627
Taxes on income	818	879	1,290
Net income (loss)	\$ (5,936)	\$ 9,634	\$ 21,337
Basic net earnings (loss) per share	\$ (0.31)	\$ 0.49	\$ 1.02
Diluted net earnings (loss) per share	\$ (0.31)	\$ 0.44	\$ 0.93

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

	Number of outstanding Ordinary shares	Share capital	Additional paid- in capital	Treasury stock, at cost	Accumulated other comprehensive income (loss)	Retained earnings (accumulated deficit)	Total comprehensive income (loss)	Total
Balance as of January 1, 2009	18,918,438	\$ 465	\$ 185,985	\$ (17,619)	\$ (873)	\$ (19,896)		\$ 148,062
Repurchase of shares	(68,787)	(2)	-	(417)	-	-		(419)
Issuance of shares upon exercise of stock options and upon purchase of shares under Espo	66,950	2	1,016	-	-	-		1,018
Stock based compensation	-	-	4,041	-	-	-		4,041
Tax benefit related to exercise of stock options	-	-	899	-	-	-		899
Comprehensive loss:								
Unrealized gain on available-for- sale securities, net	-	-	-	-	1,808	-	\$ 1,808	1,808
Net loss	-	-	-	-	-	(5,936)	(5,936)	(5,936)
Total comprehensive loss							\$ (4,128)	
Balance as of December 31, 2009	18,916,601	465	191,941	(18,036)	935	(25,832)		149,473
Issuance of shares upon exercise of stock options	1,543,972	41	21,159	-	-	-		21,200
Stock based compensation	-	-	5,493	-	-	-		5,493
Comprehensive income:								
Unrealized loss on available-for-sale securities, net	-	-	-	-	(810)	-	\$ (810)	(810)
Net income	-	-	-	-	-	9,634	9,634	9,634
Total comprehensive income							\$ 8,824	
Balance as of December 31, 2010	20,460,573	506	218,593	(18,036)	125	(16,198)		184,990
Issuance of shares upon exercise of stock options	789,727	22	8,512	-	-	-		8,534
Stock based compensation	-	-	5,458	-	-	-		5,458
Tax benefit related to exercise of stock options	-	-	790	-	-	-		790
Comprehensive income:								
Unrealized loss on available-for- sale securities, net	-	-	-	-	(1,788)	-	\$ (1,788)	(1,788)
Net income	-	-	-	-	-	21,337	21,337	21,337
Total comprehensive income							\$ 19,549	
Balance as of December 31, 2011	21,250,300	\$ 528	\$ 233,353	\$ (18,036)	\$ (1,663)	\$ 5,139		\$ 219,321

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2009	2010	2011
Cash flows from operating activities:			
Net income (loss)	\$ (5,936)	\$ 9,634	\$ 21,337
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	9,794	9,052	10,299
Stock based compensation	4,041	5,493	5,458
Amortization of premiums, accretion of discounts and accrued interest on available-for-sale marketable securities, net	1,765	1,877	3,652
Accrued interest on bank deposits	(130)	(137)	(243)
Accrued severance pay, net	(703)	(591)	(59)
Decrease (increase) in deferred income taxes, net	1	(5)	(1,358)
Decrease (increase) in trade receivables, net	(3,255)	60	3,978
Decrease (increase) in other current assets and prepaid expenses	(888)	(468)	365
Decrease (increase) in inventories	(561)	70	(2,425)
Increase (decrease) in trade payables	1,053	214	(814)
Increase in deferred revenues	8,807	13,358	977
Increase in other payables and accrued expenses	1,338	2,409	1,613
Excess tax benefit from stock-based compensation	(899)	-	(790)
Net cash provided by operating activities	<u>14,427</u>	<u>40,966</u>	<u>41,990</u>
Cash flows from investing activities:			
Purchase of property and equipment	(5,837)	(5,650)	(5,734)
Investment in other long-term assets	(36)	(88)	(35)
Investment in bank deposits	(35,000)	(21,174)	(32,089)
Purchase of available-for-sale marketable securities	(405,827)	(75,814)	(68,777)
Proceeds from redemption and maturity of available-for-sale marketable securities	440,575	37,201	57,423
Payment for the acquisition of Intangible assets	-	(1,200)	-
Payment for the acquisition of Alteon	(18,022)	-	-
Net cash used in investing activities	<u>(24,147)</u>	<u>(66,725)</u>	<u>(49,212)</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2009	2010	2011
Cash flows from financing activities:			
Proceeds from exercise of stock options	1,018	21,200	8,534
Excess tax benefit from stock-based compensation	899	-	790
Repurchase of shares	(419)	-	-
Net cash provided by financing activities	<u>1,498</u>	<u>21,200</u>	<u>9,324</u>
Increase (decrease) in cash and cash equivalents	(8,222)	(4,559)	2,102
Cash and cash equivalents at the beginning of the year	<u>28,065</u>	<u>19,843</u>	<u>15,284</u>
Cash and cash equivalents at the end of the year	<u>\$ 19,843</u>	<u>\$ 15,284</u>	<u>\$ 17,386</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for income taxes	<u>\$ 383</u>	<u>\$ 719</u>	<u>\$ 847</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands**NOTE 1:- GENERAL**

- a. Radware Ltd. ("the Company"), an Israeli corporation commenced operations in April 1997. The Company and its subsidiaries ("the Group") are engaged in the development, manufacture and sale of Application Delivery and Application Security solutions that provide end-to-end availability, performance and security of business-critical network applications. The Company's products are marketed worldwide.
- b. The Company has established wholly-owned subsidiaries in the United States, France, Germany, Singapore, the United Kingdom, Japan, Korea, Canada, India, Australia and Italy. The Company holds 85% of its Israeli subsidiary. In addition, the Company has established representative offices in China and Taiwan. The Company's subsidiaries are engaged primarily in sales, marketing and support activities.
- c. The Company depends on three major suppliers to supply certain components for the production of its products. If one of these suppliers fails to deliver or delays the delivery of the necessary components, the Company will 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP").

- a. Use of estimates:

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Financial statements in United States dollars:

A majority of the revenues of the Company and its subsidiaries are denominated in U.S. dollars ("dollar" or "dollars"). In addition, a substantial portion of the Company's and certain of its subsidiaries' costs are denominated 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. Accordingly, monetary accounts maintained in currencies other than the dollar are re-measured into U.S. dollars in accordance with Accounting Standards Codification ("ASC") No. 830 "Foreign Currency Matters". Changes in currency exchange rates between the Company's functional currency and the currency in which a transaction is denominated are included in the Company's results of operations as financial income (expense) in the period in which the currency exchange rates change.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany balances and transactions including profits from intercompany sales not yet realized outside the Group, have been eliminated upon consolidation.

d. Cash equivalents:

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

e. Bank deposits:

Bank deposits with maturities of more than three months but less than one year are included in short-term deposits. Such short-term deposits are stated at cost which approximates market values.

Bank deposits with maturities of more than one year are included in long-term deposits. Such long-term deposits are stated at cost which approximates market values.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Investment in marketable securities:

The Company accounts for investments in marketable debt securities in accordance with ACS No. 320, "Investments- Debt and equity Securities". Management determines the appropriate classification of its investments in debt securities at the time of purchase and reevaluates such determinations at each balance sheet date.

The Company classified all of its debt securities as available-for-sale securities. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in "accumulated other comprehensive income (loss)" in shareholders' equity. Realized gains and losses on sales of investments are included in financial income, net and are derived using the specific identification method for determining the cost of securities.

The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization together with interest and dividends on securities are included in financial income, net.

The Company recognizes an impairment charge when a decline in the fair value of its investments below the cost basis is judged to be other-than-temporary. The factors considered in making such a determination include the duration and severity of the impairment, the reason for the decline in value, the potential recovery period and the Company's intent to sell, including whether it is more likely than not that the Company will be required to sell the investment before recovery of cost basis. For securities that are deemed other-than-temporarily impaired, the amount of impairment recognized in the statement of income (operations) is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income. During the years 2009, 2010 and 2011, the Company did not record any other-than-temporary impairment loss with respect to its marketable securities.

g. Inventories:

Inventories are stated at the lower of cost or market value. Inventory write-off is provided to cover risks arising from slow-moving items, technological obsolescence, excess inventories and discontinued products. Inventory write-off totaled \$ 1,136, \$ 255 and \$ 1,205 in 2009, 2010 and 2011, respectively, and has been included in cost of revenues.

Cost is determined as follows:

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

Work-in-progress and finished products - raw materials as above with the addition of subcontracting costs - calculated on the basis of direct subcontractors costs and with direct overhead costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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:

	%
Computer, peripheral equipment and software	15 - 33 (mainly 33)
Office furniture and equipment	6 - 20 (mainly 15)
Leasehold improvements	Over the shorter of the term of the lease or the useful life of the asset

i. Impairment of long lived assets and intangible assets subject to amortization:

Property and equipment and intangible assets subject to amortization are reviewed for impairment in accordance with ASC No. 360, "Accounting for the Impairment or Disposal of Long-Lived Assets," whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. As of December 31, 2010 and 2011, no impairment losses have been identified.

Intangible assets acquired in a business combination are recorded at fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets that are not considered to have an indefinite useful life are amortized over their estimated useful lives, which range from 1 to 7 years. Some of the acquired customer arrangements are amortized over their estimated useful lives in proportion to the economic benefits realized. This accounting policy results in accelerated amortization of such customer arrangements as compared to the straight-line method. All other intangible assets are amortized over their estimated useful lives on a straight-line basis.

During 2009, 2010 and 2011, no impairment losses were recorded.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Goodwill:

Goodwill reflects the excess of the purchase price of business acquired over the fair value of net assets acquired. Goodwill is not amortized but instead is tested for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

In accordance with ASC No. 350 the Company performs an annual impairment test at December 31 each year. Goodwill is tested for impairment by comparing the estimated fair value of the Company as one reporting unit with the carrying amounts of its total net assets. Fair value was determined using market comparables and multiples. The Company operates in one operating segment, and this segment comprises its only reporting unit. During the years ended December 31, 2009, 2010 and 2011, no impairment losses were recorded.

k. Revenue recognition:

The Company and its subsidiaries generate revenues mainly from selling their products and from post-contract customer support, which are sold primarily through distributors and resellers, all of which are considered end-users.

Revenues from product sales are recognized in accordance with ASC No. 605, "Revenue Recognition" when delivery has occurred, persuasive evidence of an agreement exists, the vendor's fee is fixed or determinable, and collectability is reasonably assured.

Revenue derived from post-contract customer support, which represents mainly software updates, help desk support, unit replacement or repair, and security update service is recognized ratably over the contract period, which is typically between one year and five years.

Revenues in arrangements with multiple deliverables entered into until December 31, 2010 are recognized under the "residual method" when Vendor Specific Objective Evidence ("VSOE") of fair value exists for all undelivered elements and all other revenue recognition criteria are satisfied.

Starting January 1, 2011 the Company adopted the guidance of ASU 2009-13, *Multiple-Deliverable Revenue Arrangements*, (amendments to FASB ASC Topic 605, Revenue Recognition) ("ASU 2009-13"). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendment eliminates the residual method of revenue allocation and requires revenue to be allocated using the relative selling price method. As such, the Company prospectively applied these provisions to all revenue arrangements entered into or materially modified after January 1, 2011. For the year ended December 31, 2011, the impact of the adoption of this standard was an increase in revenues in an amount of \$5,286.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company determines the selling price in multiple-element arrangements as follows:

VSOE for post-contract customer support is determined based on the price charged when such element is sold separately (renewals). The price may vary in the territories and vertical markets in which the Company conducts business. Price is determined by using a consistent percentage of the Company's product price lists, in the same territories and markets.

For the product, the Company determined the selling price by reviewing historical transactions, and considering several other external and internal factors including, but not limited to, pricing practices including discounting, margin objectives, and competition. The determination of estimated selling price ("ESP") is made through consultation with and approval of management, taking into consideration the pricing model and go-to-market strategy.

The Company records a provision for estimated sale returns and stock rotation granted to customers on products in the same period the related revenues are recorded in accordance with ASC No. 605. These estimates are based on historical sales returns, stock rotations and other known factors. Such provisions amounted to \$ 1,925 and \$ 870 as of December 31, 2010 and 2011, respectively.

Deferred revenues include unearned amounts received under post-contract customer support.

l. Shipping and Handling:

Shipping and handling fees charged to the Company's customers are recognized as product revenue in the period shipped and the related costs for providing these services are recorded as a cost of sale.

m. Cost of revenues:

Cost of products is comprised of cost of software and hardware production, manuals, packaging, license fees paid to third parties and amortization of acquired technology.

Cost of services is comprised of cost of post sale customer support.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Warranty costs:

The Company generally provides a one year warranty for all of its products. A provision is recorded for estimated warranty costs at the time revenues are recognized based on the Company's experience. Warranty expenses for the years ended December 31, 2009, 2010 and 2011 were immaterial.

o. Research and development expenses:

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

p. Accounting for stock-based compensation:

The Company accounts for stock-based compensation in accordance with ASC No. 718, "Compensation-Stock Compensation". ASC No. 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statement of operations.

The Company recognizes compensation expenses for the value of its awards based on the accelerated attribution method over the requisite service period of each of the awards, net of estimated forfeitures. ASC No. 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

ASC No. 718 requires the cash flows resulting from the tax deductions in excess of the compensation costs recognized for those stock options to be classified as financing cash flows.

The Company selected the Black-Scholes-Merton option pricing model to account for the fair value of its stock-options awards with only service conditions based on the market value of the underlying shares at the date of grant. The option-pricing model requires a number of assumptions, of which the most significant are the expected stock price volatility and the expected option term. Expected volatility was calculated based upon actual historical stock price movements over an historical period equivalent to the option's expected term. The expected option term represents the period of time that options granted are expected to be outstanding. Expected term of options granted is based upon historical experience. The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term. The Company has historically not paid dividends and has no foreseeable plans to pay dividends.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The fair value of the Company's stock options granted to employees, consultants and directors for the years ended December 31, 2009, 2010 and 2011 was estimated using the following weighted average assumptions:

Employees stock option plan:

	Year ended December 31,		
	2009	2010	2011
Risk free interest rate	1.84%	1.23%	0.99%
Dividend yields	0%	0%	0%
Expected volatility	40%	38%	47%
Weighted average expected term from grant date (in years)	3.98	3.44	3.79

Employees stock purchase plan:

	Year ended December 31, 2010
Risk free interest rate	0.29%
Dividend yields	0%
Expected volatility	36%
Weighted average expected term from grant date (in years)	0.75

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Income taxes:

The Company accounts for income taxes in accordance with ASC No. 740, "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 if it is more likely than not that a portion or all of the deferred tax assets will not be realized.

