RADWARE LTD
Form 20-F
March 31, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

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

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended
December 31, 2013

OR

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

OR

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

Commission file number 0-30324

RADWARE LTD.
(Exact name of registrant as specified in its charter)

Israel
(Jurisdiction of incorporation or organization)

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(Address of principal executive offices)

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

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

Title of each class	Name of each exchange on which registered
Ordinary Shares, NIS 0.05 par value per share	The Nasdaq Stock Market LLC

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report (December 31, 2013):

44,733,589 Ordinary Shares, NIS 0.05 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.

o Yes x 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.

o Yes x 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.

x Yes o 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).

x Yes o 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 o Accelerated Filer x Non-Accelerated Filero

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

x U.S. GAAP

o International Financial Reporting Standards as issued by the International Accounting Standards Board

o 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:

o Item 17 o 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).

o Yes x 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 0.05 per share;
- “Companies Law” or the “Israeli Companies Law” are to the Israeli Companies Law, 5759-1999, as amended;
- the “SEC” are to the U.S. Securities and Exchange Commission;
- “U.S. GAAP” are to generally accepted accounting principles in the United States;
- “NASDAQ” are to the NASDAQ Global Market (formerly, the Nasdaq National Market);
- “dollars”, “$” or “US $” are to U.S. dollars; and
- “NIS” or “shekels” are to New Israeli Shekels.

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

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

On March 24, 2014, the exchange rate between the NIS and the dollar, as quoted by the Bank of Israel, was NIS 3.49 to $1.00. Unless the context otherwise indicates, statements in this annual report that provide the dollar equivalent of NIS amounts or provide the NIS equivalent of dollar amounts are based on such exchange rate.

On April 12, 2013, we effected a two-for-one forward split of our ordinary shares, and accordingly the par value of our ordinary shares has changed from NIS 0.1 to NIS 0.05 per share. Unless indicated otherwise by the context, all ordinary share, option and per share amounts as well as stock prices in this annual report have been adjusted to give retroactive effect to the stock split for all periods presented.

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

CAUTIONARY STATEMENT REGARDING

FORWARD-LOOKING STATEMENTS

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

We urge you to consider that statements which use the terms “believe,” “do not believe,” “expect,” “plan,” “intend,” “estim
“anticipate,” and similar expressions are intended to identify forward-looking statements. Such forward-looking statements appear in Item 3.D “Risk Factors”, Item 4 “Information on the Company”, and Item 5 “Operating and Financial Review and Prospects” as well as elsewhere in this annual report. These statements reflect our current views with respect to future events and are based on assumptions and are subject to risks and uncertainties, including those discussed under Item 3.D “Risk Factors” and in our other filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

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.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following tables present selected information from our consolidated statement of operations and balance sheet data for the periods and as of the dates indicated. We derived the selected consolidated statement of operations for the years ended December 31, 2011, 2012 and 2013 and the selected balance sheet data as of December 31, 2012 and 2013 from our audited consolidated financial statements included elsewhere in this annual report, which have been prepared in accordance with U.S. GAAP. The selected consolidated statement of operations data for the years ended December 31, 2009 and 2010 and the selected balance sheet data as of December 31, 2009, 2010 and 2011 are derived from our audited consolidated financial statements not included in this annual report, which have been prepared in accordance with U.S. GAAP.

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

	Year ended December 31,				
	2009	2010	2011	2012	2013
	(US $ in thousands except per share data)				
Statement of Operations Data:					
Revenues:					
Products	$ 65,021	$ 89,358	$ 103,285	$ 119,279	$ 118,727
Services	43,883	54,761	63,735	69,892	74,270
	108,904	144,119	167,020	189,171	192,997
Cost of revenues:					
Products	16,609	21,306	24,231	26,386	27,066
Services	6,666	7,898	9,126	9,333	9,669
	23,275	29,204	33,357	35,719	36,735
Gross profit	85,629	114,915	133,663	153,452	156,262
Operating expenses:					
Research and development, net	25,674	31,660	36,064	36,187	40,983
Sales and marketing	55,130	64,609	69,543	76,646	82,815
General and administrative	11,930	10,190	9,629	9,696	14,895
Total operating expenses	92,734	106,459	115,236	122,529	138,693
Operating income (loss)	(7,105)	8,456	18,427	30,923	17,569
Financial income, net	1,987	2,057	4,200	4,792	4,494
Income (loss) before income taxes	(5,118)	10,513	22,627	35,715	22,063
Income taxes	(818)	(879)	(1,290)	(3,958)	(4,008)
Net income (loss)	$(5,936)	$9,634	$21,337	$31,757	$18,055
Basic net earnings (loss) per share*	$(0.16)	$0.25	$0.51	$0.73	$0.40
Diluted net earnings (loss) per share*	$(0.16)	$0.22	$0.47	$0.68	$0.39

* See notes 2(x) and 11 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,				
	2009	2010	2011	2012	2013
			(in thousands)		
Weighted average number of ordinary shares used in computing basic net earnings (loss) per share	37,758	39,115	41,906	43,709	44,760
Weighted average number of ordinary shares used in computing diluted net earnings (loss) per share	37,758	43,467	45,776	46,589	46,717

	As of December 31,				
	2009	2010	2011	2012	2013
			(US $ in thousands)		
Balance Sheet Data:					
Cash and cash equivalents, short-term bank deposits and marketable securities	$ 59,090	$ 90,925	$ 116,493	$ 88,207	$ 134,826
Long-term bank deposits and marketable securities	67,021	87,864	102,644	186,739	150,874
Working capital	49,573	67,456	89,076	62,003	113,546
Total assets	208,900	260,635	295,191	357,650	388,734
Shareholders' equity	149,473	184,990	219,321	271,230	294,120
Capital Stock	192,452	219,145	233,927	250,338	263,420

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

Risks Related to Our Business and Our Industry

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

Although we were profitable in the past four years, we incurred losses from 2006 through 2009.

Our results for 2013 reflect a slight growth in our business, aligned with the changes in the information technology, or IT, market in which we operate. In 2013, our profitability decreased, mainly as a result of lower than expected increase in revenues (including slightly lower product sales), combined with continued investments in research and development and selling and marketing initiatives, in a larger scale than in previous years. In addition, in 2013 we incurred material legal costs in relation with an intellectual property litigation matter, which we are currently involved in, reflected in our general and administrative expenses. Our ability to increase or sustain profitability in the future depends in part on the global economy; the rate of growth of, and changes in technology trends in, our market and other industries in which we currently or may in the future operate; our ability to develop and manufacture new products and technologies in a timely manner; the competitive position of our products; the continued acceptance of our products by our customers and in the industries that we serve; and our ability to manage expenses. In the future, we may have to undertake cost reduction initiatives to remain profitable, which could lead to a deterioration of our competitive position, and any difficulty in reducing our cost structure could negatively impact our results of operations and cash flows. We cannot assure you that we will continue to remain profitable.

Our revenues also may not grow or continue at their current level, which could negatively impact our results of operations and cash flows. For example, the growth rate in 2012 compared to 2011 was approximately 13%, the growth rate in 2013 compared to 2012 was approximately 2% and revenues from product sales were slightly lower in 2013 compared to 2012.

During 2013, we increased our operating expenses in order to invest in product development and sales and marketing. Revenues increased at a slower rate than operating expenses, resulting in a decrease of operating income to $17.6 million in 2013 from $30.9 million in 2012. We intend to increase our operating expenses during future periods. Our decision to increase operating expenses and the scope of such increase will depend upon several factors, including the market situation and the results that our past expenditures produce. We may continue to make additional expenditures in anticipation of generating higher revenues, which we may not realize, if at all, until sometime in the future. This could cause continuing reductions in our profitability or lead to losses. In February 2013, we completed the acquisition of Strangeloop Networks Inc., or Strangeloop, a Canadian-based provider of Web performance acceleration solutions. This acquisition resulted, among others, in additional operating costs. A failure of any acquisitions or product developments to produce increased revenues could have a material adverse effect on our operations and profitability.

If our revenues do not increase as anticipated, or if our expenses increase more than expected, 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. For example, starting in late 2008 and lasting through much of 2009, the overall market's IT spending decreased due to the global real estate and financial slowdown which led to a recessionary period. More recently, credit and sovereign debt issues have destabilized certain European economies, thereby increasing global macroeconomic uncertainties. Uncertainty about current global economic conditions continues to pose a risk as customers may postpone or reduce spending in response to restraints on credit. Should the economic slowdown resume, and/or companies in our target markets reduce capital expenditures, we may experience a reduction in sales, as well as downward pressure on the price of our products. In addition, if the market is flat and customers experience low visibility we may not be able to increase our sales (whether direct sales or indirect sales through our distributors). For example, our revenues in the EMEA (Europe, Middle East & Africa) region has experienced a decline of 7%, in 2013 partially due to reduced IT spending in our market which we believe is associated with the continued economic slowdown in major Western European countries. Each of the above scenarios would have a material adverse effect on our business, operating results and financial condition.

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

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

Most of our competitors have greater financial, personnel and other resources than us, which may limit our ability to effectively compete with them. Our principal competitors in the Application Delivery solutions market include: F5 Networks, Inc., Cisco Systems, Inc., Citrix Systems, Inc., A10 Networks and Brocade Communications Systems, Inc. (Foundry Networks, Inc.). In addition, we face competitors in the Network Security space, with respect to our Attack Mitigation Systems from Arbor Networks, Inc., Hewlett Packard, TippingPoint Technologies, Inc., Intel Corporation (McAfee, Inc.) and Imperva, Inc. We expect to continue to face additional competition as new participants enter the market or extend their portfolios into related technologies. Larger companies with substantial resources, brand recognition and sales channels may form alliances with or acquire competing Application Delivery or Network Security solutions and emerge as significant competitors.

Competition may result in lower prices or reduced demand for our products and a corresponding reduction in our ability to recover our costs, which may impair our ability to achieve, maintain and increase profitability. Furthermore, the dynamic market environment poses a challenge in predicting market trends and expected growth. We cannot assure you that we will be able to implement our business strategy in a manner that will allow us to be competitive. If any of our competitors offer products or services that are more competitive than ours, we could lose market share and our business, financial condition and results of operations could be materially and adversely affected as a result.

For example, during 2013 we witnessed a strong price reduction trend by our major ADC competitors which impacted pricing throughout the entire ADC market. Similar changes in the future may further impact our market share, our business, financial condition and results of operations could be materially and adversely affected as a result.

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

Financial income is an important component of our net income. As of December 31, 2013, our investment portfolio, including cash and cash equivalents, had a carrying value of $285.7 million, compared with $274.9 million as of December 31, 2012. For the years ended December 31, 2013, 2012 and 2011, we had $4.5 million, $4.8 million and $4.2 million, respectively, of financial income.

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

In particular, our investment portfolios include a significant amount of interest rate-sensitive instruments, such as bonds, which may be adversely affected by changes in interest rates. Changes in interest rates and credit quality may also result in fluctuations in the income derived from, or the valuation of, our fixed income securities. Interest rates

are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. For example, benchmark interest rates, such as the U.S. Federal Funds Rate, are currently at historic lows, which is likely to significantly impact our investment income. Increases in interest rates will decrease the value of our investments in fixed-income securities. If increases in interest rates occur during periods when we sell investments to satisfy liquidity needs, we may experience investment losses. Conversely, if interest rates decline, reinvested funds will earn less than expected.

In terms of credit risk, 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 turmoil in the financial markets, such as the one experienced during 2011 and 2012, reoccurs in the future, it may result in impairments of the carrying value of our investment assets since we classify our investments in marketable securities as available-for-sale. Changes in the fair value of investments classified as available-for-sale are not recognized as income during the period, but rather are recognized as a separate component of equity until realized. Realized losses in our investments portfolio may adversely affect our financial position and results. For example, if we had reported all the changes in the fair values of our investments into income, our reported net income would have decreased by $0.3 million during the year ended December 31, 2013 and increased by $3.7 million during the year ended December 31, 2012.

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, general market conditions or other factors, could have an adverse effect on our results of operations and financial condition.

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

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

In addition, our quarterly operating results have been, and are likely to continue to be, influenced by seasonal fluctuations in the sales of our products and services. Because our sales have grown year-over-year since our inception, these fluctuations may not be apparent from our historical financial statements. However, we believe that our sales and sales growth have been, and will continue to be, affected by the seasonal purchasing patterns of some of our customers. For example, we believe that our sales may be reduced during the first quarter of 2014 due to our customers' annual purchasing budget planning process and the third quarter of 2014 due to a slowdown in business activities during the summer months in Europe. Conversely, our sales during the fourth quarter of 2014 may be increased because some of our customers tend to make greater capital expenditures towards the end of their fiscal years. Based on these anticipated fluctuations in our markets, our sales and operating results in any quarter may not be indicative of future performance and it may be difficult for investors to properly evaluate our prospects.

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

The Application Delivery and Network Security markets in which we operate are rapidly evolving and we cannot assure you that they will continue to develop and grow. In addition, we cannot assure you that our products and technology will keep pace with the changes to these markets. Market acceptance of Application Delivery and Network Security solutions may be inhibited by, among other factors, a lack of anticipated congestion and strain on existing network infrastructures and the availability of alternative solutions. If demand for Application Delivery and Network Security solutions does not continue to grow, or grows in a slower pace than expected, we may not be able to sell enough of our products to maintain and increase our profitability.

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

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

Accordingly, our future success will generally depend to a substantial extent on our ability to:

- invest significantly in research and development;
- develop, introduce and support new products and enhancements on a timely basis; and
- gain market acceptance of our products.

We are currently developing new products and enhancements to our existing products and services offerings. For example, DefensePipe™, launched in early 2013, is a comprehensive solution to help mitigate volumetric distributed denial-of-service (DDoS) attacks which threaten to saturate a customer's Internet pipe, or the 'outside line' that connects enterprises to the web. Our development of new products and enhancement of our offerings is undertaken in an effort to remain competitive in our market, and our failure to do so could result in a decrease in our revenues. In addition, we must invest in research and development in order to remain competitive in our industry. However, there can be no assurances that continued investment and higher costs of research and development will ultimately result in us maintaining or increasing our market share, which would result in a decline to our operating results. If our research and development expenses increase without a corresponding increase in our revenues, it could have a material adverse effect on our operating results. We may not be able to successfully complete the development and market introduction of new products or product enhancements. If we fail to develop and deploy new products and product enhancements on a timely basis, or if we fail to gain market acceptance of our new products, our revenues will decline and we may lose market share to our competitors.

During 2013, we invested in, and plan to continue to invest in 2014 in developing or when appropriate, acquiring, capabilities to advance our product offering and market vision. For example, our acquisition of Strangeloop in February 2013 was designed to enhance our web acceleration offerings to our customers. 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. For example, in 2013 our R&D expenses increased to $41.0 million from $36.2 million in 2012. However, sales of products went down to $118.7 million in 2013 from $119.3 million in 2012.

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

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

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"). More recently, in February 2013, we acquired Strangeloop. As part of our business strategy, we may invest in or acquire other complimentary businesses, technologies or assets or enter into joint ventures or other strategic relationships with third parties. In connection with future acquisitions, we may assume liabilities, incur acquisition related costs, incur amortization expenses or realize write-offs on assets no longer being used or phased out. In addition, the future valuation of these acquisitions may decrease from the market price paid by us which could result in the impairment of our goodwill associated with the relevant assets. 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;
- loss of key employees of the acquired operations; and
- known or unknown contingent liabilities, including, but not limited to, tax and litigation costs.

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

In addition, from time to time we look beyond our core business to help secure our long-term future. To that end, we may, from time to time, make investments in technologies that may not be complementary to our core business of Application Delivery and Network Security solutions. For example, since 2011, we invested a total of approximately $1.7 million in Radyoos Media Ltd. or Radyoos, our Israeli-based subsidiary, which primarily engages in developing and operating a web based e-commerce platform. As of the date of this report, Radyoos employs 13 employees and contractors, and is profitable, but we cannot be certain that this or other investments will be successful or will contribute towards the achievement of our long-term objectives. Investments outside of our core business could also expose us to new risks related to technologies with which we may have limited experience, if any.

