

RADWARE LTD
Form 20-F
April 29, 2010

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, 2009

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

Title of each class	Name of each exchange on which registered
Ordinary Shares, NIS 0.1 par value per share	NASDAQ Global Select Market

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:

18,916,601 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 United States Securities and Exchange Commission;
- “NASDAQ” are to the NASDAQ Global Market (formerly, the Nasdaq National Market);
 - “dollars” or “\$” are to United States dollars; and
 - “NIS” or “shekels” are to New Israeli Shekels.

We have registered trademarks for, among others, “Radware®”, “APSolute®”, “Web Server Director®”, “FireProof®”, “LinkProof®”, “Triangulation®”, “Smart Nat®”, “Synapps Architecture®”, “DefensePro®”, “StringMatch Engine®”, “Content Inspection Director®”, “SIPDirector®”, “AppDirector®”, “AppXcel®”, “AppXML®”, “SecureFlow®”, “OnDemand Switch®”, “AppWall®”, “Absolute Insite®”, and “Alteon®” and we have trademark applications pending for, among others, “Uplink™”, “Virtual Director™”, “APSolute Vision™”, and “vAdapter™”. All other trademarks and trade names appearing in this annual report are owned by their respective holders.

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.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

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ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following tables present our consolidated statement of operations and balance sheet data for the periods and as of the dates indicated. We derived the statement of operations for the years ended December 31, 2007, 2008 and 2009 and the balance sheet data as at December 31, 2008 and 2009 from our audited consolidated financial statements included elsewhere in this annual report, which have been prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. The selected consolidated statement of operations financial data for the years ended December 31, 2005 and 2006 and the balance sheet data as of December 31, 2005, 2006 and 2007 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. Please see notes 2(x) and 11 of the notes 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,				
	2005	2006*	2007*	2008*	2009*
	(US \$ in thousands except per share data)				
Statement of Operations Data:					
Revenues:					
Products	\$ 55,902	\$ 57,335	\$ 59,422	\$ 59,678	\$ 65,021
Services	21,682	24,075	29,209	34,903	43,883
	77,584	81,410	88,631	94,581	108,904
Cost of revenues:					
Products	9,325	10,267	13,133	15,143	16,609
Services	5,571	5,524	5,895	6,431	6,666
	14,896	15,791	19,028	21,574	23,275
Gross profit	62,688	65,619	69,603	73,007	85,629
Operating expenses:					
Research and development, net	13,017	17,659	23,515	28,357	25,674
Sales and marketing	40,002	50,128	57,977	63,591	55,130
General and administrative	5,244	6,178	7,114	12,066	11,930
Total operating expenses	58,263	73,965	88,606	104,014	92,734
Operating profit (loss)	4,425	(8,346)	(19,003)	(31,077)	(7,105)
Financial income, net	5,159	7,422	7,420	3,612	1,987
Income (loss) before income taxes	9,584	(924)	(11,583)	(27,395)	(5,118)
Income taxes	(240)	(356)	(428)	(3,627)	(818)
Net income (loss)	\$ 9,344	\$ (1,280)	\$ (12,011)	\$ (31,022)	\$ (5,936)
Basic net earnings (loss) per share					
	\$ 0.50	\$ (0.07)	\$ (0.62)	\$ (1.60)	\$ (0.31)
Diluted net earnings (loss) per share					
	\$ 0.47	\$ (0.07)	\$ (0.62)	\$ (1.60)	\$ (0.31)

* The Company adopted ASC No. 718 "Compensation-Stock Compensation", effective January 1, 2006.

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	Year ended December 31,				
	2005	2006	2007	2008	2009
	(US \$ in thousands)				
Weighted average number of ordinary shares used in computing basic net earnings (loss) per share	18,800	19,325	19,477	19,440	18,879
Weighted average number of ordinary shares used in computing diluted net earnings (loss) per share	20,072	19,325	19,477	19,440	18,879

	Year ended December 31,				
	2005	2006	2007	2008	2009
	(US \$ in thousands)				
Balance Sheet Data:					
Cash and cash equivalents, short-term bank deposits and marketable securities	\$ 126,901	\$ 140,375	\$ 152,110	\$ 88,796	\$ 59,090
Long-term bank deposits, structured deposit and marketable securities	37,592	23,756	2,735	45,112	67,021
Working capital	124,005	137,406	149,954	82,292	49,573
Total assets	204,347	215,668	216,067	185,464	208,900
Shareholders' equity	177,426	182,414	176,713	148,062	149,473
Capital Stock	153,480	170,568	176,486	186,450	192,406

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, and may incur losses in the future.

We incurred losses in 2006 through 2009. We had a net loss of approximately \$5.9 million in 2009 and a net loss of approximately \$31.0 million in 2008. Our results for the first half of 2009 were affected by the global recession and the slow down in IT market spending and we continued to incur net losses due to our limited ability to adjust our expenses level to the changes in the market in a short period of time. In the second half of 2009 we returned to profitability, as a result of increased revenues and tight expenses control. We will need to generate increased revenues as well as keep tight control over our costs in order to maintain and increase our profitability in the future.

Our revenues may not grow or continue at their current level. For example, the growth rate in 2008 compared to 2007 was approximately 7% and the growth rate in 2009 compared to 2008 was approximately 15%. Our gross margin is currently approximately 79% and, as a result, any decrease in sales may have a significant effect on our profitability.

In addition, our operating expenses may increase. 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 some time 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 2009, we invested in the development of a new Alteon 5412 application switch and continued to invest in the expansion and development of many other products and enhancements, including the release of most of our products on our new line of hardware platforms, the OnDemand Switch®. In addition, we have continued our investments in our existing Application Delivery product lines with AppDirector® and LinkProof® along with the introduction of the vAdapter™ software appliance, Virtual Director™ and AppWall® appliances for the enterprise sector, and continued to enhance our Network Intrusion Prevention System (IPS) DefensePro® product and our central management with Insite. We also invested in new product developments for the carrier sector with the introduction of CID® 3 and SIPDirector®. In parallel to our investments in our products portfolio as described above, we have invested in marketing plans and product promotion efforts. Our efforts as well as our expenditures in these products 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 real estate and financial issues globally which led to a recessionary period. More specifically, it is estimated that the worldwide datacenter Layer 4-7 (application delivery) switch manufacturing revenues for 2009 only brought the market back to 2006 levels, estimated by IDC (a third party research firm) at a total of \$840 million for 2009. This represents a 21% market decline compared to \$1.068 billion for 2008. For the Layer 4-7 sector, worldwide market revenue is estimated by IDC to increase to \$905.7 million during 2010. In the Intrusion Prevention sector of the network security market, the market according to Gartner (a third party IT analyst), was almost flat in 2009 with \$903 million in vendor revenues compared to \$899 million in 2008, with 2010 expected to total only \$1.18 billion globally. Although the global economy showed signs of recovery by the end of 2009 and, the economic outlook for 2010 has improved, 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. Each of the above scenarios would have a material adverse effect on our business, operating results and financial condition.

We face the risk of a decrease in our financial income.

One of the factors affecting our net income is financial income. The ability to achieve our investment objectives is affected by many factors, some of which are beyond our control. Our cash throughout the world is invested in fixed-income securities and bank deposits, 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.

The outlook for our financial income is dependent on the future direction of interest rates, the amount of any share repurchases or acquisitions that we effect and the amount of cash flows from operations that are available for investment. 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. For example, in 2009 our financial income totaled to \$2.0 million, which represents 55% of our financial income in 2008. This decrease is attributed mainly to the decrease in prevailing market interest rates in 2009 compared to 2008.

Severe global economic conditions may significantly decrease the value of our investment assets.

The performance of the capital markets affects the values of funds that are held in marketable securities. These assets are subject to market fluctuations and will yield uncertain returns, which may fall below our projected return rates. 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.

Our cash, cash equivalents, short-term and long-term deposits and marketable securities totaled \$126.1 million as of December 31, 2009. 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 continues, it may result in impairments of the carrying value of our investment assets. This is because 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 to 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. Had we reported all the changes in the fair values of our investments into income, our reported net loss for the year ended December 31, 2009, would have decreased by \$1.8 million.

One of our primary market risk exposures is changes in interest rates. A decline in market interest rates, such as the significant global decline in recent years, has had an adverse effect on our financial income. In a declining interest rate environment, borrowers may seek to refinance their borrowings at lower rates and, accordingly, prepay or redeem securities we hold more quickly than we initially expected. This action may cause us to reinvest the redeemed proceeds in lower yielding investments. Currently we do not hold any securities which 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.

We may experience significant fluctuations in our quarterly financial performance because of the factors discussed below and 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. These factors include:

- Our limited order backlog;
- Our need to develop and introduce new and enhanced products and features; and
- The long sales cycles of our products.

As a result of the foregoing our results in any quarter may also fall below projected results.

In addition, our quarterly operating results have been, and are likely to continue to be, influenced by seasonal fluctuations in our sales. Because our sales have grown year-over-year since 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 from the levels which we might otherwise have been able to attain during the first quarter of 2010, since some of our customers are still planning their annual purchasing budget in the beginning of the year, and in the third quarter of 2010 because of the slowdown in business activities during the summer months in Europe. We further believe that our sales during the fourth quarter of 2010 may be increased because some of our customers tend to make greater capital expenditures towards the end of their own fiscal years. Because of these anticipated fluctuations, our sales and operating results in any quarter may not be indicative of future performance and it may be difficult for investors to properly evaluate our prospects.

If the market for Application Delivery and Network Security solutions does not continue to develop, we will not be able to sell enough of our products to achieve and 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 or that our products and technology will keep pace with these changes. 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 achieve, maintain and increase profitability.

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

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 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. Such principal competitors include Juniper Networks, Inc., 3Com Systems, Inc. (TippingPoint Technologies, Inc.), 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.

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

Most of our competitors have greater financial, personnel and other resources than us, which may limit our ability to effectively compete with them. These competitors may be able to:

- respond more quickly to new or emerging technologies or changes in customer requirements;
- benefit from greater economies of scale;
- offer more aggressive pricing;

- invest more resources in research and development in order to gain or maintain a competitive advantage;
 - devote greater resources to the promotion of their products; and/or
- bundle their products or incorporate an Application Delivery or Intrusion Prevention component into existing products in a manner that renders our products partially or fully obsolete.

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, as the applications aspect of our customers' data centers continue to evolve, our customers require advancements in our applications in order to support their growing needs. In order to meet this challenge and remain competitive in the market, we must introduce new enhancements to our existing product lines to support these growing data centers.

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 and consecutively increase 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 potential failure to make further product developments or enhancements may result in a decrease in our revenues in the long run. In addition, in order to remain competitive in our industry, we must invest in research and development. We can give no assurances that continued investment and higher costs of research and development will ultimately result in maintaining or increasing our market share. If our research and development expenses go up without a corresponding increase in our revenues, it would be detrimental to 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 2009, we invested in, and plan to continue to invest in 2010 in developing or when appropriate, acquiring, capabilities to advance our APSolute product family and market vision for business-smart networking. As part of such investments, we acquired Covelight Systems, Inc., or Covelight, in April 2007 for their web channel intelligence technology. Based on this technology we have launched new products (Virtual Director™ and vAdapter™) for the virtualized data center environments. In addition, in 2009 we completed the Alteon Acquisition and purchased Nortel's application delivery switches. Within eight months of the Alteon Acquisition we launched the Alteon 5412 switch, the first Alteon switch addressing the current throughput needs of large data-centers supporting up to 20Gbps of throughput. At the time of the Alteon Acquisition, we also announced that we would support the Alteon Series 2 and 3 application switches for five years. We have allocated development manpower to deliver ongoing software maintenance for our existing Alteon customers, having already released several software versions in 2009 to address customers' needs and enhance existing Alteon product line functionality.

These investments are part of our positioning initiative branded as "business-smart networking". 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.

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 we may enter into joint ventures or other strategic relationships with third parties. For example, in the last five years we acquired the businesses of V-Secure Technologies Inc., or V-secure, Covelight and, in March 2009, the “Alteon” product line of Nortel. In connection with future acquisitions, we may assume liabilities, incur acquisition related costs, incur amortization expenses related to intangible assets or realize large write-offs based on management decision that such assets will no longer be used or will be phased out. In addition, the future valuation of these acquisitions may decrease from the market price paid by us, which may result in the impairment of 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 our recent acquisitions or any future acquisition or merger will be successful. If the operation of the business of any recent or future acquisitions or mergers disrupts our operations, our business may suffer. Furthermore, 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, including the Alteon Acquisition, 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. 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 dependent on orders received and delivered in that quarter. A delay in the recognition of revenue may have a negative impact on our results of operations for a given period. We base our decisions regarding our operating expenses on anticipated revenue trends, and our expense levels are relatively fixed, or require some time for adjustment. Because only a small portion of our expenses varies with our revenues, if revenue levels fall below our expectations, our earnings will decrease.

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

We sell our products primarily to independent distributors, including value added resellers, original equipment manufacturers and systems integrators. These distributors resell our products to the ultimate customers. We currently have several dozen active independent distributors and resellers that sell our products. We are highly dependent upon our distributors’ active marketing and sales efforts. Our distribution agreements generally are non-exclusive, one-year agreements with no obligation on the part of our distributors to renew the agreements. Typically, our distribution agreements do not strictly prevent our distributors from selling products of other companies, including products that

may compete with our products, and do not contain minimum sales or marketing performance requirements. As a result, our distributors may give higher priority to products of other companies or to their own products, thus reducing or discontinuing their efforts to sell our products. We may not be able to maintain our existing distribution relationships. If our distributors terminate their relationships with us, we may not be successful in replacing them. In addition, we may need to develop new distribution channels for new products 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 the loss of revenues.

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 lengthy approval processes that typically accompany the design and testing of new equipment. The sales cycles of our products to new customers can last as long as twelve months from initial presentation to sale. This delays the time in which we recognize revenue, and results in our having to invest significant resources in 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 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, or that we will be able to offer and 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.

As we grow we may need new or enhanced systems, procedures or controls. For example, at the beginning of 2007, we started implementing a company-wide Oracle ERP system, with a substantial investment of resources, in order to increase the efficiencies of our operations in the fields of finance, operations, customer support and order management. The transition to new systems, procedures or controls, as well as any delay in transitioning to new or enhanced systems, procedures or controls, may seriously harm our ability to accurately forecast sales demand, manage our product inventory and record and report financial and management information on a timely and accurate basis.

Our international sales may expose us to additional risks

We currently offer our products in over 40 countries in addition to the United States. In fiscal years 2008 and 2009 our sales outside the Americas represented approximately 75% and 73%, 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, among others, may include: 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; and differences in business practices. For example, we are required to comply with European Union Directives with respect to product quality assurance standards and environmental standards. In 2006, we were required to modify certain of our products in order to comply with Directive 2002/95/EC on Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (known as the "RoHs Directive"), which requires products sold in Europe to meet certain design specifications. We incurred costs and expenses and were required to spend management time and resources in the redesign of our products to meet the RoHs Directive. We are currently in compliance with the RoHs Directive.

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, principally salaries and related personnel expenses, are paid in New Israel Shekels (“NIS”), whereas most of our revenues are generated in dollars and partially in Euros. We witnessed a weakening of the NIS against the dollar during most of 2009, which decreased the dollar value of our expenses in Israel during 2009. Should the NIS increase its strength in comparison to the dollar, the dollar value of these expenses will increase, and our results of operations will be adversely affected.

- A portion of our international sales are denominated in currencies other than 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-Pacific. The devaluation of the dollar relative to such local currencies causes our operational expenses to increase.
- The majority of our international sales are denominated in dollars. Accordingly, devaluation in the local currencies of our customers relative to the dollar could cause customers to decrease orders or default on payment, which could harm our results of operations.

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 qualified sales personnel, as well as technical and customer support personnel is intense, and we may not be able to hire sufficient personnel to support our research and development and sales and marketing efforts. Our success depends upon our ability to attract, train and retain highly qualified personnel.

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, we do not carry life insurance on our senior management or key personnel. Any loss of the services of Roy Zisapel, other members of senior management or other key personnel 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 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 policies that we may have 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, thus impairing the market acceptance of our products.

We rely on 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 not be able to deliver sufficient quantities of our products to satisfy demand, or may have a delay in fulfilling orders.

We rely on USR Technologies and Electronics (2003) Ltd. ("USR") to supply us with Radware's legacy products. In 2010, we have also started manufacturing small quantities of the Alteon platform with USR. In addition, we rely on Nexcom International Co. Ltd. ("Nexcom"), to provide us with our new OnDemand Switch platforms. We have also executed an agreement with Sanmina SCI Corporation ("Sanmina") for the production of our Alteon product line. In 2009, we used USR, Sanmina and Nexcom to manufacture our products, purchasing approximately 24%, 15% (including indirect purchases through Nortel as per our agreement with Nortel and Sanmina) and 61% 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.

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 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 the economy grows. 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, and 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 suffer until other sources can be developed. Our operating results would also be adversely affected if, anticipating greater demand than actually develops, we commit to the purchase of more components than we need. There can be no assurance that we will not encounter these problems 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.

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

Our profitability could suffer if third parties infringe upon our intellectual property rights or misappropriate our technologies and trademarks for their own businesses. Our success depends upon the protection of our proprietary software installed in our products, our trade secrets and our trademarks. To protect our rights to our intellectual property, we rely on a combination of trademark and patent law, trade secret protection, confidentiality agreements and other contractual arrangements with our employees, affiliates, distributors and others. In the United States and several other countries, we have registered (or acquired through our acquisitions) trademarks. In addition, we have registered patents in the United States and we also have pending patent applications and provisional patents in connection with several features used in our products. The protective steps we have taken may be inadequate to deter misappropriation of our proprietary information. We may be unable to detect the unauthorized use of our proprietary technology or take appropriate steps to enforce our intellectual property rights. Effective trademark, patent and trade secret protection may not be available in every country in which we offer, or intend to offer, our products. Failure to

adequately protect our intellectual property could devalue our proprietary content and impair our ability to compete effectively. Furthermore, defending our intellectual property rights could result in the expenditure of significant financial and managerial resources.

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

Third parties may assert against us infringement claims or claims that we have violated a patent or infringed a copyright, trademark or other proprietary right belonging to them. As a result we may incur costs defending ourselves or settling lawsuits even if we believe we do not infringe on the rights of such third parties. For example, in 2003 F-5 filed a patent infringement case against us, which was thereafter settled.