Deferred tax liabilities and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting, or according to the expected reversal dates of the specific temporary differences if not related to an asset or liability for financial reporting.

ASC 740 contains a two-step approach to recognizing and measuring a liability for uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company accrues interest related to unrecognized tax benefits in its taxes on income.

r. Concentrations of credit risks:

Financial instruments that potentially subject the Company and its subsidiaries to concentrations of credit risk consist principally of cash and cash equivalents, bank deposits, available-for-sale marketable securities and trade receivables.

The majority of the Company's and its subsidiaries' cash and cash equivalents and bank deposits are invested in major banks in Israel and the U.S. Deposits in the U.S. may be in excess of insured limits and are not insured in other jurisdictions. Generally, these cash equivalents may be redeemed upon demand and, therefore management believes that it bears a lower risk.

The Company's marketable securities include investments in foreign banks and government debentures and corporate debentures. The Company's investment policy limits the amount the Company may invest in each issuer, thereby reducing credit risk concentration.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The trade receivables of the Company and its subsidiaries are mainly derived from sales to customers located primarily in the United States, Europe, the Middle East, Africa 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 from its customers letters of credit, other collateral or additional guarantees. Bad debt expenses for the years ended December 31, 2009, 2010 and 2011 were \$ 0, \$ 270 and \$ 0, respectively. Total write offs during 2009, 2010 and 2011 amounted to \$ 0, \$ 0 and \$ 200, respectively.

s. Severance pay:

The Company's liability for severance pay for periods prior to April 1, 2007 is calculated pursuant to 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. The Company recorded as expenses the increase in the severance liability, net of earnings (losses) from the related investment fund. Employees were entitled to one month's salary for each year of employment, or a portion thereof. Until April 1, 2007, the Company's liability was partially funded by monthly payments deposited with insurers; any unfunded amounts would be paid from operating funds and are covered by a provision established by the Company.

The carrying value of the deposited funds for the Company's employees' severance pay for employment periods prior to April 1, 2007 include profits and losses accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli severance pay law or labor agreements.

Effective April 1, 2007, the Company's agreements with employees in Israel are in accordance with section 14 of the Severance Pay Law - 1963 which provide that the Company's contributions to severance pay fund shall cover its entire severance obligation with respect to period of employment subsequent to April 1, 2007. Upon termination, the release of the contributed amounts from the fund to the employee shall relieve the Company from any further severance obligation and no additional payments shall be made by the Company to the employee. As a result, the related obligation and amounts deposited on behalf of such obligation are not stated on the balance sheet, as the Company is legally released from severance obligation to employees once the amounts have been deposited, and the Company has no further legal ownership on the amounts deposited. Consequently, effective from April 1, 2007, the Company increased its contribution to the deposited funds to cover the full amount of the employees' salaries.

Severance pay expenses for the years ended December 31, 2009, 2010 and 2011 amounted to approximately \$ 941, \$ 1,866 and \$ 2,244, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Fair value of financial instruments:

The Company measures its cash equivalents and marketable securities at fair value. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity.

u. Comprehensive income:

The Company accounts for comprehensive income in accordance with ASC No. 220, "Comprehensive Income". This statement establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to shareholders. The Company's items of other comprehensive income relates to unrealized gains and losses on available for sale marketable securities.

v. Treasury stock:

The Company repurchases its Ordinary shares on the open market and holds such shares as treasury stock. The Company presents the cost to repurchase treasury stock as a reduction of shareholders' equity. The voting rights attached to treasury stock are revoked.

w. Basic and diluted net income (loss) per share:

Basic net income (loss) per share is computed based on the weighted average number of Ordinary shares outstanding during each period. Diluted net income (loss) per share is computed based on the weighted average number of Ordinary shares outstanding during each period, plus dilutive potential Ordinary shares considered outstanding during the period, in accordance with ASC No. 260, "Earnings Per Share".

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The total number of shares related to outstanding options excluded from the calculation of diluted income (loss) per share as they would have been anti dilutive was 4,700,050, 482,350 and 1,131,800 for the years ended December 31, 2009, 2010 and 2011, respectively.

x. Recently issued accounting standards:

In June 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-05 presentation of comprehensive income topic 220, which amended existing guidance by allowing only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous financial statement, statement of comprehensive income or (2) in two separate but consecutive financial statements, consisting of an income statement followed by a separate statement of other comprehensive income. The guidance requires retrospective application, and it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements. The Company is still evaluating whether to present other comprehensive income in a single continuous statement of comprehensive income or in two separate but consecutive statements.

In September 2011, the FASB issued ASU 2011- in regards to annual testing of goodwill for impairment. The amended guidance will allow companies to assess qualitative factors to determine if it is more likely than not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

NOTE 3:- BUSINESS COMBINATION

Acquisition of Alteon:

On March 31, 2009, the Company acquired from Nortel Networks Ltd., Nortel Networks Inc. and other Nortel entities ("Nortel") certain assets and liabilities related to Nortel's Layer 4-7 Application Delivery Business ("Alteon"). The main reason for this acquisition was to increase the Company's installed products customer base. The total consideration of the acquisition was \$ 18,022.

In addition the Company incurred acquisition related costs in a total amount of \$ 2,485, which are included in general and administrative expenses for the year 2009. Acquisition related costs include investment banking fees, legal and accounting fees and other external costs directly related to the acquisition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 3:- BUSINESS COMBINATION (Cont.)

Under business combination accounting the purchase price was allocated to the identifiable intangible assets acquired and liabilities assumed based upon their estimated fair values as follows:

Inventory	\$ 2,519
Property and equipment	181
Intangible assets	<u>16,241</u>
Total identifiable assets acquired	<u>18,941</u>
Warranty provision	(1,600)
Deferred revenues	<u>(10,310)</u>
Total liabilities assumed	<u>(11,910)</u>
Goodwill (tax deductible)	<u>10,991</u>
Total consideration	<u>\$ 18,022</u>

Intangible Assets

In performing the purchase price allocation, the Company considered, among other factors, analyses of historical financial performance, highest and best use of the acquired assets and estimates of future performance of Alteon's products. The fair value of intangible assets was determined by management, based on market participant approach to valuation performed by a third party valuation firm using an income approach and based on estimates and assumptions provided by management. The following table sets forth the components of intangible assets associated with the acquisition:

	<u>Fair value</u>	<u>Useful life</u>
Customer relationships	\$ 6,911	5.8 years
Brand name	832	5.8 years
Core technology	5,639	4.8 years
In-Process research and development	<u>2,859</u>	7 years (*)
Total intangible assets	<u>\$ 16,241</u>	

(*) In 2010, upon completion of development, the Company evaluated the useful life at 7 years.

Customer relationships represent the underlying relationships and agreements with Alteon installed customer base.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 3:- BUSINESS COMBINATION (Cont.)

Brand name value represents the recognition value of Alteon brand name as a result of advertising expenditures for customer relations.

Core technology represents a combination of Alteon processes, patents and trade secrets related to the design and development of its products. This proprietary know-how can be leveraged to develop new technology and improve the Company's products.

In-process research and development represents incomplete Alteon research and development projects that had not reached technological feasibility as of the date of the acquisition.

The following unaudited condensed combined pro forma information for the year ended December 31, 2009, gives effect to the acquisition of Alteon Business as if the acquisition had occurred on January 1, 2009. The pro forma information is not necessarily indicative of the results of operations, which actually would have occurred had the acquisition been consummated on that date, nor does it purport to represent the results of operations for future periods. For the purposes of the pro forma information, the Company has assumed that net loss includes additional amortization of intangible assets related to the acquisition of \$ 928 in 2009.

	Year ended December 31, 2009
	<u>Unaudited</u>
	<u>Total consolidated</u>
Revenues	\$ 115,951
Net loss	\$ (3,187)
Basic and diluted net loss per share	\$ (0.17)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 4- MARKETABLE SECURITIES

Marketable securities with contractual maturities of less than one year are as follows:

	December 31,							
	2010				2011			
	Amortized cost	Gross unrealized losses	Gross unrealized gains	Market value	Amortized cost	Gross unrealized losses	Gross unrealized gains	Market Value
Foreign banks and government debentures	\$ 17,444	\$ -	\$ 105	\$ 17,549	\$ 6,162	\$ (46)	\$ 7	\$ 6,123
Corporate debentures	6,628	-	23	6,651	4,212	(4)	3	4,211
Total available-for-sale marketable securities	<u>\$ 24,072</u>	<u>\$ -</u>	<u>\$ 128</u>	<u>\$ 24,200</u>	<u>\$ 10,374</u>	<u>\$ (50)</u>	<u>\$ 10</u>	<u>\$ 10,334</u>

Marketable securities with contractual maturities from one to three years are as follows:

	December 31,							
	2010				2011			
	Amortized cost	Gross unrealized losses	Gross unrealized gains	Market value	Amortized cost	Gross unrealized Losses	Gross unrealized gains	Market Value
Foreign banks and government debentures	\$ 32,985	\$ (81)	\$ 333	\$ 33,237	\$ 34,989	\$ (645)	\$ 33	\$ 34,377
Corporate debentures	17,272	(6)	175	17,441	16,720	(28)	204	16,896
Total available-for-sale marketable securities	<u>\$ 50,257</u>	<u>\$ (87)</u>	<u>\$ 508</u>	<u>\$ 50,678</u>	<u>\$ 51,709</u>	<u>\$ (673)</u>	<u>\$ 237</u>	<u>\$ 51,273</u>

Marketable securities with contractual maturities of more than three years are as follows:

	December 31,							
	2010				2011			
	Amortized cost	Gross unrealized losses	Gross unrealized gains	Market value	Amortized cost	Gross unrealized Losses	Gross unrealized gains	Market Value
U.S. Government debentures	\$ 2,510	\$ (31)	\$ -	\$ 2,479	\$ -	\$ -	\$ -	\$ -
Foreign banks and government debentures	19,276	(275)	15	19,016	33,623	(1,426)	85	32,282
Corporate debentures	10,824	(137)	4	10,691	18,935	(129)	283	19,089
Total available-for-sale marketable securities	<u>\$ 32,610</u>	<u>\$ (443)</u>	<u>\$ 19</u>	<u>\$ 32,186</u>	<u>\$ 52,558</u>	<u>\$ (1,555)</u>	<u>\$ 368</u>	<u>\$ 51,371</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 4- MARKETABLE SECURITIES (Cont.)

Investments with continuous unrealized losses for less than 12 months and 12 months or greater and their related fair values were as follows:

	December 31, 2011					
	Investments with continuous unrealized losses for less than 12 months		Investments with continuous unrealized losses for 12 months or greater		Total investments with continuous unrealized losses	
	Fair value	Unrealized losses	Fair value	unrealized losses	Fair value	unrealized losses
Foreign banks and government debentures	\$ 49,510	\$ (1,999)	\$ 6,858	\$ (116)	\$ 56,368	\$ (2,115)
Corporate debentures	8,943	(152)	1,594	(10)	10,537	(162)
Total available-for-sale marketable securities	<u>\$ 58,453</u>	<u>\$ (2,151)</u>	<u>\$ 8,452</u>	<u>\$ (126)</u>	<u>\$ 66,905</u>	<u>\$ (2,277)</u>
	December 31, 2010					
	Investments with continuous unrealized losses for less than 12 months		Investments with continuous unrealized losses for 12 months or greater		Total investments with continuous unrealized losses	
	Fair value	Unrealized losses	Fair value	unrealized losses	Fair value	unrealized losses
U.S. Government debentures	\$ 2,479	\$ (31)	\$ -	\$ -	\$ 2,479	\$ (31)
Foreign banks and government debentures	25,354	(356)	-	-	25,354	(356)
Corporate debentures	10,896	(143)	-	-	10,896	(143)
Total available-for-sale marketable securities	<u>\$ 38,729</u>	<u>\$ (530)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,729</u>	<u>\$ (530)</u>

As of December 31, 2010 and 2011, interest receivable amounted to \$ 1,271 and \$ 1,274, respectively, and is included within available for sale marketable securities in the balance sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 5- FAIR VALUE MEASUREMENTS

In accordance with ASC 820, the Company measures its cash equivalents, bank deposits and available for sale marketable securities at fair value on recurring basis. Cash equivalents and marketable securities are classified within Level 1 or Level 2. This is because these assets are valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs.

The Company's financial assets measured at fair value on a recurring basis, including interest receivable components consisted of the following types of instruments as of December 31, 2011 and 2010:

	December 31, 2011			
	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$ 1,247	\$ -	\$ -	\$ 1,247
Available-for-sale:				
Foreign banks and government debentures	-	72,783	-	72,783
Corporate debentures	-	40,195	-	40,195
Total financial assets	\$ 1,247	\$ 112,978	\$ -	\$ 114,225
	December 31, 2010			
	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$ 755	\$ -	\$ -	\$ 755
Available-for-sale:				
U.S. Government debentures	-	2,479	-	2,479
Foreign banks and government debentures	-	69,802	-	69,802
Corporate debentures	-	34,783	-	34,783
Total financial assets	\$ 755	\$ 107,064	\$ -	\$ 107,819

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 6:- INVENTORIES

Inventories are comprised of the following:

	December 31,	
	2010	2011
Raw materials and components	\$ 614	\$ 1,502
Work-in-progress	1,798	1,647
Finished products (*)	7,310	8,998
	<u>\$ 9,722</u>	<u>\$ 12,147</u>

(*) Includes amounts of \$ 337 and \$ 458, as of December 31, 2011 and 2010, respectively, with respect to inventory delivered to customers but for which revenue criteria have not been met and will be recognized in the future.

NOTE 7:- PROPERTY AND EQUIPMENT, NET

	December 31,	
	2010	2011
Cost:		
Computer, peripheral equipment and software	\$ 36,187	\$ 40,741
Office furniture and equipment	3,471	3,750
Leasehold improvements	2,189	2,282
	<u>41,847</u>	<u>46,773</u>
Accumulated depreciation:		
Computer, peripheral equipment and software	26,614	31,842
Office furniture and equipment	2,268	2,515
Leasehold improvements	1,164	1,332
	<u>30,046</u>	<u>35,689</u>
Property and equipment, net	<u>\$ 11,801</u>	<u>\$ 11,084</u>

Depreciation expenses for the years ended December 31, 2009, 2010 and 2011 were \$ 6,491, \$ 5,069 and \$ 6,451 respectively.