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

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

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

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

impair our ability to sell our products and result in a material adverse effect on our business, financial condition and results of operations.

Our products generally have long sales cycles, which increase our costs in obtaining orders and reduce the predictability of our earnings.

Our products are technologically complex and are typically intended for use in applications that may be critical to the business of our customers. As a result, our pre-sales process is often subject to delays associated with budgetary constraints, lengthy approval processes and procurement processes that typically accompany the design and testing of new equipment. The sales cycles of our products to new customers can last as long as twelve months (and in some cases, for example with carrier customers, even longer) from initial presentation to sale. This long sales cycle results in a delay to our recognition of revenue and results in our need to make significant investments in marketing and sales. Long sales cycles also subject us to risks not usually encountered in a short sales cycle, including our customers' budgetary constraints and internal acceptance reviews and processes prior to purchase. In addition, orders expected in one quarter could shift to another because of the timing of our customers' procurement decisions. Furthermore, customers may defer orders in anticipation of new products or product enhancements introduced by us or by our competitors. These factors complicate our planning processes and reduce the predictability of our earnings.

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

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

In some cases, we may choose to increase our cost of operations on account of our short term profitability in order to support future expansion and growth. We cannot assure that we will continue to expand our operations successfully. If we are unable to manage our expanding operations effectively, our revenues may not increase, our cost of operations may rise and we may not be profitable.

In addition, as we continue our growth efforts, we may need new or enhanced systems, procedures or controls. The transition to new systems, procedures or controls, as well as any delay in transitioning to new or enhanced systems, procedures or controls, may result in increased costs and harm our ability to accurately forecast sales demand and manage our customer relationships.

Our international sales may expose us to additional risks

We currently offer our products in over 40 countries, including the U.S. For the years ended December 31, 2013 and 2012, our sales outside the Americas represented approximately 62% and 69%, respectively, of our total sales. Our international business activity involves varying degrees of risk and uncertainty inherent in doing business in so many different jurisdictions. Such risks include, among others, the possibility of unfavorable circumstances and additional compliance costs arising from host country laws or regulations, including unexpected changes of interpretations thereof; partial or total expropriation, export duties and quotas; local tax exposure; political instability, insurrection or war; differences in business practices; and recessionary environments in multiple foreign markets, such as those that occurred in some European countries during 2011 through 2013.

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

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

- A large portion of our expenses in Israel, principally salaries and related personnel expenses, are paid in shekels, whereas most of our revenues are generated in U.S. dollars. During 2013, we witnessed a strengthening of the

average exchange rate of the shekel against the U.S. dollar, which increased the U.S. dollar value of Israeli expenses. If the shekel continues to strengthen against the U.S. dollar, as happened in 2013, the dollar value of our Israeli expenses will increase;

- A portion of our international sales are denominated in currencies other than U.S. dollars, such as the Euro, thereby exposing us to gains and losses on non-U.S. currency transactions;

- We incur expenses in several other currencies in connection with our operations in Europe and Asia;
- The devaluation of the U.S. dollar relative to such local currencies causes our operational expenses to increase; and
- The majority of our international sales are denominated in U.S. dollars. Accordingly, devaluation in the local currencies of our customers relative to the U.S. dollar could cause our customers to decrease orders or default on payment.

We do not presently engage in or plan to engage in any hedging or other transactions intended to manage risks relating to foreign currency exchange rate fluctuations. Consequently, we are exposed to risks related to changes in currency exchange rates and fluctuations of exchange rates, any of which could result in a material adverse effect on our business, financial condition and results of operations. Even if we enter into hedging transactions in the future, they may not effectively protect us from currency exchange rate risks. For a further discussion of the impact on currency exchange rates on our business, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk."

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

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

We are dependent on Roy Zisapel, our President and Chief Executive Officer, the loss of whom would negatively affect our business.

Our future success depends in large part on the continued services of our senior management and key personnel. In particular, we are highly dependent on the services of Roy Zisapel, our President and Chief Executive Officer. Although we have employment contracts with our senior management and key personnel, including Mr. Zisapel, we do not carry life insurance on our senior management or key personnel. Any loss of the services of Mr. Zisapel, other members of senior management or other key personnel could negatively affect our business.

Undetected defects and errors may increase our costs and impair the market acceptance of our products.

Our products have occasionally contained, and may in the future contain, undetected defects or errors, especially when first introduced or when new versions are released, due to defects or errors that we fail to detect, including in components supplied by third parties. These defects or errors may be found after the commencement of commercial shipments. In addition, our customers integrate our products into their networks with products from other vendors. As a result, when problems occur in a network, it may be difficult to identify the product that has caused the problem. Regardless of the source of these defects or errors, we will then need to divert the attention of our engineering personnel from our product development efforts to address the detection and correction of these errors and defects. In the past, we have not incurred significant warranty or repair costs, nor have we been subject to liability claims for damages related to product errors or defects, nor have we experienced any material lags or delays as a result thereof. However, we cannot assure you that we will not incur these costs or liabilities or experience these lags or delays in the future. Any insurance coverage that we maintain may not provide sufficient protection should a claim be asserted. Moreover, the occurrence of errors and defects, whether caused by our products or the components supplied by another vendor, may result in significant customer relations problems and injure our reputation, thereby impairing the

market acceptance of our products.

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

We primarily rely on Nexcom International Co. Ltd. ("Nexcom"), Broadcom Corporation ("Broadcom"), Emerson Electric Co. ("Emerson") and Radisys Corporation ("Radisys") for the production of our products. For the year ended December 31, 2013, we used Nexcom, Broadcom, Emerson and Radisys to manufacture and to provide components for our products, purchasing approximately 74%, 10%, 3% and 1% of our direct manufacturing costs of our products, respectively, from each of those manufacturers. If we are unable to continue to acquire from these manufacturers on acceptable terms, or should any of these manufacturers cease to supply us with such products for any reason, we may not be able to identify and integrate an alternative source of supply in a timely fashion or at the same costs. Any transition to one or more alternate manufacturers would likely result in delays, operational problems and increased costs, and may limit our ability to deliver our products to our customers on time for such transition period, any of which could result in a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

Any disruption in our supply chain could result in a material adverse effect on our business, financial condition and results of operations.

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

Our success depends, in part, upon the protection of our proprietary software installed in our products, our trade secrets and our trademarks. We seek to protect our intellectual property rights through a combination of trademark and patent law, trade secret protection, confidentiality agreements and other contractual arrangements with our

employees, affiliates, distributors and others. In the United States and several other countries, we have registered or acquired trademarks. In addition, we have registered patents in the U.S. and have pending patent applications and provisional patents in connection with several of our products' features.

The protective steps we have taken may be inadequate to deter infringement upon our intellectual property rights or 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 rights could devalue our proprietary content, impair our ability to compete effectively and eventually harm our operating results. Furthermore, defending our intellectual property rights, either by way of initiating intellectual property litigation or defending such, could result in the expenditure of significant financial and managerial resources. Moreover, the outcome of such proceedings, if such outcome is negative, could result in devaluation of our proprietary technology and cause an additional significant financial impact which may harm our operating results.

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

Third parties may assert claims that we have violated a patent, trademark, copyright or other proprietary intellectual property right belonging to them. As is characteristic of our industry, there can be no assurance that our products do not or will not infringe the proprietary rights of third parties, that third parties will not claim infringement by us with respect to patents or other proprietary rights or that we would prevail in any such proceedings. We have received in the past, and may receive in the future, communications asserting that the technology used in some of our products requires third-party licenses. For example, see "Item 8. Financial Information – Legal Proceedings." Any infringement claims, whether or not meritorious, could result in costly litigation or arbitration and divert the attention of technical and management personnel. For example, in 2013, intellectual property litigation costs amounted to $3.5 million and litigation continues in 2014. Any adverse outcome in litigation alleging infringement could require us to develop non-infringing technology or enter into royalty or licensing agreements. If, in such situations, we are unable to obtain licenses on acceptable terms, we may be prevented from manufacturing or selling products that infringe such intellectual property of a third party. An unfavorable outcome or settlement regarding one or more of these matters could have a material adverse effect on our business and operating results.

If our products fail to protect against malicious attacks and our end-users experience security breaches, our reputation and business could be harmed, and our operating results could be adversely impacted.

Defects may cause our products to be vulnerable to security attacks or cause them to fail to help secure networks. Data thieves are increasingly sophisticated, often affiliated with organized crime and operate large-scale and complex automated attacks. In addition, the techniques they use to access or sabotage networks change frequently and generally are not recognized until launched against a target. As a result, our products may be unable to anticipate these techniques and provide a solution in time to protect our end- users' networks. If we fail to identify and respond to new and increasingly complex methods of attack and to update our products to detect or prevent such threats in time to protect our end- users' critical business data, our business, operating results and reputation could suffer.

In addition, an actual or perceived security breach or theft of sensitive data of one of our end-users, regardless of whether the breach is attributable to the failure of our products or services, could adversely affect the market's perception of our security products. There is no guarantee that our products will be free of flaws or vulnerabilities. Our end- users may also misuse our products, which could result in a breach or theft of business data.

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

We currently have non-competition agreements with most of our employees. These agreements prohibit our employees, in the event they cease working for us, from directly competing with us or working for some of our competitors for a limited period after termination of employment. The laws of the United States, Israel and most other

countries in which we have employees may limit or prohibit our ability to enforce these non-competition agreements or may allow us to enforce them only to a limited extent. In the event that we are unable to enforce any of these agreements, competitors that employ our former employees could benefit from the expertise our former employees gained while working for us.

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

The majority of our cash and cash equivalents, and short-term and long-term bank deposits are invested in banks in Israel and, to a smaller extent, in banks in the United States. The Israeli bank deposits are not insured, while the deposits made in the United States 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 we attempt to utilize an efficient operating model to optimize our tax payments based on the laws in the countries in which we operate. This can cause disputes between us and various tax authorities in the countries in which we operate, whether due to tax positions that we have taken in various tax returns we have filed or due to determinations we have made not to file tax returns in certain jurisdictions. In particular, not all of our tax returns are final and may be subject to further audit and assessment by applicable tax authorities. There can be no assurance that the applicable tax authorities will accept our tax positions, and if they do not, we may be required to pay additional taxes, as a result of which, our future results may be adversely affected.

For example, in December 2010, the Israeli Tax Authority ("ITA") issued orders challenging our positions on several matters with respect to our 2004 and 2005 tax returns. In January 2012, the ITA issued orders challenging our positions on several other matters with respect to our 2006 and 2008 tax returns. In the aggregate, the ITA demanded the payment of additional taxes in the total amount of approximately $17.5 million for these four years. In August 2013, following legal proceedings, we reached a settlement with the ITA regarding these matters, whereby we agreed to make total payments of $2.3 million.

Risks Related to the Market for Our Ordinary Shares

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

As of March 24, 2014, Yehuda Zisapel, the Chairman of our Board of Directors, beneficially owned approximately 6.2% of our outstanding ordinary shares; Nava Zisapel, beneficially owned approximately 6.7% of our outstanding ordinary shares; and their son, Roy Zisapel, our Chief Executive Officer, President and director, beneficially owned approximately 5.7% of our outstanding ordinary shares (see "Item 6E – Directors, Senior Management and Employees - Share Ownership"). As a result, if these shareholders act together, they could exert significant influence on the election of our directors and on decisions by our shareholders on matters submitted to shareholder vote, including mergers, consolidations and the sale of all or substantially all of our assets. This concentration of ownership of our ordinary shares could delay or prevent proxy contests, mergers, tender offers, or other purchases of our ordinary shares that might otherwise give our shareholders the opportunity to realize a premium over the then-prevailing market price for our ordinary shares. This concentration of ownership may also adversely affect our share price.

If we are characterized as a passive foreign investment company, our U.S. shareholders may suffer adverse tax consequences.

Generally, if for any taxable year, after applying certain look through rules, (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 gain. Similar rules apply to certain "excess distributions" made with respect to our ordinary shares.

For our 2013 taxable year, we do not believe that we should be classified as a PFIC. There can be no assurance, however, that the U.S. Internal Revenue Service ("IRS") will not challenge this treatment, and it is possible that the IRS could attempt to treat us as a PFIC for 2013 and prior taxable years. The tests for determining PFIC status are applied annually, and it is difficult to make accurate predictions of our future income, assets and market capitalization, including the future price of our ordinary shares, all of which are relevant to the PFIC determination. There can also be no assurance that we will not become a PFIC in future taxable years. U.S. shareholders should consult with their own U.S. tax advisors with respect to the U.S. tax consequences of investing in our ordinary shares. For a more detailed discussion of the rules relating to PFICs and related tax consequences, please see the section of this annual report entitled "Item 10 – Additional Information – Taxation — United States Federal Income Tax Considerations."

We do not intend to pay cash dividends.

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

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

The market price for our ordinary shares, as well as the prices of shares of other technology companies, has been volatile. For example, during 2013 the lowest closing price of our share was $13.7, compared to the highest closing price of our share of $19.3 during the same year. Numerous factors, many of which are beyond our control, may cause the market price of our ordinary shares to fluctuate significantly and further decrease, including:

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

Provisions of our Articles of Association and Israeli law as well as the terms of our equity incentive plan could delay, prevent or make a change of control of us more difficult or costly, which could depress the price of our ordinary shares.

The provisions in our Articles of Association that provide that our directors, other than our external directors, are elected in three staggered classes by a majority vote of our shareholders may have the effect of delaying or making an unsolicited acquisition of our Company more difficult. Israeli corporate and tax law may also have the effect of delaying, preventing or making an acquisition of us more difficult. For example, under the Companies Law, upon the request of a creditor of either party to a proposed merger, an Israeli court may delay or prevent the merger if it concludes that there is a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, our Key Employee Share Incentive Plan (1997), as amended, or the Share Incentive Plan, provides that in the event of a "Hostile Takeover" (which is defined to include, among others, an unsolicited acquisition of more than 20% of our outstanding shares), the vesting of all or a portion of our outstanding equity awards, including stock options, will accelerate, unless otherwise determined by our Board of Directors (or a committee thereof). As a result, an acquisition of our Company that triggers the said acceleration will be more costly to a potential acquirer. 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. For additional information on this topic, see "Item 6C – Board Practices – Staggered Board," "Item 6E – Directors Senior Management and Employees – Share Ownership - Key Employee Share Incentive Plan" and "Item 10B – Additional Information – Memorandum and Articles of Association – Mergers and Acquisitions under Israeli Law."

Regulations related to conflict minerals may force us to incur additional expenses and may damage our relationship with certain customers.

In August 2012, the SEC adopted requirements regarding mandatory disclosure for companies regarding their use of "conflict minerals" (including tantalum, tin, tungsten and gold) in their products. In general, while we do not directly purchase or use any of these "conflict minerals" as raw materials in the products we manufacture or as part of our manufacturing processes, we are in the process of examining whether such minerals are contained in the products supplied to us by third parties and, if so, whether such minerals originate from the Democratic Republic of Congo or adjoining countries. If we utilize any of these minerals and they are necessary to the production or functionality of any of our products or products we are contracted to manufacture, we will need to file with the SEC a report in May 2014 disclosing, among others, whether such minerals originate from the Democratic Republic of Congo or adjoining countries. The implementation of these new requirements could adversely affect the sourcing, availability and pricing of minerals used in the manufacture of certain components incorporated in our products. In addition, to the extent the rules apply to us, we will incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products, and possibly additional expenses related to any changes to our products we may decide are advisable based upon our due diligence findings. Since our supply chain is complex, we may not be able to sufficiently verify the origins for these minerals and metals used in our products through the diligence procedures that we implement, which may harm our reputation. In such event, we may also face reputational challenges with our customers, shareholders and other stakeholders if we are unable to sufficiently verify the origins for the minerals used in our products.