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

We currently have non-competition agreements with most of our employees. These agreements prohibit our employees, in the event they cease to work for us, from directly competing with us or working for our competitors for a limited period after termination of employment. The laws of the U.S., 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.

Some of our deposits and other investments may be in excess of insured limits and are not insured in other jurisdictions.

The majority of our cash and cash equivalents, and short-term and long-term bank deposits are invested in banks in the United States and in Israel. The Israeli bank deposits are not insured, while the deposits made in the United States are 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 accordingly 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, the Israeli Tax Authority (the "ITA") is currently examining our income tax returns for the years 2004-2006. The ITA has issued a preliminary assessment under which it demanded the payment of additional taxes in the aggregate amount of NIS 39.5 million (equating to approximately \$10.7 million) with respect to these years, including interest as of the assessment date. The Company appealed such assessment. Following the Company's appeal, the ITA has one year to perform re-examination with a new team. There can be no assurance that the ITA will accept the Company's positions on the matters raised and an order may be issued.

Risks Related to the Market for Our Ordinary Shares

Three shareholders may exert significant influence in the election of our directors and over the outcome of matters requiring shareholder approval.

As of April 10, 2010, Yehuda Zisapel, the Chairman of our Board of Directors, beneficially owned 16.9% of our ordinary shares outstanding and Yehuda Zisapel's son, Roy Zisapel, our Chief Executive Officer, President and director, beneficially owned approximately 4.6% of our ordinary shares outstanding (see "Item 6E – Directors, Senior Management and Employees - Share Ownership"). Additionally, Yehuda Zisapel's brother, Zohar Zisapel, beneficially owns 6.4% of our outstanding ordinary shares (See "Item 7A – Major Shareholders and Related Party Transactions – Major Shareholders"). As a result, these shareholders, who do not have a voting agreement, may exert significant

influence in the outcome of various actions that require shareholder approval, such as the election or removal of our directors and the approval or rejection of a merger and similar corporate transactions.

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, and to certain “excess distributions” with respect to our ordinary shares.

For our 2009 taxable year, the average percentage of our passive assets to the fair market value of our total assets was slightly below 50%. Therefore, we believe that we should not be classified as a PFIC for 2009. However, there can be no assurance that the Internal Revenue Service (IRS) will not challenge this treatment and it is possible that the IRS will attempt to treat us as a PFIC for 2009 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 2010 or in subsequent 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.

Our policy is to retain earnings for use in our business and, 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 and recovered during 2009 and the beginning of 2010. The highest closing price of our shares, as reported by the NASDAQ, during the first quarter of 2010 was \$22.31 (previously our share price reached similar levels in mid 2005), 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, such as:

- Fluctuations in our quarterly revenues and earnings and those of our publicly held 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 United States and worldwide.

Risks Related to Operations in Israel

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

We are incorporated under Israeli law and our principal offices and manufacturing and research and development facilities are located in Israel. 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, with other countries around the world. The election in 2006 of representatives of the Hamas movement to a majority of the seats in the Palestinian Legislative Council and its subsequent seizure of control of the Gaza strip have created additional unrest and uncertainty in the region. Further, in the summer of 2006, Israel engaged in a war with Hezbollah, a Lebanese Islamist Shiite militia group, which involved thousands of missile strikes and disrupted most day-to-day civilian activity in northern Israel. Since June 2007, thousands of missiles have been fired from Gaza at population centers in southern Israel, leading to an armed conflict between Israel and the Hamas in January 2009. In addition, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons.

We do not believe that the political and security situation has had a material impact on our business to date, however, there is no assurance that this will always be the case in the future. 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 further subject to being called to active duty at any time under emergency circumstances. Directors, officers, and key employees falling within these requirements include Roy Zisapel, our Chief Executive Officer and President and Amir Peles, our Chief Technical Officer. 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 are denominated in U.S. dollars or are 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 2008, the average value of the dollar decreased in relation to the NIS and Euro. As a result, during 2008, we had an increase in expenses which was partially offset by the increase we had in our sales due to the fact that our sales to most European countries are also denominated in Euro. 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.

Because we received grants from the Israeli Office of the Chief Scientist, we are subject to ongoing restrictions.

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, or 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 is generally 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.

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 refund payments previously received under these programs (with interest and linkage differentials) or pay certain taxes. 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 negatively affected.

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

Provisions of Israeli corporate and tax law and of our Articles of Association may have the effect of delaying, preventing or making an acquisition of our Company more difficult. For example, under the Companies Law, upon the request of a creditor of either party to a proposed merger, the 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 external directors, are elected in three staggered classes by the vote of a majority of the shareholders present, in person or by proxy, at a shareholders' meeting. 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 and/or our officers and directors, or to assert U.S. securities laws claims in Israel.

We are incorporated under the laws of the State of Israel. Service of process upon us, our Israeli subsidiaries and affiliates, and our directors and officers named herein 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 them 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 is not the most appropriate forum to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved 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 including 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 does not constitute a part of this annual report.

As of September 1, 1998, we established a wholly-owned subsidiary in the United States, Radware Inc., 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 intellectual property, technology, customers' relationship and goodwill, and added enhanced capabilities to our portfolio.

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."

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 target market is: Application Delivery and Network Security. Our products and activity 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 two:

- The Application Delivery solution domain consists of simple load balancing application switches (Layer 4-7) targeted at the medium to large-size business sector for simple applications (SLB); advanced application delivery (ADC) platforms targeted at the medium- to large-size enterprise sector; and wide area network (WAN) optimization controllers (WOC). This 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), content transformation, etc. that are designed to meet complex networking infrastructure and data center demands; and

- 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 network intrusion prevention and 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, scale and pay as they grow without having to replace the devices. Our solutions help customers increase business agility, save capital expenditures 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, including

- Network Computing (Editor's Choice)
- SC Magazine (Recommended Buy Award)
- Network Computing (Well-Connected)
- Internet World (Best of Show)
- PC Magazine (Editor's Choice)
- Network Magazine (Product of the Year)

Most recently, we have received the following recognition and/or awards:

- Internet Telephony Magazine (2009 Excellence Award)
- Communications Solutions (2008 Product of the Year Award)
- NGN (2009 Reader's Trust Award)
- NGN (2009 Leadership Award)
- Info Security Products Guide (2009 Global Excellence - Intrusion Prevention Solutions Customer Award)
- Internet Telephony Magazine (2008 Product of the Year Award)
- Info Security Products Guide (2009 Finalist, Global Products Excellence Customer Trust Award, Security Solution and IPS)
 - Network Computing Magazine (2009 Finalist, Load Balancing - Product of the Year Award)

All of our products are Underwriters Laboratories (UL) and ISO 9001:2000 Quality of Management compliant and some of our products have also achieved significant industry certification such as:

- 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 among the top industry players in our respective markets by independent, third-party IT analysts such as Forrester Research, Frost & Sullivan, Gartner, IDC and Yankee Group.

Products, Operating System (OS), Management Tool, Platforms, and Subscription 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 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 Insite).

Products

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

Application Delivery

- 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.
- Alteon® Application Switch Application Delivery Controller delivers a reliable Layer 4-7 switching & 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 as well as multi-homing network load-balance and bandwidth management capabilities. The Alteon 2424-SSL also delivers SSL server offload function.
- Alteon® Application Accelerator accelerates response time to end users and free server resources, improving user surfing experience through web acceleration techniques such as web compression, sophisticated cache function, delta encoding and offload Web servers processing through SSL encryption and decryption, providing secure and effective SSL processing.

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
- AppWall® is a Web application firewall (WAF) appliance that secures Web applications. It enables 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 seamlessly detect threats, block attacks and report events.

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 Radware's transparent smart redirection and dynamic policy enforcement device 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 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.

Virtual Data Center solutions:

- Virtual Director™ is an application delivery optimization solution for the virtualized data center providing real-time, dynamic allocation of data center resources based to ensure positive user experience and improved response time. The solution aligns virtual data center operations with business policies while optimizing the use of virtual as well as physical resources to further generate CAPEX and OPEX savings.

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- vAdapter™ is a software appliance run on a server virtualization infrastructure that ensures that any change in the virtual infrastructure impacting the ADC configuration is automatically synchronized with the ADC in real-time, without manual configuration of the ADC or coding any complex scripts

Network IPS– attack mitigation

- DefensePro® Intrusion Prevention and Denial of Service (DOS) products protect against worms, bots, viruses, malicious intrusions and Denial of Service attacks at up to 12-Gigabit speeds, preventing attacks in real-time for intrusion prevention and multi-layer application defense.

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

- Insite ManagePro™ 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®, the company's next-generation 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.

In the beginning of 2008, we introduced our new generation of hardware platforms, the OnDemand Switch 1 & 2 series, designed for medium and large-sized enterprises and carriers. OnDemand Switch provides expandable throughput from 0-4 Gbps via software license upgrade to meet the ever-changing needs of growing businesses, simplifying the upgrade process and providing investment protection, with on-demand throughput and services scalability, supporting all layer 4-7 network requirements. The OnDemand Switch 1 Series features nominal throughput from 0 to 4Gbps with 4 traffic ports of gigabit Ethernet; the OnDemand Switch 2 Series features nominal throughput from 1-4 Gbps and 16 traffic ports of gigabit Ethernet. In the fourth quarter of 2008, we introduced the OnDemand Switch 3 series, which delivers the same acclaimed on demand, "pay-as-you-grow" software license upgrade capability. The OnDemand Switch 3 Series features scalability and investment protection up to 20Gbps of throughput capacity, high port density including 10GE traffic ports, and dual redundant AC/DC power supply.

During 2009, we released the majority of our products on the OnDemand Switch platforms. This includes the introduction, in late 2009, of the OnDemand Switch VL, which complements our OnDemand Switch offering with the same expandable throughput from 0-4 Gbps via software license, but delivers an enhanced performance.

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.

Operating System (APSSolute OS)

APSSolute OS is a modular operating system for our products. Users can define classes of traffic and policies for how network resources should handle that traffic based on any combination of network, application, content and user information. APSSolute OS service modules (each as described below), which are available on our hardware products, include: Application – Smart Classification and Flow Management, Health Monitoring and Failure Bypassing, Traffic Redirection, Bandwidth Management, Application Acceleration, Intrusion Prevention and DoS Protection. With APSSolute OS, enterprises and carriers can address existing and emergent application service requirements across server farms, security and connectivity layers.

- **APSSolute OS Application-Smart Classification and Flow Management**

Our innovative APSSolute OS features a unique classification and flow management engine that is used to classify traffic based on the industry's most extensive and granular set of application intelligence. Users can define classes of traffic and policies for how network resources should handle that traffic based on any combination of network, application, content and user information. APSSolute OS tracks the flow of traffic end-to-end and implements multi-step decisions at every critical point across the transaction path to ensure optimized application delivery.

- **APSSolute OS Health Monitoring and Failure Bypassing**

APSSolute OS Health Monitoring and Failure Bypassing continuously checks all network resources detecting failures in real-time and automatically redirecting traffic to the highest performing resources to bypass failures and guarantee high application availability and continuous operations.

- **APSSolute OS Traffic Redirection**

APSSolute OS Traffic Redirection intelligently distributes traffic across network devices and application servers to optimize the utilization of local and global resources, and ensure service availability, security and redundancy. APSSolute OS Traffic Redirection enables maximum utilization of IT infrastructure capacities across farms, local and global sites using an extensive array of traffic redirection algorithms to dispatch traffic including response time, custom algorithm, cyclic distribution, least users, least packets and least bytes.

- **APSSolute OS Bandwidth Management**

APSSolute OS Bandwidth Management extends granular classification and control over bandwidth resource allocation, prioritizing all network traffic and guaranteeing service levels for mission critical applications across the entire network (with TOS and Diffserv marking).

- **APSSolute OS Application Acceleration**

The APSSolute OS advanced Layer 4-7 application acceleration technologies include: SSL offloading, Transmission Control Protocol (TCP) optimization, caching and reverse proxy, Web compression and advanced image and content compression.

- **APSSolute OS Intrusion Prevention**

Automatically secures application network resources by continuously monitoring and inspecting all network traffic, APSSolute OS Intrusion Prevention immediately terminates suspicious sessions by implementing user/application/content policies to completely safeguard applications. On-the-fly SSL inspection and IP reassembly provide an additional layer of protection against hacker evasion techniques.

- **APSSolute OS DoS Protection**

Identifies and stops debilitating Denial of Service, Distributed Denial of Service (DDoS), and Structured Query Language (SQL) injections and protocol/traffic anomalies, protecting the network from service failures and downtime. Using advanced technologies including behavior-based analysis, APSSolute OS DoS Protection

automatically detects abnormal requests and thwarts network attacks before they undermine server operations, all the while ensuring secure traffic operations for uninterrupted service continuity.

Management Tool (APSolute Insite)

The common application management tool which runs across all Radware products is APSolute Insite. APSolute Insite is a unified management tool with an intuitive Graphical User Interface (GUI) that provides end-to-end network visibility, control and policy management of all application switching devices.

Based on an easy-to-use site map interface, APSolute Insite lets users draw their network, configure Radware Application-smart switching devices and set-up the APSolute OS Services (as described above) to address end-to-end IP application service requirements. APSolute Insite's statistics module provides real-time and historical views of actual application performance levels for monitoring site-wide operations and simple pinpointing of vulnerabilities and failures, affording complete visibility and control over the performance of Web and Application Servers, security tools, cache servers, anti-virus tools and Internet links. Based on this information, network administrators can decide to add resource capacities, tune bandwidth policies or relocate devices to better manage actual traffic loads and IP application performance requirements. Insite is also offered as a standalone network device under the Insite ManagePro label.

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.

Customers and End-Users

With the exception of our limited direct sales efforts to select 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 2009, approximately 27% of our sales were in the Americas (principally in the United States), 33% were in EMEA (Europe, Middle East and Africa) and 40% in Asia-Pacific, compared to 25%, 32% and 43%, respectively, in 2008, and 28%, 33% and 39%, respectively, in 2007. Other than the United States and China, no single country accounted for more than 10% of our sales for 2009.

In 2009, approximately 60% of our sales derived from product sales and 40% derived from service sales, compared to approximately 63% and 37%, respectively, in 2008 and approximately 67% and 33%, respectively, in 2007. For the years ended December 31, 2009, 2008 and 2007, no single customer accounted for more than 10% of our sales. As of December 31, 2009 and 2008, 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 the first quarter of the year to be slow compared to other quarters. In addition the third quarter may be weak compared to other quarters because of 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 such period.

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, 2009, we employed a total of 39 sales managers and sales staff in the Americas with locations in various states. We also employed 89 sales managers and sales staff based in the rest of the world, who are responsible for developing and maintaining distribution channels outside the Americas. 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; Comverse; Hewlett Packard Company; IBM, Inc.; InfoSys Technologies Ltd; Microsoft Corporation; Oracle Corporation; Riverbed Technology Inc.; 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 141 employees worldwide as of December 31, 2009, 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, 2009, our research and development staff consisted of 181 employees and 72 subcontractors. Research and development activities take place mainly at our facilities in Israel, in Bangalore India and in 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 and Sanmina 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 and Sanmina by several suppliers and subcontractors. Each of USR, Nexcom and Sanmina monitors each stage of the components production process, including the selection of components and subassembly suppliers. Thereafter, each of Nexcom and Sanmina 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 and Sanmina are ISO 9001 certified, indicating that each of their manufacturing processes adhere to established quality standards.

USR supplies us with Radware's legacy products. In 2010, we have also started manufacturing small quantities of Alteon platform with USR. In addition, we rely on Nexcom to provide us with our new OnDemand Switch platforms. We have also executed an agreement with Sanmina for the production of our Alteon product line.

In 2009, we used USR, Sanmina and Nexcom to manufacture our products, purchasing approximately 24%, 15% (including indirect purchases through Nortel as per our agreement with Nortel and Sanmina) and 61% 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.

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, among others, for “Radware®”, “APSolute®”, “Web Server Director®”, “FireProof®”, “LinkProof®”, “Triangulation®”, “Smart Nat®”, “Synapps Architecture®”, “DefensePro®”, “StringMatch Engine®”, “Content Inspection Director®”, “SIP Director®”, “AppDirector®”, “AppXcel®”, “SecureFlow®”, “AppXML®”, “OnDemand Switch®”, “AppWall®”, “Apsolute Insite®”, and “Alteon®” and we have trademark applications pending for “Uplink™”, “V Director™”, “APSolute Vision™” and “vAdapter™”. We do not currently own any registered copyrights.

We have registered patents in the United States for our triangle redirection method used for the global load balancing in our AppDirector product, for our mechanism for efficient management and optimization of multiple links used in our LinkProof product, for our method for load balancing by global proximity used in our AppDirector product, for our method for controlling traffic on links between autonomous BGP systems, for our passive monitoring and event detection mechanisms used for business event monitoring in our Inflight product, for the behavioral analysis and detection of attack patterns in our DefensePro product and for our HTTP flood mitigation mechanism in our DefensePro. As part of the Alteon Acquisition from Nortel we have acquired additional patents for 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. and Brocade Communications Systems, Inc. (Foundry Networks, Inc.); and
- in the Network Security space, with respect to our Intrusion Prevention Systems, Juniper Networks, Inc., 3Com Systems, Inc. (TippingPoint Technologies Inc.), 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. 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, 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.

The Research and Development Law generally requires that the product developed under a program be manufactured in Israel. However, upon notification to the Chief Scientist, up to 10% of the manufacturing volume may be performed outside of Israel. Furthermore, upon the approval of the Chief Scientist, a greater portion of the manufacturing volume may be performed outside of Israel, provided that the grant recipient pays royalties at an increased rate, which may be substantial, and the aggregate repayment amount is increased up to 300% of the grant, depending on the portion of the total manufacturing volume that is performed outside of Israel. The Research and Development Law further permits the Chief Scientist, among other things, to approve the transfer of manufacturing rights outside Israel in exchange for an import of different manufacturing into Israel as a substitute, in lieu of the increased royalties. The Research and Development Law also allows for the approval of grants in cases in which the applicant declares that part of the manufacturing will be performed outside of Israel or by non-Israeli residents and the Research Committee is convinced that doing so is essential for the execution of the program. This declaration will be a significant factor in the determination of the Chief Scientist whether to approve a program and the amount and other terms of benefits to be granted. The increased royalty rate and repayment amount will be required in such cases.

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.

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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), or (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.