During 2010 and 2011, the Company recorded a reduction of \$ 62 and \$ 808, respectively, to the cost and accumulated depreciation of fully depreciated equipment no longer in use.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 8:- INTANGIBLE ASSETS, NET

	Weighted average amortization period (years)	December 31,	
		2010	2011
Cost:			
Acquired technology	6 - 7	\$ 12,625	\$ 12,625
Customers relationships and brand name	Mainly 6	9,107	9,107
		21,732	21,732
Accumulated amortization:			
Acquired technology		4,782	6,945
Customers relationships and brand name		4,939	6,624
		9,721	13,569
Intangible assets, net		\$ 12,011	\$ 8,163

Amortization expenses for the years ended December 31, 2009, 2010 and 2011 were \$ 3,303, \$ 3,983 and \$ 3,848, respectively.

Future estimated amortization expenses for the years ending:

December 31,	
2012	\$ 3,034
2013	2,661
2014	1,237
2015 and thereafter	1,231
Total	\$ 8,163

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 9:- OTHER PAYABLES AND ACCRUED EXPENSES

	December 31,	
	2010	2011
Employees and payroll accruals	\$ 8,115	\$ 7,748
Accrued expenses	3,426	4,131
Governmental authorities	2,464	2,940
Warranty provision	311	320
	<u>\$ 14,316</u>	<u>\$ 15,139</u>

NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Lease commitments:

The facilities of the Company and its subsidiaries are leased under various operating lease agreements, which expire on various dates, the latest of which is on April 30, 2014. Aggregate minimum rental payments under non-cancelable operating leases as of December 31, 2011, are (in the aggregate) and for each succeeding fiscal year below:

2012	\$ 2,301
2013	1,027
2014	<u>295</u>
	<u>\$ 3,623</u>

Total rent expenses for the years ended December 31, 2009, 2010 and 2011 were \$ 3,514, \$ 3,556 and \$ 3,922, respectively (see also Note 16b).

b. Litigation:

- In December 2001, the Company, its Chairman Yehuda Zisapel, its President, Chief Executive Officer and Director Roy Zisapel and its Chief Financial Officer Meir Moshe (the "Individual Defendants") and several underwriters in the syndicates for the Company's September 30, 1999 initial public offering and January 24, 2000 secondary offering, were named as defendants in a class action complaint alleging violations of the federal securities laws in the United States District Court for the Southern District of New York (the "district court"). The complaint sought unspecified damages as a result of alleged violations of Section 11 of the Securities Act of 1933, as amended (the "Securities Act") against all the defendants and Section 15 of the Securities Act against the Individual Defendants arising from activities purportedly engaged in by the underwriters in connection with the Company's initial public offering and secondary offering.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

Plaintiffs allege that the underwriter defendants agreed to allocate stock in the Company's initial public offering and secondary offering to certain investors in exchange for excessive and undisclosed commissions and agreements by those investors to make additional purchases of stock in the aftermarket at pre-determined prices. An amended complaint filed on April 19, 2002, which is now the operative complaint, added a claim under Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") against the Company and a claim under Section 20(a) of the Exchange Act against the Individual Defendants.

After various proceedings described in previous Company filings, two appeals proceeded. One appeal was dismissed and the second appeal was remanded to the district court for further proceedings. The district court ruled that the appellant lacked standing to appeal. The appellant appealed the district court decision to the Second Circuit. Subsequently, the class plaintiffs and the appellant entered into a settlement agreement pursuant to which the appellant withdrew and dismissed his appeal with prejudice. The settlement is therefore final and the case is concluded.

The Company's insurance carrier has paid into an escrow account the entire current settlement amount attributed to the Company. Accordingly, there is no impact to the Company's statements of operations or cash flows because the amounts of the settlement and the insurance recovery fully offset each other.

2. Domestically, following audit of the Company's 2004 and 2005 corporate tax returns, in December 2010, the Israeli Tax Authority issued orders challenging the Company's positions on several matters. The ITA, therefore, demanded the payment of additional taxes in the aggregate amount of NIS 16 million for 2004 and NIS 15 million for 2005 including interest as of the assessment date.

In addition following audit of the Company's 2006 and 2008 corporate tax returns, in January 2012, the Israeli Tax Authority issued orders challenging the Company's positions on several matters. The ITA, therefore, demanded the payment of additional taxes in the aggregate amount of NIS 25 million for 2006 and NIS 8 million for 2008 including interest as of the assessment date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

The Company has appealed the orders relating to the four years mentioned above with the Tel Aviv District court, and these appeals are pending. There can be no assurance that the court will accept the Company's positions on matters raised and, in such an event, the company may record additional tax expenses if these matters are settled for amounts in excess of the current position.

3. In November 2011, SNMP Research International, Inc. and SNMP Research, Inc. commenced a lawsuit in the United States Bankruptcy Court for the District of Delaware against Nortel Networks, Inc. (and certain of its affiliates entities), Genband US LLC, GENBAND, Inc., Performance Technologies, Inc., Perftech (PTI) Canada, Avaya, Inc. and Radware, Ltd. The complaint alleges that the Company has infringed certain of SNMP's copyrights, misappropriated certain of SNMP's trade secrets, was unjustly enriched, and converted certain of SNMP's intellectual property. SNMP has asserted that as part of the Company's acquisition of the Layer 4-7 Application Delivery business from Nortel Networks in March 2009, the Company received certain intellectual property of SNMP Research that was embedded in the Layer 4-7 business. The complaint does not specify the amount of damages and requests that such amount be determined at trial. The Company conducted an analysis, and based on that analysis the Company advised SNMP Research that the Company did not receive any of its intellectual property as part of the acquisition. The Company is currently awaiting a response from SNMP. If SNMP Research does not dismiss the lawsuit, the Company intends to vigorously defend the litigation which is in a preliminary stage, and we cannot estimate what impact, if any, the litigation may have on the Company's results of operations, financial condition or cash flows.
4. From time to time, the Company is party to other various legal proceedings, claims and litigation that arise in the normal course of business. It is the opinion of management that the ultimate outcome of these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

NOTE 11:- SHAREHOLDERS' EQUITY

The Company's shares are listed for trade on the NASDAQ National Market under the symbol "RDWR".

a. Rights of shares:

Ordinary shares:

The Ordinary shares confer upon the holders the right to receive notice to participate and vote in shareholders meetings of the Company and to receive dividend, if declared.

b. Treasury stock:

In July 2006, the Company's Board of Directors authorized the repurchase of up to \$ 25,000 in the open market, subject to normal trading restrictions. During 2006, the Company purchased 846,855 of its Ordinary shares for total consideration of \$ 11,069. During 2008, the Company purchased 880,315 of its Ordinary shares for total consideration of \$ 6,594. During 2009 the company purchased 68,787 of its Ordinary shares for total consideration of \$ 419. Total consideration for the purchase of these Ordinary shares was recorded as Treasury shares, at cost, as part of shareholders' equity.

In October 2011, the Company's Board of Directors authorized the repurchase of up to an aggregate of \$ 20,000 of the Company's ordinary shares in the open market, subject to normal trading restrictions. The repurchase program expires on October 2012. To date, no shares have been purchased under this program.

c. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

d. Stock Option Plans:

The Company has two stock option plans, the Company's Key Employee Share Incentive Plan (1997) and the Directors and Consultants Option Plan ("the Stock Option Plans"). Under the Stock Option Plans, options may be granted to officers, directors, employees and consultants of the Company or its subsidiaries. The exercise price per share under the Stock Option Plans was generally not less than the market price of an Ordinary share at the date of grant. The options expire between 5.2 years to 6 years from the grant date. The options vest primarily over four years. Each option is exercisable for one Ordinary share. Any options, which are forfeited or not exercised before expiration, become available for future grants.

Pursuant to the Stock Option Plans, the Company reserved for issuance 11,097,318 Ordinary shares. This amount includes an increase of 2% of the company's capital stock on a fully diluted basis, reserved for option grants under the Stock Option Plans, as approved by the Company in October 2011. As of December 31, 2011, an aggregate of 374,490 Ordinary shares of the Company were still available for future grants

On February 1, 2010, the Company's Board of Directors adopted an additional addendum to the share option plan allowing the allocation of short term options to grantees who are not residents of Israel or the United States, with a grant price of 90% of the closing sales price for the shares on the NASDAQ on the date of grant of a respective option award. As of December 31, 2011, 500,000 ordinary shares have been reserved for option grants under this addendum. As of December 31, 2011, an aggregate of 381,653 Ordinary shares of the Company, under this addendum, were still available for future grants.

Employee Stock Purchase Plan ("ESPP"):

On February 1, 2010 the company's Board of Directors adopted the 2010 Employee Share Purchase Plan ("ESPP"), which provides for the issuance of a maximum of 1,000,000 ordinary shares. Pursuant to the ESPP, eligible employees (including only Israeli and United States residents) could have up to 10% of their net income withheld, up to certain maximums, to be used to purchase the Company's ordinary shares. The ESPP is implemented with overlapping one year Offering Periods, each one consisting of two purchases, once in every six-month period. The price of each ordinary share purchased under the ESPP is equal to 90% of the closing price for the shares on the respective Offering Date.

During 2011 and 2010, employees purchased 68,329 and 59,451, respectively, of Ordinary shares at average prices of \$ 14.75 and \$ 14.18, respectively.

As of December 31, 2011, 872,220 Ordinary shares were available for future issuance under the ESPP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

In accordance with ASC No. 820, the ESPP is compensatory and as such results in recognition of compensation cost. For the years ended December 31, 2011 and 2010, the Company recognized \$ 50 and \$ 306, respectively, of compensation expense in connection with the ESPP.

A summary of employees, consultants and directors option activity under the Company's Stock Option Plans as of December 31, 2011 is as follows:

	Number of options	Weighted- average exercise price	Weighted- average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at January 1, 2011	3,989,187	\$ 13.09	3.50	97,409
Granted	1,008,800	\$ 30.99	N/A	N/A
Exercised	(721,398)	\$ 10.43	N/A	17,398
Expired	(4,500)	\$ 12.50	N/A	N/A
Forfeited	(197,436)	\$ 20.96	N/A	N/A
Outstanding at December 31, 2011	<u>4,074,653</u>	<u>\$ 17.60</u>	<u>3.20</u>	<u>51,707</u>
Exercisable at December 31, 2011	<u>1,414,384</u>	<u>\$ 12.31</u>	<u>2.52</u>	<u>24,006</u>
Vested and expected to vest at December 31, 2011	<u>3,777,422</u>	<u>\$ 16.92</u>	<u>3.12</u>	<u>50,076</u>
			December 31, 2010	
			Number of options	Weighted average exercise price
Options outstanding at the beginning of the year			4,700,050	11.76
Changes during the year:				
Granted			1,123,898	20.17
Exercised			(1,484,521)	13.71
Expired			(75,150)	24.07
Forfeited			(275,090)	12.93
Options outstanding at the end of the year			<u>3,989,187</u>	<u>13.09</u>
Options exercisable at the end of the year			<u>412,602</u>	<u>12.63</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

The weighted-average grant-date fair value of options granted during the years ended December 31, 2009, 2010 and 2011 was \$ 2.72, \$ 6.34 and \$ 11.33, respectively.

As of December 31, 2011, there was approximately \$ 9,116 of total unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the Company's stock option plans. That cost is expected to be recognized over a weighted-average period of 1.06 years. Total grant-date fair value of vested options for the year ended December 31, 2011 was approximately \$ 6,731.

The options outstanding under the Company's Stock Option Plans as of December 31, 2011 have been separated into ranges of exercise price as follows:

Outstanding				Exercisable	
Ranges of exercise price	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
\$ 6.15-8.99	1,310,266	2.46	\$ 8.02	543,583	\$ 8.31
\$ 10.64-15.61	1,391,237	2.68	\$ 14.47	860,801	\$ 14.59
\$ 23.87-24.67	660,750	4.48	\$ 24.22	-	\$ -
\$ 32.79-37.33	712,400	4.35	\$ 35.23	10,000	\$ 34.58
	<u>4,074,653</u>			<u>1,414,384</u>	

Stock-based compensation was recorded in the following items:

	Year ended December 31,		
	2009	2010	2011
Cost of sales	\$ 71	\$ 64	\$ 66
Research and development	\$ 630	\$ 1,247	\$ 1,124
Selling and marketing	\$ 1,164	\$ 2,393	\$ 3,135
General and administrative	\$ 2,176	\$ 1,789	\$ 1,133
Total Expenses	<u>\$ 4,041</u>	<u>\$ 5,493</u>	<u>\$ 5,458</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 12:- EARNING (LOSS) PER SHARE

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

	Year ended December 31,		
	2009	2010	2011
Numerator for basic and diluted net earnings (loss) per share:			
Net income (loss)	\$ (5,936)	\$ 9,634	\$ 21,337
Weighted average shares outstanding, net of treasury stock:			
Denominator for basic net earnings (loss) per share	18,879,230	19,557,545	20,952,866
Effect of dilutive securities:			
Employee stock options	*) -	2,176,093	1,935,198
Denominator for diluted net earnings (loss) per share	18,879,230	21,733,638	22,888,064
Basic net earnings (loss) per share	\$ (0.31)	\$ 0.49	\$ 1.02
Diluted net earnings (loss) per share	\$ (0.31)	\$ 0.44	\$ 0.93

*) Antidilutive.

NOTE 13:- TAXES ON INCOME

a. General:

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2010	2011
Beginning balance	\$ 910	\$ 1,027
Additions for prior year tax positions	117	(7)
Additions for current year tax positions	-	649
Ending balance	\$ 1,027	\$ 1,669

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 13:- TAXES ON INCOME (Cont.)

The Company's Israeli tax returns have been examined for all years prior to fiscal 2004, and the Company is no longer subject to audit for these periods.

As of December 31, 2011, the entire amount of the unrecognized tax benefits could affect the Company's income tax provision and the effective tax rate.

During the years ended December 31, 2011, 2010 and 2009 an amount of \$(7), \$ 117 and \$ 250, respectively, added to the unrecognized tax benefits derived from interest and exchange rate differences expenses related to prior years' uncertain tax positions. During the years ended December 31, 2010 and 2009, the entire addition to the unrecognized tax benefits derived from interest and exchange rate differences expenses related to prior years' uncertain tax positions. As of December 31, 2011 and 2010, the Company had accrued interest liability related to uncertain tax positions in the amounts of \$ 447 and \$ 454 respectively, which is included within income tax accrual on the balance sheets.