Risks Related to Operations in Israel

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

We are incorporated under Israeli law and our principal offices and manufacturing and research and development facilities are located in Israel. Accordingly, our operations and financial results could be adversely affected if political,

economic and military events curtailed or interrupted trade between Israel and its present trading partners or if major hostilities involving Israel should occur in the Middle East.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Since October 2000, there has been a high level of violence between the Palestinians and Israel, which has strained Israel’s relationship with its Arab citizens, Arab countries and, to some extent, other countries around the world. In addition, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. In 2011 and 2012, riots and popular uprisings in several countries in the Middle East have led to severe political instability in those countries. This instability may lead to deterioration of the political and trade relationships that exist between Israel and some of these countries. In addition, this instability may affect the global economy and marketplace. We do not believe that the political and security situation has had a material impact on our business to date; however, there can be no assurance that this will be the case for future operations. We could be adversely affected by any major hostilities, including acts of terrorism or any other hostilities involving or threatening Israel, the interruption or curtailment of trade between Israel and its trading partners, a significant downturn in the economic or financial condition of Israel or a significant increase in the rate of inflation. Furthermore, several countries restrict business with Israel and Israeli companies, and additional countries or companies may restrict doing business with Israel and Israeli companies as the result of the aforementioned hostilities. No predictions can be made as to whether or when a final resolution of the area’s problems will be achieved or the nature thereof and to what extent the situation will impact Israel’s economic development or our operations.

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

Some of our directors, officers and employees are, unless exempt, obligated to perform annual military reserve duty, depending upon their age and prior position in the army. They may also be subject to being called to active duty at any time under emergency circumstances. Roy Zisapel, our Chief Executive Officer and President, is among our key employees subject to the military reserve duty. 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.

Most of our revenues worldwide are denominated in U.S. dollars or are dollar-linked. 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, Korean 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 2013, the average value of the dollar decreased in relation to the NIS and the Euro. As a result, during 2013, we had an increase in the dollar value of our expenses in Israel, which are mostly denominated in NIS, and in the dollar value of our expenses in Europe, which are mostly denominated in Euro. By contrast, due to the fact that a portion of our sales in Europe are also denominated in Euro, we were positively impacted by the strengthening of the Euro value relative to the dollar during 2013. We cannot provide assurances that we will not be materially adversely affected by exchange rate fluctuations in the future. See also "Currency exchange rates and fluctuations of exchange rates could have a material adverse effect on our results of operations" above in this section.

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

We have in the past 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 Economy (formerly, 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 or voting rights, is entitled to appoint one or more of our directors or our chief executive officer (including by way of holding 25% or more of the voting power, equity or the right to nominate directors in such direct holder), or is serving as one of our directors or as our chief executive officer, is required to notify the Chief Scientist and to undertake to observe the law governing the grant programs of the Chief Scientist, the principal restrictions and penalties of which are the transferability limits described above.

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

The tax benefits we may receive in connection with our approved enterprise program or privileged 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 benefited, and currently benefit from certain government programs and certain tax benefits in Israel. To remain eligible to obtain such tax benefits, we must continue to meet certain conditions. If we fail to comply with these conditions in the future, the benefits we receive could be canceled and we may have to pay certain taxes or refund payments previously received under these programs (with interest and linkage differentials). We cannot guarantee that these programs and tax benefits will be continued in the future, at their current levels or at all. If these programs and tax benefits are ended, our tax expenses and the resulting effective tax rate reflected in our financial statements may increase and as such our business, financial condition and results of operations could be materially and adversely affected.

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

We are incorporated under the laws of the State of Israel. Service of process upon us, our Israeli subsidiaries, our directors and officers and the Israeli experts, if any, named in this annual report, 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, officers and such Israeli experts are located outside the United States, any judgment obtained in the United States against us or any of them may be difficult to collect within the United States.

We have been informed by our legal counsel in Israel that it may also 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 an alleged violation of U.S. securities laws reasoning that 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. There is little binding case law in Israel addressing these matters. 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.

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. judgment in a civil matter, including a judgment based upon the civil liability provisions of the U.S. securities laws as well as a monetary or compensatory judgment in a non-civil matter, provided that the following key conditions are met:

- subject to limited exceptions, the judgment is final and non-appealable;
- the judgment was given by a court competent under the laws of the state of the court and is otherwise enforceable in such state;
- the judgment was rendered by a court competent under the rules of private international law applicable in Israel;

- the laws of the state in which the judgment was given provide for the enforcement of judgments of Israeli courts;
- 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 was not pending in any Israeli court at the time the lawsuit was instituted in the U.S. court.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

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

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

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

In December 2005, we acquired the business of V-Secure, which included the acquisition of IP, technology, customers' relationship and goodwill. In April 2007, we acquired Covelight, a U.S.-based company providing web channel intelligence technology, which added enhanced capabilities to our portfolio. In March 2009, we completed the acquisition of Nortel's Layer 4-7 application delivery business. In February 2013, we acquired Strangeloop, a Canadian-based provider of Web performance acceleration solutions. See "Item 5A—Operating and Financial Review and Prospects—Operating Results." Each of these acquisitions has added enhanced capabilities to our business.

In May 2011, we established an affiliated company – Radyoos, which is engaged in developing and operating a web-based e-commerce platform. We currently hold 91% of the shares of this company.

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

B. Business Overview

General

Our products and activities are focused on delivering availability, performance and security to enterprises' and carriers' data centers.

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. This market sector is comprised of a few solution domains, among which we focus on the following two domains:

- The Application Delivery solution domain consists of the following domains:

  - Server Load Balancing – relative simple deployments of application delivery controllers using basic Layer 4-7 switching functions targeted at SME (small-medium enterprises) market;

- Advanced Application Delivery – advanced deployment of application delivery controllers using a wider range of advanced capabilities targeted at the medium to large enterprise market;

- Virtual Application Delivery Infrastructure (VADI®) - using virtualization of the application delivery controller, together with advanced APIs into data center management systems this solution enable consolidation of ADC appliances, creation of agile ADC Fabric and better integration into virtual and cloud data centers;

- Web Optimization – solution aimed at reducing the response time of public and mission-critical enterprise Web applications

- Wide Area Network (WAN) link/path load balancing targeted at both SME and larger enterprises

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

- The Network Security solution domain is more diffuse and consists of firewall/Virtual Private Networks (VPN), Unified Threat Management (UTM), intrusion detection systems, intrusion prevention systems, network behavioral analysis (NBA) systems, Secure Sockets Layer/ Internet Protocol Security (SSL/IPSec) VPN appliances and DDoS protection solutions. Our proprietary offering to this domain is primarily attack mitigation systems that are designed to resolve availability-based cyber attacks. The attack mitigation system includes in-line devices (DefensePro and AppWall) that are designed to monitor network and/or system activities for malicious or undesirable behavior and to react, in real-time, to block or prevent those activities. The attack mitigation system also includes a protection module in the cloud to scrub volumetric DDoS attacks.

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

Over the years, our products have won a number of awards for performance, including the following recognition and awards:

- Alteon 5224 – Winner, Internet Telephony Excellence Award (2013); Network Products Guide Best Product of the Year, Application Delivery (Bronze – 2013)

- Alteon 6420 – Winner, Unified Communications Product of the Year (2013); Communication Solutions Product of the Year (2013) and Network Products Guide Best IT Product & Service for Telecom (2013)

- AppWall – Winner Info security Global Excellence Award, Web Application Security (Bronze, 2013)

- Attack Mitigation System (AMS) – Winner Info Security Global Excellence Award, Cloud Security (Bronze, 2013)

- DefensePipe – Winner, Cloud Computing Excellence Award (2013); Silver Stevie Award, Best New Product or Service of the Year – Security Software Solution (2013)

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

- the Common Criteria Evaluation & Validation Scheme (CCEVS) EAL4+ through the National Security Agency (NSA) program;
- FIPS 140-2 through the National Institute of Standards (NIST); and
- NEBS Level 3 certification.

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

During 2013, our key activities regarding our product offering consisted of the following:

- We introduced Alteon NG, our next-generation Alteon application delivery controller (ADC), which ensures application Service Level Agreement (or SLA), at all times. Alteon NG is the only ADC on the market place integrated next-generation services such as FastView Web Performance Optimization (WPO), application performance monitoring (APM), separate Virtual ADC (or vADC) per application/service approach and is also part of a unique layered Cyber attacks mitigation system.

- We offer FastView® a leading Web Performance Optimization (WPO) solution in the industry – based on the acquired Strangeloop technology. This solution is offered either as a standalone platform, virtual appliance, cloud service or integrated as part of the Alteon NG offering.

- We continued our investment in our Virtual Application Delivery Infrastructure (VADI®) offering by enhancing the ADC platform offering so that it can be virtualized, extending integration into more virtualization environments and advancing the integration into data center management systems. These activities caused VADI to evolve into an extensive ADC fabric that is an optimal fit into virtual and cloud based data centers.

- We introduced the Alteon 6420, a carrier-grade highly-performing ADC appliance, reaching 80Gbps in only a 2U form factor. The industry-first ADC to feature 40GE ports and serve as an Application Provider Edge (Application-PE) solution, the Alteon 6420 is designed to specifically address the most challenging needs of today's carrier data centers, core mobile networks and cloud providers.

- We continued our investments in the Alteon VA, a Soft ADC virtual Appliance, by adding and extending support for Server Virtualization Infrastructure environments and cloud environments, so it supports VMWare Inc. - vSphere, RedHat Inc. – KVM, Microsoft Hyper-V and OpenXen as well as IBMCloud and Amazon. In addition, Alteon VA throughput now reaches 6Gbps. Alteon VA offering is primarily targeted to cloud providers and enterprises' private clouds with high scale ADC requirements in a multi-tenant service environment.

- We continued our investments in our vDirect solution, by delivering tighter integration of our VADI solution and our Alteon VA with Cloud providers provisioning and management systems. vDirect now integrates to both VMware vCloud Director (vCD) and OpenStack.

- We continued our investment in our next generation central management system, APSolute Vision, which offers a modern concept and a highly usable user interface, thereby allowing our customers to centrally manage our Appliance base products.

- We extended our Vision support with our AppShape technology facilitating quick deployment and on-going operations of leading enterprise Applications.

- We continued our investment in product developments for the carrier sector with the Alteon product and released major enhancements addressing the Mobile Service Edge (MSE) infrastructure servers' scalability and availability requirements by supporting various mobile and fixed infrastructure applications and service needs. We continued our investment in DefensePro x420, our next-generation hardware platform in our flagship DefensePro application security suite. With the ability to handle 25 million packets per second of attack traffic, regardless of packet size, as well as up to 40Gbps of legitimate traffic, DefensePro x420 currently offers what we believe to be the world's highest mitigation capacity and is designed to protect organizations from the industry's highest volume denial-of-service (DoS) and DDoS attacks.

Products and Services

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

Products

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

Application Delivery

Our application delivery controller (ADC) and load balancing solutions allow our customers to ensure the resilience and Service Level (or SLA) of their mission critical applications. Our ADC products feature a future-proof, application-aware approach to deploying and managing applications as well as provide advanced and comprehensive application delivery capabilities to ensure 24/7 availability, performance and security of mission-critical applications.

- Alteon® NG

Alteon NG is our next ADC. It provides advanced, end-to-end local and global load balancing capabilities for Web, cloud and mobile based applications. Alteon NG combines best-of-breed application delivery plus advanced services to companies with key application infrastructure challenges affecting web applications such as heavier, more complex web content; mobility and the migration to the cloud. Alteon NG is, to our knowledge, the industry-only application delivery controller built from the ground up to ensure application SLA. Unlike a standard, legacy load balancer that is typically based on a best-effort approach, our ADC solution is designed to provide full application SLA assurance through reserving resources per application, real-user monitoring, best-in-class application acceleration features, integrated Web application optimization and innovative security offering.

- Alteon® Form Factors

The Alteon® Application Switch is delivered in four form factors: standalone Hardware appliance, ADC-VX™ – a virtualized appliance for ADC consolidation, Alteon VA® – A soft ADC virtual appliance and a cloud Alteon VA for public cloud deployments such as Amazon Web Services.

- Enterprise Cloud & VADI

Radware also offers application delivery controller solutions for the enterprise's private and hybrid clouds, via our Virtual Application Delivery Infrastructure (VADI), which helps improve business agility with a cloud load

balancing service. Our VADI architecture, transforms computing resources, ADC and virtualization services into an integrated, agile and scalable on-demand application delivery infrastructure. VADI transforms standard application delivery infrastructure into a virtual application delivery control plane, enabling easy and simple migration between the different ADC form factors, according to the dynamic performance needs of applications. Radware's Alteon and VADI is fully integrated into VMware vCloud Director and Openstack, with out-of-the-box integration and customization.

- Alteon® Platforms

Our Alteon product portfolio includes (1) the Alteon 10000 chassis base solution conforming to the ATCA Telecom standards, delivering OnDemand Hardware scalability for high-end enterprises and carriers requiring an ADC solution with up to 80Gbps of throughput with up to 256 vADCs (2) the Alteon 6420 platform, featuring OnDemand Scalability from 20Gbps to 80Gbps with up to 88vADCs, (3) the Alteon 5224 platform, featuring OnDemand scalability from 1Gbps to 16Gbps with up to 24vADCs, and (4) the Alteon 5412 featuring OnDemand scalability from 8Gbps to 20Gbps with up to 28vADC, (5) Alteon 4408 featuring OnDemand scalability from 1Gbps to 4Gbit, and (6) Alteon VA featuring OnDemand scalability from 200Mbit to 6Gbit.

- Web Performance Optimization

FastView® is a best-in-class Web Performance Optimization (WPO) solution allowing accelerating Web performance by up to 40%. FastView delivers optimized acceleration per specific browser and end-user device. FastView can be deployed as a hardware appliance, virtual appliance or as a cloud service.

- 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.

Management Solutions

APSolute Vision® is the management and monitoring tool for our family of application delivery and application security solutions. It provides immediate visibility to health, real-time status, performance and security of enterprise-wide application delivery and network and application security infrastructures from one central, unified console (even for multiple data centers). APSolute Vision consolidates the monitoring and configuration of up to 1,000 devices across multiple data centers. This eliminates the need for deploying management appliances in multiple data centers, which simplifies data center management,

- Application Performance Monitoring (APM) is our end-to-end monitoring solution that assures full application SLA. It provides complete visibility into our customers' applications' performance with a breakdown by application, location or specific transaction. APM allows our customers to proactively maintain application performance and protect SLAs with real-time error detection and the ability to track real user transactions and response time. It provides historical reports with drilldown-able granular analysis based on user-defined SLA, while providing measurements of the delay per each application delivery chain segment, including data center time, network latency and browser rendering time.

- vDirect is an ADC service automation engine designed for virtual data centers and clouds. vDirect is offered as a CLI tool, a fully functional REST API, and a pre-integrated plugin for select working environments such as VMware vCloud Director, OpenStack, VMware vCenter Orchestrator and Red Hat RHEV-M. It provides building blocks for provisioning and managing ADC services and instances throughout their lifecycle in an operational production data center.

Security Solutions

Our family of security solutions provides integrated application and network security and security tool management for a best of breed, multi-layered security architecture. Our Attack Mitigation Systems (AMS) is, to our knowledge, the industry's first fully integrated IT security solution that protects application infrastructure in real time against network and application downtime, application vulnerability exploitation, malware spread, information theft, Web services attacks and Web defacement.