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 America. We also have subsidiaries in Australia, France, Germany, the United Kingdom, Italy, Japan, Singapore, Korea, Canada and India. 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. All of our subsidiaries are wholly-owned. Our 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

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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

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.	Commex Technologies Ltd.	Sanrad Inc.
BYNET Electronics Ltd.	Internet Binat Ltd.	RADLive Ltd.
BYNET SEMECH (outsourcing) Ltd.	Packetlight Networks Ltd.	RADView Software Ltd.
Bynet Software Systems Ltd.	RAD-Bynet Properties and Services (1981) Ltd.	RADVision Ltd.
Bynet System Applications Ltd.	RADCOM Ltd.	RADWIN Ltd.
Chanellot Ltd.	RAD Data Communications Ltd.	Silicom Ltd.
	Radiflow Ltd.	Radbit Computers, Inc.

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 \$3.5 million for 2009.

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 2011. 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.”

For further details regarding the lease agreements of our headquarters please refer to the summary of the lease agreements filed by us as Exhibit 4.7 in Item 19.

In addition, we lease approximately 6,300 square feet of space in Jerusalem for development facilities from an affiliated company owned by Messrs. Yehuda and Zohar Zisapel. The lease expires in February 2011. We also sublease approximately 6,500 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 2009 was approximately \$1,409,000 compared to \$1,439,000 in 2008.

Other locations. In the United States, we lease approximately 14,838 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 Yehuda and Zohar Zisapel. The lease for such property is set to expire in April 2011. For more information see – “Item 7 - Major Shareholders and Related Party Transactions.”

We lease approximately 6,881 square feet of property for our research and development facilities in North Carolina, the lease for which will expire in September 2012. In addition, 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 \$2,104,000 in 2009 compared to \$2,132,000 in 2008.

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 in the United States.

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

2009 Highlights. 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. This acquisition was strategic to the Company, aimed at broadening our products lines, customers and installed base and subsequently contributed to an increase in our sales. The total consideration for the Alteon Acquisition was \$18,022,000.

Sales in 2009 were \$108.9 million, an increase of 15% compared with sales of \$94.6 million in 2008. This increase continues the trend of sequential increase in sales, year over year, since our inception. This increase was due to our sales of Alteon products following the acquisition in March 2009. Although during the first quarter of 2009 our revenues from products other than the Alteon products decreased compared to the first quarter in 2008, starting the second quarter of 2009 our revenues from those products increased in comparison to the respective quarters in 2008. Annually, revenues from products other than the Alteon products in 2009 remained flat compared to revenues in 2008, despite a 21% decline in the Layer 4-7 (application delivery) market in the same period as indicated by IDC, and a flat growth rate in 2009 in the Intrusion Prevention sector, as indicated by Gartner.

Our operating expenses decreased in 2009 to \$92.7 million, from \$104.0 million in 2008. Research and development expenses decreased in an amount of \$2.7 million, selling and marketing expenses decreased in an amount of \$8.5 million and general and administrative expenses decreased in an amount of \$0.1 million.

The decrease in our operating expenses in 2009 was primarily due to reduced salary costs (due to changes in headcount and reduced salary levels), as further described below; due the impact of the strengthening of the U.S dollar compared to the NIS, the Euro and other currencies, which reduced the U.S. dollar value of our operating expenses in Israel, in Europe and in some countries in Asia-Pacific; and due to additional cuts in other expenses as indicated in the following paragraphs.

Following the Alteon Acquisition, we began to gradually increase headcount, mainly in Research and Development (R&D) personnel in India. Our average headcount in 2009 was 593 persons, including 55 subcontractors, compared to 572 employees in 2008. Though our average number of employees and subcontractors has increased, the employees' related costs have decreased in 2009 compared to 2008, due to the change in the geographical split of our employees and the different average cost per employee for each region.

The significant improvement in our operating results resulted also in net cash generated from operations in 2009 in an amount of \$14.4 million, compared to net cash used for operations in an amount of \$9.7 million in 2008.

Outlook. In 2010, 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, including in the Alteon product line.

According to IT analyst estimations, starting in late 2008 and lasting through much of 2009, the overall market's IT spending decreased due to real estate and financial issues globally which led to a recessionary period. More specifically, it is estimated that the worldwide datacenter layer 4-7 switch manufacturing revenues for 2009 only brought the market back to 2006 levels, estimated by IDC at a total of \$840 million for 2009. This represents a 21% market decline compared to 1.068 billion for 2008. For the Layer 4-7 sector, worldwide market revenue is estimated by IDC to increase to \$905.7 million during 2010. In the Intrusion Prevention sector of the network security market, the market according to Gartner was almost flat in 2009 with \$903 million in vendor revenues compared to \$899 million in 2008, with 2010 expected to total only \$1.18 billion globally.

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 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;
- Accounting for doubtful accounts;
- Impairment of marketable securities;
- Inventory valuation;
- Goodwill;
- Realizability of long-lived assets;

- Stock-based compensation; and
- Income taxes.

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Revenue Recognition. The Company and its subsidiaries generate revenues from selling their products and post-contract customer support through distributors and resellers, all of which are considered end-users. In North America (and rarely in the rest of the world), the Company also generates revenues from direct sales to select end-users.

Revenues from product sales are recognized when delivery has occurred, persuasive evidence of an agreement exists, the fee is fixed or determinable, no further obligation exists and collectability is probable.

Revenues in arrangements with multiple deliverables are recognized under the “residual method” when Vendor specific objective evidence (“VSOE”) of fair value exists for all undelivered elements, no VSOE exists for the delivered elements, and all other revenue recognition criteria are satisfied. VSOE for post-contract customer support is determined based on the price when it is sold separately in similar arrangements. The price may vary in the territories and vertical markets in which the Company conducts business, and as such we have established a few groups to determine VSOE. The different groups are based on different criteria. Price is determined by using a consistent percentage of the product price.

Revenue derived from post-contract customer support, which represents mainly software subscription, unit replacement and repair services, which is not considered essential to the functionalities of the product, is recognized ratably over the contract period, which is typically one year to three years.

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.

Accounting for Doubtful Accounts. Estimates are used in determining our allowance for doubtful accounts and are based upon an assessment of selected accounts and as a percentage of our remaining accounts receivable by aging category. In determining these percentages, we evaluate historical write-offs, current trends in the credit quality of our customer base, as well as changes in the credit policies. We perform ongoing credit evaluations of our customers’ financial condition and do not require any collateral. If there is deterioration of a major customer’s credit worthiness or actual defaults are higher than our historical experience, our allowance for doubtful accounts may not be sufficient.

Impairment of Marketable Securities. All our 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 accounting guidance effective April 1, 2009, 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 we will be required to sell the security before it recovers, 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 we will be required to sell the security before it recovers, 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 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 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. Prior to April 1, 2009, other-than-temporary impairment was recorded based on similar factors, as well as

our intent and ability to hold until recovery of loss. Any decline deemed other-than-temporary was recognized in earnings. During 2008 and 2009 we have not recorded other-than-temporary impairment on our marketable securities.

Inventory Valuation. At each balance sheet date, we evaluate our inventory balance for excess quantities and obsolescence. This evaluation includes an analysis of sales levels by product and projections of future demand. In addition, we write off inventories that are considered obsolete. Remaining inventory balances are adjusted to the lower of cost or market value. If future demand for our old or new products, or market conditions are less favorable than our projections, inventory write-downs may be required and would be reflected in cost of sales for such period. During 2008 and 2009 we performed inventory write-offs in a total amount of \$0.6 million and \$1.1 million, respectively, mainly in connection with slow-moving items and discontinued products.

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 31st 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; include 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 2009, 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.

As of December 31, 2008 an impairment loss of approximately \$2.0 million was recorded in connection with the acquired technology of Covelight, included in costs of revenues. As of December 31, 2009 no impairment loss was recorded.

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 United States 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, such as market condition, we use other models, such as the lattice model.

Income Taxes. We are subject to income taxes in Israel, the U.S. 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 penalty.

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, 2009 and 2008 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 12 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. We believe that we adequately provided for any reasonably foreseeable outcomes related to tax audits and settlement. However, 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.

2009 Results of operations

Our operating results in 2009 improved compared to 2008, resulting in an operating loss of \$7.1 million compared to \$31.0 million in 2008. The improvement is due to both an increase in sales and decrease in costs. Our results for the first half of 2009 were affected from the global recession and from the slow down in the IT market spending and we continued to incur net losses. In the second half of 2009 we returned to profitability, as a result of increased revenues and tight expenses control.

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

	2007	2008	2009
Revenues:			
Products	\$59,422	\$59,678	\$65,021
Services	29,209	34,903	43,883
	88,631	94,581	108,904
Cost of revenues:			
Products	13,133	15,143	16,609
Services	5,895	6,431	6,666
	19,028	21,574	23,275
Gross profit	69,603	73,007	85,629
Operating expenses:			
Research and development, net	23,515	28,357	25,674
Sales and marketing	57,977	63,591	55,130
General and administrative	7,114	12,066	11,930
Total operating expenses	88,606	104,014	92,734
Operating loss	(19,003)	(31,077)	(7,105)
Financial income, net	7,420	3,612	1,987
Loss before income taxes	(11,583)	(27,395)	(5,118)
Income taxes	(428)	(3,627)	(818)
Net loss	\$(12,011)	\$(31,022)	\$(5,936)

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

	2007		2008		2009	
Revenues:						
Products	67	%	63	%	60	%
Services	33		37		40	
	100		100		100	
Cost of Revenues:						
Products	15		16		15	
Services	6		7		6	
	21		23		21	
Gross profit	79		77		79	
Operating expenses:						
Research and development, net	27		30		23	
Sales and marketing	65		67		51	
General and administrative	8		13		11	
Total operating expenses	100		110		85	
Operating loss	(21)		(33)		(6)	
Financial income, net	8		4		2	
Loss before income						
Taxes	(13)		(29)		(4)	
Income taxes	(1)		(4)		(1)	
Net loss	(14)%		(33)%		(5)%	

We operate in one reportable market segment. Our revenues are attributed to geographic areas based on the location of the end-users. Following is the breakdown of the Company's total revenues by geographical distribution both in U.S. dollars and as a percentage of total revenues for the years ended December 31, 2007, 2008 and 2009:

	2007		Year Ended December 31, 2008		2009	
	(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)	24,368	28 %	23,715	25 %	29,704	27 %
EMEA (Europe, the Middle East and Africa)	29,412	33 %	29,836	32 %	36,226	33 %
Asia-Pacific	34,851	39 %	41,030	43 %	42,974	40 %
Total	88,631	100 %	94,581	100 %	108,904	100 %

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.

Cost of Sales. Cost of sales 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 sales expenses are not fixed costs and are directly related to our revenues.

Research and Development Expenses, net. 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.

Marketing and Selling Expenses. Marketing and selling 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.

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.

Stock-based compensation. 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.

Financial Income, Net. Financial income, net consists primarily of interest earned on short-term and long-term bank deposits, and of amortization of premiums, accretion of discounts and interest earned on investment in marketable securities of proceeds from the issuance of our ordinary shares to the public, from the exercise of options to purchase our ordinary shares, from cash generated from our operations and from income and expenses from the translation of monetary balance sheet items denominated in non-dollar currencies.

Taxes. Israeli companies are generally subject to corporate tax on their taxable income at the rate of 26% for the 2009 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 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 full valuation allowance with respect to these carry-forward tax losses due to uncertainty in its future utilization. Two other subsidiaries of ours also have carry-forward tax losses to offset against future taxable profit. We have recorded a deferred tax asset in relation to these carry-forward tax losses of these two subsidiaries and we anticipate that we will utilize part of these tax losses in 2010 and subsequent years. 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 2010 which we anticipate to be at a rate of up to 10% of our pre-tax income, assuming we are profitable in 2010.

We operate our business in various countries, and accordingly 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, the Israeli Tax Authority (the “ITA”) is currently examining our income tax returns for the years 2004-2006. The ITA has issued a preliminary assessment under which it demanded the payment of additional taxes in the aggregate amount of NIS 39.5 million (equating to approximately \$10.7 million) with respect to these years, including interest as of the assessment date. The Company appealed such assessment. Following the Company's appeal, the ITA has one year to perform re-examination with a new team. There can be no assurance that the ITA will accept the Company's positions on the matters raised and an order may be issued.

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 \$18,022,000. Under business combination accounting, the purchase price was valued and 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.”

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

Revenues. Sales in 2009 were approximately \$108.9 million, including sales of products of \$65.0 million and services revenue of \$43.9 million, an increase of approximately 15% compared with sales of approximately \$94.6 million in 2008 which included sales of products of \$59.7 million and services revenue of \$34.9 million. The increase in products sales is attributed to the sales of the Alteon products added to our portfolio following the acquisition, which affected all of our regions. Although during the first quarter of 2009 our revenues from products other than the Alteon products decreased compared to the first quarter in 2008, starting the second quarter of 2009 our revenues from those

products increased in comparison to the respective quarters in 2008; Annually, revenues from products other than Alteon products in 2009 remained flat compared to revenues in 2008, despite a 21% decline in the Layer 4-7 (application delivery) market in the same period as indicated by IDC, and a flat growth rate in 2009 in the Intrusion Prevention sector, as indicated by Gartner. Revenues from services increased due to sales of post-contract customer support in relation to the Alteon installed products base. Our revenues in absolute figures have increased in all regions in 2009 compared to 2008; Revenues from the America and EMEA regions have increased at a higher rate than revenues from the Asia-Pacific region, as indicated in the table above.

Cost of Sales. Cost of sales was approximately \$23.3 million in 2009, comprised of \$16.6 million as cost of products sales and \$6.7 million as cost of services revenue, compared with cost of sales of approximately \$21.6 million in 2008 which was comprised of \$15.2 million of cost of products sales and \$6.4 million as cost of services revenue. Cost of products sales as a percentage of products sales was 25.5% in 2009, compared to approximately 25.4% in 2008. Cost of product sales in 2009 included amortization of intangible assets in the amount of \$1.4 million, of which \$1.0 million is related to the Alteon Acquisition. Cost of product sales in 2008 included an impairment of intangible asset in an amount of \$2.0 million and amortization of intangible assets of \$0.8 million. Our cost of product sales as a percentage of product sales, excluding these items represented approximately 23.4% of product sales in 2009, compared to 20.7% in 2008. The increase in cost of products is due to the different mix of products sold during 2009 compared to 2008. As some of our products have stronger performance in terms of data processing and memory capacities, the manufacturing costs for these products are higher, but these higher costs are only partially offset by higher sales prices charged to our customers. Cost of sales related to services as a percentage of service revenues in 2009 was 15.2% compared to 18.4% in 2008. Due to the fact that 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. In addition, renewal service agreements require fewer resources, and as the portion of the renewal support sales increases, the related costs decrease as a percentage of sales.

Research and Development Expenses. Research and development expenses were approximately \$25.7 million in 2009, a decrease of \$2.7 million or 9.5% compared with research and development expenses of approximately \$28.4 million in 2008.

The decrease is primarily attributed to decrease in salary costs of our Israeli R&D employees in an amount of \$1.4 million, due to the strengthening of the U.S. dollar against the NIS during 2009 compared with 2008. In addition, though the number of our R&D employees and subcontractors throughout the world increased in 2009, \$0.5 million of the decrease in R&D expenses is attributed to net change in salary costs, as a result of changes in the geographical mix of our R&D employees and subcontractors, which affected the average cost per R&D employee. Approximately \$0.8 million of the decrease is attributed to decrease in stock-based compensation expenses, as explained below. Excluding the exchange rates effect, we expect our R&D expenses in 2010 to be higher than in 2009, mainly due to costs related to recruitment of additional employees and subcontractors.

Sales and Marketing Expenses. Sales and marketing expenses were approximately \$55.1 million in 2009, a decrease of \$8.5 million or 13.3% compared with sales and marketing expenses of approximately \$63.6 million in 2008. Intangible assets amortization expenses in 2009 increased in an amount of \$1.8 million, from \$0.1 million in 2008 to \$1.9 million in 2009, due to the amortization of acquired intangible assets in relation to the Alteon Acquisition. Sales and marketing expenses, excluding these amortization expenses, decreased in an amount of \$10.3 million. An amount of \$2.6 million of the decrease is attributed to lower average number of sales, technical support and marketing employees, in Asia-Pacific and in the U.S., and change in the geographical split of our sales team in each region which resulted in cheaper salary and overhead costs in 2009 compared to 2008. An amount of \$1.4 million of the decrease is attributed to the strengthening of the U.S. dollar compared to the Euro, the NIS and the British Pound, which resulted in lower operational costs of our European branches. An amount of \$1.5 million of the decrease is attributed to reduced travel costs, as a result of some saving efforts we made. An amount of \$2.5 million of the decrease is attributed to lower marketing spending, mainly on trade shows, events and seminars. An amount of \$1.2 million of the decrease is attributed to decrease in stock-based compensation expenses, as explained below. Excluding the exchange rates effect we expect our sales and marketing expenses in 2010 to be higher than in 2009, mainly due to the increase in the number of our employees in the second half of 2009, which will affect the full year 2010, and due to a planned increase in our marketing activity budget in order to promote the Alteon product line.

General and Administrative Expenses. General and administrative expenses were approximately \$11.9 million in 2009, compared with general and administrative expenses of approximately \$12.1 million in 2008. General and administrative expenses in 2009 included stock-based compensation expenses of \$2.2 million and Alteon acquisition related expenses in the amount of \$2.3 million. General and administrative expenses in 2008 included stock-based compensation expenses in an amount of \$4.2 million and an amount of \$0.8 million in connection with the termination of the former Chairman of the Board. Disregarding these items, the general and administrative expenses in 2009 totaled \$7.4 million, compared to \$7.1 million in 2008. This slight increase is attributed to subcontractors' costs incurred in relation with the maintenance of our ERP system in an amount of \$0.6 million, which was partially offset by the decrease in salary expenses, due to the strengthening of the U.S. dollar compared to the NIS, in an amount of \$0.3 million. Stock-based compensation expenses decreased in an amount of \$2.0 million, from \$4.2 million in 2008 to \$2.2 million in 2009. An amount of \$1.4 million of this decrease is attributed to vesting of options in 2008 in connection with the termination of our Chairman of Board. An amount of \$0.6 million of this decrease is attributed to the decrease in our average share price in 2008 and 2009, as explained below.

Stock based compensation expenses. Grant date fair values of our equity-based payment awards granted during 2009 and 2008 have decreased compared to fair values of awards granted during 2007 and 2006, due to the decrease in our average share price in 2009 and 2008. Due to the fact that 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 two years since grant date of each award, which resulted in lower stock-based compensation expenses in 2009 compared to 2008.

