

Letter to Shareholders



To Our Shareholders

I am pleased to announce that in 2005 Radware continued its track record of year over year revenue growth. 2005 was also a year in which we achieved some key business objectives.

Financial Highlights

During 2005 and the first half of 2006 we continued to grow our revenues. Our revenues for 2005 amounted to a record of \$77.6 million, an increase of 13% compared to revenues of \$68.4 million for 2004. Our revenues for the first half of 2006 amounted to \$40.1 million, an increase of 7% compared to revenues of \$37.5 million in the first half of 2005.

Our gross margin for the first half of 2006 continued to be at an industry record high of 81%, the same as in 2005.

During 2005 we had an operating profit of \$4.4 million, compared to an operating profit of \$9.5 million in 2004. During the first half of 2006 we had an operating loss of \$3.7 million on a GAAP basis, or \$1.5 million excluding the effects of stock-based compensation expense.

Our net income for 2005 was \$9.3 million, or \$0.47 per diluted share, compared to net income of \$13.8 million, or \$0.70 per diluted share in 2004. Net loss on a GAAP basis for the first half of 2006 totaled to \$0.3 million, or \$0.02 per diluted share. Net income excluding the effects of stock-based compensation expense for the first half of 2006 totaled to \$1.7 million or \$0.09 per diluted share.

Business Highlights

2005 was a pivotal year for the company in terms of achievements. We unveiled our next-generation APSolute™ product family for ensuring the fast, reliable, secure delivery of critical business applications over IP networks. APSolute puts Radware at the forefront as a technology innovator with an integrated application delivery solution that enables our customers to maximize their strategic IT infrastructure investments by making networks “application-smart.” Our unique approach to application-smart networking is aligned with two key trends driving growth in the application delivery market. One trend is the increasingly important role of global application delivery for strategic network business planning. The second trend is the merging of the application security and application acceleration markets.

A key requirement for tuning network behavior and optimizing applications according to application-smart policies is the ability to extract and process massive amounts of granular information about applications, users and content from network traffic. We designed APSolute to make networks adaptive and responsive to diverse application needs and business processes, enabling us to address the requirements of large enterprises and carriers. I'm happy to report that in 2005 we had a healthy mix of revenue growth from both new and repeat customers in the Americas, EMEA and APAC, across a broad range of vertical markets such as finance, e-commerce, education, manufacturing, retail, transportation, and communications.

All of our customers demand non-stop availability, high performance, guaranteed security and cost-effective scalability to drive productivity and ensure business continuity and transaction completion for their mission-critical applications. We believe our architectural approach to

application-smart networking, together with our intelligent integration of availability, performance and security functionality, provides our customers with a superior solution for optimizing the new generation of web-enabled and XML web-services applications. With APSolute, our customers get consistent and predictable performance as they expand the capacity and functionality of their

“Radware is one of the few vendors with a comprehensive application acceleration architecture encompassing security, application acceleration, and management.”

IT Architect, January, 2006

network to support new applications and services. This is critical for network planning, effectively managing infrastructure costs, and most importantly, ensuring end user service level agreements. APSolute also supports leading technology capabilities for interactive converged IP services such as voice over IP, video conferencing, information sharing and collaboration.

In December 2005 we acquired V-Secure Technologies, a provider of behavior-based network intrusion prevention solutions, to extend our arsenal of intrusion prevention mechanisms to include proactive, zero-day protection for new, emerging threats. V-Secure's patent-pending expert system technology for self-learning networks identifies attacks in real-time with no human intervention and then automatically activates the optimal counter-measure without affecting legitimate traffic. I am proud to report that Radware's development team quickly integrated V-Secure technology into our APSolute architecture, enabling us to be the first vendor in the market to combine content-based, behavioral-based and rate-based protection into a single scalable solution, bolstering application security, improving productivity and reducing deployment costs. The unique value to our customer is that our integrated APSolute security capabilities ensures application availability and fast response time for legitimate traffic and users, no matter what kind of attack is perpetrated.

Forging relationships with key application vendors is an important element of our strategy to drive broader market adoption of our APSolute application delivery solution. This year we became a member of the select community of Microsoft SecureIT alliance vendors, which enables us to help more enterprises understand the critical role of application security as a core business enabler. Our certified joint solutions with BEA and Oracle enable enterprise customers to eliminate downtime for these widely deployed applications by ensuring fault tolerant application continuity and transaction completion.

In summary, we believe that in 2005 we made progress on multiple fronts. We improved our competitive position in the market with a series of new product introductions as part of our APSolute architecture. We successfully executed our first acquisition. We continued to strengthen our relationships with key application vendors and continued to expand our customer base globally. Moving forward, we believe that APSolute provides a strong vehicle for leveraging the growing interest and demand for application delivery solutions that align networks with business imperatives. With leading technology, a strong customer base and continued investment in R&D, sales, marketing and business development, we expect to achieve increased penetration in large enterprise and carrier markets to fulfill our business objectives for 2006.

Roy Zisapel
President and CEO

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Ordinary Shares

Radware Ltd. Ordinary Shares (Common Stock) trade on the NASDAQ Stock Market (NASDAQ: RDWR) and Tel Aviv Stock Exchange.

Annual Report on Form 20-F

To review the company's Annual Report on Form 20-F, as filed with the U.S. Securities and Exchange Commission, please issue a request at ir@radware.com. The report is also available for download from the investor relations section of the company web site.

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About Radware

Radware (NASDAQ:RDWR) is the global leader in integrated application delivery solutions, assuring the full availability, maximum performance and complete security of all business critical networked applications while dramatically cutting operating and scaling costs. Over 3,000 enterprises and carriers worldwide use Radware application-smart switches to drive business productivity and improve profitability by adding critical application intelligence to their IP infrastructure, making networks more responsive to specific business processes.

Radware's APSolute product family provides the most complete set of application front-end, remote access and security capabilities for application-smart networking to ensure faster, more reliable and secure business transactions.