Our Attack Mitigation Network (AMN) solution is a holistic security architecture designed to address the emerging security challenges. AMN combines distributed detection and mitigation elements which are maintained synchronized with legitimate traffic baselines and attack information in real-time. It also expands the detection coverage across all enterprise resources and automates the mitigation by selecting the most effective tools and locations – in the data center, at the perimeter or in the cloud. As a result AMN offers protection against today's and tomorrow's availability-based threats on many fronts. Its key benefits are:

- Maintain business continuity and productivity
- Improve customer satisfaction
- Successfully block attacks launched at the network

As methods of attack continue to increase in frequency, sophistication, and severity, application and security solutions need to meet and surpass these threats. Our dynamic real-time security solutions provide the necessary level of defense for today's application and network security needs, and are designed to address possible future security challenges. Based on adaptive behavioral-based and signature based technologies, our security solutions provide organizations with integrated intrusion detection and prevention systems and Denial of Service (DoS) and Distributed Denial of Service (DDoS) protection. These defend against both network- and application-level attacks, delivering a holistic approach to application- and network-level threats, while enhancing the overall performance of security across the organization.

Radware Attack Mitigation System and Network Components:

- DefensePro® is a real-time network attack prevention device that protects the user’s application infrastructure against network and application downtime, application vulnerability exploitation, malware spread, network anomalies, information theft and other emerging network attacks at up to 40-Gigabit speeds.

- AppWall® is a web application firewall (WAF) appliance that secures web applications. It enables Payment Card Industry (PCI) compliance by mitigating web application security threats and vulnerabilities to prevent data theft and manipulation of sensitive corporate and customer information. AppWall incorporates advanced, patent-protected web application security filtering technologies to effectively detect threats, block attacks and report events.

- 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.

- DefensePipe™, launched in early 2013, is an integrated and comprehensive solution to help mitigate volumetric DDoS attacks which threaten to saturate a customer’s Internet pipe, or the ‘outside line’ that connects enterprises to the web. It provides a solution for end to end attack mitigation on-premise and in the cloud. Available to our customers that currently deploy an on-premise AMS, it is a scalable solution that automatically engages once the customer’s AMS detects that pipe saturation is imminent. The sharing of behavioral base line data between the on-premise AMS

and DefensePipe, that includes a real-time signature created by the AMS, enables DefensePipe to start mitigation in the cloud much faster and with greater accuracy. The organization's suspicious Internet traffic is immediately diverted to the DefensePipe cloud based scrubbing center where it is distanced further from the protected network and its scalable resources can mitigate high volume attacks. Once the traffic is "cleaned" it is then sent back to the organization and regular operations continue once the attack has ceased.

- DefenseFlow® is, to our knowledge, the industry's first Software Defined Networking (SDN) application that programs networks for DoS security, providing network-wide attack mitigation services. Designed as part of the Radware SDN application framework solution, DefenseFlow operates in any SDN enabled network infrastructure. DefenseFlow leverages SDN technologies to enable network operators to program the network to provide DoS and DDoS protection as a native network service. DefenseFlow proactively defends against network flood attacks and automates provisioning of an attack mitigation service. DefenseFlow features an adaptive behavioral-based DoS attack detection engine and a traffic diversion mechanism that utilizes the programmable characteristics of the software defined network elements for attack cleansing.

- Inflight™ provides real-time intelligence from your network and your ability to identify business events or security threats embedded in Web transactions will instantly improve. It is an out-of-path, network-based pervasive monitoring appliance that captures all user transactions from 'in-flight' network traffic and delivers real-time intelligence for business applications. Inflight, a core part of our Attack Mitigation System (AMS) is an anti-scraping, data theft protection device that includes a robust combination of tools for transforming raw Internet traffic to meaningful business intelligence.

Cloud solutions

Our ADC and security solutions help cloud and hosting providers differentiate themselves and create additional revenue by selling advanced services. Our solution offers cloud and hosting providers the necessary services to overcome challenges associated with off-premise hosting of business operations with benefits that include highly available application hosting and performance services, scalability, infrastructure protection and various attack mitigation methods. The solution is flexible and easily integrated into existing networks. Our cloud-based solutions include:

- Load Balancing as a Service (LBaaS)

We offer cloud and hosting providers a solution leveraging our Virtual Application Delivery Infrastructure (VADI), a unified ADC fabric, consisting of multiple ADC form factors on which ADC services can easily be migrated across form factors and deployment models. In turn application delivery can be offered at different levels of service: providers can offer shared load balancing services solving customer basic needs at a best-effort basis, offer customer managed virtual ADC instances running over general purpose hardware, and ultimately offer dedicated virtual ADC instances running over purpose built hardware delivering the highest quality of experience and predictability. Our Alteon products provide advanced load balancing as a service (LBaaS) for VMware vCloud Director and Openstack, with out-of-the-box integration and customization. It is fully integrated into the VMware vCloud framework, allows enterprises to migrate existing enterprise applications into VMware vCD infrastructure, increasing the value of their vCD investment. The solution is based on dedicated, per-tenant virtual appliance instances ensuring that tenants are not impacted by each other and that each has its dedicated capacity and networking resources.

Additionally, as of the release of OpenStack Havana, Alteon provides load balancing as a built in OpenStack service (the only commercial load balancing solution natively supported in OpenStack Havana) which is part of the OpenStack Neutron networking driver.

- Distributed Denial of Service (DDOS) as a service

We offer cloud and hosting providers a transparent, scalable and easily manageable DDOS protection solution designed to work in multi-tenant datacenters. The solution is designed to seamlessly integrate into the existing provider network and provides a highly available design that can easily be scaled and operated with minimal overhead and without any need to redesign the network. At the same time it mitigates the risk that each of the tenants is exposed to and allows the operator to selectively offer different levels of DDOS protection and attack mitigation security services to different tenants.

- Web Application Firewall (WAF) as a service

We offer cloud and hosting providers a transparent, scalable and easily manageable elastic web application firewall (WAF) solution designed to work in multi-tenant datacenters. The solution mitigates the risk that each of the tenants is exposed to and allows the datacenter operator to selectively offer different levels of web application security services to different tenants.

- Web Performance Optimization(WPO) as a service

- Our FastView and application performance monitoring (APM) provide cloud and hosting businesses with a significant service differentiation and revenue growth by intuitively adding scalable web performance optimization (WPO) and monitoring services to their portfolio. The key features of our WPO cloud-based solutions are:

- Application performance monitoring with drilldown-able SLA analysis for real time and simple trouble-shooting and consistent SLA assurance
- Mobile web performance optimization for mobile devices and clients
- Accelerated web page performance, for any end-user device and any browser, up to 40%
- Application specific web performance optimization service customization – for maximum acceleration

Software Defined Network (SDN) Solutions

Our SDN applications improve application security, performance and availability by programming the SDN to collect data and optimally forward traffic to deliver network services. The native component of the new network stack introduced by SDN includes the data plane networking devices and the control plane SDN controllers. The Radware SDN applications constructing the SDN application control plane, interact with the SDN controller using dedicated SDN drivers and work together with Radware’s systems' using our API to collect data throughout the application infrastructure using specific data collection drivers.

- With SDN applications, ADC and security services transform from device-based solutions requiring a static traffic forwarding configuration, to network wide services that intelligently divert traffic to service engines. Network services can scale to support larger networks at lower capital and operational cost. By building SDN applications that continuously interact with the SDN control plane and program the network (and by leveraging our Virtual Application Delivery Infrastructure (VADI) architecture – which enables pooling of disperse resources to operate uniformly) we enable an anywhere and everywhere network service paradigm. Our SDN-based solutions include:

- DefenseFlow™ - As the industry's first SDN DDoS offering, DefenseFlow is a cyber security control-plane application that enables comprehensive multi-layer, real-time defense against application and network DoS attacks and mobile APTs (advanced persistent threats).

- Alteon® NFV - A fully automated, fully NFV-compliant, high performance ADC VNFC that delivers a breadth of layer 4-7 services such as GiLAN load-balancing, steering, service-chaining and more.

Services

Radware's service offering consists principally of the following services:

Security Update Service

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

Emergency Response Team (ERT) Service

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

Customers and End-Users

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

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

In 2013, approximately 38% of our sales were in the Americas (principally in the United States), 28% were in EMEA (Europe, Middle East and Africa) and 34% in Asia-Pacific, compared to 31%, 30% and 39%, respectively, in 2012,

and 26%, 35% and 39%, respectively, in 2011. Other than the United States, which accounted for 28% of our total revenues in 2013, no other single country accounted for more than 10% of our sales for 2013.

In 2013 approximately 62% of our sales derived from product sales and 38% derived from service sales, compared to approximately 63% and 37%, respectively, in 2012 and 62% and 38% respectively in 2011. For the years ended December 31, 2013, 2012 and 2011, no single customer accounted for more than 10% of our sales. As of December 31, 2013, 2012 and 2011, no single customer represented more than 10% of the trade receivables balance.

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

Seasonality

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

Sales and Marketing

Sales. We market and sell our products primarily through indirect sales channels that consist 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, 2013, we employed a total of 170 sales managers and sales staff, of which 69 persons were employed in the Americas with locations in various states. We have subsidiaries and representative offices and branches in several countries, which promote and market our products and provide customer support in their respective regions.

Marketing. 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 Alteon® to its customers in conjunction with its application in order to load-balance and optimize the application performance. We established such co-marketing arrangements with, among others: Comverse; Hewlett Packard Company; IBM, Inc.; Microsoft Corporation; Oracle Corporation; SAP AG.; Juniper Networks, Inc.; VMWare, Inc.; Red Hat Limited; NEC Corporation; and Verint Americas, 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 OEM Agreements. We have entered into strategic alliances and OEM agreements with other software and hardware vendors, as well as mutual channel information sharing arrangements, where products can either be branded with our name or the vendor's name. We believe that these companies have significant customer relationships and offer products which complement our products. For example, in May 2012, we entered into an agreement with Check Point Software Technologies Ltd., a worldwide leader in Internet security solutions, whereby

certain of Check Point's appliances will be based on our Attack Mitigation solutions. 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.

Customer Support Services

Our technical team, which consisted of 207 employees worldwide as of December 31, 2013, 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 obtain 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, 2013, our research and development staff consisted of 292 employees and 49 subcontractors. Research and development activities take place mainly at our facilities in Israel; Bangalore, India, Vancouver, Canada; and North Carolina. We employ established procedures for the required 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 Emerson primarily provide us with assembly services in order to deliver the finished goods while we perform the final assembly of the products. All components and subassemblies included in our products are supplied to Nexcom and Emerson by several suppliers and subcontractors. Each of Nexcom and Emerson monitors each stage of the components production process, including the selection of components and subassembly suppliers. Thereafter, each of Nexcom and Emerson makes the final assembly in their own facility. Nexcom and Emerson are ISO 9001 certified, indicating that each of their manufacturing processes adhere to established quality standards.

During 2013, we concluded our business relationship with USR who used to supply us with our legacy products that we no longer sell. Nexcom continues to provide us the platforms for our OnDemand Switch, Emerson is our supplier for the On-Demand Blade Switch Platform (out of which the hub is supplied to Radware by Radisys) and Broadcom supplies us with components for our DefensePro product.

In 2013, we used Nexcom, Broadcom, Emerson and Radisys to manufacture and to provide components for our products, purchasing approximately 74%, 10%, 3% and 1% of our direct manufacturing costs of our products, respectively, from each of those manufacturers. If we are unable to continue to acquire those products or components from those manufacturers on acceptable terms, or should any of these suppliers cease to supply us with such products or components 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 for, among others, “Radware®”, “APSolute®”, “Web Server Director®”, “FireProof®” “LinkProof®”, “Triangulation®”, “Smart Nat®”, “DefensePro®”, “StringMatch Engine®”, “CID®”, “CID – Content Ins Director®”, “SIPDirector®”, “AppDirector®”, “AppXcel®”, “AppXML®”, “SecureFlow®”, “OnDemand Switch®”, “App “Apsolute Insite®”, “APSolute Vision®”, “vAdapter®”, “VADI®”, “Alteon®”, “FastView®, and “ALTEON VA®”, and w trademark applications pending for, among others, “Virtual Director™”, “vDirect™”, “ADC Fabric™”, “Radware Fabric™”, “AppShape™”, “TeraVIP™”, “DefensePipe™” and “DefenseFlow™”. We do not currently own any registered co

We have registered patents in the United States for, among others, our triangle redirection method used for the global load balancing in our AppDirector product; our mechanism for efficient management and optimization of multiple links used in our LinkProof product; our method for load balancing by global proximity used in our AppDirector product; our method for controlling traffic on links between autonomous BGP systems; the stateful distribution of copied SSL traffic; the transparent inspection of encrypted client traffic; our passive monitoring and event detection mechanisms used for business event monitoring in our Inflight product; the activation of multiple virtual services on a switching platform; the behavioral analysis and detection of zero-day and DoS network attack patterns in our DefensePro product; our hypertext transfer protocol (HTTP) DoS attack mitigation behavioral mechanisms in our DefensePro; a geographically based traffic distribution; a generic proximity based site selection for global load balancing; an internal hardware connectivity plane architecture; and a specific proximity based site selection for global load balancing of HTTP transactions implemented in our Alteon products.

We have pending patent applications and provisional patents in connection with several methods and features used in our products or that we plan to implement in the future. 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. See “Item 8. Financial Information – Legal Proceedings” for a discussion of intellectual property litigation. 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., Citrix Systems, Inc., A10 Networks, Inc., Brocade Communications Systems, Inc. (Foundry Networks, Inc.) and Riverbed Technology, Inc. (Zeus Technology); and

- in the Network Security space, with respect to our Attack Mitigation Systems, Arbor Networks, Inc., Hewlett Packard, TippingPoint Technologies, Inc., Intel Corporation (McAfee, Inc.) and Imperva, Inc.

- 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 providers of 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 Networks in 2009, and, in 2011, Riverbed Technology became a competitor in the Application Delivery market by acquiring Zeus Technology. Competition may result in lower prices or reduced demand for our products and a corresponding reduction in our ability to recover our costs, which may impair our ability to maintain and increase profitability. Furthermore, the dynamic market environment, which is demonstrated by the above acquisitions, poses a challenge in predicting market trends and expected growth.

We believe that our success will depend primarily on our ability to provide more technologically advanced and cost-effective Application Delivery and Network Security solutions, and more responsive customer service and support, than our competitors. However, we cannot assure you that the products we offer will compete successfully with those of our competitors. Furthermore, should competition intensify, we may have to reduce the prices of our products which will negatively impact our business and financial condition.

Government Regulations

Environmental Regulations

Our activities in Europe require that we comply with European Union Directives with respect to product quality assurance standards and environmental standards. The “RoHs” and RoHs II Directives require 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. Since 2013 Radware also complies with ISO 14001 standards (re Environmental Management Systems).

Israeli Office of Chief Scientist

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

the regulations promulgated thereunder, or the Research and Development Law.

Under the Research and Development Law, research and development programs that meet specified criteria and are approved by the Research Committee of the Chief Scientist are eligible for grants usually of up to 66% 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 also provides that know-how developed under an approved research and development program may not be transferred to third parties in Israel without the approval of the Research Committee. Such approval is not required for the export of any products resulting from such research or development. The Research and Development Law further provides that the know-how developed under an approved research and development program may not be transferred to third parties outside Israel, except in certain special circumstances and subject to the Chief Scientist's prior approval. The Chief Scientist may approve the transfer of Chief Scientist-funded know-how outside Israel, generally in the following cases: (a) the grant recipient pays to the Chief Scientist a portion of the sale price paid in consideration for such Chief Scientist-funded know-how (according to certain formulas), (b) the grant recipient receives know-how from a third party in exchange for its Chief Scientist-funded know-how, or (c) such transfer of Chief Scientist-funded know-how arises in connection with certain types of cooperation in research and development activities.