Financial Income, Net. Financial income, net was approximately \$2.0 million in 2009, compared with \$3.6 million in 2008. A decrease of \$1 million is attributed to lower market prevailing interest rates in 2009 compared to 2008 which resulted in a lower average yield on our investments portfolio of 1.9% in 2009 compared to 2.8% in 2008. An additional decrease of \$0.5 million resulted from a decrease of approximately \$25.0 million in our average cash balance (including cash, bank deposits and marketable securities) in 2009 compared to 2008 (as a result of the decrease in our cash balance throughout 2008 and of the \$18.0 million amount used for the Alteon Acquisition in March 2009).

Income Taxes. Income taxes were approximately \$0.8 million in 2009 (in and outside Israel), compared with \$3.6 million in 2008. The additional amount in 2008 derived mainly from the valuation allowance provided with respect to deferred tax assets in the amount of \$2.7 million, in connection with the uncertainty regarding the future utilization of carry-forward tax losses. Excluding this amount there was no change in our income tax expenses in 2009 compared to 2008.

Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Revenues. Sales in 2008 were approximately \$94.6 million, including sales of products of \$59.7 million and services revenue of \$34.9 million, an increase of approximately 7% compared with sales of approximately \$88.6 million in 2007 which included sales of products of \$59.4 million and services revenue of \$29.2 million. The increase in services revenues derives from growth of approximately 5% in our installed products base, covered under active service contracts, during 2008, which enables us to generate increased revenues from service contracts renewals. From a geographical perspective, our revenues from the North America region continued to decline percentage-wise, and represented 25% in 2008 compared to 28% in 2007, though remained the same in absolute figures as in 2007. On the other hand, our revenues from the APAC region in 2008 increased and represent 43% compared to 39% in 2007. Our revenues from the EMEA region declined percentage-wise and represented 32% of our revenues in 2008 compared to 33% in 2007, though remained the same in their absolute figure as in 2007.

Cost of Sales. Cost of sales was approximately \$21.6 million in 2008, comprised of \$15.2 million as cost of products sales and \$6.4 million as cost of services revenue, compared with cost of sales of approximately \$19.0 million in 2007 which was comprised of \$13.1 million of cost of products sales and \$5.9 million as cost of services revenue. Cost of products sales as a percentage of products sales was 25.4% in 2008, compared to approximately 22.1% in 2007. During 2008, we assessed whether there had been an impairment of the intangible assets acquired in the acquisition of Covelight. Following this assessment, an impairment charge of approximately \$2.0 million was recorded to the cost of sales, in connection with the acquired intangible assets. Disregarding the loss from the impairment of Covelight's acquired technology and inventory write-offs in an amount of \$1.2 million and \$0.6 million in 2007 and 2008, respectively, our cost of products sales as percentage of product sales represented approximately 21% of product sales in 2008, a small increase compared to 20% in 2007. As some of the products we offer have stronger performance, the manufacturing costs for these products are higher, but these higher costs are only partially offset by higher sales prices charged to our customers. Cost of sales related to services as a percentage of services revenues in 2008 was 18.4% compared to 20.2% in 2007. Due to the fact that a major portion of these costs are fixed costs (mainly salaries of technical personnel), the increase in sales did not translate into the same rate of costs increase. In addition, renewal service agreements require fewer resources and as the portion of the renewal support sales increases, the related costs decrease as a percentage of sales. As discussed above, during 2008, we identified indicators for impairment and as such we assessed whether there had been an impairment of the intangible assets acquired in the acquisition of Covelight. Following this assessment, an impairment charge of approximately \$2.0 million was recorded to the cost of sales, in connection with the acquired intangible assets.

Research and Development Expenses. Research and development expenses were approximately \$28.4 million in 2008, an increase of \$4.9 million or 21.0% compared with research and development expenses of approximately \$23.5 million in 2007. An increase of \$2.2 million is attributed to higher salary expenses of our Israeli R&D employees, due to the devaluation of the U.S. dollar against the NIS during 2008 compared with 2007. An increase of \$2.4 million is attributed to higher average number of R&D employees, including subcontractors and consultants which assist and promote certain R&D projects, during 2008 compared to 2007.

Sales and Marketing Expenses. Sales and marketing expenses were approximately \$63.6 million in 2008, an increase of 10.0% compared with sales and marketing expenses of approximately \$58.0 million in 2007. As a percentage of total revenues, the share of sales and marketing expenses increased from 65.4% in 2007 to 67.2% in 2008. The increase of our sales and marketing expenses in 2008 was related mainly to our continued investment in strengthening the sales team in the APAC region, which resulted in additional expenses of \$1.5 million, the devaluation of the dollar against the Euro, the NIS and the Asian currencies, especially the Chinese Yuan and Japanese Yen, which resulted in additional expenses of \$1.7 million and increased investments in promoting our brand awareness and market acceptance of our products, which resulted in addition expenses of \$1.1 million. Stock-based compensation expenses totaled \$2.3 million in 2008, compared to \$1.9 million in 2007. This increase is attributed mainly to the increase in the average number of employees throughout 2008 compared to 2007.

General and Administrative Expenses. General and administrative expenses were approximately \$12.1 million in 2008, compared with general and administrative expenses of approximately \$7.1 million in 2007. Disregarding stock-based compensation expenses in an amount of \$4.2 million in 2008 and \$1.3 million in 2007, and expenses related to the former Chairman of the Board in connection with his termination in an amount of \$0.8 million in 2008, our general and administrative expenses in 2008 totaled to \$7.1 million, compared to \$5.8 million in 2007. The increase is attributed mainly to the increase of salaries expenses, due to the devaluation of the U.S. dollar against the NIS, in the amount of \$0.6 million (as most of the general and administrative salaries are paid in NIS) and due to amortization expenses related to our ERP system, in the amount of \$0.4 million. Stock-based compensation expenses totaled \$4.2 million in 2008 compared to \$1.3 million in 2007. The increase is mainly due to expenses in an amount of \$1.5 million related to the options granted to our Chief Executive Officer in December 31, 2007 and to accelerated vesting of options in connection with the termination of our Chairman of Board in an amount of \$1.4 million.

Financial Income, Net. Financial income, net was approximately \$3.6 million in 2008, compared with \$7.4 million in 2007. A decrease in an amount of \$2.7 million resulted from lower market prevailing interest rates, which resulted in an average yield on our investments portfolio of 2.8% in 2008 compared to 4.6% in 2007. The decline in our average cash position, including cash, bank deposits and marketable securities, from \$159.5 million in 2007 to \$146.1 million in 2008, negatively affected our financial income as well, in an amount of \$0.6 million. In addition, in 2008 we incurred loss from foreign currency translation differences in an amount of \$0.4 million compared to gain in an amount of \$0.1 million in 2007.

Income Taxes. Income taxes were approximately \$3.6 million in 2008 (in and outside Israel), compared with \$0.4 million in 2007. This amount derives mainly from the valuation allowance provided with respect to deferred tax assets in the amount of \$2.7 million during 2008, in connection with the uncertainty regarding the future utilization of carry-forward tax losses.

Impact of recently issued Accounting Standards

In October 2009, the FASB issued an update to ASC 605-25, "Revenue recognition – Multiple-Element Arrangements", that provides amendments to the criteria for separating consideration in multiple-deliverable arrangements to; (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated; (2) require an entity to allocate revenue in an arrangement using estimated selling prices ("ESP") of deliverables if a vendor does not have vendor-specific objective evidence of selling price ("VSOE") or third-party evidence of selling price ("TPE"); (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded disclosures of qualitative and quantitative information regarding application of the multiple-deliverable revenue arrangement guidance. We may elect to adopt the update prospectively, to new or materially modified arrangements beginning on the adoption date, or retrospectively, for all periods presented. We are currently evaluating the impact of ASC 605-25 on our consolidated results of operations and financial condition.

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. We raised approximately \$12.9 million in two private placements, in November 1997 and June 1999. In October 1999, we raised net proceeds of approximately \$56.8 million in the initial public offering of our ordinary shares. In January 2000, we raised net proceeds to the Company of approximately \$59.8 million in a public offering of our ordinary shares.

Capital expenditures for the years ended December 31, 2007, 2008 and 2009 were approximately \$6.7 million, \$4.6 million, and \$ 5.8 million, respectively. These expenditures were mainly comprised of machinery and equipment, computers, lab equipment and testing tools, CRM (Customer Relations Module) and ERP systems. During 2008 and 2009 we continued our investment in purchasing and implementing our ERP system which became partially operational during 2007. Additional investments, mainly related to the implementation of the CRM module, took place during 2008 and 2009. We may have additional capital spending consistent with possible growth in our operations, infrastructure and personnel.

Net cash provided by operating activities for the year ended December 31, 2009 was approximately \$14.4 million compared to net cash used in operating activities of approximately \$9.7 million for 2008 and net cash used in operating activities of approximately \$1.1 million for 2007. Net cash provided by operating activities changed in 2009 compared to 2008 primarily due to the significant improvement in our operating results, which resulted in a decrease of \$25.1 million in our net loss, from \$31.0 million in 2008 to \$5.9 million in 2009 and in an increase in our deferred revenues in an amount of \$18.6 million, from \$19.0 million as of December 31, 2008 to \$37.6 million as of December 31, 2009. Net cash used in operating activities changed in 2008 compared to 2007 due to increase in our net loss in

2008 compared to 2007, as a result of increase in our operating expenses, which exceeded the pace of increase in sales, and decrease in our financial income in 2008 compared to 2007. Net cash provided by operating activities for 2009 consisted primarily of net loss, adjusted for non-cash activity, plus an increase in trade payables, deferred revenues and other payables, offset by an increase in trade receivables, other current assets and inventories. Net cash used in operating activities for 2008 consisted primarily of net loss, adjusted for non-cash activity, plus an increase in deferred revenues and other payables and accrued expenses, decrease in trades receivables and decrease in prepayments and other receivables, offset by an increase in inventories and decrease in trade payables. Net cash used in operating activities for 2007 consisted primarily of net loss, adjusted for non-cash activity, partially offset by a decrease in inventories and increase in deferred revenues and other payables and accrued expenses, plus an increase in other current assets and prepaid expenses.

Net cash used in investing activities was approximately \$24.1 million for 2009, compared to net cash used in investing activities of approximately \$18.9 million for 2008, and net cash provided by investing activities of approximately \$35.8 million for 2007. Cash was used in investing activities in 2009 mainly for the Alteon Acquisition and for purchase of property and equipment. Cash was used in investing activities in 2008 mainly for the purchase of marketable securities and purchase of property and equipment, partially offset by proceeds from redemption of long term bank deposit. Cash was provided in 2007 mainly from redemption of marketable securities, partially offset by purchase of marketable securities, purchase of property and equipment and payment for the acquisition of Covelight.

Net cash provided by financing activities in 2009 was \$1.5 million, compared to net cash used in financing activities of \$4.7 million and net cash provided by financing activities of \$1.4 million for the years 2008 and 2007, respectively. 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 (see “Item 6E – Directors Senior Management and Employees – Share Ownership - Key Employee Share Incentive Plan and Employee Stock Purchase Plan”) and from adjustment of excess tax benefit from stock based compensation, partially offset by amounts used for the repurchase of our ordinary shares. Net cash used in financing activities for 2008 was for the repurchase of our ordinary shares, partially offset by amounts generated from options exercises by our employees. Net cash provided by financing activities in 2007 was generated from options exercised by our employees.

As of December 31, 2009, we had cash and cash equivalents, including short-term and long-term bank deposits and marketable securities of approximately \$126.1 million, as compared to approximately \$133.9 million as of December 31, 2008. 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 approximately \$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 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 lease agreements and confirmed that they were not different 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. 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.

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, 2009, we had 181 employees and 72 subcontractors engaged primarily in research and development activities, compared to 190 employees at the end of 2008.

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 – Market Trends."

E. Off-Balance Sheet Arrangements

None.

F. Tabular Disclosure of Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2009 and the effect those commitments are expected to have on our liquidity and cash flow.

	Total	Payments Due By Period (US \$ in thousands)			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations					
Operating leases(1)	5,201	2,572	2,603	26	-
Total contractual cash obligations (2)(3)	5,201	2,572	2,603	26	-

(1) Consist of outstanding operating leases for the Company's facilities. The lease agreements expire in the years 2010 to 2013 (some with renewal options). The data in this row details our future minimum payments under non-cancelable operating lease agreements at December 31, 2009.

(2) Payments for uncertain income tax positions of \$910,000 under FIN 48 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(r) and 12(a) of our Consolidated Financial Statements.

(3) Severance payments of \$3,662,000 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, an amount of \$1.1 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(t) 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)	39	Chief Executive Officer, President and Director
Meir Moshe	56	Chief Financial Officer
Efrat Baruh-Noy	33	General Counsel and Secretary
Ilan Kinreich	52	Chief Operating Officer
Amir Peles	38	Chief Technology Officer
Sharon Trachtman	43	VP Global Marketing
Yehuda Zisapel (7)	68	Chairman of the Board of Directors
Colin Green	60	Chairman of the Audit Committee and Director
(3)(4)(5)		
David Rubner (3)(4)(5)(6)	69	Director
Hagen Hultzsch (2)(4)(5)(6)	69	Chairman of the Compensation Committee and Director
Yael Langer (2)	45	Director
Avraham Asheri (4)(5)(7)	72	Director

(1) Term as director expires at the annual meeting of shareholders to be held in 2010.

(2) Term as director expires at the annual meeting of shareholders to be held in 2011.

(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 Committee of the Board of Directors.

(6) Serves on the Compensation Committee of the Board of Directors.

(7) Term as director expires at the annual meeting of shareholders to be held in 2012.

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. 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 and is a certified public accountant.

Efrat Baruh-Noy has served as our General Counsel since November 2008. From February 2005 to November 2008, Mrs. Baruh-Noy was legal counsel at Gilat Satellite Networks Ltd. Prior to that, from July 2001 to January 2005, Mrs. Baruh-Noy was an associate at the law firm of Amit, Pollak Matalon & Co. Mrs. Baruh-Noy has LL.B and B.A. in Economics and M.B.A degrees from Tel Aviv University.

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 Bs.C. degree in Mathematics and Computer Sciences from Bar-Ilan University, Israel.

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

Sharon Trachtman has served as our Global Marketing Vice President since September 2008. Prior to that, since September 1997 she has presided in various senior positions 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 has a B.A. degree in computer science and philosophy from Bar Ilan University.

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 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 a director of other companies in the RAD-Bynet Group, including SILICOM Ltd., and several private companies. 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. Yehuda Zisapel is the father of Roy Zisapel director, President and Chief Executive Officer of the Company.

Colin Green has served as a member of the Board of Directors since July 2009. Mr. Green is currently Chairman of the Hermes Group Pension Scheme, Green Aid, a Trustee of Nightingale House and a voluntary adviser for the Citizen's Advice Bureau. After working as a Solicitor at Paisner & Co, and as a Partner at Clintons, he joined the Post Office in 1977 with responsibility for the legal aspects of British Telecom plc ("BT") flotation and the creation of the UK telecommunications regulatory regime. Among others, Mr. Green performed the duties of Solicitor & Chief Legal Adviser, Group Commercial Director and Secretary to the Board, and Member of the Management Board of BT. He was a Trustee of the BT Pension Fund, director of Airtel S.A. and Chairman of BT Telecommunications S.A. and Vio Worldwide Ltd. until his retirement from BT in 2002. He was also the senior non-executive director on the Board of Directors of ECI Telecom Ltd. Mr. Green acts as a pro bono adviser to many Israeli Hi-tech companies through which he raises money for charities in Israel. He has an Honors Law Degree from the London School of Economics of London University and is a Solicitor. He graduated from the WUJS Post Graduate Institute in Arad in 1974.

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 1991-2000 he was President and Chief Executive Officer of ECI Telecom Ltd. ("ECI"). 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 Camegie Mellon University.

Dr. Hagen Hultzsich has served as a member of our Board of Directors since January 2005. Dr. Hultzsich served on the Board of Management of Deutsche Telekom AG from 1993 until 2001. Since 2001, Dr. Hultzsich has served on the Boards or Advisory Boards of several companies and academic institutions. Dr. Hultzsich serves, among others, as a Board Member of the following companies: TranSwitch Inc., SCM-Microsystems Inc., T-Systems Solutions for Research and RIT Ltd. and he is a member of the advisory boards of several private and public technology companies. Dr. Hultzsich holds a PhD. 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 traded in NASDAQ and Tel-Aviv. 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 has an L.L.B. from the Hebrew University in Jerusalem.

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., Micronet Ltd. and Meditor Pharmaceuticals Ltd. Mr. Asheri was the President and Chief Executive Officer of Israel Discount Bank (“DB”) during the years 1991-1998. 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. He also provides consulting services to Abnet Communications Ltd. and Rad Bynet Real Estate Ltd., among other companies. Mr. Asheri holds a B.Sc. degree in economics and political science from the Hebrew University.

Additional Information

At our 2009 annual meeting, Mr. Colin Green and Mr. David Rubner were elected as external directors of the Company for a period of three years commencing on July 20, 2009 and October 4, 2009 respectively. They replaced Mr. Zohar Gilon and Dr. Orna Berry, respectively, whose terms expired or otherwise vacated on July 19, 2009 and October 3, 2009, respectively. In addition, Mr. Avraham Asheri and Ms. Yael Langer were elected as directors, commencing July 19, 2009. Our Board of Directors appointed Mr. Yehuda Zisapel to be the Chairman of the Board of Directors.

Under NASDAQ requirements, commencing July 31, 2005, a majority of the members of our Board of Directors are required to be “independent,” as defined by NASDAQ. We currently satisfy this requirement as Mr. David Rubner, Mr. Colin Green, Mr. Avraham Asheri and Dr. Hagen Hultzsch, i.e., four out of our seven directors, qualify as independent directors under such NASDAQ 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. There are no other family relationships between any of the directors or members of senior management named above.

B. Compensation

Under our Articles of Association, no director may 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, which generally require the approval of the Audit Committee, the Board of Directors and then the approval of the shareholders of the company, in that order. 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.

The following table sets forth all compensation we paid with respect to all of our directors and officers as a group for the year ended December 31, 2009. 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 s i m i l a r benefits
All directors and officers as a group, consisting of 15 persons *	\$ 1,905,000	\$247,000

* Includes fees and benefits incur in relation to our former Executive Chairman of the Board (Christopher McCleary) who left the Company during 2008, and two former directors of ours (Dr. Orna Berry and Zohar Gilon) who left the Company during 2009.