Exchange rate differences are recorded within financial income, net, while interest is recorded within income tax expense

The Company's U.S subsidiary files income tax return in the U.S federal jurisdiction. Tax returns have been examined for all years prior to fiscal 2010, and the Company is no longer subject to audit for these periods.

The Company believes that it has adequately provided for any reasonably foreseeable outcome related to tax audits and settlement. The final tax outcome of its tax audits could be different from that which is reflected in the Company's income tax provisions and accruals. Such differences could have a material effect on the Company's income tax provision and net income in the period in which such determination is made.

b. Israeli Taxation:

1. Foreign Exchange Regulations:

Commencing in taxable year 2003, the Company has elected to measure its taxable income and file its tax return under the Israeli Income Tax Regulations Under the Foreign Exchange Regulations the Israeli company is calculating its tax liability in U.S. Dollars according to certain orders. The tax liability, as calculated in U.S. Dollars is translated into NIS according to the exchange rate as of December 31st of each year.

2. Tax rates:

Taxable income of Israeli companies is subject to tax at the rate of 26% in 2009, 25% in 2010 and 24% in 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 13:- TAXES ON INCOME (Cont.)

On December 5, 2011, the Israeli Parliament (the Knesset) passed the Law for Tax Burden Reform (Legislative Amendments), 2011 ("the Law") which, among others, cancels effective from 2012, the scheduled progressive reduction in the corporate tax rate. The Law also increases the corporate tax rate to 25% in 2012. In view of this increase in the corporate tax rate to 25% in 2012, the real capital gains tax rate and the real betterment tax rate were also increased accordingly.

3. Net operating losses carryforward:

The Company has estimated total available carryforward operating and capital tax losses of approximately \$ 5,000, which can be carried forward and offset against future taxable income in the future for an indefinite period. The Company provided a full valuation allowance in respect of all the deferred tax assets resulting from the carryforward operating tax losses for which future offset is doubtful. Management currently believes that it is more likely than not that those deferred tax deductions will not be realized in the foreseeable future.

4. 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 state law. According to the provisions of such Israeli law, the Company has been granted the "Alternative Benefit Track", under which the main benefits are a tax exemption and reduced tax rate. Therefore, the Company's income derived from the Approved Enterprise and allocated to the Tel Aviv facility will be entitled to a tax exemption for a period of two years and to an additional period of five to eight years with reduced tax rates of 10%-25% (based on percentage of foreign ownership). Income allocated to the Jerusalem facility will be exempt from tax for a period of up to 10 years, provided that the Company meets certain criteria. The income derived from the "Approved Enterprise" program shall be allocated between the facilities in Tel-Aviv and Jerusalem based on a mechanism as determined by the Investment Center.

The duration of tax benefits is subject to a limitation of the earlier of 12 years from commencement of production, or 14 years from the approval date. The Company began to utilize such tax benefits in 2004. The time limitation does not apply to the exemption period.

The entitlement to the above benefits is conditional upon the Company's fulfilling the conditions stipulated by the above law, regulations published hereunder and the letters of approval for the specific investments in "Approved Enterprises". In the event of failure to comply with these conditions, the benefits may be partially or fully canceled and the Company may be required to refund the amount of the benefits, in whole or in part, plus a consumer price index linkage adjustments and including interest.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 13:- TAXES ON INCOME (Cont.)

As of December 31, 2011, the company has retained earnings.

If retained earning tax-exempt income will be distributed in the future, it would be taxed at the corporate tax rate applicable to such profits with respect to the gross amount as if the Company had not elected the alternative tax benefits (currently between 10% - 25%, based on percentage of foreign ownership at the date of declaration).

Income from sources other than the "Approved Enterprise" will be subject to the tax at the regular rate.

During 2004, the Company's production facilities in Israel (Tel-Aviv and Jerusalem) have been granted an expansion program for its Approved Enterprise status by the Investment Center. The Company applied for an amendment to this expansion program, according to which it requested an enlargement to this expansion program, neutralization of certain assets and an approval that the benefits period from such expansion program will commence in 2006. In 2010, the Investment Center granted an approval for the year 2006.

On April 2005, an amendment to the law ("the Amendment") has changed certain provisions of the law. As a result of the Amendment, a company is no longer obliged to implement an Approved Enterprise status in order to receive the tax benefits previously available under the Alternative Benefits provisions, and therefore there is no need to apply to the Investment Center for this purpose (Approved Enterprise status remains mandatory for companies seeking grants). Rather, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set out by the Amendment. A company is also granted a right to approach the Israeli Tax Authorities for a pre-ruling regarding their eligibility for benefits under the Amendment.

Tax benefits are available under the Amendment to production facilities (or other eligible facilities), which are generally required to derive more than 25% of the Company's business income from export. In order to be eligible for the tax benefits, the Amendment states that a company must make an investment in the Beneficiary Enterprise exceeding a minimum amount specified in the law. Such investment may be made over a period of no more than three years ending at the end of the year in which the company requested to have the tax benefits apply to the Beneficiary Enterprise ("the Year of Election"). Where a company requests to have the tax benefits apply to an expansion of existing facilities, then only the expansion will be considered a Beneficiary Enterprise and the company's effective tax rate will be the result of a weighted combination of the applicable rates. In this case, the minimum investment required in order to qualify as a Beneficiary Enterprise is required to exceed a certain percentage of the company's production assets before the expansion. The duration of tax benefits is subject to a limitation of the earlier of 7 to 10 years from the commencement year, or 12 years from the first day of the year of election. The Company elected 2009 as year of election according to the law prior to the reform mentioned below. As of December 31, 2010, the Company did not generate income under the provisions of the Amendment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 13:- TAXES ON INCOME (Cont.)

In the event of distribution of dividends from the above mentioned tax-exempt income, the amount distributed will be subject to the same reduced corporate tax rate that would have been applied to the Approved Enterprise's and Benefiting Enterprise's income.

In addition, as a result of the amendment, tax-exempt income attributed to Benefiting Enterprise, will subject the Company to taxes upon distribution in any manner including complete liquidation.

The Company's board of directors has determined that it will not distribute any amounts of its undistributed tax-exempt income as dividend. The Company intends to reinvest its tax-exempt income and not to distribute such income as a dividend. Accordingly, no deferred income taxes have been provided on income attributable to the Company's Approved Enterprise and Benefiting Enterprise programs as the undistributed tax exempt income is essentially permanent by reinvestment.

Recently, new legislation amending to the Investment Law was adopted. Under this new legislation, a uniform corporate tax rate will apply to all qualifying income of certain Industrial Companies, as opposed to the current law's incentives, which are limited to income from Approved Enterprises during their benefits period. Under the new law, the uniform tax rate will be 10% in areas in Israel designated as Development Zone A and 15% elsewhere in Israel during 2011-2012, 7% and 12.5%, respectively, in 2013-2014, and 6% and 12%, respectively thereafter. The profits of these Industrial Companies will be freely distributable as dividends, subject to a 15% withholding tax (or lower, under an applicable tax treaty).

Under the transition provisions of the new legislation, the Company may decide to irrevocably implement the new law while waiving benefits provided under the current law or to remain subject to the current law. Changing from the current law to the new law is permitted at any time. As of December 31, 2011, the company remained subject to the current law.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 13:- TAXES ON INCOME (Cont.)

c. Taxes on income are comprised as follows:

	Year ended December 31,		
	2009	2010	2011
Current taxes	\$ 795	\$ 884	\$ 2,648
Deferred taxes	23	(5)	(1,358)
	<u>\$ 818</u>	<u>\$ 879</u>	<u>\$ 1,290</u>
Domestic	\$ 397	\$ 86	\$ 915
Foreign	421	793	375
	<u>\$ 818</u>	<u>\$ 879</u>	<u>\$ 1,290</u>

d. Deferred income taxes:

Deferred income taxes 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 and its subsidiaries' deferred tax liabilities and assets are as follows:

	December 31,	
	2010	2011
Carryforward tax losses	\$ 8,626	\$ 2,275
Accrued employees costs	1,197	289
Intangible assets	656	230
Research and development	2,252	294
Other	45	-
Deferred tax assets before valuation allowance	12,776	3,088
Valuation allowance	(11,178)	(1,090)
Net deferred tax asset	1,598	1,998
Intangible assets, including goodwill	(1,502)	(481)
Unrealized gains on marketable securities	(28)	(91)
Deferred tax liability	(1,530)	(572)
Net deferred tax assets	<u>\$ 68</u>	<u>\$ 1,426</u>
Domestic:		
Current deferred tax asset, net	-	615
Foreign:		
Non-current deferred tax asset, net	41	811
Current deferred tax asset, net	27	-
	<u>68</u>	<u>811</u>
	<u>\$ 68</u>	<u>\$ 1,426</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 13:- TAXES ON INCOME (Cont.)

Current deferred tax asset, net, is included within other current assets and prepaid expenses.

The net change in the valuation allowance was primarily relates to change in the Israeli tax rate in future years.

e. Foreign:

The subsidiary in the U.S. has partly provided valuation allowance in respect of deferred tax assets resulting from carry forwards of net operating loss. ASC No. 718 prohibits recognition of a deferred income tax asset for excess tax benefits due to stock option exercises that have not yet been realized through a reduction in income tax payable. An amount of \$ 8,400 of the net operating loss carry-forwards relate to excess tax deductions from stock options which have not yet been realized. Such unrecognized deferred tax benefits will be accounted for as a credit to additional paid-in-capital, if and when realized.

Through December 31, 2011, the U.S. subsidiary had a U.S. federal loss carry forward of approximately \$ 16,400, which can be carried forward and offset against taxable income up to 20 years, expiring between fiscal 2021 and fiscal 2027.

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.

Another subsidiary has estimated total available carryforward tax losses of approximately \$ 370 to offset against future taxable profit. As of December 31, 2011, the Company recorded a deferred tax asset of \$ 92 relating to these available net carryforward losses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 13:- TAXES ON INCOME (Cont.)

- f. A reconciliation between the theoretical tax expense, assuming all income is taxed at the statutory tax rate applicable to income (loss) of the Company and the actual tax expense as reported in the statement of operations is as follows:

	Year ended December 31,		
	2009	2010	2011
Income (loss) before taxes, as reported in the consolidated statements of income	\$ (5,118)	\$ 10,513	\$ 22,627
Statutory tax rate	26%	25%	24%
Theoretical tax benefit on the above amount at the Israeli statutory tax rate	\$ (1,331)	\$ 2,628	\$ 5,430
Tax adjustment in respect of different tax rate of foreign subsidiary	130	49	365
Non-deductible expenses and other permanent differences	52	38	858
Deferred taxes on losses for which valuation allowance was provided, net	421	(3,292)	(3,512)
Utilization of tax losses and deferred taxes for which valuation allowance was provided, net	-	-	(5,401)
Stock compensation relating to stock options per ASC No. 718	1,296	1,373	1,310
Income taxes in respect of prior years	250	86	63
Benefiting enterprise benefits	-	-	2,177
Other	-	(3)	-
Actual tax expense	\$ 818	\$ 879	\$ 1,290

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

	Year ended December 31,		
	2009	2010	2011
Domestic	\$ (7,405)	\$ 8,356	\$ 18,062
Foreign	2,287	2,157	4,565
Loss before income taxes	\$ (5,118)	\$ 10,513	\$ 22,627

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 14:- GEOGRAPHIC INFORMATION

Summary information about geographic areas:

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-users.

The following table presents total revenues for the years ended December 31, 2009, 2010 and 2011 and long-lived assets as of December 31, 2010 and 2011:

	Year ended December 31,		
	2009	2010	2011
Revenues from sales to customers located at:			
The United States	\$ 22,437	\$ 28,497	\$ 33,932
America - other	7,267	11,995	9,763
EMEA *)	36,226	44,231	57,648
China	11,343	14,180	18,497
Asia Pacific - other	31,631	45,216	47,180
	<u>\$ 108,904</u>	<u>\$ 144,119</u>	<u>\$ 167,020</u>

*) Europe, the Middle East and Africa.

	December 31,	
	2010	2011
Long-lived assets, by geographic region:		
America (principally the United States)	\$ 1,080	\$ 1,040
Israel	8,150	7,617
EMEA - other	546	777
Asia Pacific	2,025	1,650
	<u>\$ 11,801</u>	<u>\$ 11,084</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 15:- SELECTED STATEMENTS OF INCOME DATA

Financial income, net:

	Year ended December 31,		
	2009	2010	2011
Financial income:			
Interest on bank deposits	\$ 143	\$ 786	\$ 1,185
Amortization of premiums, accretion of discounts and interest on marketable debt securities, net	2,133	2,455	3,191
	2,276	3,241	4,376
Financial expenses:			
Interest and other bank charges	(99)	(186)	(163)
Foreign currency translation differences, net	(190)	(998)	(13)
	\$ 1,987	\$ 2,057	\$ 4,200

NOTE 16:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Represents transactions and balances with other entities in which certain of the Company's Board of Directors, management and shareholders have interest:

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

	December 31,	
	2010	2011
Trade receivables	\$ 2,611	\$ 1,865
Trade payables	\$ 1,179	\$ 389

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 16:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

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

	Year ended December 31,		
	2009	2010	2011
Revenues (1)	\$ 3,387	\$ 3,203	\$ 6,211
Operating expenses, net - primarily lease, sub-contractors and communications (2)	\$ 2,201	\$ 2,711	\$ 3,094
Purchase of property and equipment	\$ 1,444	\$ 1,841	\$ 1,078

(1) Distribute the Company's products on a non-exclusive basis.

(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.

Memorandum of Association

[TRANSLATION FROM HEBREW OF
MEMORANDUM OF ASSOCIATION, AS AMENDED AND RESTATED]

THE COMPANIES ORDINANCE (NEW VERSION), 5743-1983

**MEMORANDUM OF ASSOCIATION
OF
A COMPANY LIMITED BY SHARES**

The Company's name: Radware Ltd.