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

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

Since 2001, we have not had any liability to pay royalties to the Chief Scientist. In addition to grants we received in previous years, which were either fully repaid or non-royalty bearing, starting 2012 we receive grants from the Chief Scientist to fund certain other research and development projects as part of our participation in the MAGNET Consortium Program. In 2012 and 2013 we received $0.3 million and $0.4 million, respectively, in Chief Scientist grants, and we expect to receive approximately $ 0.3 million in 2014, subject to our compliance with the terms of the MAGNET Consortium Program. The MAGNET Consortium Program of the Chief Scientist sponsors innovative generic industry-oriented technologies to strengthen the country's technological expertise and enhance competitiveness. These grants do not bear any royalty repayment obligations.

C. Organizational Structure

We have a wholly-owned subsidiary in the United States, Radware Inc., which conducts the sales and marketing of our products in the United States. We also have subsidiaries in Australia, France, Germany, the United Kingdom, Italy, Japan, Singapore, Korea, Canada, India, Israel, China and Hong Kong, most of which typically conduct the sales and marketing of our products in their respective locations. We have also established a representative office in Taiwan. Our wholly-owned subsidiaries include:

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

* We own 91% of this subsidiary.

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

AB-NET Communications Ltd.
BYNET Data Communications Ltd.
BYNET Electronics Ltd.
BYNET SEMECH (outsourcing) Ltd.
Bynet Software Systems Ltd.
Ceragon Networks Ltd.
Internet Binat Ltd.
Packetlight Networks Ltd.
RAD-Bynet Properties and Services (1981) Ltd.
RADCOM Ltd.
RAD Data Communications Ltd.
RADWIN Ltd.
SecurityDam Ltd.
Silicom Ltd.
Radbit Computers, Inc.

Bynet System Applications Ltd.	Radiflow Ltd.

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

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

D. Property, Plants and Equipment

We operate from leased premises mainly in Tel Aviv and Jerusalem in Israel and New Jersey and North Carolina in the United States. We also lease premises in several locations in Europe and Asia-Pacific for the activities of our subsidiaries, representative offices and branches. Our aggregate annual rent expenses under these leases were approximately $4.5 million in 2013 compared to $4.2 million in 2012.

Israel. Our headquarters and principal administrative, finance, research and development and marketing operations are located in approximately 78,000 square feet of leased office space in Tel Aviv, Israel, in three buildings: one, consisting of approximately 36,000 square feet, with a lease expiring in November 2017; the second consisting of 30,000 square feet, with a lease expiring in June 2015; and the third consisting of 12,000 square feet, with a lease expiring in June 2015. These facilities are leased from companies owned by Messrs. Yehuda and Zohar Zisapel. For more information see – "Item 7 - Major Shareholders and Related Parties Transactions."

In addition, we lease approximately 6,300 square feet of space in Jerusalem for development facilities from a company owned by Messrs. Yehuda and Zohar Zisapel. The lease expires in January 2017. We also sublease approximately 15,000 square feet for warehousing in Jerusalem from a company owned by Messrs. Yehuda and Zohar Zisapel. The lease expires in August 2016. For more information, see "Item 7 - Major Shareholders and Related Parties Transactions."

The aggregate annual rent for the premises in Israel for 2013 was approximately $2.1 million compared to $1.9 million in 2012.

Other locations. In the United States, we lease approximately 14,900 square feet of property, consisting of approximately 10,600 square feet of office space and 4,300 square feet of warehouse space, in Mahwah, New Jersey from a company owned by Messrs. Yehuda and Zohar Zisapel. The lease for such property is set to expire in April 2014. For more information, see – "Item 7 - Major Shareholders and Related Party Transactions."

We lease approximately 3,800 square feet of property for our research and development facilities in North Carolina, the lease for which will expire in September 2018. In addition, we lease approximately 2,350 square feet of property in San Mateo, California. The lease for such property is set to expire in July 2014.

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 $2.4 million in 2013 and $2.3 million in 2012.

Outlook. We believe that the aforesaid offices and facilities are suitable and adequate for our operations as currently conducted and as currently foreseen. In the event that additional or substitute offices and facilities are required, we believe that we could obtain such offices and facilities at commercially reasonable rates.

ITEM 4A.UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

A. Operating Results

Overview

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

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

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

2013 Highlights. Our operating results in 2013 decreased compared to 2012, resulting in operating income of $17.6 million compared to operating income of $30.9 million in 2012. The decrease is mainly due to a low rate of increase in sales (2%) compared to the rate of increase in operating expenses (13%). Continued expansion of our workforce (part of which as a result of the Strangeloop acquisition), a significant increase in our legal expenses related to our intellectual property litigation, as well as the strengthening of the average exchange rate of the shekel against the U.S. dollar, all contributed to a higher rate of increase in our operating expenses compared to the increase in our sales.

Sales in 2013 were $193.0 million compared with sales of $189.2 million in 2012, an increase of 2%. Product sales were $118.7 million, a decrease of 0.5% compared to product sales of $ 119.3 million in 2012 and service sales were $74.3 million, an increase of 6%, compared to service sales of $69.9 million in 2012. Our revenues are tied with the continued demand for our product offering in connection with cloud computing and virtualization trends, the growth of mobile data consumption (such as smart-phones, tablet computers and other application based appliances), continued demand for Application Security products (which we believe is associated with the numerous cyber attacks reported in the world media in the past few years) and our ability to develop new technologies to address our customers' enhanced network infrastructure and growing needs in terms of complexity, bandwidth and security. According to Gartner estimates, the Application Delivery Controllers sector (applicable to our application delivery solutions) has decreased in 2013 by 1.0% compared to 2012, and the Intrusion Prevention sector (applicable to our network security solutions) has decreased in 2013 by 0.3% compared to 2012.

Our operating expenses increased by 13% in 2013 to $138.7 million from $122.5 million in 2012. The increase is primarily attributed to (1) an increase of $8.8 million in operating expenses that are related to an expansion of our workforce (from an average of 771 employees and subcontractors in 2012 to an average of 828 employees and subcontractors in 2013, including 20 employees who joined us as part of the Strangeloop acquisition) and salary raises awarded during 2013 in all regions, and (2) an increase of approximately $3.5 million in our general and administrative expenses, related to litigation costs of the intellectual property matter. In addition, the net impact of the changes in the average exchange rates of foreign currencies in 2013, compared to 2012, amounted to an increase of approximately $2.0 million in our operating expenses. The increase in our operating expenses is also due to an

increase in other expenses as described in the following paragraphs.

Acquisition of Strangeloop. In February 2013, we completed the acquisition of Strangeloop, a Canadian-based provider of Web performance acceleration solutions. The total consideration was composed of (1) approximately $8.4 million in cash payable at closing (subject to certain working capital adjustments) and (2) a milestone-based contingent cash payment of up to $6.0 million, which, due to failure to timely meet the milestones, is no longer payable. Of the initial payment, $1.5 million was deposited in escrow for two years to secure possible indemnity claims for damages arising out of breaches or inaccuracies of Strangeloop's or Strangeloop shareholders' representations, warranties and covenants, subject to certain limitations. As a result of this transaction, the revenues and expenses of Strangeloop are consolidated with our results of operations starting February 7, 2013.

Outlook.

The Application Delivery Controllers worldwide market revenue is estimated by Gartner to increase to $1.709 billion during 2014 from $1.593 billion in 2013, representing an increase of 7.3%. In the Intrusion Prevention sector of the network security market, the market according to Gartner is estimated to decrease to $1.220 billion in 2014 from $1.223 billion in 2013, representing a decrease of 0.3%.

In 2014, we intend to increase our investments in developing new products and enhancing existing products, to support continued growth in our sales and enhancement of market acceptance for our offerings. As a result, we expect our operating expenses to increase as compared to 2013, mainly in research and development and in sales and marketing.

We may also face certain challenges during 2014. Our ability to sustain profitability depends, in part, on the global economy and the growth rates and changes in technology trends in industries in which we operate. In the past several years, credit and sovereign debt issues have destabilized certain European economies and thereby increased global macroeconomic uncertainties. As such, our results may be adversely affected if there is a decrease in our revenues due to a further economic slowdown, a decrease in the overall market's IT spending or a reduction in the capital expenditures by companies in our target markets. In addition, our profitability may be adversely affected by fluctuations in currency exchange rates. If the shekel continues to strengthen against the dollar during 2014, the value of our expenses will increase as compared to our revenues, since a large portion of our expenses are paid shekels, whereas most of our revenues are generated in dollars.

Critical Accounting Policies

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

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

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

- Revenue recognition;
- Impairment of marketable securities;
- Goodwill;
- Impairment of long-lived assets and intangible assets;

- Stock-based compensation; and
- Income taxes.

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

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

Revenues in arrangements with multiple deliverables are allocated using the best estimated selling price ("BESP") method.

We determine the BESP in multiple -element arrangements as follows:

Vendor Specific Objective Evidence ("VSOE") for post-contract customer support is determined based on the price charged when such element is sold separately (renewals). The price may vary in the territories and vertical markets in which we conduct business. Price is determined by using a consistent percentage of our product price lists, in the same territories and markets.

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

We record a provision for estimated sale returns and stock rotation granted to customers on products in the same period the related revenues are recorded in accordance with ASC No. 605. These estimates are based on historical sales returns, stock rotations and other known factors. Such provisions amounted to $ 1,071 and $ 914 as of December 31, 2012 and 2013, respectively.

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

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

During the years ended December 31, 2011, 2012 and 2013, no other-than temporary impairments were recorded related to our marketable securities.

Goodwill. Goodwill is measured as the excess of the cost of acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. We review goodwill for impairment at least annually on December 31 or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable in accordance with Accounting Standards Codification ("ASC") 350 "Intangibles – Goodwill and other." The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. Only if the carrying amount exceeds its fair value, the second step will be performed. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying amount of the goodwill. Any excess of the goodwill carrying amount over the applied fair value is recognized as an impairment loss, and the carrying value of goodwill is written down to fair value. As of December 31, 2013, no impairment of goodwill has been identified.

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

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

We did not record any impairment losses for the years ended December 31, 2011, 2012 and 2013.

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

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

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

and penalties.

Accounting for tax positions requires judgments, including estimating reserves for potential uncertainties. We also assess our ability to utilize tax attributes, including those in the form of carry forwards for which the benefits have already been reflected in the financial statements. We do not record valuation allowances for deferred tax assets that we believe are more likely than not to be realized in future periods. While we believe the resulting tax balances as of December 31, 2013 and 2012 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. See "2013 Results of Operations – Taxes" below.

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

Results of Operations

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

	2011	2012	2013
	(U.S. $ in thousands)		
Revenues:			
Products	$103,285	$119,279	$118,727
Services	63,735	69,892	74,270
	167,020	189,171	192,997
Cost of revenues:			
Products	24,231	26,386	27,066
Services	9,126	9,333	9,669
	33,357	35,719	36,735
Gross profit	133,663	153,452	156,262
Operating expenses:			
Research and development, net	36,064	36,187	40,983
Sales and marketing	69,543	76,646	82,815
General and administrative	9,629	9,696	14,895
Total operating expenses	115,236	122,529	138,693
Operating income	18,427	30,923	17,569
Financial income, net	4,200	4,792	4,494
Income before taxes on income	22,627	35,715	22,063
Taxes on income	(1,290)	(3,958)	(4,008)
Net income	21,337	31,757	18,055

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

	2011	2012	2013
Revenues:			
Products	62 %	63 %	62 %
Services	38	37	38
	100	100	100
Cost of Revenues:			
Products	15	14	14
Services	5	5	5
	20	19	19
Gross profit	80	81	81
Operating expenses:			
Research and development, net	21	19	21
Sales and marketing	42	41	43
General and administrative	6	5	8
Total operating expenses	69	65	72
Operating income	11	16	9
Financial income, net	3	3	2
Income before taxes on income	14	19	11
Taxes on income	(1)	(2)	(2)
Net income	13 %	17 %	9 %

Revenues.

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

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

The following table provides a breakdown of our revenues by type of revenues both in dollars and as a percentage of total revenues for the years ended December 31, 2011, 2012 and 2013:

	2011		2012		2013		% Change 2013 vs. 2012	% Change 2012 vs. 2011
	($U.S. in thousands)		($U.S. in thousands)		($U.S. in thousands)			
Products	103,285	62 %	119,279	63 %	118,727	62 %	0 %	15 %
Services	63,735	38 %	69,892	37 %	74,270	38 %	6 %	10 %
Total	167,020	100 %	189,171	100 %	192,997	100 %	2 %	13 %

The following table shows a breakdown of our total revenues by geographical distribution both in dollars and as a percentage of total revenues for the years ended December 31, 2011, 2012 and 2013:

	Year Ended December 31,								
	2011			2012			2013		
	(in thousands of U.S. $)	(by %)		(in thousands of U.S. $)	(by %)		(in thousands of U.S. $)	(by %)	
North, Central and South America (principally the United States)(*)	43,695	26	%	58,197	31	%	73,216	38	%
EMEA (Europe, the Middle East and Africa)	57,648	35	%	57,135	30	%	53,361	28	%
Asia-Pacific(**)	65,677	39	%	73,839	39	%	66,420	34	%
Total	167,020	100	%	189,171	100	%	192,997	100	%

(*) For the years ended December 31, 2013, 2012 and 2011, our revenues from the United States were $54.9 million, $41.6 million and $33.9 million, respectively, representing 28%, 22% and 20% of total revenues for these years, respectively.

(**) For the years ended December 31, 2012 and 2011, our revenues from China were $19.9 million and $18.5 million, respectively, representing 11% of total revenues in each of these years. For the year ended December 31, 2013, our revenues from China were less than 10% of our total revenues.

In 2013, our product sales reduced slightly by approximately $0.6 million, or 0.5% compared to 2012. Revenues from the enterprise market represented approximately 70% and revenues from the carrier market represented approximately 30% of our total revenues, compared to 71% and 29%, respectively, in 2012. Revenues from services increased by 6% year over year, mainly as a result of increase in our install base.

Our revenues increased in the Americas by 26% year over year, primarily as a result of increased investments in our sales resources in this region and improved market conditions. The EMEA region has experienced a decline of 7%, mainly due to reduced IT spending in our market which we believe is associated with the continued economic slowdown in major Western European countries. We have also witnessed some weakness in our EMEA sales force execution in the first half of 2013, which we now believe we have resolved, based on the EMEA region results in the second half of 2013. Revenues from APAC decreased by 10%, mainly due to increased competition from local low-cost vendors as well as price reductions in the load balancing products in some markets.

Other than the United States, which accounted for 28% of our total revenues in 2013, no other single country accounted for more than 10% of our sales for 2013.

We attributed the 15% increase in product sales in 2012 compared to 2011, to all of our major product lines, in large part as a result of global growth in IT market spending during 2012 and the demand which grew for our types of products in connection with cloud computing and virtualization trends, growth of mobile data consumption (such as smartphones, tablet computers and other application based appliances), and increased demand for Application Security products (which we believe was associated with the numerous cyber attacks reported in the world media in 2011 and 2012). In 2012, revenues from the enterprise market represented approximately 71% and revenues from the carrier market represented approximately 29% of our total revenues, compared to 72% and 28%, respectively, in 2011. In 2012, revenues from services increased by a lower rate of 10% year over year, mainly as a result of lower renewal rate of our old install base. In 2012, our revenues in absolute figures increased in the Americas and Asia-Pacific by

33% and 12% year over year, respectively. The EMEA region experienced a slight decline of less than 1%, mainly due to reduced IT spending in our market which we believe was associated with the economic slowdown in major Western European countries. In 2012, revenues from the Americas region increased at a higher rate than revenues from other regions due to increased demand for our products in the Americas and a higher win rate, in 2012 versus our competition in this region.

Cost of Revenues.