As of April 10, 2010 our directors and officers as a group, consisting of 12 persons, held options to purchase an aggregate of 1,621,200 ordinary shares. Beginning July 2009, our non-employee 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 as follows: 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 in 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 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 (3) years in advance, and therefore every director will receive an initial grant of options to purchase 30,000 ordinary shares, which shall 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 such date. 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 2009, we granted to our directors and officers options to purchase 811,200 ordinary shares, in the aggregate, at a weighted average exercise price of \$8.06. The options expire sixty-two months after grant.

Chief Executive Officer Compensation

On October 4, 2006 our shareholders approved the increase of our Chief Executive Officer's compensation, entitling him to a base salary in NIS equivalent to \$200,000 per annum and, effective as of the year 2007, an annual bonus of up to \$100,000, subject to achievement of certain milestones to be determined by the Compensation Committee and approved by the Audit Committee and the Board of Directors before the beginning of each year. On December 31, 2007 our shareholders approved an increase of our Chief Executive Officer's base salary to an amount in NIS equivalent to \$250,000. Based on the 2009 milestones, the Chief Executive Officer was granted a bonus of \$100,000

for the year 2009. Based on the milestones set in 2007 and 2008, he was not entitled to receive annual bonuses in 2007 and 2008.

On December 31, 2007, following the approval of our shareholders, we granted our Chief Executive Officer 500,000 stock options, with an exercise price of \$15.22 per share. The exercise of these options is contingent upon the increase in the market price of our ordinary shares. These options expire seven years from the grant date. On July 19, 2009, following the approval of our shareholders, we granted our Chief Executive Officer 400,000 stock options to purchase ordinary shares with an exercise price of \$8.78 per share. 50% of those options are exercisable two years from the grant, 25% of those options are exercisable three years from the grant and the remainder is exercisable four years from the grant. The options expire 62 months from the grant date.

C. Board Practices

Introduction

According to the Israeli 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.

Since our ordinary shares are listed for quotation on the NASDAQ Global Select Market, we are subject to the rules of the NASDAQ applicable to listed companies. In addition, since we are incorporated as an Israeli company, we are subject to the provisions of the Israeli Companies Law and the regulations adopted thereunder.

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	2010	Roy Zisapel
Class III	2011	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, whereas their 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. Colin Green and Mr. David Rubner, who were appointed as external directors and whose term of appointment ends in 2012.

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. The Companies Law provides that a person may not be appointed as an external director if the person or such person's relative, partner, employer or any entity under the person's control has, as of the person's appointment to serve as an external director, or had during the two years preceding that date, any affiliation with:

- the Company;
- any entity controlling the Company;
- any entity controlled by the Company; or
- any entity under common control with the Company.

The term affiliation includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- 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 may not engage an external director to serve as an office holder and cannot employ or receive services from that person, either directly or indirectly, including through a corporation controlled by that person.

Election of External Directors

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

- At least one third 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 one percent of the aggregate voting rights in the Company.

The initial term of an external director is three years and may be extended for one additional three year term. 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. 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 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 a company's board of directors is required to include at least one external director, except for the Audit Committee which is required to include all the external directors.

Currently, Mr. Colin Green and Mr. David Rubner qualify as external directors under the Companies Law and were elected by the general shareholders meeting held in July 2009, to serve as our external directors for a three-year term ending in 2012.

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 Radware, 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 Mr. Colin Green, our external directors, have “professional qualifications”, and, therefore, we believe we satisfy these requirements.

Board Meetings

Our Board of Directors met 11 times during 2009 and each director attended at least 75% of all Board meetings.

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 and Share Incentive Committees in 1999, and its Compensation Committee (which replaced the Share Incentive Committee) in 2004. Only non-employee directors serve on our Audit Committee and Compensation Committee.

Audit Committee

NASDAQ Requirements

Our ordinary shares are listed for quotation 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. The members of the Audit Committee, Mr. Colin Green, Mr. David Rubner, Mr. Avraham Asheri and Dr. Hagen Hultsch qualify as independent directors under the current NASDAQ listing requirements. The Board of Directors has determined that each Audit Committee member is “financially literate” as such term is defined by the NASDAQ rules and that Mr. Avraham Asheri is considered an “audit committee financial expert” within the meaning of the current rules of the SEC which is in accordance with the NASDAQ rules. In accordance with NASDAQ listing requirements, the Audit Committee has adopted a charter, which sets forth the 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 met 7 times during fiscal year 2009 and all members attended all Audit Committee meetings.

Israeli Companies Law Requirements

Under the Companies Law, our Board of Directors is required to appoint an audit committee, comprised of at least three directors including all of the external directors, but excluding:

- the chairman of the Board of Directors;

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- a controlling shareholder or a relative of a controlling shareholder; and
- any director employed by the Company or who provides services to the Company on a regular basis.

In accordance with the Companies Law, the duty of our Audit Committee is, in addition to the requirements imposed by the NASDAQ rules, (1) to 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; and (2) to review, and, where appropriate, approve certain interested party transactions specified under the Companies Law, as more fully described below.

Approval of Interested Party Transactions

The approval of the audit committee is required under the Companies Law to effect specified actions and transactions with office holders, controlling shareholders and entities in which they have a personal interest. An audit committee may not approve an action or a transaction with interested parties or with an office holder unless at the time of approval the two external directors are serving as members of the audit committee and at least one of whom was present at the meeting in which the approval was granted. The Companies Law defines the term "interested party" to include a person who holds 5% or more of the company's outstanding share capital or voting rights, a person who has the right to appoint one or more directors or the general manager, or any person who serves as a director or as the general manager.

Compensation Committee

Our compensation committee consists of two of our independent directors, Mr. David Rubner, who is also one of our External Directors, and Dr. Hagen Hultsch. This committee was created in 1999 as the Share Incentive Committee and was renamed the Compensation Committee in 2004. The Compensation Committee met 6 times during fiscal year 2009 and all members attended all of the meetings. On March 8, 2005, our compensation committee adopted a charter, which sets forth the committee's responsibilities. Pursuant to the 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 specifically approves and reviews, on behalf of the Board of Directors, the amounts and types of compensation to be paid to the Company's Chief Executive Officer and top five executive officers.

Nomination of Directors

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

Directors' Service Contracts

The terms of compensation of our directors are approved by our shareholders as required by the Israeli Companies Law and are as described in Item 6B above. Except as described below, 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. We do note, however, that Mr. Christopher McCleary, who served as the Executive Chairman of our Board of Directors until November 2008, was entitled to accelerated vesting of his stock options and continued base salary and benefits in connection with his decision not to stand for reelection to our Board of Directors and the termination of his services as Executive Chairman of our Board of Directors.

Pursuant to Mr. McCleary's employment agreement, all of the stock options we granted to Mr. McCleary were accelerated upon his separation from the Company in November 2008. In addition, he will continue to receive his base salary and additional standard company benefits until the expiration of his initial term of service (May 2010). Such compensation was fully expensed upon Mr. McCleary's separation.

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 also required.

Under the Companies Law, all arrangements as to compensation of directors in public companies such as ours generally require the approvals of the audit committee, the board of directors and the shareholders, in that order.

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, 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 one-third 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 one percent of the voting power in the company.

Shareholders generally have the right to examine any document in a company's possession pertaining to any matter that requires shareholder approval.

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. However, the Companies Law does not define the substance of this duty of fairness.

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 the workforce (including temporary employees and subcontractors) of Radware and its consolidated subsidiaries for the periods indicated:

		As at December 31,	
	2009	2008	2007
Approximate numbers of employees and subcontractors by geographic location			

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Israel	271		262	276
United States	107		89	138
Other	249	(*)	183	179
Total workforce	627		534	593
Approximate numbers of employees and subcontractors by category of activity				
Research and development	253	(*)	191	216
Sales, technical support, business development and marketing	292		270	297
Management, operations and administration	82		73	80
Total workforce	627		534	593

(*) Includes 72 subcontractors.

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 order of the Israeli Ministry of Labor and Welfare. These provisions principally concern social benefits, cost of living increases, recreation pay and other conditions of employment. We provide our employees with benefits and working conditions above the required minimums. Our employees are not represented by a labor union. 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 April 10, 2010. The percentage of outstanding ordinary shares is based on 19,095,217 ordinary shares outstanding as of April 10, 2010.

Name	Number of ordinary shares	Percentage of outstanding ordinary shares	
Yehuda Zisapel(1)	3,229,336	16.91	%
Roy Zisapel	878,083	4.60	%
Meir Moshe(2)	234,165	1.22	%
All directors and executive officers as a group (12 persons) (3)(4)	4,451,248	23.05	%

(1) Of the ordinary shares beneficially owned by Mr. Yehuda Zisapel, (i) 2,505,243 are held directly, (ii) 295,000 ordinary shares are held of record by Carm-AD Ltd., an Israeli company wholly owned by Yehuda Zisapel, (iii) 239,491 ordinary shares are held of record by Radbit Computers, Inc., a New York corporation which is wholly owned by Yehuda Zisapel, and (iv) 189,602 ordinary shares are held of record by Neurim Pharmaceuticals (1991) Ltd., an Israeli company wholly owned by Yehuda Zisapel and his wife, Nava Zisapel. This information is based on information provided in the Statement on Schedule 13D filed by Mr. Yehuda Zisapel on March 16, 2009.

(2) Consists of 124,165 shares and 110,000 options to purchase ordinary shares which are fully vested or which will be fully vested within the next 60 days. The options consist of 10,000 options at an exercise price of \$16.95 which expire in September 2010 and 100,000 options at an exercise price of \$ 12.84 which expire in March, 2012.

(3) Consists of 2,164 shares and 107,500 options to purchase ordinary shares which are fully vested or which will be fully vested within the next 60 days. The options consist of 15,000 options at an exercise price of \$17.0 which expire in September 2010, 30,000 options at an exercise price of \$18.68 which expire in February 2011, 15,000 options at an exercise price of \$14.94 which expire in September 2012, 25,000 options at an exercise price of \$13.74 which expire in March 2013, 15,000 options at an exercise price of \$10.64 which expire in June 2013 and 7,500 options at an exercise price of \$6.31 which expire in January 2014.

(4) Each of the directors and executive officers not separately identified in the above table beneficially 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.

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 Market Rules imposes various corporate governance requirements on listed securities. Section (a)(3) of 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.

Key Employee Share Incentive Plan

In August 1997, we adopted our Key Employee Share Incentive Plan (1997). Options granted pursuant to our Key Employee Share Incentive Plan are for a term of sixty-two months from the date of the grant of the option. As of December 31, 2009, 10,477,236 ordinary shares have been reserved for option grants under the plan, of which we have granted options to purchase 9,260,653 ordinary shares, at a weighted average exercise price of \$9.72 per ordinary share. We intend to grant further options under our share option plan to our executive officers and employees. In light of the new accounting standard SFAS No. 123(R), however, we may amend our option plan, reduce the number of options granted to the employees or suggest alternative compensation schemes.

Our share option plan is administered by the Compensation Committee of our Board of Directors, (previously the Share Incentive Committee) subject to the provisions of the Companies Law. Pursuant to the plan, the 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 our share option plan, all options, or shares issued upon exercise of options, are held in trust and registered in the name of a trustee who was selected by the 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 our share option plan, provided that any action by our Board of Directors which will alter or impair the rights of an option holder requires the prior consent of that option holder.

In order to comply with the provisions of Section 102 of the Israeli Income Tax Ordinance [New Version], 1961 (the “Tax Ordinance”), as amended in January 2003, on March 5, 2003, our Board of Directors adopted an addendum to our share option plan with respect to options granted on or after January 1, 2003 to grantees who are residents of Israel. This addendum does not modify our share option plan with respect to grantees that are not residents of Israel.

On February 1, 2010, our Board of Directors adopted an additional addendum to our 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. Our Board of Directors has also increased the number of shares reserved under this addendum by 500,000 shares. This

addendum does not affect the possibility of issuing options under our share option 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 our share option plan.

For further details regarding our share incentive plan please refer to Exhibit 4.8 in Item 19.

Directors and Consultants Option Plan

On February 18, 2000 we adopted a Directors and Consultants Option Plan. 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 Key Employee Share Incentive Plan. The shares reserved for the Key Employee Share Incentive Plan provide for the Directors and Consultants Option Plan as well, and the Compensation Committee administers the two 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. The shares reserved for the 1997 Key Employee Share Incentive Plan, are also used for option grants under the Directors and Consultants Option Plan.

Employee Share Purchase Plan

On February 1, 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. No shares have yet been purchased under the ESPP.

For further details regarding our employee share purchase plan please refer to Exhibit 4.9 in Item 19.

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 April 10, 2010, by each person or entity known to own beneficially more than 5% of our outstanding ordinary shares based on information provided to us by the holders or disclosed in public filings with the Securities and Exchange Commission, or 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)	3,229,336	16.91	%
Federated Investors, Inc. (2)	1,919,219	10.05	%
Rima Management, LLC (3)	1,864,723	9.77	%
Zohar Zisapel(4)	1,214,820	6.36	%
Renaissance Technologies LLC (5)	968,900	5.07	%

(1) Includes (i) 2,505,243 ordinary shares held directly, (ii) 295,000 ordinary shares held of record by Carm-AD Ltd., an Israeli company wholly owned by Yehuda Zisapel, (iii) 239,491 ordinary shares held of record by Radbit Computers, Inc., a New York corporation which is wholly owned by Yehuda Zisapel, and (iv) 189,602 ordinary shares held of record by Neurim Pharmaceuticals (1991) Ltd., an Israeli company wholly owned by Yehuda Zisapel and his wife, Nava Zisapel. This information is based on information provided in the Statement on Schedule 13D filed by Mr. Yehuda Zisapel on March 16, 2009. As of March 20, 2009 Mr. Zisapel owned 17.37% of our outstanding ordinary shares and as of June 10, 2008 Mr. Zisapel owned 15.33% of our outstanding ordinary shares.

(2) Share 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 Ordinary Shares. The Investment Advisers are wholly owned subsidiaries of FII Holdings, Inc., which is wholly owned subsidiary of 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"). The Trustees have shared voting and dispositive power over the outstanding voting stock of the Parent, which has sole voting and dispositive power over the shares. This information is based on information provided in the Amendment No. 2 to Statement on Schedule 13G filed with the SEC by Parent, the Trust and the Trustees on February 10, 2010. As of March 20, 2009 Federated Investors, Inc. owned 9.61% of our outstanding ordinary shares.

(3) Shares are beneficially owned by Rima Management, LLC, a Delaware corporation ("Rima"), and Richard Mashaal, a Canadian citizen. This information is based on information provided in the Amendment No. 3 to Statement on Schedule 13G filed with the SEC by Mr. Mashall and Rima on February 16, 2010. As of March 20, 2009 Rima owned 6.86% of our outstanding ordinary shares and as of June 10, 2008 Rima owned 5.39% of our outstanding ordinary shares.

(4) As of December 31, 2009, Mr. Zohar Zisapel, who is the brother of Mr. Yehuda Zisapel, beneficially owned 1,214,820 Ordinary Shares, out of which (i) 402,168 Ordinary Shares are held directly and (ii) 812,652 Ordinary Shares are held of record by Lomsha Ltd., an Israeli company controlled by Mr. Zohar Zisapel. This information is

based on information provided in the Statement on Schedule 13G filed with the SEC by Mr. Zohar Zisapel on February 9, 2010. As of June 10, 2008 Mr. Zisapel owned 5.62% of our outstanding ordinary shares.

(5) Shares are beneficially owned by Renaissance Technologies LLC, a Delaware corporation (“Renaissance”), and James H. Simons, a United States citizen. This information is based on information provided in the Amendment No. 1 to Statement on Schedule 13G filed with the SEC by Renaissance and Mr. Simons on February 12, 2010. As of March 20, 2009 Renaissance owned 5.39% of our outstanding ordinary shares.

Significant Changes in the Ownership of Major Shareholders

As of April 10, 2010, P.A.W. Capital Corp. and FMR LLC were no longer beneficial owners of more than 5% of our outstanding ordinary shares. As of March 20, 2009, P.A.W. Capital Corp. was the beneficial owner of 7.48% of our outstanding ordinary shares and FMR LLC was the beneficial owner of 6.35% of our outstanding ordinary shares. As of February 17, 2009 Ergates Capital Management, LLC was no longer beneficial owner of more than 5% of our outstanding ordinary shares. As of June 10, 2008 Ergates Capital Management, LLC was the beneficial owner of 5.07% 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 April 12, 2010, there were 41 holders of record of our ordinary shares, of which 25 record holders, holding approximately 13.88% of our ordinary shares, had registered addresses in Israel, and of which 14 record holders, holding approximately 86.11% 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 86.11% 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 used a third-party consulting firm, and confirmed that it was not different 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 products and data communication providers. The RAD-Bynet Group includes more than 20 companies in advanced communication technology, networks, and e-commerce. Members of 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. The ownership structure of each RAD-Bynet Group member is different and certain of the RAD-Bynet Group members are publicly held 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 owned by Messrs. Zohar Zisapel and Yehuda Zisapel. The facilities are located in 2 locations:

- One is a five-story building in Tel Aviv, Israel, consisting of approximately 36,000 square feet, plus storage and parking space. The annual rent amounts to approximately \$636,000. The lease expires in November 2012.
- The second location 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 2011. The annual rent for such 2 floors amounts to approximately \$641,000.

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. The lease expires in February 2011. The annual rent amounts to \$89,000.

In addition, we sublease approximately 6,500 square feet in Jerusalem for warehousing from an unaffiliated company. The annual rent amounts to approximately \$94,000.

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 \$222,000 (including taxes, electricity and management fees). The lease expires on April 20, 2011.

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., according to which we provide them 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 its subsidiaries) amounted to approximately \$3.4 million in 2009 and \$0.9 million during the first quarter of 2010.

Additional RAD-Bynet Group Services

The Company receives the following additional services from members of the RAD-Bynet Group: network management and communication services, 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, due to the fact that 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 in order to promote the RAD-Bynet Group members’ products, in which

we participate. 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

See “Item 18 - Financial Statements”.

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. The time to file additional notices of appeal has run on February 9, 2010.

Due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of the matter. Should the settlement not be approved and the Company is found liable, we are, at this time, unable to estimate or predict the potential damages that might be awarded, whether such damages would be greater than our insurance coverage, and whether such damages would have a material impact on our results of operations, cash flows or financial condition in any future period.