1. The objects for which the Company was formed are:

- (a) to produce, market, sell, import, export, purchase, rent out, lease out, take on rent, take on lease and howsoever engage in the production of computers including computer communication and including any auxiliary equipment, components and items for computers and including any electronic components, auxiliary equipment and equipment of whatsoever type;
 - (b) to conduct business as agents, representatives and attorneys of any person in the computer or electronics industry or in any other industry;
 - (c) to engage in the planning, research and development of computer and electronic equipment including computer communication equipment and including any auxiliary equipment, components and items;
 - (d) to apply for, register, purchase or otherwise acquire patents, licenses, concessions plants, know-how, production processes, professional secrets and rights of whatsoever type in the computer and electronics industries and in any other industry;
 - (e) to engage in any scientific, technical, mechanical and other tests, experiments and trials, including for the perfection in an attempt to perfect any inventions and right patents to which the Company shall be entitled, or to use them or purchase them for itself or wish to purchase for itself;
 - (f) to engage in any business of computers, computer communication, development sale, marketing, distribution, import, real estate, industrial business, trade construction, land, monies and any other business or engagement;
 - (g) to engage in the provision of services of whatsoever type;
-

- (h) to conduct business as a company for investments or holdings of whatsoever type;
- (i) to engage in the management and promotion of businesses of whatsoever type;
- (j) to do any legal act of whatsoever type.

2. The members' liability is limited.

3. The Company's share capital is: Three Million New Israeli Shekels (NIS 3,000,000) divided into Thirty Million (30,000,000) ordinary registered shares of NIS 0.1 par value, each.

The Company may increase its capital and in increasing its capital it may issue other shares, whether ordinary shares or shares with preferred or other special rights, on a terms it deems necessary. In addition, the Company may divide the registered shares into classes of shares with special rights,

The rights from time to time attached to the shares or any other classes of shares, whether the original capital or in the increased capital of the Company, may be altered or dealt with as provided in detail in the Company's articles of association, but not in any other manner.

4. All the objects mentioned or included in paragraph 1 are independent of each other, and stand by their own, and they may not be howsoever limited or restricted by drawing conclusions from sub-paragraph 1(a) or from any other paragraph, or from the Company's name or reliance thereon.

Amended and Restated Articles of Association

THE COMPANIES ORDINANCE

A COMPANY LIMITED BY SHARES

ARTICLES OF ASSOCIATION
OF

Radware Ltd.

(Amended and Restated as of September 6, 2011)

PRELIMINARY

1. **Object and Purpose of the Company**

(a) The object of the Company is to engage, directly or indirectly, in any lawful undertaking or business whatsoever, including without limitation, as set forth in the Company's Memorandum of Association.

(b) In accordance with Section 11(a) of the Companies Law 5759 - 1999 (the "Companies Law"), the Company may contribute a reasonable amount to a worthy cause.

2. **Limitation of Liability**

The liability of the shareholders is limited to the payment of the nominal value of the shares in the Company allotted to them and which remains unpaid, and only to that amount. If the Company's share capital shall include at any time shares without a nominal value, the shareholders' liability in respect of such shares shall be limited to the payment of up to NIS 0.01 for each such share allotted to them and which remains unpaid, and only to that amount.

2A. **Interpretation**

(a) Unless the subject or the context otherwise requires: words and expressions defined in the Companies Law in force on the date when these Articles or any amendment thereto, as the case may be, first became effective shall have the same meanings herein; words and expressions importing the singular shall include the plural and vice versa; words and expressions importing the masculine gender shall include the feminine gender; and words and expressions importing persons shall include bodies corporate.

(b) The captions in these Articles are for convenience only and shall not be deemed a part hereof or affect the construction of any provision hereof.

3. **Not a Private Company**

The Company is a public company as such term is defined in the Companies Law.

SHARE CAPITAL

4. Share Capital

The share capital of the Company is Three Million New Israeli Shekels (NIS 3,000,000) divided into Thirty Million (30,000,000) Ordinary Shares of a nominal value of 0.10 New Israeli Shekel (NIS 0.10) each.

5. Increase of Share Capital

(a) The Company may, from time to time, by Resolution of the General Meeting of Shareholders adopted by Special Majority, whether or not all the shares then authorized have been issued, and whether or not all the shares theretofore issued have been called up for payment, increase its share capital by the creation of new shares. Any such increase shall be in such amount and shall be divided into share of such nominal amounts, and such shares shall confer such rights and preferences, and shall be subject to such restrictions, as such Special Resolution shall provide.

(b) Except to the extent otherwise provided in such Resolution of the General Meeting of Shareholders, such new shares shall be subject to all the provisions applicable to the shares of the original capital.

6. Special Rights: Modifications of Rights

(a) Without prejudice to any special rights previously conferred upon the holders of existing shares in the Company, the Company may, from time to time, by Resolution of the General Meeting of Shareholders adopted by Special Majority, provide for shares with such preferred or deferred rights or rights of redemption or other special rights and/or such restrictions, whether in regard to dividends, voting, repayment of share capital or otherwise, as may be stipulated in such Special Resolution.

(b) (i) If at any time the share capital is divided into different classes of shares, the rights attached to any class, unless otherwise provided by these Articles, may be modified or abrogated by the Company, by Resolution of the General Meeting of Shareholders adopted by Special Majority, subject to the consent in writing of the holders of seventy-five per cent (75%) of the issued shares of such class or the sanction of a Special Resolution passed at a separate General Meeting of the holders of the shares of such class adopted by Special Majority.

(ii) The provisions of these Articles relating to General Meetings shall, mutatis mutandis, apply to any separate General Meeting of the holders of the shares of a particular class, provided, however, that the requisite quorum at any such separate General Meeting shall be one or more members present in person or proxy and holding not less than seventy-five per cent (75%) of the issued shares of such class.

(iii) Unless otherwise provided by these Articles, the enlargement of an existing class of shares, or the issuance of additional shares thereof, shall not be deemed, for purposes of this Article 6(b), to modify or abrogate the rights attached to the previously issued shares of such class or of any other class.

7. Consolidation, Subdivision, Cancellation and Reduction of Share Capital

(a) The Company may, from time to time, by Resolution of the General Meeting of Shareholders adopted by Special Majority (subject, however, to the provisions of Article 6(b) hereof and to applicable companies law):

(i) consolidate and divide all or any of its issued or unissued share capital into shares of larger nominal value than its existing shares,

(ii) subdivide its shares (issued or unissued) or any of them, into shares of smaller nominal value than is fixed by the Memorandum of Association (subject, however, to the provisions of the Companies Law), and the resolution whereby any share is subdivided may determine that, as among the holders of the shares resulting from such subdivision, one or more of the shares may, as compared with the others, have any such preferred or deferred rights or rights of redemption or other special rights, or be subject to any such restrictions, as the Company has power to attach to unissued or new shares.

(iii) cancel any shares which, at the date of the adoption of Resolution of the General Meeting of Shareholders adopted by Special Majority, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled, or

(iv) reduce its share capital in any manner, and with and subject to any incident authorized, and consent required, by law.

(b) With respect to any consolidation of issued shares into shares of larger nominal value, and with respect to any other action which may result in fractional shares, the Board of Directors may settle any difficulty which may arise with regard thereto, as it deems fit, including, inter alia, resort to one or more of the following actions:

(i) determine, as to the holder of shares so consolidated, which issued shares shall be consolidated into each share of larger nominal value;

(ii) allot, in contemplation of or subsequent to such consolidation or other action, such shares or fractional shares sufficient to preclude or remove fractional share holdings;

(iii) redeem, in the case of redeemable preference shares, and subject to applicable law, such shares or fractional shares sufficient to preclude or remove fractional share holdings;

(iv) cause the transfer of fractional shares by certain shareholders of the Company to other shareholders thereof so as to most expediently preclude or remove any fractional shareholdings, and cause the transferees to pay the transferors the fair value of fractional shares so transferred, and the Board of Directors is hereby authorized to act as agent for the transferors and transferees with power of substitution for purposes of implementing the provisions of this sub-Article 7(b)(iv).

SHARES

8. Issuance of Share Certificates: Replacement of Lost Certificates

(a) Share certificates shall be issued under the seal of the rubber stamp of the Company and shall bear the signatures of two Directors (or if there be only one Director, the signature of such Director), or of any other person or persons authorized thereto by the Board of Directors.

(b) Each member shall be entitled to one numbered certificate for all the shares of any class registered in his name, and if the Board of Directors so approves, to several certificates, each for one or more of such shares. Each certificate shall specify the serial numbers of the shares represented thereby and may also specify the amount paid up thereon.

(c) A share certificate registered in the names of two or more persons shall be delivered to the person first named in the Registrar of Members in respect of such co-ownership.

(d) If a share certificate is defaced, lost or destroyed, it may be replaced, upon payment of such fee, and upon the furnishing of such evidence of ownership and such indemnity, as the Board of Directors may think fit.

9. Registered Holder

Except as otherwise provided in these Articles, the Company shall be entitled to treat the registered holder of any share as the absolute owner thereof, and, accordingly, shall not, except as ordered by a court of competent jurisdiction, or as required by statute, be bound to recognize any equitable or other claim to, or interest in such share on the part of any other person.

10. Allotment of Shares

The unissued shares from time to time shall be under the control of the Board of Directors, who shall have the power to allot shares or otherwise dispose of them to such persons, on such terms and conditions (including inter alia terms relating to calls as set forth in Article 12(f) hereof), and either at par or at a premium, or, subject to the provisions of the Companies Law, at a discount, and at such times, as the Board of Directors may think fit, and the power to give to any person the option to acquire from the Company any shares, either at par or at a premium, or, subject as aforesaid, at a discount, during such time and for such consideration as the Board of Directors may think fit.

11. Payment in Installments

If by the terms of allotment of any share, the whole or any part of the price thereof shall be payable in installments, every such installment shall, when due, be paid to the Company by the then registered holder(s) of the share of the person(s) entitled thereto.

12. Calls on Shares

(a) The Board of Directors may, from time to time, make such calls as it may think fit upon members in respect of any sum unpaid in respect of shares held by such members which is not, by the terms of allotment thereof or otherwise, payable at a fixed time, and each member shall pay the amount of every call so made upon him (and of each installment thereof if the same is payable in installments), to the person(s) and at the time(s) and place(s) designated by the Board of Directors, as any such time(s) may be thereafter extended and/or such person(s) or place(s) changed. Unless otherwise stipulated in the resolution of the Board of Directors (and in the notice hereafter referred to), each payment in response to a call shall be deemed to constitute a pro rata payment on account of all shares in respect of which such call was made.

(b) Notice of any call shall be given in writing to the member(s) in question not less than fourteen (14) days prior to the time of payment, specifying the time and place of payment, and designating the person to whom such payment shall be made, provided, however, that before the time for any such payment, the Board of Directors may, by notice in writing to such member(s), revoke such call in whole or in part, extend such time, or alter such person and/or place. In the event of a call payable in installments, only one notice thereof need be given.

(c) If, by the terms of allotment of any share or otherwise, any amount is made payable at any fixed time, every such amount shall be payable at such time as if it were a call duly made by the Board of Directors and of which due notice had been given, and all the provisions herein contained with respect to such calls shall apply to each such amount.

(d) The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof and all interest payable thereon.

(e) Any amount unpaid in respect of a call shall bear interest from the date on which it is payable until actual payment thereof, at such rate (not exceeding the then prevailing debitory rate charged by leading commercial banks in Israel), and at such time(s) as the Board of Directors may prescribe.

(f) Upon the allotment of shares, the Board of Directors may provide for differences among the allottees of such shares as to the amount of calls and/or the times of payment thereof.

13. Prepayment

With the approval of the Board of Directors, any member may pay to the Company any amount not yet payable in respect of his shares, and the Board of Directors may approve the payment of interest on any such amount until the same would be payable if it had not been paid in advance, at such rate and time(s) as may be approved by the Board of Directors. The Board of Directors may at any time cause the Company to repay all or any part of the money so advanced, without premium or penalty. Nothing in this Article 13 shall derogate from the right of the Board of Directors to make any call before or after receipt by the Company of any such advance.

14. Forfeiture and Surrender

(a) If any member fails to pay any amount payable in respect of a call, or interest thereon as provided for herein, on or before the day fixed for payment of the same, the Company, by resolution of the Board of Directors, may at any time thereafter, so long as the said amount or interest remains unpaid, forfeit all or any of the shares in respect of which said call had been made. Any expense incurred by the Company in attempting to collect any such amount or interest, including, inter alia, attorneys' fees and costs of suit, shall be added to, and shall, for all purposes (including the accrual of interest thereon), constitute a part of the amount payable to the Company in respect of such call.

(b) Upon the adoption of a resolution of forfeiture, the Board of Directors shall cause notice thereof to be given to such member, which notice shall state that, in the event of the failure to pay the entire amount so payable within a period stipulated in the notice (which period shall not be less than fourteen (14) days and which may be extended by the Board of Directors), such shares shall be ipso facto forfeited, provided, however, that, prior to the expiration of such period, the Board of Directors may nullify such resolution of forfeiture, but no such nullification shall estop the Board of Directors from adopting a further resolution of forfeiture in respect of the non-payment of the same amount.

(c) Whenever shares are forfeited as herein provided, all dividends theretofore declared in respect thereof and not actually paid shall be deemed to have been forfeited at the same time.

(d) The Company, by resolution of the Board of Directors, may accept the voluntary surrender of any share.

(e) Any share forfeited or surrendered as provided herein shall become the property of the Company, and the same, subject to the provisions of these Articles, may be sold, re-allotted or otherwise disposed of as the Board of Directors thinks fit.

(f) Any member whose shares have been forfeited or surrendered shall cease to be a member in respect of the forfeited or surrendered shares, but shall, notwithstanding, be liable to pay, and shall forthwith pay, to the Company, all calls, interest and expenses owing upon or in respect of such shares at the time of forfeiture or surrender, together with interest thereon from the time of forfeiture or surrender until actual payment, at the rate prescribed in Article 12(e) above, and the Board of Directors, in its discretion, may enforce the payment of such moneys, or any part thereof, but shall not be under any obligation to do so. In the event of such forfeiture or surrender, the Company, by resolution of the Board of Directors, may accelerate the date(s) of payment of any or all amounts then owing by the member in question (but not yet due) in respect of all shares owned by such member, solely or jointly with another, and in respect of any other matter or transaction whatsoever.

(g) The Board of Directors may at any time, before any share so forfeited or surrendered shall have been sold, re-allotted or otherwise disposed of, nullify the forfeiture or surrender on such conditions as it thinks fit, but no such nullification shall estop the Board of Directors from re-exercising its powers of forfeiture pursuant to this Article 14.