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

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

	2011		2012		2013	
Cost of Products	$ 24,231	23.5 %	$ 26,386	22.1 %	$ 27,066	22.8 %
Cost of Services	9,126	14.3 %	9,333	13.4 %	9,669	13.0 %
Total	$ 33,357	20.0 %	$ 35,719	18.9 %	$ 36,735	19.0 %

Cost of products sales as a percentage of products sales increased year-over-year from 22.1% in 2012 to 22.8% in 2013. Cost of products sales in 2013 included amortization of intangible assets in the amount of $2.2 million, compared to an amortization of intangible assets in the amount of $1.9 million in 2012. Our cost of products sales as a percentage of products sales, excluding amortization of intangible assets, represented approximately 21.0% of products sales in 2013, compared to 20.6% in 2012.The slight increase in cost of products sales as a percentage of products sales is due to the different mix of products sold during 2013 compared to 2012. The mix of products sold in 2013 was comprised of more high-end platforms than in 2012, which costs are higher and margins are lower.

Cost of sales related to services as a percentage of service revenues in 2013 was 13.0% compared to 13.4% in 2012. Since a major portion of these costs are fixed costs (mainly salaries of technical personnel), the increase in sales did not correlate into the same rate of increase in costs.

Cost of products sales as a percentage of products sales decreased year-over-year from 23.5% in 2011 to 22.1% in 2012. Cost of products sales in 2012 included amortization of intangible assets in the amount of $1.9 million, compared to an amortization of intangible assets in the amount of $2.2 million in 2011. Our cost of products sales as a percentage of products sales, excluding these items, represented approximately 20.6% of products sales in 2012, compared to 21.4% in 2011.The decrease in cost of products sales as a percentage of products sales is due to the different mix of products sold during 2012 compared to 2011. During 2012, our virtualized solutions became a more significant part of our products sales. Such sales generally have higher gross margins than our regular hardware products sales.

Cost of sales related to services as a percentage of service revenues in 2012 was 13.4% compared to 14.3% in 2011. Since a major portion of these costs are fixed costs (mainly salaries of technical personnel), the increase in sales did not correlate into the same rate of increase in costs.

Operating Expenses.

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

	2011	2012	2013	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Research and development, net	$36,064	$36,187	$40,983	13 %	0 %
Selling and marketing	69,543	76,646	82,815	8 %	10 %
General and administrative	9,629	9,696	14,895	54 %	1 %
Total	$115,236	$122,529	$138,693	13 %	6 %

Research and Development Expenses.

Research and development, or R&D, 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.

R&D expenses were $41.0 million in 2013, an increase of $4.8 million, or 13% compared with research and development expenses of $36.2 million in 2012. This increase is a result of the following: (1) an increase of $3.7 million due to a higher average number of R&D employees (part of which due to the Strangeloop acquisition) as well as salary raises awarded in mid 2013, (2) an increase $0.6 of overheads partially associated with the additional hired headcount (3) an increase of approximately $1.6 million from the weakening of the dollar against the NIS, and (4) an increase of $0.5 million was attributed to an increase in stock-based compensation expenses. See also “Stock based compensation expenses”, below. Such increase was partially offset by (1) a $0.9 million decrease in subcontractors costs in 2013 mainly due to replacements of subcontractors by employees, and (2) a decrease in depreciation expenses in the amount of $0.7 million, related to our R&D testing and lab equipment.

R&D expenses were $36.2 million in 2012, an increase of only $0.1 million compared with research and development expenses of $36.1 million in 2011. This slight increase is a result of the following: (1) an increase of $1.6 million from a higher average number of R&D employees and subcontractors, as well as salary raises performed in June 2012, (2) a $0.3 million increase in overhead mainly associated with the increase in the number of our employees, and (3) an increase in depreciation expenses of approximately $0.3 million related to lab and testing equipment purchased in the last 2 years. Such increase was partially offset by (1) grants in an amount of $0.3 million from the Chief Scientist received during 2012, and (2) a decrease of approximately $1.8 million from the strengthening of the dollar against the NIS during 2012 compared with 2011.

Excluding the exchange rates effect, we expect our R&D expenses in 2014 to be higher than in 2013, mainly due to continued expansion of our workforce, primarily the expected hiring of employees in research and development positions.

Sales and Marketing Expenses.

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

Sales and marketing expenses were $82.8 million in 2013, an increase of $6.2 million, or 8%, compared with sales and marketing expenses of $76.6 million in 2012. Intangible assets amortization expenses in 2013 decreased in an amount of $0.3 million from $1.2 million in 2012 to $0.9 million in 2013. Excluding these amortization expenses, sales and marketing expenses increased by $6.5 million, of which (1) $5.7 million was attributable to an increase in the average number of sales, technical support and marketing employees in the United States, EMEA and Asia Pacific regions (part of which due to the Strangeloop acquisition), as well as recruiting expenses and salary raises awarded in the beginning of 2013 to some of our employees, (2) $0.9 million relates to higher travel costs and overhead associated mainly to the increase in the number of our employees, (3) $0.6 million relates to the increase of our marketing expenses, mainly related to trade shows, events and seminars, and (4) $0.8 million relates to higher sales commissions. Such increase was partially offset by (1) $0.7 million attributed to a decrease in stock-based compensation expenses (see also "Stock based compensation expenses" below) and (2) a decrease in depreciation expenses in the amount of $0.8 million, mainly in connection with demo equipment. The impact of the weakening of the dollar compared to the NIS and Euro was offset by the strengthening of the dollar compared to most Asian currencies. For a discussion of the impact of foreign currency fluctuations our business, see "Item 11. Quantitative and Qualitative Disclosures about Market Risk".

Sales and marketing expenses were $76.6 million in 2012, an increase of $7.1 million, or 10%, compared with sales and marketing expenses of $69.5 million in 2011. Intangible assets amortization expenses in 2012 decreased in an amount of $0.5 million from $1.7 million in 2011 to $1.2 million in 2012. Excluding these amortization expenses, sales and marketing expenses increased by $7.6 million, of which (1) $6.5 million was attributable to an increase in the average number of sales, technical support and marketing employees in the United States, EMEA and Asia Pacific regions as well as recruiting expenses and salary raises performed in the beginning of 2012 to some of our employees, (2) $0.7 million relates to higher travel costs and overhead associated with the increase in the number of our employees, (3) $1.1 million relates to the increase of our marketing expenses, mainly related to trade shows, events and seminars, (4) $0.2 million was attributed to an increase in stock-based compensation expenses. See also “Stock based compensation expenses”, below, and (5) an increase in depreciation expenses of approximately $0.3 million, mainly in relation with purchases of demo equipment during the past two years. The net impact of the strengthening of the dollar compared to the NIS and Euro and the weakening of the dollar compared to most Asian currencies offset the increase in our selling and marketing expenses by $1.2 million.

Excluding the effect of exchange rates, we expect our sales and marketing expenses in 2014 to be higher than in 2013, mainly due to the increase in the number of our employees engaged in marketing and sales positions and marketing activities to promote our new and improved products.

General and Administrative Expenses.

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

General and administrative expenses were $14.9 million in 2013, an increase of $5.2 million, compared with general and administrative expenses of $9.7 million in 2012. General and administrative expenses in 2013 included stock-based compensation expenses of $1.2 million, compared to stock-based compensation expenses of $0.9 million in 2012. The increase in stock based compensation expenses of $0.3 million is explained below under “Stock based compensation expenses”. Excluding stock based compensation expenses, general and administrative expenses increased in 2013 by $4.9 million, of which, (1) $3.5 million relates to litigation costs in connection with the intellectual property litigation, (2) $0.5 million relates to acquisition related expenses in connection with the acquisition of Strangeloop in February 2013, (3) $0.3 million was attributable to an increase in the average number of general and administrative employees and salary raises to our employees, (4) $0.4 million relates to the impact of the weakening of the dollar compared to the NIS, and (5) $0.2 million relates to the increase in bad debt expenses.

General and administrative expenses were $9.7 million in 2012, an increase of $0.1 million, compared with general and administrative expenses of $9.6 million in 2011. General and administrative expenses in 2012 included stock-based compensation expenses of $0.9 million, compared to stock-based compensation expenses of $1.1 million in 2011. Excluding stock based compensation expenses, the general and administrative expenses in 2012 totaled $8.8 million, compared to $8.5 million in 2011. Of these expenses, (1) $0.4 million was attributable to an increase in the average number of general and administrative employees and salary raises to our employees, (2) $0.4 million relates to the increase in subcontractors’ costs incurred in relation with the maintenance of our ERP system, and (3) $0.1 million relates to an increase in overhead expenses associated to new employees and subcontractors. These increases were partially offset by the decrease in depreciation of $0.2 million and the impact of the strengthening of the dollar compared to the NIS in the amount of $0.4 million. The decrease in stock based compensation expenses of $0.2 million is explained below under “Stock based compensation expenses”.

Excluding the effect of exchange rates, we expect our general and administrative expenses to continue to increase in 2014, due to legal costs we expect to incur in connection with the intellectual property litigation proceedings we are currently involved in.

Stock based compensation expenses.

Our expenses also include recognition 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.

Our total amount of stock based compensation expenses in 2013 totaled to $5.4 million, the same as in 2012. During 2013, we granted stock options to purchase 2.1 million shares at a weighted average grant-date fair value of $6.2 per option and 0.2 million RSUs at a weighted average grant-date fair value of $14.5 per RSU, compared to 0.8 million options granted during 2012, in an average grant-date fair value of $5.0 per option. The impact of the increase in quantities of options granted, as well as the relatively high grant-date fair value of the RSUs, on our stock-based compensation expenses in 2013 was offset by the decrease in the average grant-date fair value of the options granted during 2013 compared to 2012, and the fact that in 2012 the quantity of options granted was relatively low compared to 2011 allocations (which results in low amount of stock-based compensation expenses recorded in 2013 due to 2012 grants compared to stock-based compensation expenses recorded in 2012 due to 2011 grants).

Our total amount of stock based compensation expenses in 2012 totaled to $5.4 million, the same as in 2011. Grant date fair values of our equity-based payment awards granted during 2012 increased compared to fair values of awards granted during 2011, due to the increase in our average share price in 2012 compared to 2011 and 2010. However, during 2012 we granted only 0.8 million stock options, compared to 2.0 million in 2011 and 2.2 million in 2010. These two impacts offset each other in 2012.

Financial Income, Net.

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

Financial income, net was $4.5 million in 2013, compared with $4.8 million in 2012. A decrease of $0.7 million is attributed to the impact of changes in exchange rates in 2013, compared to 2012. An increase of approximately $0.4 million is attributed mainly to an increase of approximately $18.0 million in our average cash balance (including bank deposits and marketable securities) in 2013 compared to 2012.

Financial income, net was $4.8 million in 2012, compared with $4.2 million in 2011. An increase of $ 1.0 million is attributed mainly to an increase of approximately $52.0 million in our average cash balance (including bank deposits and marketable securities) in 2012 compared to 2011. This increase was offset by a decrease of $0.4 million which is attributed to the impact of changes in exchange rates in 2012, compared to 2011, which affected the foreign currency translation differences included in our financial income.

Income Taxes.

Israeli companies are generally subject to corporate tax on their taxable income at the rate of 25% for the 2013 tax year and 26.5% for the 2014 tax year. However, we have established approved enterprise programs, which are 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 and privileged program. The tax benefits depend on our meeting the requirements of the approved enterprise program and there is no assurance that we will be able to obtain such benefits. In addition, our U.S. subsidiary has carry-forward tax losses to offset against future taxable profit. 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 2014 which we anticipate to be at a rate of up to 12% of our pre-tax income.

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

In August 2013 we reached a settlement with the ITA with respect to its demand for additional taxes for the years 2004, 2005, 2006 and 2008. The settlement calls for a total payment of NIS 8.3 million ($2.3 million) for the 2004 and 2005 tax years and no payments with respect to 2006 and 2008 tax years.

Tax expense for 2013 and 2012 amounted to $4.0 million; however our effective tax rate in 2013 increased to 18% from 11% in 2012. The increase in the effective tax rate was mainly due to increase in our income generated in the US, which is subject to higher tax rate. In addition, in August 2013 we reached a settlement with the Israeli Tax Authorities regarding our corporate tax returns from the years 2004, 2005, 2006 and 2008. The settlement amount was higher than our provision. The amount in excess (approximately $0.5 million) was recorded as an additional tax expense during 2013.

For additional disclosure and explanations regarding our income taxes, see note 12 to our financial statements. See also "Item 10E – Taxation – Israeli Tax Considerations."

Impact of Currency Fluctuations

Information required by this section is set forth in "Item 11 – Qualitative and Quantitative Disclosures about Market Risk" and in "Item – 3D – "Risk Factors" –Currency exchange rates and fluctuations of exchange rates could have a material adverse effect on our results of operations", each of which are incorporated herein by reference.

Impact of Governmental Policies

For information on the impact of governmental policies on our operations, see "Item 4B – "Government Regulations" and "Item – 3D – "Risk Factors" – "Risks Related to Operations in Israel."

B. Liquidity and Capital Resources

Working Capital and Cash Flows

In our opinion, the Company's working capital is sufficient for the Company's present requirements. Since our inception, we have financed our operations through a combination of issuing debt and/or equity securities, including two public offerings, research and development and/or marketing grants from the Government of Israel and cash generated by operations. Capital expenditures were $8.7 million, $9.3 and $5.7 for the years ended December 31, 2013, 2012 and 2011, respectively. These expenditures were mainly comprised of machinery and equipment, computers, lab equipment, testing tools and infrastructure to support our cloud based solutions. We expect to engage in additional capital spending to support possible growth in our operations, infrastructure and personnel. In 2014, we anticipate that the majority of our capital expenditures will be primarily for R&D testing, lab equipment and additional infrastructure to support our cloud based solutions.

The following table presents the major components of net cash flows used in and provided by operating, investing and financing activities for the periods presented (dollars in thousands):

	2013	2012	2011
Net cash provided by operating activities	30,200	51,520	41,990
Net cash used in investing activities	(29,987)	(59,886)	(49,212)
Net cash provided by (used in) financing activities	(194)	11,028	9,324

Net cash provided by operating activities for 2013, 2012 and 2011 was $30.2 million, $51.5 million and $42.0 million, respectively. Our net income in 2013, 2012 and 2011 was $18.1 million, $31.8 million and $21.3 million, respectively.

Net cash provided by operating activities in 2013 consisted primarily of net income adjusted for non-cash activity, including stock-based compensation expenses, depreciation, amortization of intangible assets, and amortization of premiums, accretion of discounts and accrued interest on available-for-sale marketable securities plus an increase in other payables and accrued expenses and deferred revenues, partially offset by a decrease in trade payables and an increase in trade receivables, inventories and deferred income taxes.

Net cash provided by operating activities in 2012 consisted primarily of net income adjusted for non-cash activity, including stock-based compensation expenses, depreciation, amortization of intangible assets, and amortization of premiums, accretion of discounts and accrued interest on available-for-sale marketable securities plus an increase in trade payables and other payables and accrued expenses, partially offset by a decrease in trade receivables and an increase in inventories and deferred income taxes.

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

Net cash used in investing activities amounted to $30.0 million for 2013, compared to net cash used in investing activities of approximately $59.9 million for 2012, and net cash used in investing activities of approximately $49.2 million for 2011. Cash used in investing activity in 2013 consisted primarily of purchase of bank deposits, marketable securities, net cash paid in connection with the acquisition of Strangeloop and purchase of property and equipment.

Cash was used in investing activities in 2012 and 2011 mainly for the purchase of bank deposits, marketable securities and purchase of property and equipment.

Net cash used in financing activities in 2013 was $0.2 million, compared to net cash provided by financing activities of $11.0 million for 2012 and $9.3 million for 2011. In 2013, net cash used in financing activities was attributed primarily to the repurchase of ordinary shares in the amount of $7.9 million, which was offset by proceeds from issuance of shares upon exercise of options by our employees under our Key Employee Share Option Plans and from adjustment of excess tax benefit from stock based compensation.

Cash provided by financing activities in 2012 and 2011 was generated from proceeds from issuance of shares upon exercise of options by our employees under our Key Employee Share Option Plan[s] and Employee Stock Purchase Plan[s] (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.