Dividend Distribution Policy

We have never paid and do not intend to pay cash dividends on our ordinary shares in the foreseeable future. Our earnings and other cash resources will be used 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.

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, and, since May 12, 2004 on the Tel Aviv Stock Exchange, or TASE, both under the symbol "RDWR". Due primarily to low volumes of trade, we voluntarily delisted our ordinary shares from trade on the TASE, effective March 8, 2009.

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
2005	\$ 26.56	\$ 15.19	NIS 115.00	NIS 67.93
2006	\$ 21.49	\$ 11.44	NIS 101.10	NIS 50.43
2007	\$ 16.92	\$ 12.31	NIS 67.97	NIS 49.64
2008				
First Quarter	\$ 14.84	\$ 10.19	NIS 59.40	NIS 34.51
Second Quarter	\$ 10.93	\$ 8.81	NIS 39.72	NIS 29.50
Third Quarter	\$ 9.80	\$ 7.50	NIS 35.64	NIS 26.09
Fourth Quarter	\$ 8.06	\$ 4.99	NIS 28.38	NIS 18.11
ANNUAL	\$ 14.84	\$ 4.99	NIS 59.40	NIS 18.11
2009				
First Quarter	\$ 6.48	\$ 5.15	NIS 27.30*	NIS 19.52*
Second Quarter	\$ 7.91	\$ 5.59	N/A	N/A
Third Quarter	\$ 12.5	\$ 7.68	N/A	N/A
Fourth Quarter	\$ 15.12	\$ 10.99	N/A	N/A
ANNUAL	\$ 15.12	\$ 5.15	N/A	N/A

Most recent six months

2009					
October	\$ 12.18	\$ 10.99	N/A	N/A	
November	\$ 14.01	\$ 11.55	N/A	N/A	
December	\$ 15.12	\$ 13.43	N/A	N/A	
2010					
January	\$ 16.40	\$ 14.92	N/A	N/A	
February	\$ 17.02	\$ 14.95	N/A	N/A	
March	\$ 22.31	\$ 17.77	N/A	N/A	
April	\$ 23.87	** \$ 22.30	**	N/A	N/A

* Through March 8, 2009

**Through April 26, 2010

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

Dividends on our ordinary shares may be paid only out of profits and other surplus, as defined in the Companies Law, as of the end of the most recent financial statements 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 approved the final dividend declared by the Board of Directors, in an amount not to exceed the Board of Directors' recommendation. 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: two directors or one fourth of the then serving directors; one or more shareholders who hold at least 5% of the issued share capital and at least 1% of the voting rights; or one or more shareholders who hold at least 5% of the voting rights.

Under the Companies Law, shareholder meetings generally require prior notice of not less than 21 days. The Companies Law also provides that the record date for the participation of shareholders of a company whose shares are traded or registered outside of Israel such as us may generally be no more than 40 but no less than 28 days prior to the meeting, provided that notice for said meeting is given prior to the record date. A shareholder may vote in person or by proxy, or, if the shareholder is a corporate body, by its representative.

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.

These voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future. The quorum required for an ordinary meeting of shareholders consists of at least two shareholders present in person or by proxy who hold or represent between them at least 35% of the outstanding voting shares unless otherwise required by applicable rules. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place or any time and place as the 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 will be sufficient 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. The Companies Law does not describe the substance of this duty of fairness. 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 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 tender offer if as a result of the acquisition the purchaser would become a 25% or greater shareholder of the company and there is no 25% or greater shareholder in the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% or greater shareholder of the company, unless there is already a 45% or greater shareholder of 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. The 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. 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. If less than 5% of the outstanding shares are not tendered in the tender offer, all the shares that the acquirer offered to purchase will be transferred to it. The Companies Law provides for appraisal rights if any shareholder files a request in court within three months following the consummation of a full tender offer. If more than 5% of the outstanding shares are not tendered in the tender offer, then the acquirer may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares.

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

Our Articles of Association provide that, subject to the provisions of the Companies Law, 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; or

- A financial liability imposed upon him or her in favor of another person.

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Exculpation and Indemnification of Office Holders

Under the Companies Law, 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 concluded without the filing of an indictment against him or her or the imposition of any financial liability in lieu of criminal proceedings other than with respect to a criminal offense that does not require proof of criminal intent; and
- 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.

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 (See Exhibit 4.4 of our amended annual report on Form 20-F/A for the year ending December 31, 2005 filed with the SEC on July 6, 2006, for the form of such letter).

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 as well as hire certain Nortel employees who will be 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.

For a summary of additional material contracts, see “Item 5A – Operating and Financial Review and Prospects – Operating Results – Business Combinations” and “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 ordinary shares, including, in particular, the effect of any foreign, state or local taxes.

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 26% for the 2009 year tax. Following an amendment to the Tax Ordinance, the Corporate Tax rate is scheduled to decrease to 25% in 2010, 24% in 2011, 23% in 2012, 22% in 2013, 21% in 2014, 20% in 2015 and 18% in 2016 and thereafter. However, the effective tax rate payable by a company which derives income from an approved enterprise (as further discussed below) may be considerably less. Israeli companies are generally subject to Capital Gains Tax at a rate of 25% for capital gains (other than gains deriving from the sale of listed securities) derived after January 1, 2003, and such tax rate is scheduled to be equal to the corporate tax rate for future tax years. The rate is scheduled to decrease according to the rates above.

Following an additional amendment to the Tax Ordinance, which came into effect on January 1, 2009 and expired at the end of one year, an Israeli corporation may elect a 5% rate of corporate tax (instead of 25%) for income from dividend distributions received from a foreign subsidiary which is used in Israel in 2009, or within one year after actual receipt of the dividend, whichever is later. The 5% tax rate is subject to various conditions, which include conditions with regard to the identity of the corporation that distributes the dividends, the source of the dividend, the nature of the use of the dividend income, and the period during which the dividend income will be used in Israel.

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

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, there would be no such limitation.

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."

In 2004, the Company began to utilize the above mentioned tax benefits, and they are scheduled to gradually expire according to the law. As of December 31, 2009, retained earnings included approximately \$25 million in tax-exempt income earned by the Company's "Approved Enterprise". The Company has decided not to declare dividends out of such tax-exempt income. Accordingly, no deferred income taxes have been provided on income attributable to the Company's "Approved Enterprise".

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. The Investment Center granted temporary 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 acquire 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 “Benefited Enterprise”). In order to receive the tax benefits, the Amendment states that the company must make an investment in the Benefited 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 Benefited 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 Benefited 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 Benefited 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 one of the following new tax routes, which may be applicable to us:

- 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 Benefited Enterprise; and
- A special tax route, which enables companies owning facilities in certain geographical locations in Israel to pay corporate tax at the rate of 11.5% on income of the Benefited Enterprise. The benefits period is ten years. Upon payment of dividends, the company is required to withhold tax at source at a rate of 15% for Israeli residents and at a rate of 4% for foreign residents.

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 changes the definition of “foreign investment” in the Investments Law so that the definition now requires a minimal investment of NIS 5 million by foreign investors. Furthermore, such definition now also includes the purchase of shares of a company from another shareholder, provided that the company’s outstanding and paid-up share capital exceeds NIS 5 million. Such changes to the aforementioned definition are retroactive from 2003.

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.

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.

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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.

Special Provisions Relating to Taxation Under Inflationary Conditions

Under the Income Tax (Inflationary Adjustments) Law of 1985, or the Adjustments Law, results for tax purposes are measured in real terms, in accordance with the changes in the Israeli Consumer Price Index (“Israeli CPI”). Accordingly, until 2002, results for tax purposes were measured in terms of earnings in NIS after certain adjustments for increases in the Israeli CPI. 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 (Principles Regarding the Management of Books of Account of Foreign Invested Companies and Certain Partnerships and the Determination of Their Taxable Income), 1986. Such an election obligates the Company for three years. Accordingly, commencing taxable year 2003, results for tax purposes are measured in terms of earnings in dollar. We have submitted a request to the Israeli tax authorities to extend the effect of the above regulations on our company for 2010.

On March 6, 2008, an amendment to the Inflationary Adjustments Law came into force. Pursuant to this amendment, as of the 2008 tax year, most of the provisions of the Inflationary Adjustments Law will no longer be in force, except for certain transitional orders.

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 affect 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, the tax rate applicable to capital gains derived from the sale of shares, whether listed on a stock market or not, is 20% 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 25%. 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 25%. Israeli companies are subject to the Corporate Tax rate on capital gains derived from the sale of listed shares. 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).

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 20%, or 25% 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 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 income tax and other tax 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 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." 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. The reduced tax rate for qualified dividends is scheduled to expire on December 31, 2010, unless further extended by the United States Congress. 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 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 foreign income taxes which may be claimed as a credit in any year is subject to complex limitations and restrictions, which must be determined on an individual basis by each 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 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 is 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.

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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 United States Internal Revenue Service (“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 2009 taxable year, the average percentage of our passive assets to the fair market value of our total assets was slightly below 50%. Therefore, we believe that we should not be classified as a PFIC for 2009. However, there can be no assurance that the IRS will not challenge this treatment and it is possible that the IRS will attempt to treat us as a PFIC for 2009 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 2010 or in subsequent taxable years.

Although a U.S. Holder normally is not permitted to make a retroactive QEF election for a foreign corporation, a retroactive election may be made for a taxable year of the U.S. Holder (the “retroactive election year”) if the U.S. Holder (i) reasonably believed that, as of the date the QEF election was due, the foreign corporation was not a PFIC for its taxable year that ended during the retroactive election year and (ii) filed a protective statement with respect to the foreign corporation, applicable to the retroactive election year, in which the U.S. Holder described the basis for its reasonable belief and extended the period of limitation on the assessment of taxes determined under Sections 1291 through 1298 of the Code with respect to the foreign corporation (PFIC related taxes) for all taxable years of the shareholder to which the protective statement applies.

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 a “protective” 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 Back-up Withholding” below, a Non-U.S. Holder of ordinary shares will not be subject to U.S. federal income or withholding tax on the payment of dividends on, and the proceeds from the disposition of, ordinary shares, unless, 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 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 paid 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 paid 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:

The majority 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 the last year and more, 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 we do not hold any securities which 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, 2009, approximately 8% of our portfolio was invested in U.S. Government debentures, 35% deposited in foreign banks and government debentures, 13% 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. Accordingly, 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 operating 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, in 2009 our revenues were higher in an amount of \$1.2 million

and our operating expenses were higher in an amount of \$3.3 million, if there were no changes in the average exchange rates of the dollar relative to the Euro and to the NIS during the year. Assuming our revenues and operating expenses in 2010 will remain at the same level and with the same currency mix as in 2009, 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 \$2.2 million and in an increase in our operating expenses of \$5.2 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:

Year ended December 31,	U.S. dollar against NIS		U.S. dollar against Euro	
2005	6.8	%	15.3	%
2006	(8.2))%	(10.2))%
2007	(9.0))%	(10.5))%
2008	(1.1))%	5.6	%
2009	(0.7))%	(3.3))%
2010(1)	(1.4))%	(7.1))%

(1) January 1, 2010 through April 20, 2010

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

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

The effective date of the registration statement (Commission File Number 333-10752) for our initial public offering of our ordinary shares, NIS 0.1 par value, was September 29, 1999. The offering commenced on October 5, 1999, and terminated after the sale of all the securities registered. The managing underwriter of the offering was Salomon Smith Barney. We registered 4,025,000 ordinary shares in the offering, including shares issued pursuant to the exercise of the underwriters' over-allotment option. Of such shares, we sold 3,500,000 ordinary shares at an aggregate offering price of \$63.0 million (\$18.00 per share) and certain selling shareholders sold an aggregate of 525,000 ordinary shares at an aggregate offering price of \$9.45 million (\$18.00 per share). Under the terms of the offering, we incurred underwriting discounts of \$4.41 million. We also incurred estimated expenses of \$1.82 million in connection with the offering. None of the expenses consisted of amounts paid directly or indirectly to any of our directors, officers, general partners or their associates, any persons 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, 2009. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2009, 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, 2009. 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, 2009 based on these criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2009, 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, 2009.

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

On February 2, 2004 our Board of Directors adopted our Code of Ethics, a code that 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 January 2005, we modified the Code of Conduct and Ethics. In January 2010 we made some additional technical changes. 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 July 19, 2009 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.

Ernst & Young billed the following fees to us for professional services in each of the last two fiscal years:

	Year Ended December 31,					
	2008		2009			
	(US\$ in thousands)					
Audit Fees	237	93	%	247	59	%
Audit-Related Fees	0	0	%	100	24	%
Tax Fees	17	7	%	73	17	%
All Other Fees	-	-		-	-	
Total	254	100	%	420	100	%

The Audit Fees for the years ended December 31, 2009 and 2008 were for professional services rendered for the integrated audit of Radware’s annual consolidated financial statements and its internal control over financial reporting as of December 31, 2009 and 2008, review of consolidated quarterly financial statements, statutory audit of Radware, consents and assistance with review of documents filed with the SEC.

The Audit-Related Fees for the year ended December 31, 2009 were for services related with acquisition due diligence and acquisition accounting consultations.

Tax Fees for the years ended December 31, 2009 and 2008 were for services related to tax compliance, including the preparation of tax returns, as well as tax planning and tax advice, including assistance with tax audits and appeals, advice related to acquisition, 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.” In 2003 our Audit Committee also 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 the 2009 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

During 2009 we repurchased our ordinary shares under a share repurchase plan, in an aggregate amount of \$0.4 million, as follows:

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Units) (in US\$)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)
January 1 through 31	0	N/A	0	\$7,366,835
February 1 through 28	0	N/A	0	\$7,366,835
March 1 through 31	43,345	5.20	43,345	\$7,141,496
April 1 through 30	0	N/A	0	\$7,141,496
May 1 through 31	0	N/A	0	\$7,141,496
June 1 through 30	25,442	7.50	25,442	\$6,950,577
July 1 through 31	0	N/A	0	\$6,950,577
August 1 through 31	0	N/A	0	\$6,950,577
September 1 through 30	0	N/A	0	\$6,950,577
October 1 through 31	0	N/A	0	\$6,950,577
November 1 through 30	0	N/A	0	\$6,950,577
December 1 through 31	0	N/A	0	\$6,950,577

(1) In July 2008, our board of directors authorized the reactivation of our share repurchase program under which the total amount to be paid for the repurchase of shares would not exceed \$25 million in the aggregate as of the original board approval in 2006. Such share repurchase program was approved by the Tel Aviv District Court in Israel in October 2006, pursuant to the requirement of Israeli law. In July 2009 our board of directors decided to cease the share repurchase program.

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.

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.

Exhibit	Exhibit
No.	
1.1	Memorandum of Association (A)
1.2	Articles of Association (B)
1.3	Amendment to the Articles of Association (D)
4.1	Lease Agreement for the Company's Mahwah office (C)
4.2	Distributor Agreement with Bynet Data Communications Ltd. (C)
4.3	Form of Directors and Officers Indemnity Deed (D)
4.4	Asset Purchase Agreement with V-Secure Technologies (U.S.) Inc. (D)
4.5	Agreement and Plan of Merger by and Between the Company, its subsidiary, Covelight and its stockholders and note-holders (E)
4.6	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 (F)
4.7	Summary of Material Terms of the Lease Agreements for the Company's Headquarters (F)
4.8	1997 Key Employee Share Incentive Plan, Appendix A to the Key Employee Share Incentive Plan (1997) (G) and Radware Ltd. Key Employee Share Incentive Plan (1997) – 2010 Addendum (for international grantees)*
4.9	Radware Ltd. – 2010 Employee Share Incentive Plan*
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*

* Filed herewith.

(A) Incorporated by reference to the Company's Registration Statement on Form F-1 (File No. 333-10752), filed with the SEC on September 1, 1999.

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(B) Incorporated by reference to the Company's Annual Report on Form 20-F for the year ended December 31, 2000, filed with the SEC on May 18, 2001.

(C) 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.

(D) Incorporated by reference to the Annual Report on Form 20-F/A for the year ended December 31, 2005, filed with the SEC on July 6, 2006.

(E) Incorporated by reference to the Annual Report on Form 20-F for the year ended December 31, 2006, filed with the SEC on June 5, 2007.

(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.

(G) 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 Registration Statement on Form S-8, filed with the SEC on June 10, 2003 (File No. 333-13818) .

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: April 29, 2010

RADWARE LTD. AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2009

U.S. DOLLARS IN THOUSANDS

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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, 2008 and 2009, 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, 2009. 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, 2008 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2(y), effective January 1, 2009, the Company adopted new guidance on accounting for business combinations.

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, 2009, based on criteria established in Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 29, 2010 expressed an unqualified opinion thereon.

Tel-Aviv, Israel
April 29, 2010

/s/ 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") internal control over financial reporting as of December 31, 2009, 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, 2009, 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, 2008 and 2009, 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, 2009 and our report dated April 29, 2010 expressed an unqualified opinion thereon.