15. Lien

(a) Except to the extent the same may be waived or subordinated in writing, the Company shall have a first and paramount lien upon all the shares registered in the name of each member (without regard to any equitable or other claim or interest in such shares on the part of any other person), and upon the proceeds of the sale thereof, for his debts, liabilities and engagements arising from any cause whatsoever, solely or jointly with another, to or with the Company, whether the period for the payment, fulfillment or discharge thereof shall have actually arrived or not. Such lien shall extend to all dividends from time to time declared in respect of such share. Unless otherwise provided, the registration by the Company of a transfer of shares shall be deemed to be a waiver on the part of the Company of the lien (if any) existing on such shares immediately prior to such transfer.

(b) The Board of Directors may cause the Company to sell any shares subject to such lien when any such debt, liability or engagement has matured, in such manner as the Board of Directors may think fit, but no such sale shall be made unless such debt, liability or engagement has not been satisfied within fourteen (14) days after written notice of the intention to sell shall have been served on such member, his executors or administrators.

(c) The net proceeds of any such sale, after payment of the costs thereof, shall be applied in or toward satisfaction of the debts, liabilities or engagements of such member (whether or not the same have matured), or any specific part of the same (as the Company may determine), and the residue (if any) shall be paid to the member, his executors, administrators or assigns.

16. Sale after Forfeiture or Surrender or in Enforcement of Lien

Upon any sale of shares after forfeiture or surrender or for enforcing a lien, the Board of Directors may appoint some person to execute an instrument of transfer of the shares so sold and cause the purchaser's name to be entered in the Register of Members in respect of such shares, and the purchaser shall not be bound to see to the regularity of the proceedings, or to the application of the purchase money, and after his name has been entered in the Register of Members in respect of such shares, the validity of the sale shall not be impeached by any person, and the remedy of any person aggrieved by the sale shall be in damages only and against the Company exclusively.

17. Redeemable Shares

The Company may, subject to applicable law, issue redeemable shares and redeem the same.

18. Conversion of Shares into Stock

(a) The Board of Directors may, with the sanction of the members previously given by Resolution of the General Meeting of Shareholders adopted by Special Majority, convert any paid-up shares into stock, and may, with like sanction, reconvert any stock into paid-up shares of any denomination.

(b) The holders of stock may transfer the same, or any part thereof, in the same manner and subject to the same regulations, as the shares from which the stock arose might have been transferred prior to conversion, or as near thereto as circumstances admit, provided, however, that the Board of Directors may from time to time fix the minimum amount of stock so transferable, and restrict or forbid the transfer of fractions of such minimum, but the minimum shall not exceed the nominal value of each of the shares from which such stock arose.

(c) The holders of stock shall, in accordance with the amount of stock held by them, have the same rights and privileges as regards dividends, voting at meetings of the Company and other matters as if they held the shares from which such stock arose, but no such right or privilege, except participation in the dividends and profits of the Company, shall be conferred by any such aliquot part of such stock as would not, if existing in shares, have conferred that right or privilege.

(d) Such of the Articles of the Company as are applicable to paid-up shares shall apply to stock, and the words "share" and "shareholder" (or "member") therein shall include "stock" and "stockholder."

TRANSFER OF SHARES

19. Effectiveness and Registration

(a) No transfer of shares shall be registered unless a proper instrument of transfer (in form and substance satisfactory to the Board of Directors) has been submitted to the Company, together with the share certificate(s) and such other evidence of title as the Board of Directors may reasonably require. Until the transferee has been registered in the Register of Members in respect of the shares so transferred, the Company may continue to regard the transferor as the owner thereof. The Board of Directors, may, from time to time, prescribe a fee for the registration of a transfer.

(b) The Board of Directors may, in its discretion and to the extent that it deems necessary, close the Register of Members for the registration of transfer of shares for such periods as may be determined by the Board of Directors, and no transfers of shares shall be registered during any period in which the Register of Members is so closed.

20. Record Date for General Meetings

Notwithstanding any provision to the contrary in these Articles, for the determination of the members entitled to receive notice of and to vote at a General Meeting, or to express consent to or dissent from any corporate action in writing, or to receive payment of any dividend or other distribution or allotment of any rights or to exercise any rights in respect of shares of the Company, the Board of Directors may fix, in advance, a record date, which shall not be earlier than ninety (90) days prior to the General Meeting or other action, as the case may be. No persons other than holders of record of shares as of such record date shall be entitled to notice of and to vote at such General Meeting, or to exercise such other right, as the case may be. A determination of members of record with respect to a General Meeting shall apply to any adjournment of such meeting, provided that the Board of Directors may fix a new record date for an adjourned meeting.

TRANSMISSION OF SHARES

21. Decedents' Shares

(a) In case of a share registered in the names of two or more holders, the Company may recognize the survivor(s) as the sole owner(s) thereof unless and until the provisions of Article 21(b) have been effectively invoked.

(b) Any person becoming entitled to a share in consequence of the death of any person, upon producing evidence of the grant of probate or letters of administration or declaration of succession (or such other evidence as the Board of Directors may reasonably deem sufficient that he sustains the character in respect of which he proposes to act under this Article or of his title), shall be registered as a member in respect of such share, or may, subject to the regulations as to transfer herein contained, transfer such share.

22. Receivers and Liquidators

(a) The Company may recognize the receiver or liquidator of any corporate member in winding-up or dissolution, or the receiver or trustee in bankruptcy of any member, as being entitled to the shares registered in the name of such member.

(b) The receiver or liquidator of a corporate member in winding-up or dissolution, or the receiver or trustee in bankruptcy of any member, upon producing such evidence as the Board of Directors may deem sufficient that he sustains the character in respect of which he proposes to act under this Article or of his title, shall with the consent of the Board of Directors (which the Board of Directors may grant or refuse in its absolute discretion), be registered as a member in respect of such shares, or may, subject to the regulations as to transfer herein contained, transfer such shares.

GENERAL MEETINGS

23. Annual General Meeting

An Annual General Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen (15) months after the last preceding Annual General Meeting) and at such place either within or without the State of Israel as may be determined by the Board of Directors.

24. Extraordinary General Meetings

All General Meetings other than Annual General Meetings shall be called "Extraordinary General Meetings." The Board of Directors may, whenever it thinks fit, convene an Extraordinary General Meeting at such time and place, within or without the State of Israel, as may be determined by the Board of Directors, and shall be obliged to do so upon a requisition in writing in accordance with the provisions of the Companies Law.

25. Notice of General Meetings; Omission to Give Notice

(a) Unless a shorter period is permitted by law, notice of a General Meeting shall be sent at least seven (7) days' prior to the date fixed for the General Meeting, provided however that such notice shall not be sent more than forty five (45) days from the date fixed for the General Meeting. Each such notice shall specify the place and the day and hour of the meeting and the general nature of each item to be acted upon thereat. Notice shall be given to all members who would be entitled to attend and vote at such meeting, if it were held on the date when such notice is issued. Anything herein to the contrary notwithstanding, with the consent of all members entitled to vote thereon, a resolution may be proposed and passed at such meeting although a lesser notice than hereinabove prescribed has been given.

(b) The accidental omission to give notice of a meeting to any member, or the non-receipt of notice sent to such member, shall not invalidate the proceedings at such meeting.

PROCEEDINGS AT GENERAL MEETINGS

26. Quorum

(a) Two or more members (not in default in payment of any sum referred to in Article 32(a) hereof), present in person or by proxy and holding shares conferring in the aggregate Thirty Five percent (35%) of the voting power of the Company, shall constitute a quorum at General Meetings. No business shall be transacted at a General Meeting, or at any adjournment thereof, unless the requisite quorum is present when the meeting proceeds to business.

(b) If within an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon requisition under the provisions of the Companies Law, shall be dissolved, but in any other case it shall stand adjourned to the same day in the next week, at the same time and place, or to such day and at such time and place as the Chairman may determine with the consent of the holders of a majority of the voting power represented at the meeting in person or by proxy and voting on the question of adjournment. No business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called. At such adjourned meeting, any two (2) members (not in default as aforesaid) present in person or by proxy, shall constitute a quorum.

27. Chairman

The Chairman, if any, of the Board of Directors shall preside as Chairman at every General Meeting of the Company. If there is no such Chairman, or if at any meeting he is not present within fifteen (15) minutes after the time fixed for holding the meeting or is unwilling to act as Chairman, the members present shall choose someone of their number to be Chairman. The office of Chairman shall not, by itself, entitle the holder thereof to vote at any General Meeting nor shall it entitle such holder to a second or casting vote (without derogating, however, from the rights of such Chairman to vote as a shareholder or proxy of a shareholder if, in fact, he is also a shareholder or such proxy).

28. Adoption of Resolutions at General Meetings

(a) (i) All Resolutions of the General Meeting shall be deemed adopted if approved by the holders of a majority of the voting power represented at the meeting in person or by proxy and voting thereon, except for articles 5(a), 6(a), 6(b), 7(a), 18(a) and 39(d) which resolution shall be adopted by a Special Majority.

(ii) A Special Majority shall mean a majority of at least seventy-five percent (75%) of the voting power represented at the meeting in person or by proxy and voting thereon.

(b) Every question submitted to a General Meeting shall be decided by a show of hands, but if a written ballot is demanded by any member present in person or by proxy and entitled to vote at the meeting, the same shall be decided by such ballot. A written ballot may be demanded before the proposed resolution is voted upon or immediately after the declaration by the Chairman of the results of the vote by a show of hands. If a vote by written ballot is taken after such declaration, the results of the vote by a show of hands shall be of no effect, and the proposed resolution shall be decided by such written ballot. The demand for a written ballot may be withdrawn at any time before the same is conducted, in which event another member may then demand such written ballot. The demand for a written ballot shall not prevent the continuance of the meeting for the transaction of business other than the question on which the written ballot has been demanded.

(c) A declaration by the Chairman of the meeting that a resolution has been carried unanimously, or carried by a particular majority, or lost, and an entry to that effect in the minute book of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favor of or against such resolution.

29. Resolutions in Writing

A resolution in writing signed by all members of the Company then entitled to attend and vote at General Meetings or to which all such members have given their written consent (by letter, facsimile [telecopier], telegram, telex or otherwise), shall be deemed to have been unanimously adopted by a General Meeting duly convened and held.

30. Power to Adjourn

(a) The Chairman of a General Meeting at which a quorum is present may, with the consent of the holders of a majority of the voting power represented in person or by proxy and voting on the question of adjournment (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called.

(b) It shall not be necessary to give any notice of an adjournment, whether pursuant to Article 26(b) or Article 30(a), unless the meeting is adjourned for thirty (30) days or more in which event notice thereof shall be given in the manner required for the meeting as originally called.

31. Voting Power

Subject to the provisions of Article 32(a) and subject to any provision hereof conferring special rights as to voting, or restricting the right to vote, every member shall have one vote for each share held by him of record, on every resolution, without regard to whether the vote hereon is conducted by a show of hands, by written ballot or by any other means.

32. Voting Rights

(a) No member shall be entitled to vote at any General Meeting (or be counted as a part of the quorum thereat), unless all calls and other sums then payable by him in respect of his shares in the Company have been paid, but this Article shall not apply to separate General Meetings of the holders of a particular class of shares pursuant to Article 6(b).

(b) A company or other corporate body being a member of the Company may, by resolution of its directors or any other managing body thereof, authorize any person to be its representative at any meeting of the Company. Any person so authorized shall be entitled to exercise on behalf of such member all the power which the latter could have exercised if it were an individual shareholder. Upon the request of the Chairman of the meeting, written evidence of such authorization (in form acceptable to the Chairman) shall be delivered to him.

(c) Any member entitled to vote may vote either personally or by proxy (who need not be a member of the Company), or, if the member is a company or other corporate body, by a representative authorized pursuant to Article 32(b).

(d) If two or more persons are registered as joint holders of any share, the vote of the senior who tenders a vote, in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s); and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members.

PROXIES

33. Instrument of Appointment

(a) The instrument appointing a proxy shall be in writing and shall be substantially in the following form:

"I _____ of _____
(Name of Shareholder) (Address of Shareholder)
being a member of _____ hereby appoint
(Name of the Company)
_____ of _____
(Name of Proxy) (Address of Proxy)

as my proxy to vote for me and on my behalf at the General Meeting of the Company to be held on the ____ day of _____, 19__ and at any adjournment(s) thereof.

Signed this ____ day of _____, 19__.

(Signature of Appointer)"

or in any usual or common form or in such other form as may be approved by the Board of Directors. It shall be duly signed by the appointer or his duly authorized attorney or, if such appointer is a company or other corporate body, under its common seal or stamp or the hand of its duly authorized agent(s) or attorney(s).

(b) The instrument appointing a proxy (and the power of attorney or other authority, if any, under which such instrument has been signed) shall either be delivered to the Company (at its Registered Office, or at its principal place of business or at the offices of its registrar and/or transfer agent or at such place as the Board of Directors may specify) not less than two (2) hours (or not less than twenty-four (24) hours with respect to a meeting to be held outside of Israel) before the time fixed for the meeting at which the person named in the instrument proposes to vote, or presented to the Chairman at such meeting.

34. Effect of Death of Appointor or Revocation of Appointment

A vote cast pursuant to an instrument appointing a proxy shall be valid notwithstanding the previous death of the appointing member (or of his attorney-in-fact, if any, who signed such instrument), or the revocation of the appointment or the transfer of the share in respect of which the vote is cast, provided no written intimation of such death, revocation or transfer shall have been received by the Company or by the Chairman of the meeting before such vote is cast and provided, further, that the appointing member, if present in person at said meeting, may revoke the appointment by means of a writing, oral notification to the Chairman, or otherwise.

BOARD OF DIRECTORS

35. Powers of Board of Directors

(a) In General

The management of the business of the Company shall be vested in the Board of Directors, which may exercise all such powers and do all such acts and things as the Company is authorized to exercise and do, and are not hereby or by law required to be exercised or done by the Company in General Meeting. The authority conferred on the Board of Directors by this Article 35 shall be subject to the provisions of the Companies Law, of these Articles and any regulation or resolution consistent with these Articles adopted from time to time by the Company in General Meeting, provided, however, that no such regulation or resolution shall invalidate any prior act done by or pursuant to a decision of the Board of Directors which would have been valid if such regulation or resolution had not been adopted.