As of December 31, 2013, we had cash and cash equivalents, including short-term and long-term bank deposits and marketable securities, of $285.7 million, compared to $274.9 million as of December 31, 2012 and $219.1 million as of December 31, 2011. As of December 31, 2013, approximately 60% of our short-term and long-term bank deposits were deposited in major Israeli banks in Israel which are rated AA+, as determined by the Israeli affiliate of S&P, and 40% were deposited in the U.S. branch of another major Israeli bank which is also rated AA+, as determined by the Israeli affiliate of S&P. As of December 31, 2013, the maximal contractual duration of any of our bank deposits was 2 years, the weighted average duration of our deposits was 1.8 years, and the weighted average time to maturity was slightly less than a year. Our marketable securities portfolio includes investments in foreign banks and government debentures and in corporate debentures. The financial institutions that hold our marketable securities are major U.S. financial institutions, located in the United States. As of December 31, 2013, 54% of our marketable securities portfolio was invested in debt securities of financial institutions, 6% in debt securities of governmental institutions and 40% in debt securities of corporations. No more than 2% of our total investments portfolio was invested in debt securities of one issuer. From a geographic prospective, 54% of our marketable securities portfolio was invested in debt securities of U.S. issuers, 26% was invested in debt securities of European issuers and 20% was invested in debt securities of other geographic-located issuers. As of December 31, 2013, 95% of our marketable securities portfolio were rated A- or higher, as determined by S&P, and 5% were rated BBB or BBB+.

There are no material legal restrictions, taxes or other costs associated with transferring our funds held in U.S. financial institutions to Israeli financial institutions, and we have access to all of our cash as needed for our operations. Although we have various subsidiaries throughout the world, there are no material legal, tax or other cost impediments to our transferring cash to these subsidiaries for operations as and when needed or to such subsidiaries transferring cash to Radware to meet its own cash obligations. Further, Radware generates sufficient cash from its Israeli operations to fund its operating and capital requirements and, therefore, does not need or intend to repatriate any of the earnings of its foreign subsidiaries.

The days-sales-outstanding (DSO) for a given period is calculated by dividing the end-of-period balance of accounts receivable by the average daily sales in the period. The average quarterly DSO (computed over the four quarters of the year) was 48 days for 2013, compared with 32 days in 2012 and 33 days in 2011. When computed annually, the DSO is 47 days in 2013, compared with 36 days in 2012 and 27 days in 2011.

DSO increased in 2013 mainly due to the linearity of our revenues throughout 2013 and in particular in the last few months of 2013. During December 2013 we issued invoices to our customers in a total amount of $32.8 million, compared to invoices issued during December 2012 in a total amount of $24.7 million. Due to the fact that most of these invoices are not collected within the same month of issuance, but only in the following months, and due to the fact that our total revenues for 2013 increased only slightly compared to 2012, this change in linearity impacted our DSO materially.

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. In March 2009, we purchased Nortel's Layer 4-7 application delivery business for total consideration of $18.0 million, with additional transaction related costs of $2.5 million, and, in February 2013, we purchased Strangeloop for total consideration of $8.4 million in cash and additional transaction related costs of up to $0.5 million.

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

Related Parties

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

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

Market Risk

We are exposed to market risk, including fluctuations 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. Additional 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, 2013, we had 292 employees and 49 subcontractors engaged primarily in research and development activities, compared to 251 employees and 77 subcontractors at the end of 2012.

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 about the Company – Business Overview – Israeli Office of Chief Scientist."

D. Trend Information

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

E. Off-Balance Sheet Arrangements

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

F. Tabular Disclosure of Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2013 and the effect those commitments are expected to have on our liquidity and cash flow.

	Payments Due By Period (US $ in thousands)				
Contractual obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases(1)	6,615	3,109	2,806	700	-
Total contractual cash obligations (2)(3)	6,615	3,109	2,806	700	-

(1) Consists of outstanding operating leases for the Company's facilities. The lease agreements expire in the years 2014 to 2018, although certain of our leases have renewal options. The data in this row details our future minimum payments under non-cancelable operating lease agreements at December 31, 2013.

(2) Payments for uncertain income tax positions of $5.4 million under ASC 740 are due upon settlement. Since we are unable to reasonably estimate the timing of settlement, such payments are not included in the table. See also Notes 2(r) and 12(a) of our Consolidated Financial Statements.

(3) Severance payments of $3.6 million are payable only upon termination, retirement or death of the respective employee and there is no obligation for benefits accrued prior to 2007 if the employee voluntarily resigns. Of this amount, $0.3 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 senior management:

Name	Age	Position
Yehuda Zisapel (1)	72	Chairman of the Board of Directors
Yair Tauman (2)(3)(4)(5)	65	Chairman of the Compensation Committee and Director
David Rubner (1)(3)(4)(5)	74	Chairman of the Audit Committee and Director
Hagen Hultzsch (4) (5) (6)	73	Director
Yael Langer (6)	49	Director
Avraham Asheri (1) (4) (5)	76	Director
Joel Maryles (4)(6)	54	Director
Roy Zisapel (2)	43	Chief Executive Officer, President and Director
Meir Moshe	60	Chief Financial Officer
Sharon Trachtman	47	VP, Global Marketing
Yoav Gazelle	44	VP Sales EMEA & CALA
Terence Ying	52	VP Sales APAC
David Aviv	58	VP Advanced Technologies

(1) Term as director expires at the annual meeting of shareholders to be held in 2015.
(2) Term as director expires at the annual meeting of shareholders to be held in 2016.
(3) External Director, as defined in the Israeli Companies Law.
(4) Qualified as an independent director, as determined under the NASDAQ rules.
(5) Serves on the Audit and Compensation Committees of the Board of Directors.
(6) Term as director expires at the annual meeting of shareholders to be held in 2014.
(7) Serves on the Audit Committee of the Board of Directors.

Yehuda Zisapel, co-founder of our Company, has served as a member of our Board of Directors since our inception in May 1996 and served as Chairman of our Board of Directors from May 1996 until August 2006 and again since November 2009. In addition, Mr. Zisapel serves as a director of Radware Inc. and other subsidiaries. Mr. Zisapel is also a founder and a director of RAD Data Communications Ltd., a worldwide data communications company headquartered in Israel, and BYNET Data Communications Ltd., a distributor of data communications products in Israel and serves as a director of other companies in the RAD-Bynet Group. See "Item 4C – Organizational Structure." Mr. Zisapel has a B.Sc. and a M.Sc. degree in electrical engineering as well as an Award of Honorary Doctorate (DHC-Doctor Honoris Causa) from the Technion, Israel Institute of Technology and an M.B.A. degree from Tel Aviv University, Israel. Yehuda Zisapel is the father of Roy Zisapel, a director and President and Chief Executive Officer of the Company.

Prof. Yair Tauman has served as a member of the Board of Directors since October 2010. He has been the Dean of the Arison School of Business in the Interdisciplinary Center (IDC) in Herzliya, Israel since January 2010 and is also a Professor of Economics and the Director of the Center for Game Theory in Economics at Stony Brook University, New York. His areas of research include game theory and industrial organization. Prof. Tauman currently serves on

the board of directors of several companies from different sectors including online auctions, financial information, education and IT, one of which, ADVFN Plc, is traded on the London Stock Exchange. Prof. Tauman obtained his Ph.D. and M.Sc. degrees in mathematics as well as a B.Sc. in mathematics and statistics from The Hebrew University, Israel.

David Rubner has served as a member of the Board of Directors since October 2009. Mr. Rubner is the Chairman and Chief Executive Officer of Rubner Technology Ventures Ltd., and a Partner in Hyperion Israel Advisors Ltd., a venture capital firm. During the years 1991 to 2000, he was President and Chief Executive Officer of ECI Telecom Ltd. ("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, England and an M.S. degree from Carnegie Mellon University.

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

Yael Langer has served as a member of the Board of Directors since July 2009. Ms. Langer has served as the general counsel and secretary of RAD Data Communications Ltd. and several other companies in the RAD-BYNET group since July 1998. Since December 2000, Ms. Langer has served as a director in Ceragon Networks Ltd., a company publicly-traded on NASDAQ and the Tel-Aviv stock markets. From December 1995 to July 1998, Ms. Langer served as assistant general counsel to companies in the RAD-BYNET group. From September 1993 until July 1995, Ms. Langer was a member of the legal department of Poalim Capital Markets and Investments Ltd., the underwriting and investment banking subsidiary of Bank Hapoalim. Prior to that, Ms. Langer was an attorney in the firm of Shimron, Molcho, Persky in Jerusalem. Ms. Langer holds an L.L.B. degree from The Hebrew University, Israel.

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

Joel Maryles has served as a member of the Board of Directors since January 2014. He held numerous senior positions in the financial sector over the past three decades. From 2007 to 2012, Mr. Maryles was a portfolio manager of T-Cubed Investments LP, an equity hedge fund that he founded. From 1996 to 2006, he was a Managing Director at Citigroup Investment Banking where, in addition to his role as a senior technology banker, he founded and managed the Israeli investment banking operations for Citigroup/Salomon Smith Barney. From 1986 to 1996, Mr. Maryles held various senior positions at Furman Selz, a U.S.-based investment bank, including Managing Director focused on Israeli technology and healthcare transactions. Prior to Furman Selz, Mr. Maryles was an Investment Officer at First Chicago Investment Advisors. Mr. Maryles holds a B.Sc. degree in engineering from the University of Illinois and an M.B.A. from the University of Chicago.

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

Meir Moshe has served as our Chief Financial Officer since June 1999. From June 1997 to June 1999, Mr. Moshe was Chief Financial Officer, Secretary and Treasurer of ForSoft Ltd. Mr. Moshe holds a B.Sc. in economics and accounting from Tel Aviv University, Israel and is a certified public accountant.

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

Yoav Gazelle has served as our Vice President, EMEA & CALA since June, 2013. Prior to joining Radware, between July, 2000 and March, 2013, Mr. Gazelle held a variety of sales, marketing and business development positions in ECI Telecom Ltd., including President, Head of Europe and the Americas from January, 2012 to March, 2013. Mr. Gazelle holds a B.Sc. degree in electrical and electronic engineering cum laude from the Technion – The Israeli Institute of Technology, Israel.

Terence Ying has served as our Vice President, APAC since April 2002. Prior to joining Radware, between 1998 to 2002, Mr. Ying held a series of senior positions with Nortel Networks' APAC division, including as Marketing Director for the Intelligent Internet Business Unit, Managing Director of Greater China for Alteon WebSystems (acquired by Nortel in 2000) and the Enterprise Director for Nortel in Hong Kong. Mr. Ying holds a M.S. degree in IT management from the Macquarie University of Australia.

David Aviv has served as our Vice President, Advanced Services, since 2004. Prior to Radware he was the VP Engineering of Ofek, an Israel based ILEC and a senior consultant. Prior to that Mr. Aviv served in the IAF as a senior technical leader till 2000. Mr. Aviv serves as the Technical Chairman of the Israeli Telecom Standards Body committee. Mr. Aviv holds a Ph.D. degree in Electrical Engineering (EE) from the Naval Postgraduate School in Monterey, California, a B.S. degree in Electrical Engineering from Ben-Gurion University and an M.S. degree in Electrical Engineering from Tel Aviv University, Israel.

Additional Information

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

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

B. Compensation

General

The following table sets forth all compensation we paid with respect to all of our directors and officers as a group for the periods indicated. The table does not include any amounts we paid to reimburse any of our affiliates for costs incurred in providing us with services during such period.

	Salaries, fees, commissions and bonuses		Pension, retirement and other similar benefits	
2012 - All directors and officers as a group, consisting of 15 persons	$ 2,583,000	*	$349,000	*
2013 - All directors and officers as a group, consisting of 15 persons	$ 3,064,000	*	$419,000	*

* All directors and executive officers as a group, consisting of 15 persons for the year ended December 31, 2013, including two executive officers whose service expired in December 2013 and March 2014.

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

In addition, our non-employee directors, including external directors, are entitled to a grant of options under our stock option plans to purchase 20,000 ordinary shares for each year in which such non-employee director holds office. The options will be granted for three years in advance, and every director receives an initial grant of options to purchase 60,000 ordinary shares which vest over a period of three years, with a third (20,000) to vest upon each anniversary of service, provided that the director still serves on the Company's Board of Directors on the date of vesting. The grant will be made on the date of the director's election (or the date of commencement of office, if different), and thereafter, every three years, if reelected, an additional grant of options to purchase an additional 60,000 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).

During 2013 and the first two months of 2014 , we granted to our directors and officers listed in Item 6A above options to purchase, in the aggregate,1,240,000 ordinary shares at a weighted average exercise price per share of $14.68. The options expire sixty-two months after grant.

Chief Executive Officer Compensation

Mr. Roy Zisapel, our Chief Executive Officer and President, is a co-founder of our company, and has served in such position and as a director since our inception in May 1996. The key terms of Mr. Zisapel's employment with us (directly and/or with our subsidiaries), as approved by our shareholders, are as follows:

- Gross base salary of $300,000 (or the equivalent in NIS) per annum. In addition, he is entitled to a temporary quarterly payment of $25,000, effective as of the January 1, 2012 as compensation for his additional duties and tasks in the United States as manager of our entire on-going North Americas activities. The additional amount will be payable for as long as Mr. Zisapel maintains this additional position;

- Annual bonus of up to $300,000 (or the equivalent in NIS). The milestones and criteria for the annual bonus for the years 2013, 2014 and 2015 were approved by our shareholders and consist of several performance targets (namely revenues, profitability, business development, product development, product quality and overall performance). Our Board of Directors, following recommendation and approval of our Compensation Committee, may defer the payment of up to 10% of the annual bonus to which the Chief Executive Officer would otherwise be entitled in the applicable year to the following year and/or condition such payment by reaching one or more of the targets set for the following year;
- Company car and all related expenses, except related taxes;
- Contributions for the benefit of Mr. Zisapel to the Company's Managers Life Insurance Policy and Work Disability Insurance;
- Vacation and recreation pay;
- Education Fund ("Keren Hishtalmut"); and
- Medical Insurance.

- Mr. Zisapel has also received several grants of stock options, following approval of our shareholders: On December 31, 2007, we granted 1,000,000 stock options with an exercise price of $7.61 per share, which expire on December 31, 2014. The vesting of these options was contingent upon the increase in the market price of our ordinary shares compared to the closing share price on NASDAQ immediately prior to the time that the shareholder meeting was convened. All of these options have fully vested.
- On July 19, 2009, we granted 800,000 stock options with an exercise price of $4.39 per share. Half (50%) of these options became exercisable two years following the grant, 25% of those options became exercisable three years following the grant and the remainder are exercisable four years following the grant. The options expire 62 months from the grant date, i.e., on September 18, 2014.
- On October 3, 2013, we granted 800,000 stock options with an exercise price of $13.89 per share. Half (50%) of these options will become exercisable two years following the grant, 25% of those options will become exercisable three years following the grant and the remainder are exercisable four years following the grant. The options expire 62 months from the grant date, i.e., on December 3, 2018.

C. Board Practices

Introduction

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

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

Our Articles of Association provide for a Board of Directors of not less than five and not more than nine directors. Currently, our Board of Directors consists of eight 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.

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	2015	Yehuda Zisapel and Avraham Asheri
Class II	2016	Roy Zisapel and Joel Maryles*
Class III	2014	Hagen Hultzsch and Yael Langer

* Mr. Maryles was appointed in January 2014 and, in accordance with our articles of association, will be presented for election in the next annual general meeting of shareholders for a term of two years, ending on the annual general meeting to be held in 2016.

At each annual meeting of shareholders after the initial classification, the successors to directors whose terms will then expire will be elected to serve from the time of election and qualification until the third annual meeting following such election. Directors, other than external directors, are elected by a simple majority of the votes cast by our shareholders at an annual general meeting, whereas a director's removal from office requires the vote of at least seventy-five percent of the voting power represented at the general meeting. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, to the nearest extent possible, each class will consist of one-third of the directors. This classification of our Board of Directors may have the effect of delaying or preventing changes in control or management of our company.