Tel-Aviv, Israel
April 29, 2010

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

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RADWARE LTD. AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2008	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 28,065	\$ 19,843
Available-for-sale marketable securities	60,731	29,117
Short-term bank deposits	-	10,130
Trade receivables (net of allowance for doubtful accounts and provision for product returns and stock rotation in a total amount of \$ 2,711 and \$ 2,585 in 2008 and 2009, respectively)	13,348	16,603
Other current assets and prepaid expenses	2,046	2,934
Inventories	6,712	9,792
Total current assets	110,902	88,419
LONG-TERM INVESTMENTS:		
Available-for-sale marketable securities	45,112	42,021
Long-term bank deposits	-	25,000
Severance pay fund	1,995	2,514
Total long-term investments	47,107	69,535
Property and equipment, net	11,693	11,220
Other long-term assets	432	467
Intangible assets, net	1,856	14,794
Goodwill	13,474	24,465
Total assets	\$ 185,464	\$ 208,900

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

RADWARE LTD. AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2008	2009
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 4,646	\$ 5,699
Deferred revenues	14,096	20,734
Other payables and accrued expenses	9,868	12,413
Total current liabilities	28,610	38,846
LONG TERM LIABILITIES:		
Deferred revenues	4,946	16,919
Accrued severance pay	3,846	3,662
Total long term liabilities	8,792	20,581
COMMITMENTS AND CONTINGENT LIABILITIES		
SHAREHOLDERS' EQUITY:		
Share capital -		
Ordinary shares of NIS 0.1 par value -		
Authorized: 30,000,000 at December 31, 2008 and 2009;		
Issued: 20,645,608 and 20,712,558 shares at December 31, 2008 and 2009, respectively; Outstanding 18,918,438 and 18,916,601 shares at December 31, 2008 and 2009, respectively		
	465	465
Additional paid-in capital	185,985	191,941
Treasury stock, at cost	(17,619)	(18,036)
Accumulated other comprehensive income (loss)	(873)	935
Accumulated deficit	(19,896)	(25,832)
Total shareholders' equity	148,062	149,473
	\$ 185,464	\$ 208,900

Total liabilities and shareholders'
equity

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

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RADWARE LTD. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2007	2008	2009
Revenues:			
Products	\$59,422	\$59,678	\$65,021
Services	29,209	34,903	43,883
Total revenues	88,631	94,581	108,904
Cost of revenues:			
Products *)	13,133	15,143	16,609
Services	5,895	6,431	6,666
Total cost of revenues	19,028	21,574	23,275
Gross profit	69,603	73,007	85,629
Operating expenses:			
Research and development	23,515	28,357	25,674
Sales and marketing	57,977	63,591	55,130
General and administrative	7,114	12,066	11,930
Total operating expenses	88,606	104,014	92,734
Operating loss	(19,003)	(31,007)	(7,105)
Financial income, net	7,420	3,612	1,987
Loss before taxes on income	(11,583)	(27,395)	(5,118)
Taxes on income	428	3,627	818
Net loss	\$(12,011)	\$(31,022)	\$(5,936)
Basic and diluted net loss per share	\$(0.62)	\$(1.60)	\$(0.31)

*) Include an impairment loss of \$ 2,036 in the year ended December 31, 2008 with respect to acquired technology derived from the acquisition of Covelight. See also Note 2(i).

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

RADWARE LTD. AND ITS SUBSIDIARIES
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 loss	Total
Balance as of January 1, 2007	19,411,903	\$478	\$170,090	\$(11,049)	\$ (242)	\$ 23,137		\$182,414
Issuance of shares upon exercise of stock options	148,000	4	1,377	-	-	-		1,381
Stock based compensation	-	-	4,537	-	-	-		4,537
Comprehensive income:								
Unrealized gain from available-for-sale securities, net	-	-	-	-	392	-	\$ 392	392
Net loss	-	-	-	-	-	(12,011)	(12,011)	(12,011)
Total comprehensive loss							\$ (11,619)	
Balance as of December 31, 2007	19,559,903	482	176,004	(11,049)	150	11,126		176,713
Repurchase of shares	(880,315)	(24)	-	(6,570)	-	-		(6,594)
Issuance of shares upon exercise of stock options	238,850	7	1,906	-	-	-		1,913
Stock based compensation	-	-	8,075	-	-	-		8,075
Comprehensive income:								
Unrealized loss on available-for-sale securities, net	-	-	-	-	(1,023)	-	\$ (1,023)	(1,023)
Net loss	-	-	-	-	-	(31,022)	(31,022)	(31,022)
Total comprehensive loss							\$ (32,045)	
Balance as of December 31, 2008	18,918,438	465	185,985	(17,619)	(873)	(19,896)		148,062

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Repurchase of shares	(68,787)	(2)	-	(417)	-	-	(419)
Issuance of shares upon exercise of stock options	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 income:	-	-	-	-	-	-	-
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

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

RADWARE LTD. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2007	2008	2009
Cash flows from operating activities:			
Net loss	\$(12,011)	\$(31,022)	\$(5,936)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	5,056	6,073	9,794
Impairment of acquired technology	-	2,036	-
Gain on sale of property and equipment	-	(8)	-
Stock based compensation	4,537	8,075	4,041
Amortization of premiums, accretion of discounts and accrued interest on available-for-sale marketable securities, net	(3,485)	588	1,765
Accrued interest on bank deposits and structured deposit	(634)	236	(130)
Accrued severance pay, net	402	412	(703)
Decrease (increase) in long-term deferred tax assets	(60)	594	1
Decrease (increase) in trade receivables, net	323	3,844	(3,255)
Decrease (increase) in other current assets and prepaid expenses	(1,192)	1,149	(888)
Decrease (increase) in inventories	1,493	(1,284)	(561)
Increase (decrease) in trade payables	581	(2,891)	1,053
Increase in deferred revenues	2,683	647	8,301
Increase in other payables and accrued expenses	1,182	1,825	1,844
Excess tax benefit from stock-based compensation	-	-	(899)
Net cash provided by (used in) operating activities	(1,125)	(9,726)	14,427
Cash flows from investing activities:			
Purchase of property and equipment	(6,747)	(4,645)	(5,837)
Proceeds from sale of property and equipment	-	10	-
Investment in other long-term assets, net	(15)	(48)	(36)
Investment in bank deposits	-	-	(35,000)
Purchase of available-for-sale marketable securities	(67,121)	(161,706)	(405,827)
Proceeds from redemption and maturity of available-for-sale marketable securities	94,237	137,485	440,575
Proceeds from redemption of held-to-maturity marketable debt securities	22,735	-	-
Proceeds from structured deposit	-	10,000	-
Payment for the acquisition of Covelight	(7,293)	-	-
Payment for the acquisition of Alteon	-	-	(18,022)
Net cash provided by (used in) investing activities	35,796	(18,904)	(24,147)
Cash flows from financing activities:			

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Proceeds from exercise of stock options	1,381	1,913	1,018
Excess tax benefit from stock-based compensation	-	-	899
Repurchase of shares	-	(6,594)	(419)
Net cash provided by (used in) financing activities	1,381	(4,681)	1,498
Increase (decrease) in cash and cash equivalents	36,052	(33,311)	(8,222)
Cash and cash equivalents at the beginning of the year	25,324	61,376	28,065
Cash and cash equivalents at the end of the year	\$61,376	\$28,065	\$19,843
Supplemental disclosure of cash flow information:			
Cash paid during the year for income taxes	\$731	\$743	\$383
Supplemental disclosure of non cash investing and financing activities:			
Net change in unrealized gain (loss) on marketable securities	\$392	\$(1,023)	\$1,808

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

RADWARE LTD. AND ITS SUBSIDIARIES

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 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 established wholly-owned subsidiaries in the United States, France, Germany, Singapore, the United Kingdom, Japan, Korea, Canada, India, Australia and Italy. In addition, the Company established branches and representative offices in China, Russia 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.
- d. The Company relies upon independent distributors (which are considered to be end-users) to market and sell its products to customers. A loss of a major distributor, or any event negatively affecting such distributor's financial condition, could cause an adverse effect on the Company's results of operations and financial position. For the years ended December 31, 2007, 2008 and 2009, no single customer (a distributor) represented more than 10% of the Company's total revenues.
- e. Business combination - acquisition of Covelight Inc. ("Covelight"):

In April 2007, the Company acquired the business of Covelight which included the acquisition of its working capital, property and equipment, technology, customer relationships and goodwill. The Company's management believed that the complementary solution of Covelight would provide the Company with advantage over the competitors in this market and the purpose of the acquisition was to integrate Covelight solution into the Company's product offering. The total consideration of the acquisition was \$ 7,660 which was paid in cash of which \$ 160 was related to acquisition costs.

An additional cash consideration of \$ 8,500 ("earn-out") was to be payable contingent upon reaching sales performance targets by April 2008. Since the sales targets were not achieved, the Company was not required to pay the additional earn-out amount. Accordingly, the total final consideration of the acquisition amounted to \$ 7,660.

The purchase price was allocated to the identifiable intangible assets acquired (which have been valued by management and assisted by a third party valuator specialist) based upon their estimated fair values as follows:

RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 1:- GENERAL (Cont.)

The purchase price was allocated to the identifiable intangible assets acquired (which have been valued by management and assisted by a third party valuator specialist) based upon their estimated fair values as follows:

Working capital *)	\$246
Property and equipment	28
Total tangible assets	274
Acquired technology	3,191
Customer relationships	175
Goodwill (not tax deductible)	4,020
Total intangible assets	7,386
Total consideration	\$7,660

*) Working capital includes \$ 367 of cash and cash equivalents.

The acquisition of Covelight was accounted for under the purchase method of accounting.

f. 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.

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	16,241
Total identifiable assets acquired	18,941
Warranty provision	(1,600)
Deferred revenues	(10,310)

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Total liabilities assumed	(11,910)
Goodwill (tax deductible)	10,991
Total consideration	\$18,022

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RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 1:- GENERAL (Cont.)

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:

	Fair value	Useful life
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	2,859	(*)
Total intangible assets	\$ 16,241	

(*) Will be determined upon completion of development

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

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 years ended December 31, 2008 and 2009, gives effect to the acquisition of Alteon Business as if the acquisition had occurred on January 1, of each year. The pro forma information is not necessarily indicative of the results of operations, which actually would have occurred had the acquisitions 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 \$3,705 and \$928 in 2008 and 2009 respectively.

Year ended December 31,	
2008	2009

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Unaudited
Total consolidated

Revenues	\$ 141,331	\$ 115,951
Net loss	\$ (7,562)	\$ (3,187)
Basic and diluted net loss per share	\$ (0.39)	\$ (0.17)

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RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE SIGNIFICANT ACCOUNTING POLICIES

2:-

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.

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 wholly-owned 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.

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RADWARE LTD. AND ITS SUBSIDIARIES

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 entire difference between amortized cost and fair value is recognized in earnings. 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 is recognized in earnings and is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income. During the years 2007, 2008 and 2009, the Company did not record any other-than-temporary impairment loss with respect to its holdings of marketable debt securities.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments", which was subsequently incorporated into FASB ASC Topic 320, "Investments - Debt and Equity Securities". ASC 320 amended other-than-temporary accounting of debt securities to make it more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities. These provisions were effective for interim and annual reporting periods ending after June 15, 2009. The Company's adoption of ASC 320 did not affect its consolidated results of operations or financial condition.

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 \$ 2,091, \$ 585 and \$1,136 in 2007, 2008 and 2009, 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.

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RADWARE LTD. AND ITS SUBSIDIARIES

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	7 - 15 (mainly 15)
Motor vehicles	15
Leasehold improvements	Over the shorter of the term of the lease or the 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, 2007, 2008 and 2009, 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.

In determining the fair values of long-lived assets for purpose of measuring impairment, starting in 2009, the Company's assumptions include those that market participants will consider in valuations of similar assets.

During 2008, the Company's management has assessed whether there has been an impairment of the Company's intangible assets. This was undertaken due to certain indicators of impairment such as declines in the Company's market capitalization below its shareholders equity, the current credit crisis, the global recession and since actual revenues derived from Covelight technology were significantly lower comparing to the management forecasts estimations as of the date of acquisition. Impairment is considered to exist if total estimated future cash flows on an undiscounted basis are less than the carrying value of the asset or asset group tested for impairment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In performing that test, the Company's management estimated the sum of the undiscounted future cash-flows, expected to be derived from its asset groups with the existing intangible assets of acquired technology and customer relationship acquired from V-secure and Covelight, in order to test their recoverability. The Company's management used significant assumptions and estimates, including but not limited to projected future revenues and cash flows, growth rates and market share, future gross margins and operating results, future working capital and future capital expenditures. The assumptions developed by the Company's management were based upon historical trends, estimates of future economic conditions and expected competition and the Company's strategic plans. In performing the above analysis and tests, the Company's management developed the required assumptions and the related forecasts underlying the valuation, and was assisted by a third party valuator in applying the customary valuation techniques and required economic models.

The analysis showed that the sum of the undiscounted cash-flow derived from the asset group of technology acquired from Covelight is lower than its carrying amount and accordingly the Company's management was required to perform an analysis of discounted cash flows of the asset group, in order to determine its fair value. Based on such analysis the Company recorded an impairment loss in the amount of \$ 2,036. The impairment loss was recorded as part of cost of revenues.

During 2007 and 2009, no impairment loss was recorded.

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 an entity with the carrying amounts of its total net assets. Fair value was determined using market comparables and multiples, and by applying a control premium based on market comparables. The Company operates in one operating segment, and this segment comprises its only reporting unit. During the years ended December 31, 2007, 2008 and 2009, 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, no further obligation exists and collectability is probable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Revenues in arrangements with multiple deliverables 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. VSOE for post-contract customer support is determined based on the price when such element is sold separately for similar products. 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.

Revenue derived from post-contract customer support, which represents mainly unit replacement and security update service is recognized ratably over the contract period, which is typically one year to three years.

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 \$ 2,211 and \$ 2,085 as of December 31, 2008 and 2009, respectively.

Deferred revenue includes 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.

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, 2007, 2008 and 2009 were immaterial.

o. Research and development expenses:

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

p. Advertising expenses:

Advertising expenses are charged to the statements of operations as incurred. Advertising expenses for the years ended December 31, 2007, 2008 and 2009, amounted to approximately \$ 828, \$ 267 and \$ 254, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. 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.

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. The Company uses other models, such as the lattice model, only in case of grants having complex vesting terms such as market condition.

r. 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 non current 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.

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RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. 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 the United States in U.S. dollars. Such investments in the United States 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 bear lower risk.

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

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, 2007, 2008 and 2009 were \$ 94, \$ 0 and \$ 0, respectively. Total write offs during 2007, 2008 and 2009 amounted to \$ 0, \$ 706 and \$ 0, respectively.

t. 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 is 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, in accordance with section 14 of the Severance Pay Law - 1963, 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.

RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Severance pay expenses for the years ended December 31, 2007, 2008 and 2009 amounted to approximately \$ 965, \$ 1,824 and \$941, respectively.

u. 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.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. (See also Note 4).

v. 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 debt securities.

w. Treasury stock:

From time to time the Company repurchases its Ordinary shares on the open market or in other transactions and holds such shares as treasury stock. The Company presents the cost to repurchase treasury stock as a reduction of shareholders' equity.

x. Basic and diluted net loss per share:

Basic net loss per share is computed based on the weighted average number of Ordinary shares outstanding during each period. Diluted net 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".

The weighted average number of shares related to outstanding anti dilutive options excluded from the calculation of diluted loss per share as they would have been anti dilutive was 4,704,129, 4,313,072 and 4,700,050 for the years ended December 31, 2007, 2008 and 2009, respectively.

RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

y. Impact of recently issued accounting pronouncements:

In June 2009, the Financial Accounting Standards Board ("FASB") issued a standard that established the FASB Accounting Standards Codification ("ASC") and amended the hierarchy of generally accepted accounting principles ("GAAP") such that the ASC became the single source of authoritative U.S. GAAP. Rules and interpretive releases issued by the SEC under authority of federal securities law are also sources of the authoritative GAAP for SEC registrants. All other literature is considered non-authoritative. New accounting standards issued subsequent to June 30, 2009 are communicated by the FASB through Accounting Standards Updates ("ASUs"). The ASC is effective for the Company from September 1, 2009. Throughout the notes to the consolidated financial statements references that were previously made to former authoritative U.S. GAAP pronouncements have been changed to coincide with the appropriate section of the ASC.

In December 2007, the FASB issued authoritative guidance on business combinations. The guidance significantly changes the accounting for business combinations and establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree and recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase. Among the more significant changes, acquired in-process research and development will be capitalized and upon completion amortized over its useful life; acquisition costs will be expensed as incurred; restructuring costs will generally be expensed in periods after the acquisition date; contingent consideration will be recognized at fair value at the acquisition date with subsequent changes recognized in earnings, and reductions in deferred tax valuation allowance relating to a business acquisition will be recognized in earnings. In April 2009, the FASB issued an amendment to the revised business combination guidance regarding the accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies. This guidance was adopted by the Company for business combinations for which the acquisition date is on or after January 1, 2009.

In October 2009, the FASB issued an update to ASC 605-25, "Revenue recognition – Multiple-Element Arrangements", that provides amendments to the criteria for separating consideration in multiple-deliverable arrangements to: (1) Provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated; (2) Require an entity to allocate revenue in an arrangement using estimated selling prices ("ESP") of deliverables if a vendor does not have vendor-specific objective evidence of selling price ("VSOE") or third-party evidence of selling price ("TPE"); (3) Eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) Require expanded disclosures of qualitative and quantitative information regarding application of the multiple-deliverable revenue arrangement guidance.

The mandatory adoption is on January 1, 2011, however early adoption is permitted. The Company may elect to adopt the update prospectively, to new or materially modified arrangements beginning on the adoption date, or retrospectively, for all periods presented. The Company is currently evaluating the impact on its consolidated results of operations and financial condition, and whether it will early adopt.

RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 3:- MARKETABLE SECURITIES

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

	December 31,							
	2008			Market value	2009			Market Value
Amortized cost	Gross unrealized losses	Gross unrealized gains	Amortized cost		Gross unrealized losses	Gross unrealized gains		
U.S. Government debentures	\$ 20,384	\$ -	\$ -	\$ 20,384	\$ 2,543	\$ -	\$ 24	\$ 2,567
Foreign banks and government debentures	22,173	(175)	50	22,048	22,618	(2)	323	22,939
Corporate debentures	18,284	(73)	88	18,299	3,605	-	6	3,611
Total available-for-sale marketable securities	\$ 60,841	\$ (248)	\$ 138	\$ 60,731	\$ 28,766	\$ (2)	\$ 353	\$ 29,117

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

	December 31,							
	2008			Market value	2009			Market Value
Amortized cost	Gross unrealized losses	Gross unrealized gains	Amortized cost		Gross unrealized Losses	Gross unrealized gains		
U.S. Government debentures	\$ 1,020	\$ -	\$ 35	\$ 1,055	\$ 7,052	\$ -	\$ 14	\$ 7,066
Foreign banks and government debentures	34,353	(925)	138	33,566	21,251	(17)	391	21,625
Corporate debentures	10,502	(75)	64	10,491	13,133	-	197	13,330
Total available-for-sale marketable securities	\$ 45,875	\$ (1,000)	\$ 237	\$ 45,112	\$ 41,436	\$ (17)	\$ 602	\$ 42,021

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, 2009					
	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	\$ 3,095	\$ (19)	\$ -	\$ -	\$ 3,095	\$ (19)
Total available-for-sale marketable securities	\$ 3,095	\$ (19)	\$ -	\$ -	\$ 3,095	\$ (19)

RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

	December 31, 2008					
	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	\$ 40,337	\$ (1,060)	\$ 2,197	\$ (40)	\$ 42,534	\$ (1,100)
Corporate debentures	12,504	(148)	-	-	12,504	(148)
Total available-for-sale marketable securities	\$ 52,841	\$ (1,208)	\$ 2,197	\$ (40)	\$ 55,038	\$ (1,248)

As of December 31, 2008 and 2009, interest receivable amounted to \$ 1,383 and \$ 977, respectively, and is included within available for sale marketable securities in the balance sheets.