(b) Borrowing Power

The Board of Directors may from time to time, in its discretion, cause the Company to borrow or secure the payment of any sum or sums of money for the purposes of the Company, and may secure or provide for the repayment of such sum or sums in such manner, at such times and upon such terms and conditions in all respects as it thinks fit, and, in particular, by the issuance of bonds, perpetual or redeemable debentures, debenture stock, or any mortgages, charges, or other securities on the undertaking or the whole or any part of the property of the Company, both present and future, including its uncalled or called but unpaid capital for the time being.

(c) Reserves

The Board of Directors may, from time to time, set aside any amount(s) out of the profits of the Company as a reserve or reserves for any purpose(s) which the Board of Directors, in its absolute discretion, shall think fit, and may invest any sum so set aside in any manner and from time to time deal with and vary such investments, and dispose of all or any part thereof, and employ any such reserve or any part thereof in the business of the Company without being bound to keep the same separate from other assets of the Company, and may subdivide or redesignate any reserve or cancel the same or apply the funds therein for another purpose, all as the Board of Directors may from time to time think fit.

36. Exercise of Powers of Directors

(a) A meeting of the Board of Directors at which a quorum is present shall be competent to exercise all the authorities, powers and discretions vested in or exercisable by the Board of Directors.

(b) A resolution proposed at any meeting of the Board of Directors shall be deemed adopted if approved by a majority of the Directors present when such resolution is put to a vote and voting thereon.

(c) A resolution in writing signed by all Directors then in office and lawfully entitled to vote thereon (as conclusively determined by the Chairman of the Audit Committee ["Va'adat Bikoret"], and in the absence of such determination - by the Chairman of the Board of Directors) or to which all such Directors have given their consent (by letter, telegram, telex, facsimile [telecopier] or otherwise), or their oral consent by telephone (provided that a written summary thereof has been approved and signed by the Chairman of the Board of Directors of the Company) shall be deemed to have been unanimously adopted by a meeting of the Board of Directors duly convened and held.

37. Delegation of Powers

(a) The Board of Directors may, subject to the provisions of the Companies Law, delegate any or all of its powers to committees, each consisting of two or more persons (all of whose members must be Directors), and it may from time to time revoke such delegation or alter the composition of any such committee. Any Committee so formed (in these Articles referred to as a "Committee of the Board of Directors"), shall, in the exercise of the powers so delegated, conform to any regulations imposed on it by the Board of Directors. The meetings and proceedings of any such Committee of the Board of Directors shall, mutatis mutandis, be governed by the provisions herein contained for regulating the meetings of the Board of Directors, so far as not superseded by any regulations adopted by the Board of Directors under this Article. Unless otherwise expressly provided by the Board of Directors in delegating powers to a Committee of the Board of Directors, such Committee shall not be empowered to further delegate such powers.

(b) Without derogating from the provisions of Article 50, the Board of Directors may, subject to the provisions of the Companies Law, from time to time appoint a Secretary to the Company, as well as officers, agents, employees and independent contractors, as the Board of Directors may think fit, and may terminate the service of any such person. The Board of Directors may, subject to the provisions of the Companies Law, determine the powers and duties, as well as the salaries and emoluments, of all such persons, and may require security in such cases and in such amounts as it thinks fit.

(c) The Board of Directors may from time to time, by power of attorney or otherwise, appoint any person, company, firm or body of persons to be the attorney or attorneys of the Company at law or in fact for such purpose(s) and with such powers, authorities and discretions, and for such period and subject to such conditions, as it thinks fit, and any such power of attorney or other appointment may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board of Directors may think fit, and may also authorize any such attorney to delegate all or any of the powers, authorities and discretions vested in him.

38. Number of Directors

The Board of Directors shall consist of such number of Directors (not less than five (5) nor more than nine (9)) as may be determined by Resolution of the General Meeting of the Company.

39. Election and Removal of Directors

(a) The Board of Directors shall be divided into three classes: Class I, Class II and Class III. Each Director, when and however elected, shall be designated as a member of a certain class of Directors. No Director shall be elected or appointed to a class if, as a result, one class shall have more than one director more than any other class. Subject to Article 39(c) herein, if a fraction is contained in the quotient arrived at by dividing the designated number of directors by three, then, if such fraction is one-third, the extra Director shall be a member of Class I, and if such fraction is two-thirds, one of the extra Directors shall be a member of Class I and one of the extra Directors shall be a member of Class II, unless otherwise provided from time to time by resolution adopted by the Board of Directors.

(b) Each Director (other than a Director elected to fill a vacancy in accordance with Article 40) shall serve for a term ending on the date of the third General Meeting following the General Meeting at which such Director was elected; provided, that each initial Director in Class I shall serve for a term ending on the date of the General Meeting in 2000; each initial Director in Class II shall serve for a term ending on the date of the General Meeting in 2001, and each initial Director in Class III shall serve for a term ending on the date of the General Meeting in 2002; and provided, further, that the term of each Director shall be subject to the election and qualification of his successor and to his earlier death, resignation or removal.

(c) In the event of any increase or decrease in the authorized number of Directors, (i) each Director then serving as such shall nevertheless continue as a Director of the class of which he is a member; and (ii) the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the Board of Directors among the three classes of directors so as to ensure that no one class has more than one director more than any other class. To the extent possible, consistent with the foregoing rule, any newly created directorships shall be added to those classes whose terms of office are to expire at the latest dates following such allocation, and any newly eliminated directorships shall be subtracted from those classes whose terms of office are to expire at the earliest dates following such allocation, unless otherwise provided from time to time by resolution adopted by the Board of Directors.

(d) Directors shall be elected at the Annual General Meeting by the vote of the holders of a majority of the voting power represented at such meeting in person or by proxy and voting on the election of directors, and each director shall serve, subject to Article 42 hereof and according to the provisions of this Article 39. The shareholders shall be entitled to remove any Director(s) from office by a Special Majority.

(e) Without derogating from the provisions of Article 39(d) above, the Board may at any time appoint any other person as a Director, whether to fill a vacancy or whether in addition to those of their body but so that the total number of Directors shall not at any time exceed any maximum number (if any) fixed by or in accordance with these Articles. Any Director so appointed shall hold office until the first Annual General Meeting convened after such appointment and shall be eligible for re-election at such Annual General Meeting.

(f) Without derogating from the provisions of Article 39(c) above, a shareholder desiring to propose a candidate for election to the Board of Directors or to remove a Director from his position, shall, as a condition to such proposal being considered, advise the Company of the identity of such candidate or serving Director at least two (2) weeks prior to the date of the General Meeting at which such resolution is to be considered (or such shorter period as may be determined by the Board of Directors).

(g) Notwithstanding anything to the contrary herein, the term of a Director may commence as of a date later than the date of the Resolution of the General Meeting of Shareholders electing said Director, if so specified in said Resolution of the General Meeting of Shareholders.

40. Qualification of Directors

No person shall be disqualified to serve as a Director by reason of his not holding shares in the Company or by reason of his having served as a Director in the past.

41. Continuing Directors in the Event of Vacancies

In the event of one or more vacancies in the Board of Directors, the continuing Directors may continue to act in every matter, and, pending the filling of any vacancy pursuant to the provisions of Article 39, may temporarily fill any such vacancy, provided, however, that if they number less than a majority of the number provided for pursuant to Article 38 hereof, they may only act in an emergency, and may call a General Meeting of the Company for the purpose of electing Directors to fill any or all vacancies, so that at least a majority of the number of Directors provided for pursuant to Article 38 hereof are in office as a result of said meeting.

42. Vacation of Office

(a) The office of a Director shall be vacated, ipso facto, upon his death, or if he be found lunatic or become of unsound mind, or if he become bankrupt, or, if the Director is a company, upon its winding-up.

(b) The office of a Director shall be vacated by his written resignation. Such resignation shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

43. Remuneration of Directors

No Director shall be paid any remuneration by the Company for his services as Director except as may be approved pursuant to the provisions of the Companies Law.

44. Conflict of Interests

Subject to the provisions of the Companies Law, the Company may enter into any contract or otherwise transact any business with any Director in which contract or business such Director has a personal interest, directly or indirectly; and may enter into any contract of otherwise transact any business with any third party in which contract or business a Director has a personal interest, directly or indirectly.

45. Alternate Directors

(a) A Director may, by written notice to the Company, appoint an alternate for himself (in these Articles referred to as "Alternate Director"), remove such Alternate Director and appoint another Alternate Director in place of any Alternate Director appointed by him whose office has been vacated for any reason whatsoever. Unless the appointing Director, by the instrument appointing an Alternate Director or by written notice to the Company, limits such appointment to a specified period of time or restricts it to a specified meeting or action of the Board of Directors, or otherwise restricts its scope, the appointment shall be for an indefinite period, and for all purposes.

(b) Any notice given to the Company pursuant to Article 45(a) shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

(c) An Alternate Director shall have all the rights and obligations of the Director who appointed him, provided, however, that he may not in turn appoint an alternate for himself (unless the instrument appointing him otherwise expressly provides), and provided further that an Alternate Director shall have no standing at any meeting of the Board of Directors or any committee thereof while the Director who appointed him is present.

(d) Subject to the Companies Law, any natural person may act as an Alternate Director.

(e) An Alternate Director shall alone be responsible for his own acts and defaults, and he shall not be deemed the agent of the Director(s) who appointed him.

(f) The office of an Alternate Director shall be vacated under the circumstances, mutatis mutandis, set forth in Article 42, and such office shall ipso facto be vacated if the Director who appointed such Alternate Director ceases to be a Director.

PROCEEDINGS OF THE BOARD OF DIRECTORS

46. Meetings

(a) The Board of Directors may meet and adjourn its meetings and otherwise regulate such meetings and proceedings as the Directors think fit.

(b) Any Director may at any time, and the Secretary, upon the request of such Director, shall, convene a meeting of the Board of Directors. Notice of a meeting of the Board of Directors shall be delivered to all its members at a reasonable time before the meeting, but not less than forty eight (48) hours prior to the time set for any such meeting. Notwithstanding the foregoing, in urgent matters, the Board of Directors may be convened for a meeting without notice with the consent of a majority of the Directors.

(c) A notice shall be delivered (via mail, facsimile, electronic mail or otherwise) to the Director's address that was given to the Company in advance. The failure to give notice to a Director in the manner required hereby may be waived by such Director.

47. Quorum

Until otherwise unanimously decided by the Board of Directors, a quorum at a meeting of the Board of Directors shall be constituted by the presence of a majority of the Directors then in office who are lawfully entitled to participate in the meeting (as conclusively determined by the Chairman of the Audit Committee and in the absence of such determination - by the Chairman of the Board of Directors), but shall not be less than two.

48. Chairman of the Board of Directors

The Board of Directors may from time to time elect one of its members to be the Chairman of the Board of Directors, remove such Chairman from office and appoint another in its place. The Chairman of the Board of Directors shall preside at every meeting of the Board of Directors, but if there is no such Chairman, or if at any meeting he is not present within fifteen (15) minutes of the time fixed for the meeting, or if he is unwilling to take the chair, the Directors present shall choose one of their number to be the chairman of such meeting.

49. Validity of Acts Despite Defects

Subject to the provisions of the Companies Law, all acts done bona fide at any meeting of the Board of Directors, or of a Committee of the Board of Directors, or by any person(s) acting as Director(s), shall, notwithstanding that it may afterwards be discovered that there was some defect in the appointment of the participants in such meetings or any of them or any person(s) acting as aforesaid, or that they or any of them were disqualified, be as valid as if there were no such defect or disqualification.

GENERAL MANAGER

50. General Manager

The Board of Directors may from time to time appoint one or more persons, whether or not Directors, as General Manager(s) of the Company and may confer upon such person(s), and from time to time modify or revoke, such title(s) (including Managing Director, Director General or any similar or dissimilar title) and such duties and authorities of the Board of Directors as the Board of Directors may deem fit, subject to such limitations and restrictions as the Board of Directors may from time to time prescribe. Such appointment(s) may be either for a fixed term or without any limitation of time, and the Board of Directors may from time to time (subject to the provisions of the Companies Law and of any contract between any such person and the Company) fix his or their salaries and emoluments, remove or dismiss him or them from office and appoint another or others in his or their place or places.

MINUTES

51. Minutes

(a) Minutes of each General Meeting and of each meeting of the Board of Directors shall be recorded and duly entered in books provided for that purpose. Such minutes shall, in all events, set forth the names of the persons present at the meeting and all resolutions adopted thereat.

(b) Any minutes as aforesaid, if purporting to be signed by the chairman of the meeting or by the chairman of the next succeeding meeting, shall constitute prima facie evidence of the matters recorded therein.

DIVIDENDS

52. Declaration of Dividends

The Board of Directors may from time to time declare, and cause the Company to pay, such interim dividend as may appear to the Board of Directors to be justified by the profits of the Company. The final dividend in respect of any fiscal period shall be proposed by the Board of Directors and shall be payable only after the same has been approved by a Resolution of the General Meeting of the Company, but no such resolution shall provide for the payment of an amount exceeding that proposed by the Board of Directors for the payment of such final dividend, and no such resolution or any failure to approve a final dividend shall affect any interim dividend theretofore declared and paid. The Board of Directors shall determine the time for payment of such dividends, both interim and final, and the record date for determining the shareholders entitled thereto.

53. Funds Available for Payment of Dividends

No dividend shall be paid otherwise than out of the profits of the Company.

54. Amount Payable by Way of Dividends

Subject to the rights of the holders of shares with special rights as to dividends, any dividend paid by the Company shall be allocated among the members entitled thereto in proportion to the nominal value of their respective holdings of the shares in respect of which such dividend is being paid.

55. Interest

No dividend shall carry interest as against the Company.

56. Payment in Specie

Upon the recommendation of the Board of Directors approved by a Resolution of the General Meeting of the Company, a dividend may be paid, wholly or partly, by the distribution of specific assets of the Company or by distribution of paid up shares, debentures or debenture stock of the Company or of any other companies, or in any one or more of such ways.

57. Capitalization of Profits, Reserves etc.

Upon the recommendation of the Board of Directors approved by Ordinary Resolution of the Company, the Company -

(a) may cause any moneys, investments, or other assets forming part of the undivided profits of the Company, standing to the credit of a reserve fund, or to the credit of a reserve fund for the redemption of capital, or in the hands of the Company and available for dividends, or representing premiums received on the issuance of shares and standing to the credit of the share premium account, to be capitalized and distributed among such of the shareholders as would be entitled to receive the same if distributed by way of dividend and in the same proportion, on the footing that they become entitled thereto as capital, or may cause any part of such capitalized fund to be applied on behalf of such shareholders in paying up in full, either at par or at such premium as the resolution may provide, any unissued shares or debentures or debenture stock of the Company which shall be distributed accordingly, in payment, in full or in part, of the uncalled liability on any issued shares or debentures or debenture stock; and

(b) may cause such distribution or payment to be accepted by such shareholders in full satisfaction of their interest in the said capitalized sum.