NOTE FAIR VALUE MEASUREMENTS

4:-

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, bank deposits 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 accrued interest components consisted of the following types of instruments as of December 31, 2009 and December 31, 2008:

	December 31, 2009			
	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$ 2,613	\$ -	\$ -	\$ 2,613
Bank deposits	-	35,130	-	35,130
Available-for-sale:				
U.S. Government debentures	-	9,632	-	9,632

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Foreign banks and government debentures	-	44,565	-	44,565
Corporate debentures	-	16,941	-	16,941
Total financial assets	\$ 2,613	\$ 106,268	\$ -	\$ 108,881

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RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 4:- FAIR VALUE MEASUREMENTS (Cont.)

	December 31, 2008			
	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$ 3,857	\$ -	\$ -	\$ 3,857
Available-for-sale:				
U.S. Government debentures	-	21,439	-	21,439
Foreign banks and government debentures	-	55,614	-	55,614
Corporate debentures	-	28,790	-	28,790
Total financial assets	\$ 3,857	\$ 105,843	\$ -	\$ 109,700

NOTE 5:- INVENTORIES

Inventories are comprised of the following:

	December 31,	
	2008	2009
Raw materials and components	\$ 564	\$ 1,132
Work-in-progress	1,550	2,694
Finished products	4,598	5,966
	\$ 6,712	\$ 9,792

NOTE 6:- PROPERTY AND EQUIPMENT, NET

	December 31,	
	2008	2009
Cost:		
Computer, peripheral equipment and software	\$ 25,794	\$ 30,867
Office furniture and equipment	3,161	3,240
Motor vehicles	12	12
Leasehold improvements	1,274	2,140
	30,241	36,259
Accumulated depreciation:		
Computer, peripheral equipment and software	16,102	22,077
Office furniture and equipment	1,774	2,017
Motor vehicles	9	11

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Leasehold improvements	663	934
	18,548	25,039
Property and equipment, net	\$ 11,693	\$ 11,220

Depreciation expenses for the years ended December 31, 2007, 2008 and 2009 were \$ 3,811, \$ 5,167 and \$ 6,491 respectively.

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RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 7:- GOODWILL AND INTANGIBLE ASSETS, NET

a. Goodwill:

Changes in goodwill for the years ended December 31, 2008 and 2009 are as follows:

	December 31,	
	2008	2009
Goodwill at beginning of year	\$ 13,474	\$ 13,474
Acquisition of Alteon	-	10,991
Goodwill at end of year	\$ 13,474	\$ 24,465

b. Intangible assets:

	Weighted average amortization period (years)	December 31,	
		2008	2009
Cost:			
Acquired technology	6 - 7	\$ 4,963	\$ 8,566
In process research and development	**)	-	2,859
Customers relationships and brand name	Mainly 6	1,364	9,107
		6,327	20,532
Accumulated amortization:			
Acquired technology		1,648	3,024
Customers relationships and brand name		787	2,714
		2,435	5,738
Impairment *)		2,036	-
Intangible assets, net		\$ 1,856	\$ 14,794

Amortization expenses for the years ended December 31, 2007, 2008 and 2009 were \$ 931, \$ 906 and \$ 3,303, respectively.

*) The Company recorded in 2008 an impairment loss of \$ 2,036 with respect to acquired technology derived from the acquisition of Covelight, see also Note 2(i).

**.) Will be determined upon completion of development

Future estimated amortization expenses for the years ending:

December 31,

2010	3,739
2011	3,200
2012	2,386
2013 and thereafter	2,610
Total	11,935

RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 8:- OTHER PAYABLES AND ACCRUED EXPENSES

	December 31,	
	2008	2009
Employees and payroll accruals	\$ 4,974	\$ 6,250
Accrued expenses	2,224	2,991
Governmental authorities	2,489	2,015
Advances from customers	-	506
Warranty provision	181	651
	\$ 9,868	\$ 12,413

NOTE 9:- 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 September 30, 2013. Aggregate minimum rental payments under non-cancelable operating leases as of December 31, 2009, are as follows:

December 31,	
2010	2,572
2011	1,629
2012	974
2013	26
	5,201

Total rent expenses for the years ended December 31, 2007, 2008 and 2009 were approximately \$ 2,838, \$ 3,571 and \$ 3,514, respectively (see also Note 15b).

b. Litigation:

1. 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. 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.

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RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

Plaintiffs allege that the prospectuses for the Company's 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 the Company. 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 the Company, the underwriter defendants in the Company's class action, and the plaintiffs in the Company's 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 the Company. On October 5, 2009, the court granted final approval of the settlement. 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. The time to file additional notices of appeal has run on February 9, 2010.

Due to the inherent uncertainties of litigation, the Company cannot accurately predict the ultimate outcome of the matter. Should the settlement not be approved and the Company is found liable, it is, at this time, unable to estimate or predict the potential damages that might be awarded, whether such damages would be greater than the Company's insurance coverage, and whether such damages would have a material impact on the Company's results of operations, cash flows or financial condition in any future period.

RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

2. 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 10:- 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.

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.

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 7 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 10,477,236 Ordinary shares. As of December 31, 2009, an aggregate of 1,216,583 Ordinary shares of the Company were still available for future

grants.

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RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 10:- SHAREHOLDERS' EQUITY (Cont.)

The expected option term represents the period of time that options granted are expected to be outstanding. Prior to December 31, 2007 expected term of options was determined based on simplified method permitted at the time as the average of the vesting period and the contractual term. Starting January 1, 2008 expected term of options granted is based upon historical experience. For options granted to management, the expected term is 4.3 years, for options granted to Directors, the expected term is 3.6 years, for options granted to consultants, the expected term is 3 years, and for options granted to employees, the expected term is 3.5 years.

The fair value of the Company's stock options granted to employees, consultants and directors for the years ended December 31, 2007, 2008 and 2009 was estimated using the following weighted average assumptions:

	Year ended December 31,					
	2007		2008		2009	
Risk free interest rate	4.46	%	2.69	%	1.84	%
Dividend yields	0	%	0	%	0	%
Expected volatility	47	%	43	%	40	%
Weighted average expected term from vesting date (in years)	4.10		3.83		3.98	

A summary of employees, consultants and directors option activity under the Company's Stock Option Plans as of December 31, 2009 is as follows:

	Number of options	Weighted-average exercise price	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at January 1, 2009	4,313,072	\$ 14.28	3.20	-
Granted	1,794,500	\$ 8.21	N/A	N/A
Exercised	(66,950)	\$ 11.17	N/A	113
Expired	(319,216)	\$ 19.05	N/A	N/A
Forfeited	(1,021,356)	\$ 13.94	N/A	N/A
Outstanding at December 31, 2009	4,700,050	\$ 11.76	3.56	17,526
Exercisable at December 31, 2009	1,211,227	\$ 15.02	1.85	1,685

Vested and expected to vest at December 31, 2009	4,422,136	\$	11.90	3.28	15,966
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RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 10:-

SHAREHOLDERS' EQUITY (Cont.)

	December 31, 2008		December 31, 2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding at the beginning of the year	4,704,129	\$ 14.94	3,284,999	\$ 15.13
Changes during the year:				
Granted	1,099,300	\$ 10.33	2,414,900	\$ 14.30
Exercised	(238,850)	\$ 8.01	(148,000)	\$ 9.24
Expired	(555,821)	\$ 14.58	(771)	\$ 8.05
Forfeited	(695,686)	\$ 14.39	(846,999)	\$ 16.35
Options outstanding at the end of the year	4,313,072	\$ 14.28	4,704,129	\$ 14.94
Options exercisable at the end of the year	1,734,845	\$ 16.22	1,509,396	\$ 14.94

The weighted-average grant-date fair value of options granted during the years ended December 31, 2007, 2008 and 2009 was \$ 4.96, \$ 3.29 and \$ 2.72, respectively.

As of December 31, 2009, there was approximately \$ 5,141 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 1.02 years. Total grant-date fair value of vested options for the year ended December 31, 2009 was approximately \$ 7,289

The options outstanding under the Company's Stock Option Plans as of December 31, 2009 have been separated into ranges of exercise price as follows:

Ranges of exercise price	Options outstanding as of December 31, 2009	Weighted average remaining contractual life (years)	Weighted average exercise price	Options exercisable as of December 31, 2009	Weighted average exercise price of exercisable options
\$ 6.15-10.9	2,194,650	4.28	\$ 8.22	121,276	\$ 9.15
\$ 11.57-14.94	1,402,500	2.67	\$ 13.43	649,076	\$ 13.64
	847,050	3.99	\$ 15.63	201,400	\$ 16.68

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\$					
15.22-17.00					
\$					
18.00-19.31	175,700	1.10	\$ 18.49	159,325	\$ 18.48
\$ 23.5-25.30	80,150	0.27	\$ 24.04	80,150	\$ 24.04
				4,700,050	1,211,227

On December 31, 2007, the Company granted 500,000 stock options to its Chief Executive Officer ("CEO") with an exercise price of \$ 15.22 per share. The exercise of these options is contingent upon the increase in the market price of the Company's Ordinary shares. The options granted are divided into four equal tranches (125,000 options each). Each tranche shall be vested one year after the Company's closing share price reaches its performance target or more for 22 consecutive trading days. The closing share price shall be \$ 19, \$ 21, \$ 23 and \$ 25 for the first, second, third and the fourth tranches respectively. The options expire seven years from the grant date. The fair value of these options was estimated using the lattice method with the following assumptions: risk-free interest rate of 3.7%, volatility factor of the expected market price of the Company's Ordinary shares of 50.64%. Termination rate was based on the Company's expectation that there will be no termination during the vesting period, and was determined to be 0%. Early exercise multiple (suboptimal factor) was estimated to be 3.09.

RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 10:- SHAREHOLDERS' EQUITY (Cont.)

The Company has historically not paid dividends and has no foreseeable plans to pay dividends and as such, a dividend yield of 0% was applied.

Total compensation expenses amount to \$ 3,176 which is recognized over the estimated requisite service period on an accelerated method basis. During the years ended December 31, 2008 and 2009, the Company recorded an amount of \$1,508 and \$ 1,397, respectively as compensation expenses included in general and administrative expenses with respect to the grant to the CEO.

In October, 2007, the Company granted 100,000 stock options to employees with an exercise price of \$ 15.61 per share. The options will vest based on the Company's attaining certain performance conditions such as sales target. The options expire seven years from the grant date. The fair value of these options was estimated using the Black-Scholes-Merton option-pricing model with the following assumptions: expected volatility of 45%, risk free interest rate of 4.11%, dividend yield of 0% and expected life of 3.79 years. Total compensation expenses amount to \$ 595 which is recognized over the vesting period of 4 years on an accelerated method basis. During the year ended December 31, 2008 and 2009, the Company recorded an amount of \$ 226 for each year as compensation expenses.

NOTE 11:- LOSS PER SHARE

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

	Year ended December 31,		
	2007	2008	2009
Numerator for basic and diluted loss:			
Per share - net loss available to shareholders	\$ (12,011)	\$ (31,022)	\$ (5,936)
Weighted average shares outstanding, net of treasury stock:			
Denominator for basic loss per share	19,477,222	19,439,776	18,879,230
Effect of dilutive securities:			
Employee stock options	*) -	*) -	*) -
Denominator for diluted net loss per share	19,477,222	19,439,776	18,879,230
Basic and diluted net loss per share	\$ (0.62)	\$ (1.60)	\$ (0.31)

*) Antidilutive.

RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 12:- TAXES ON INCOME

a. General:

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

	2008	2009
Beginning balance	\$ 306	\$ 660
Additions for prior year tax positions	67	250
Additions for current year tax position	287	-
Ending balance	\$ 660	\$ 910

Domestically, the Israeli Tax Authorities ("ITA") is currently examining the income tax returns for the years 2004-2006. The ITA has issued a preliminary assessment under which it demanded the payment of additional taxes in the aggregate amount of NIS 39.5 million with respect to these years (assessment received on November 23, 2009) including interest as of the assessment date. The Company appealed such assessment and is currently under a re-audit process by the ITA. There can be no assurance that the ITA will accept the Company's positions on matters raised and, in such an event, an order will be issued.

In addition, 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.

The Company's subsidiaries file income tax return in the U.S. federal and other jurisdictions. The Company's main subsidiaries tax return are subject to examination by the U.S. federal and other local tax authorities from inception through 2009.

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, and 25% in 2010 and thereafter. In July 2009, Israel's Parliament (the Knesset) passed the Economic Efficiency Law (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among other things, an additional gradual reduction in the Israeli corporate tax rate and real capital gains tax rate starting from 2011 to the following

tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

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RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 12:- TAXES ON INCOME (Cont.)

3. Net operating losses carryforward:

The Company has estimated total available carryforward operating and capital tax losses of approximately \$ 24,000, which can be carried forward and offset against future taxable income in the future for an indefinite period. Due to the recent operating results and recurring losses, 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.

As of December 31, 2009, accumulated deficit included approximately \$ 25,000 in tax-exempt income earned by the Company's "Approved Enterprise". The Company has decided not to declare dividends out of such tax-exempt income. Accordingly, no taxable deferred income has been provided on income attributable to the Company's "Approved Enterprise". If such tax-exempt income is distributed in a manner other than upon complete liquidation of the Company, it would be taxed at the reduced corporate tax rate applicable to such profits (between 10%-25%), and an income tax liability of up to \$ 6,250 would be incurred as of December 31, 2009.

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).

RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 12:- TAXES ON INCOME (Cont.)

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.

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. As of December 31, 2009, the Company did not generate income under the provisions of the Amendment.

c. Taxes on income are comprised as follows:

	Year ended December 31,		
	2007	2008	2009
Current taxes	\$ 580	\$ 1,042	\$ 795
Deferred taxes	(152)	2,585	23
	\$ 428	\$ 3,627	\$ 818
Domestic	\$ (40)	\$ 2,074	\$ 397
Foreign	468	1,553	421

\$ 428	\$ 3,627	\$ 818
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RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 12:- TAXES ON INCOME (Cont.)

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,	
	2008	2009
Carryforward tax losses	\$ 8,879	\$ 7,222
Accrued employees costs	1,266	963
Intangible assets	82	314
Unrealized losses on marketable securities	218	-
Research and development	6,239	5,015
Other	59	41
Deferred tax assets before valuation allowance	16,743	13,555
Valuation allowance	(15,712)	(12,382)
Net deferred tax asset	1,031	1,173
Intangible assets, including goodwill	(945)	(923)
Unrealized gains on marketable securities	-	(187)
Deferred tax liability	(945)	(1,110)
Net deferred tax assets	\$ 86	\$ 63

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 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. \$6,800 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, 2009, the U.S. subsidiary had a U.S. federal loss carryforward of approximately \$ 6,259 mainly resulting from tax benefits related to employees' stock option exercises that can be carried forward and

offset against taxable income up to 20 years, expiring between fiscal 2021 and fiscal 2027. Excess tax benefits related to employee stock option exercises for which no compensation expense was recognized will be credited to additional paid-in capital when realized.

RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 12:- TAXES ON INCOME (Cont.)

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.

Two other subsidiaries have estimated total available carryforward tax losses of approximately \$ 700 to offset against future taxable profit. As of December 31, 2009, the Company recorded a deferred tax asset of \$ 63 relating to these available net carryforward losses.

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,		
	2007	2008	2009
Loss before taxes, as reported in the consolidated statements of income	\$ (11,583)	\$ (27,395)	\$ (5,118)
Statutory tax rate	29 %	27 %	26 %
Theoretical tax benefit on the above amount at the Israeli statutory tax rate	\$ (3,359)	\$ (7,397)	\$ (1,331)
Tax adjustment in respect of different tax rate	263	563	130
Non-deductible expenses	66	29	52
Deferred taxes on losses for which valuation allowance was provided, net	2,142	7,864	421
Stock compensation relating to stock options per ASC No. 718	1,316	2,180	1,296
Income taxes in respect of prior years	-	-	250
Other	-	388	-
Actual tax expense	\$ 428	\$ 3,627	\$ 818

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

	Year ended December 31,		
	2007	2008	2009
Domestic	\$ (13,015)	\$ (26,395)	\$ (7,405)
Foreign	1,432	(1,000)	2,287
loss before income taxes	\$ (11,583)	\$ (27,395)	\$ (5,118)

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RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE GEOGRAPHIC INFORMATION

13:-

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, 2007, 2008 and 2009 and long-lived assets as of December 31, 2008 and 2009:

	Year ended December 31,		
	2007	2008	2009
Revenues from sales to customers located at:			
America (principally the United States)	\$ 24,368	\$ 23,715	\$ 29,704
EMEA *)	29,412	29,836	36,226
Asia Pacific	34,851	41,030	42,974
	\$ 88,631	\$ 94,581	\$ 108,904

*) Europe, the Middle East and Africa.

	December 31,	
	2008	2009
Long-lived assets, by geographic region:		
America	\$ 1,290	\$ 1,101
EMEA	9,012	8,962
Asia Pacific	1,391	1,157
	\$ 11,693	\$ 11,220

NOTE 14:-

SELECTED STATEMENTS OF INCOME DATA

Financial income, net:

	Year ended December 31,		
	2007	2008	2009
Financial income:			
Interest on bank deposits	\$ 2,917	\$ 1,186	\$ 143
Foreign currency translation differences, net	70	-	-
Amortization of premiums, accretion of discounts and interest on marketable debt securities, net	4,569	3,073	2,133
	7,556	4,259	2,276
Financial expenses:			

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Interest and other bank charges	(136)	(222)	(99)
Foreign currency translation differences, net	-	(425)	(190)
	\$ 7,420	\$ 3,612	\$ 1,987

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RADWARE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE BALANCES AND TRANSACTIONS WITH RELATED PARTIES

15:-

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,	
	2008	2009
Trade receivables	\$ 1,358	\$ 922
Trade payables	\$ 305	\$ 196

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

	Year ended December 31,		
	2007	2008	2009
Revenues (1)	\$ 4,184	\$ 3,821	\$ 3,387
Operating expenses, net - primarily lease, sub-contractors and communications (2)	\$ 1,374	\$ 1,944	\$ 2,201
Purchase of property and equipment	\$ 948	\$ 859	\$ 1,444

- (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.

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