58. Implementation of Powers under Articles 56 and 57

For the purpose of giving full effect to any resolution under Articles 56 or 57, and without derogating from the provisions of Article 7(b) hereof, the Board of Directors may settle any difficulty which may arise in regard to the distribution as it thinks expedient, and, in particular, may issue fractional certificates, and may fix the value for distribution of any specific assets, and may determine that cash payments shall be made to any members upon the footing of the value so fixed, or that fractions of less value than the nominal value of one share may be disregarded in order to adjust the rights of all parties, and may vest any such cash, shares, debentures, debenture stock or specific assets in trustees upon such trusts for the persons entitled to the dividend or capitalized fund as may seem expedient to the Board of Directors. Where requisite, a proper contract shall be filed in accordance with the Companies Law, and the Board of Directors may appoint any person to sign such contract on behalf of the persons entitled to the dividend or capitalized fund.

59. Deductions from Dividends

The Board of Directors may deduct from any dividend or other moneys payable to any member in respect of a share any and all sums of money then payable by him to the Company on account of calls or otherwise in respect of shares of the Company and/or on account of any other matter of transaction whatsoever.

60. Retention of Dividends

(a) The Board of Directors may retain any dividend or other moneys payable or property distributable in respect of a share on which the Company has a lien, and may apply the same in or toward satisfaction of the debts, liabilities, or engagements in respect of which the lien exists.

(b) The Board of Directors may retain any dividend or other moneys payable or property distributable in respect of a share in respect of which any person is, under Articles 21 or 22, entitled to become a member, or which any person is, under said Articles, entitled to transfer, until such person shall become a member in respect of such share or shall transfer the same.

61. Unclaimed Dividends

All unclaimed dividends or other moneys payable in respect of a share may be invested or otherwise made use of by the Board of Directors for the benefit of the Company until claimed. The payment by the Directors of any unclaimed dividend or such other moneys into a separate account shall not constitute the Company a trustee in respect thereof, and any dividend unclaimed after a period of seven (7) years from the date of declaration of such dividend, and any such other moneys unclaimed after a like period from the date the same were payable, shall be forfeited and shall revert to the Company, provided, however, that the Board of Directors may, at its discretion, cause the Company to pay any such dividend or such other moneys, or any part thereof, to a person who would have been entitled thereto had the same not reverted to the Company.

62. Mechanics of Payment

Any dividend or other moneys payable in cash in respect of a share may be paid by check or warrant sent through the post to, or left at, the registered address of the person entitled thereto or by transfer to a bank account specified by such person (or, if two or more persons are registered as joint holders of such share or are entitled jointly thereto in consequence of the death or bankruptcy of the holder or otherwise, to any one of such persons or to his bank account), or to such person and at such address as the person entitled thereto may by writing direct. Every such check or warrant shall be made payable to the order of the person to whom it is sent, or to such person as the person entitled thereto as aforesaid may direct, and payment of the check or warrant by the banker upon whom it is drawn shall be a good discharge to the Company. Every such check or warrant shall be sent at the risk of the person entitled to the money represented thereby.

63. Receipt from a Joint Holder

If two or more persons are registered as joint holders of any share, or are entitled jointly thereto in consequence of the death or bankruptcy of the holder or otherwise, any one of them may give effectual receipts for any dividend or other moneys payable or property distributable in respect of such share.

ACCOUNTS

64. Books of Account

The Board of Directors shall cause accurate books of account to be kept in accordance with the provisions of the Companies Law and of any other applicable law. Such books of account shall be kept at the Registered Office of the Company, or at such other place or places as the Board of Directors may think fit, and they shall always be open to inspection by all Directors. No member, not being a Director, shall have any right to inspect any account or book or other similar document of the Company, except as conferred by law or authorized by the Board of Directors or by Ordinary Resolution of the Company.

65. Audit

At least once in every fiscal year the accounts of the Company shall be audited and the correctness of the profit and loss account and balance sheet certified by one or more duly qualified auditors.

66. Auditors

The appointment, authorities, rights and duties of the auditor(s) of the Company, shall be regulated by applicable law, provided, however, that in exercising its authority to fix the remuneration of the auditor(s), the members in General Meeting may, by Ordinary Resolution, act (and in the absence of any action in connection therewith shall be deemed to have so acted), to authorize the Board of Directors to fix such remuneration subject to such criteria or standards, if any, as may be provided in such Ordinary Resolution, and if no such criteria or standards are so provided, such remuneration shall be fixed in an amount commensurate with the volume and nature of the services rendered by such auditor(s).

BRANCH REGISTERS

67. Branch Registers

Subject to and in accordance with the provisions of the Companies Law and to all orders and regulations issued thereunder, the Company may cause branch registers to be kept in any place outside Israel as the Board of Directors may think fit, and, subject to all applicable requirements of law, the Board of Directors may from time to time adopt such rules and procedures as it may think fit in connection with the keeping of such branch registers.

RIGHTS OF SIGNATURE, STAMP AND SEAL

68. Rights of Signature, Stamp and Seal

- (a) The Board of Directors shall be entitled to authorize any person or persons (who need not be Directors) to act and sign on behalf of the Company, and the acts and signature of such person(s) on behalf of the Company shall bind the Company insofar as such person(s) acted and signed within the scope of his or their authority.
- (b) The Company shall have at least one official stamp.
- (c) The Board of Directors may provide for a seal. If the Board of Directors so provides, it shall also provide for the safe custody thereof. Such seal shall not be used except by the authority of the Board of Directors and in the presence of the person(s) authorized to sign on behalf of the Company, who shall sign every instrument to which such seal is affixed.
- (d) The Company may exercise the powers conferred by the provisions of the Companies Law regarding a seal for use abroad, and such powers shall be vested in the Board of Directors.

NOTICES

69. Notices

(a) Any written notice or other document may be served by the Company upon any member either personally or by sending it by prepaid registered mail (airmail if sent to a place outside Israel) addressed to such member at his address as described in the Register of Members or such other address as he may have designated in writing for the receipt of notices and other documents. Any written notice or other document may be served by any member upon the Company by tendering the same in person to the Secretary or the General Manager of the Company at the principal office of the Company or by sending it by prepaid registered mail (airmail if posted outside Israel) to the Company at its Registered Address. Any such notice or other document shall be deemed to have been served two (2) business days after it has been posted (seven (7) business days if sent internationally), or when actually received by the addressee if sooner than two days or seven days, as the case may be, after it has been posted, or when actually tendered in person, to such member (or to the Secretary or the General Manager), provided, however, that notice may be sent by cablegram, telex, telecopier (facsimile) or other electronic means and confirmed by registered mail as aforesaid, and such notice shall be deemed to have been given twenty-four (24) hours after such cablegram, telex, telecopy or other electronic communication has been sent or when actually received by such member (or by the Company), whichever is earlier. If a notice is, in fact, received by the addressee, it shall be deemed to have been duly served, when received, notwithstanding that it was defectively addressed or failed, in some respect, to comply with the provisions of this Article 69(a).

(b) All notices to be given to the members shall, with respect to any share to which persons are jointly entitled, be given to whichever of such persons is named first in the Register of Members, and any notice so given shall be sufficient notice to the holders of such share.

(c) Any member whose address is not described in the Register of Members, and who shall not have designated in writing an address for the receipt of notices, shall not be entitled to receive any notice from the Company.

(d) Notwithstanding any contrary provision herein, notice by the Company of a General Meeting which is either (A) published in two daily newspapers in Israel and in one daily newspaper in the United States, or (B) published in one international wire service or filed or furnished to the U.S. Securities and Exchange Commission, shall be deemed to have been duly given on the date of such publication (or filing) to any shareholder, wherever located .

(e) Where a given number of days' notice, or notice extending over any period, is required to be given, the day of service or mailing, actual transmission, delivery date or publication date as well as the date of the General Meeting shall be counted in such number of days or other period.

INSURANCE AND INDEMNITY

70. Insurance and Indemnity

(a) For purposes of these Articles, the term "Office Holder" shall mean every Director and every officer of the Company, including, without limitation, each of the persons defined as "Nosei Misra" in the Companies Law.

(b) The Company may insure the liability of any Office Holder therein to the fullest extent permitted by the Companies Law. Without derogating from the foregoing, the Company may enter into a contract for the insurance of all or part of the liability of any Office Holder, in respect of a liability imposed on him as a result of an act done by him in his capacity as an Office Holder of the Company in any of one of the following:

(i) a breach of his duty of care to the Company or to another person;

(ii) a breach of his duty of loyalty to the Company, provided that the Office Holder acted in good faith and had reasonable cause to assume that such act would not prejudice the interests of the Company;

(iii) a financial obligation imposed on him in favor of another person;

(iv) a payment which the Office Holder is obligated to make to an injured party as set forth in Section 52(54)(a)(1)(a) of the Israeli Securities Law, 5728-1968 (the "**Securities Law**"), if applicable, and expenses that the Office Holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, if applicable, including reasonable legal expenses, which term includes attorney fees; and

(v) Any other matter in respect of which it is permitted or will be permitted under applicable law to insure the liability of an Office Holder in the Company.

(c) The Company may, to the fullest extent permitted by the Companies Law, indemnify an Office Holder. Without derogating from the aforesaid, the Company may indemnify an Office Holder in respect of an obligation or expense specified below imposed on the Office Holder in respect of an act performed in his capacity as an Office Holder, as follows:

(i) a financial obligation imposed on him in favor of another person by a court judgment, including a compromise judgment or an arbitrator's award approved by court;

(ii) reasonable litigation expenses, including attorney's fees, expended by the Office Holder as a result of an investigation or proceeding instituted against him by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against him and either (A) concluded without the imposition of any financial liability in lieu of criminal proceedings or (B) concluded with the imposition of a financial liability in lieu of criminal proceedings but relates to a criminal offense that does not require proof of criminal intent or in connection with a financial sanction;

(iii) reasonable litigation expenses, including attorneys' fees, expended by an Office Holder or charged to the Office Holder by a court, in a proceeding instituted against the Office Holder by the Company or on its behalf or by another person, or in a criminal charge from which the Office Holder was acquitted, or in a criminal proceeding in which the Office Holder was convicted of an offense that does not require proof of criminal intent;

(iv) a payment which he is obligated to make to an injured party as set forth in Section 52(54)(a)(1)(a) of the Securities Law, if applicable, and expenses that he incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, if applicable, including reasonable legal expenses, which term includes attorney fees; and

(v) any other matter in respect of which it is permitted or will be permitted under applicable law to indemnify an Office Holder in the Company.

The Company may undertake to indemnify an Office Holder as aforesaid, (aa) prospectively, provided that, in respect of Article 70(c)(i), the undertaking is limited to events which in the opinion of the Board of Directors are foreseeable in light of the Company's actual operations when the undertaking to indemnify is given, and to an amount or criteria set by the Board of Directors as reasonable under the circumstances, and further provided that such events and amount or criteria are set forth in the undertaking to indemnify, and (bb) retroactively.

(d) Subject to the provisions of the Companies Law, the Company may exculpate an Office Holder in advance from all or some of the Office Holder's responsibility for liability resulting from the Office Holder's breach of the Office Holder's duty of care to the Company.

(e) The provisions of Articles 70(a), 70(b), 70(c) and 70(d) above are not intended, and shall not be interpreted, to restrict the Company in any manner in respect of the procurement of insurance and/or indemnification and/or exculpation (i) in connection with any person who is not an Office Holder, including, without limitation, any employee, agent, consultant or contractor of the Company who is not an Office Holder, and/or (ii) in connection with any Office Holder to the extent that such insurance and/or indemnification is not specifically prohibited under law; provided that the procurement of any such insurance and/or the provision of any such indemnification and/or exculpation of Office Holders shall be approved by the Audit Committee of the Company.

WINDING UP

71. Winding Up

If the Company be wound up, then, subject to applicable law and to the rights of the holders of shares with special rights upon winding up, the assets of the Company available for distribution among the members shall be distributed to them in proportion to the nominal value of their respective holdings of the shares in respect of which such distribution is being made.

LIST OF SUBSIDIARIES

Name of Subsidiary	Country of Incorporation
Radware Inc.	New Jersey, United States of America
Radware UK Limited	United Kingdom
Radware France	France
Radware Srl	Italy
Radware GmbH	Germany
Nihon Radware KK	Japan
Radware Australia Pty. Ltd.	Australia
Radware Singapore Pte. Ltd.	Singapore
Radware Korea Ltd.	Korea
Radware Canada Inc.	Canada
Radware India Pvt. Ltd.	India
Covelight Systems, Inc.	Delaware, United States of America
Radyoos Media Ltd.	Israel

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Roy Zisapel, certify that:

1. I have reviewed this annual report on Form 20-F of Radware Ltd. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: March 28, 2012

/s/ Roy Zisapel
Roy Zisapel
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Meir Moshe, certify that:

1. I have reviewed this annual report on Form 20-F of Radware Ltd. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: March 28, 2012

/s/ Meir Moshe
Meir Moshe
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Radware Ltd. (the "Company") on Form 20-F for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Roy Zisapel, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 28, 2012

/s/ Roy Zisapel
Roy Zisapel
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Radware Ltd. (the "Company") on Form 20-F for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Meir Moshe, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 28, 2012

/s/ Meir Moshe
Meir Moshe
Chief Financial Officer
(Principal Financial Officer)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the registration statement on Form S-8 (Commission File Numbers 333-12156, 333-13818, 333-105213, 333-114668, 333-135218, 333-161796 333-166673 and 333-166674) pertaining to the Radware Ltd. 1997 Key Employee Share Incentive Plan and the Radware Ltd. 2010 Employee Share Purchase Plan, of our reports dated March 28, 2012, with respect to the Consolidated Financial Statements of Radware Ltd. and its subsidiaries and the effectiveness of internal control over financial reporting of Radware Ltd. and its subsidiaries, included in this Annual Report on Form 20-F for the year ended December 31, 2011.

Tel - Aviv, Israel
March 28, 2012

/s/ Kost Forer Gabbay & Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global