The above classification does not apply to Mr. David Rubner and Prof. Yair Tauman, who were appointed as external directors and whose term of appointment ends in 2015 and 2016, respectively.

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

External Directors

Qualifications of External Directors

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

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

The term affiliation includes:

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

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

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

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

Election of External Directors

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

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

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

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

Each committee of the Company's board of directors is required to include at least one external director, except for the Audit and Compensation Committees which are required to be comprised of all the external directors.

Currently, Mr. David Rubner and Prof. Yair Tauman qualify as external directors under the Companies Law and were elected by the general shareholders meetings held in November 2012 and October 2013, respectively, to serve as our external directors for three-year terms ending in 2015 and 2016, respectively.

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

Our Committees

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

Audit Committee

NASDAQ Requirements

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

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

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

all related party transactions specified under Item 7B of Form 20-F.

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

Israeli Companies Law Requirements

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

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

Compensation Committee

Pursuant to applicable NASDAQ rules, the compensation payable to a company's chief executive officer and other executive officers must generally be approved by either a compensation committee comprised solely of independent directors or a majority of the independent directors. Under NASDAQ rules that became effective on July 1, 2013, compensation committees are to be granted additional authority and responsibilities with respect to the hiring of compensation advisors and other advisors. Under a recent amendment to the Companies Law, our Board of Directors is required to appoint a compensation committee comprised of at least three directors and which shall include all of the company's external directors. The other members of the compensation committee must satisfy certain independence standards under the Companies Law, and the chairman is required to be an external director. Under the Companies Law, the role of the compensation committee includes recommending to the Board of Directors, for ultimate shareholder approval by a special majority, a policy governing the compensation of office holders based on specified criteria; reviewing, from time to time, modifications to the compensation policy and examining its implementation; approving the actual compensation terms of office holders prior to approval thereof by the Board of Directors; and resolving whether to exempt the compensation terms of a candidate for chief executive officer from shareholder approval

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

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

Nomination of Directors

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

Board and Committee Meetings

	No. of Meetings in 2013	Average

Name of Body		Attendance Rate
Board of directors	9	97 %
Audit committee	6	90 %
Compensation committee	4	90 %

Each director attended at least 89% of all Board meetings.

Directors' Service Contracts

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

Internal Auditor

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

Approval of Specified Related Party Transactions under Israeli Law

Fiduciary Duties of Office Holders

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

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

- Information regarding the advisability of a given action submitted for his or her approval or performed by him or her by virtue of his or her position; and

- All other important information pertaining to these actions.

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

- Refrain from any conflict of interest between the performance of his/her duties in the company and the performance of his or her other duties or his or her personal affairs;

- Refrain from any activity that is competitive with the company;

- Refrain from exploiting any business opportunity of the company to receive a personal gain for himself/herself or others; and

- Disclose to the company any information or documents relating to the company's affairs which the office holder has received due to his/her position as an office holder.

Disclosure of Personal Interest of an Office Holder

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

meeting in which the transaction is first discussed. If the transaction is an extraordinary transaction, the office holder’s duty to disclose also applies to a personal interest of a relative of the office holder.

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

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

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

If the transaction is an extraordinary transaction, approval is required of both the audit committee and the board of directors, in that order. Under specific circumstances, shareholder approval may also be required. A director who has a personal interest in a matter which is considered at a meeting of the board of directors or the audit committee may not be present at this meeting or vote on this matter, unless a majority of the members of the board of directors or the audit committee, as the case may be, has a personal interest in the matter. If a majority of members of the board of directors have a personal interest therein, shareholder approval is generally also required.

Approval of Office Holder Compensation

Under the Companies Law every Israeli public company, such as Radware, must adopt a compensation policy, recommended by the compensation committee, and approved by the board of directors and the shareholders, in that order. The shareholder approval requires a majority of the votes cast by shareholders, excluding any controlling shareholder and those who have a personal interest in the matter. In general, all office holders' terms of compensation – including fixed remuneration, bonuses, equity compensation, retirement or termination payments, indemnification, liability insurance and the grant of an exemption from liability – must comply with the company's compensation policy. In October 2013, our shareholders approved the compensation policy for our executive officers and directors.

In addition, the compensation terms of directors, the chief executive officer, and any employee or service provider who is considered a controlling shareholder must be approved separately by the compensation committee, the board of directors and the shareholders of the company (by the same majority noted above), in that order. The compensation terms of other officers require the approval of the compensation committee and the board of directors.

Disclosure of Personal Interests of a Controlling Shareholder

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

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

- At least a majority of the shares of shareholders who have no personal interest in the transaction, and who are present and voting (in person, by proxy or by written ballot) vote in favor thereof; or

- The shareholders who have no personal interest in the transaction who vote against the transaction do not represent more than 2% of the voting power in the company.

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

General Duties of Shareholders

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

D. Employees

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

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

	As at December 31,					
	2013		2012		2011	
Approximate numbers of employees and subcontractors by geographic location						
Israel	394	(**)	366		327	
United States	153		130		120	
Other	307	(*)	304	(*)	286	(*)
Total workforce	854		800		733	
Approximate numbers of employees and subcontractors by category of activity						
Research and development	341	(*)	328	(*)	306	(*)
Sales, technical support, business development and marketing	405		375		340	
Management, operations and administration	108		97		87	
Total workforce	854	(**)	800		733	

(*) Include 49, 77 and 98 subcontractors, as of December 31, 2013, 2012 and 2011, respectively.
(**) Include 13 employees and contractors of Radyoos, our Israeli-based subsidiary which is engaged in developing and operating a web-based e-commerce platform, and not in our core business.

We are subject to Israeli labor laws and regulations with respect to our Israeli employees. These laws principally concern matters such as paid annual vacation, paid sick days, length of the workday and work week, minimum wages, pay for overtime, insurance for work-related accidents, severance pay and other conditions of employment.

Furthermore, our Israeli employees and we are subject to provisions of the collective bargaining agreements between the "Histadrut", the General Federation of Labor in Israel, and the Coordination Bureau of Economic Organizations, including the Industrialists Association, by governmental order. These provisions principally concern social benefits, cost of living increases, recreation pay and other conditions of employment. We generally provide our employees with benefits and working conditions above the required minimums.

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

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

E. Share Ownership

The following table sets forth certain information regarding the beneficial ownership of our ordinary shares by our directors and officers as of March 24, 2014. The percentage of outstanding ordinary shares is based on 45,220,566 ordinary shares outstanding as of March 24, 2014.

Name	Number of ordinary shares	Percentage of outstanding ordinary shares	
Yehuda Zisapel (1)	2,805,845	6.20	%
Roy Zisapel (2)	2,690,904	5.72	%
Avraham Asheri (3)	*	*	
Hagen Hultzsch (3)	*	*	
Yael Langer (3)	*	*	
David Rubner (3)	*	*	
Yair Tauman (3)	*	*	
Joel Maryles (3)	*	*	
Meir Moshe (3)	*	*	
David Aviv (3)	*	*	
Sharon Trachtman (3)	*	*	
Yoav Gazelle (3)	*	*	
Terence Ying (3)	*	*	
All directors and executive officers as a group (13 persons) (4)	6,271,841	13.20	%

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(1) Of the ordinary shares beneficially owned by Mr. Yehuda Zisapel (i) 2,255,777 are held directly by Yehuda Zisapel; (ii) 7,602 options to purchase ordinary shares are fully vested or will be fully vested with Yehuda Zisapel within the next 60 days, at an exercise price of $4.39 per share, expiring in September 2014; (iii) 522,466 are held of record by Carm-AD Ltd., an Israeli company wholly-owned in equal shares by Yehuda Zisapel and Nava Zisapel; and (iv) 20,000 options to purchase ordinary shares are fully vested or will be fully vested with Yehuda Zisapel within the next 60 days, at an exercise price of $16.21 per share, expiring in January 2018. In addition, Nava Zisapel directly holds 2,505,243 ordinary shares which are not included in the total shares reported above as beneficially owned by Yehuda Zisapel. Yehuda and Nava Zisapel have an agreement which provides for certain coordination in respect of sales of shares of Radware as well as for tag along rights with respect to off-market sales of shares of Radware.

(2) Consists of 890,904 shares and 1,800,000 options to purchase ordinary shares, which are fully vested or which will be fully vested within the next 60 days. The options consist of 800,000 options at an exercise price of $4.39 per share which expire in September, 2014 and 1,000,000 options at an exercise price of $7.61 per share which expire in December 2014.

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

disclosed.

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(4) Consists of 3,961,739 shares and 2,310,102 options to purchase ordinary shares which are fully vested or which will be fully vested within the next 60 days. The options consist of (i) 852,602 options at an exercise price of $4.39 which expire in September 2014, (ii) 20,000 options at an exercise price of $4.50 which expire in September 2014, (iii) 110,000 options at an exercise price of $7.81 which expire in December 2014, (iv)1,000,000 options at an exercise price of $7.61 which expire in December 2014, (v) 20,000 options at an exercise price of $5.79 which expire in January 2015, (vi) 20,000 options at an exercise price of $7.65 which expire in March 2015, (vii) 60,000 options at an exercise price of $11.94 which expire in June 2015, (viii) 60,000 options at an exercise price of $17.29 which expire in December 2015, (ix) 22,500 options at an exercise price of $17.97 which expire in December 2015, (x) 25,000 options at an exercise price of $16.40 which expire in September 2016, (xi) 60,000 options at an exercise price of $12.34 which expire in November 2016, and (xii) 60,000 options at an exercise price of $16.21 which expire in January 2018. In addition, Nava Zisapel directly holds 2,505,243 ordinary shares which are not included in the total shares reported above as beneficially owned by Yehuda Zisapel. Yehuda and Nava Zisapel have an agreement which provides for certain coordination in respect of sales of shares of Radware as well as for tag along rights with respect to off-market sales of shares of Radware.

Key Employee Share Incentive Plan

In August 1997, we adopted our Key Employee Share Incentive Plan (1997), as amended, or the Share Incentive Plan. Under the plan stock options as well as restricted stock units, or RSUs, may be granted to employees employed by us or by our affiliates.

The Share Incentive Plan is administered by the Compensation Committee subject to the provisions of the Companies Law. Pursuant to the plan, the Compensation Committee has the authority to determine (subject to applicable law), or advise the Board of Directors, in its discretion:

- the persons to whom options are granted;
- the number of shares underlying each options award;
- the time or times at which the award shall be made;
- the exercise price, vesting schedule and conditions pursuant to which the options are exercisable; and
- any other matter necessary or desirable for the administration of the plan.

In addition, the Share Incentive Plan provides that, unless otherwise determined otherwise by our Board of Directors (or a committee thereof), in the event of a “Hostile Takeover”, which is defined to include, among others, an unsolicited acquisition of more than 20% of our outstanding shares (other than a purchase by Mr. Yehuda Zisapel), the vesting of all or a portion of our outstanding equity awards, including stock options, will accelerate. As a result, an acquisition of our Company that triggers the said acceleration will be more costly to a potential acquirer.

Options granted pursuant to the Share Incentive Plan are typically granted for a term of sixty-two months from the date of the grant of the option. As of December 31, 2013, (i) 24,259,912 ordinary shares have been reserved for equity grants under the plan, of which we have granted options to purchase 23,130,423 ordinary shares at a weighted average exercise price of $6.92 per ordinary share and (ii) 185,215 RSUs have been issued under the plan.

The Share Incentive Plan allows the allocation of short term options to grantees who are not residents of Israel or the United States, with a grant price of 90% of the closing sales price for the shares on the NASDAQ on the date of grant of a respective option award. As of December 31, 2013, 1,000,000 ordinary shares have been reserved for option

grants under this arrangement, of which we have granted options to purchase 236,694 ordinary shares at a weighted average exercise price of $7.09 per ordinary share. This arrangement does not affect the possibility of issuing options under the Share Incentive Plan as detailed above. However, any person who participates in the ESPP (as defined below) shall not be an eligible grantee for purposes of such arrangement.

Directors and Consultants Option Plan

In February 2000, we adopted a Directors and Consultants Option Plan, which is administered by our Compensation Committee. Options granted pursuant to our Directors and Consultants Options Plan are for a term of sixty-two months from the date of the grant of the option. The terms of the Directors and Consultants Option Plan are similar to the terms of the Share Incentive Plan. The Directors and Consultants Option Plan relies on the 24,259,912 ordinary shares reserved for option grants shares under the Share Incentive Plan which can be rolled over between such plans. The Compensation Committee may not grant options to members of the Committee or to a shareholder of over 10% of our issued and outstanding shares.

Employee Share Purchase Plan

In February 2010, our Board of Directors adopted the 2010 Employee Share Purchase Plan ("ESPP"), which provides for the issuance of a maximum of 2,000,000 ordinary shares. Pursuant to the ESPP, eligible employees (including only Israeli and United States residents) could have up to 10% of their net income withheld, up to certain maximums, to be used to purchase our ordinary shares. The ESPP is implemented with overlapping one year offering periods, each one consisting of two purchases, once in every six-month period. The price of each ordinary share purchased under the ESPP is equal to 90% of the closing price for the shares on the respective offering date. As of December 31, 2013, 255,560 shares have been purchased under the ESPP. During 2013, no shares have been purchased under the ESPP.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table sets forth certain information regarding the beneficial ownership of our ordinary shares as of March 24, 2014, by each person or entity known to own beneficially more than 5% of our outstanding ordinary shares based on information provided to us by the holders or disclosed in public filings with the SEC. The voting rights of all major shareholders are the same as for all other shareholders.

Name	Number of ordinary shares	Percentage of outstanding ordinary shares	
FMR LLC (1)	5,239,066	11.59	%
Morgan Stanley (2)	4,233,616	9.36	%
Rima Senvest Management, LLC (3)	4,124,918	9.12	%
Cadian Capital Management, LLC (4)	3,471,083	7.68	%
Nava Zisapel (5)	3,027,709	6.70	%
Yehuda Zisapel (6)	2,805,845	6.20	%
Roy Zisapel (7)	2,690,904	5.72	%
Federated Investors, Inc. (8)	2,519,900	5.57	%

(1) This information is based on information provided in the Amendment No. 1 to Statement on Schedule 13G filed with the SEC by FMR LLC on February 14, 2014. Based on the Schedule 13G previously filed with the SEC by FMR, FMR beneficially owned, as of May 10, 2013, 5,705,830 ordinary shares.

(2) This information is based on information provided in the Amendment No. 1 to Statement on Schedule 13G filed with the SEC by Morgan Stanly on January 28, 2014. Based on the Schedule 13G previously filed with the SEC by Morgan Stanly, Morgan Stanly beneficially owned, as of April 12, 2013, 1,482,928 ordinary shares.

(3) Shares are beneficially owned by Rima Senvest Management, LLC, a Delaware corporation (“Rima”), and Richard Mashaal, a Canadian citizen. This information is based on information provided in the Amendment No. 7 to Statement on Schedule 13G filed with the SEC by Mr. Mashall and Rima on February 13, 2014. Based on previous amendments to the Schedule 13G filed with the SEC by Mr. Mashall and Rima, Rima beneficially owned, as of February 14, 2013, 6.87% of our outstanding ordinary shares, as of February 14, 2012, 7.81% of our outstanding ordinary shares and as of March 18, 2011, 7.35% of our outstanding ordinary shares.

(4) This information is based on information provided in the Amendment No. 3 to Statement on Schedule 13G filed with the SEC by Cadian Capital Management, LLC and Mr. Eric Bannasch on February 14, 2014. Based on the Schedule 13G previously filed with the SEC by Cadian and Mr. Bannasch they beneficially owned, as of February 14, 2013 8.10% of our outstanding ordinary shares, as of February 14, 2012, 5.09% of our outstanding ordinary shares.

(5) Of the ordinary shares beneficially owned by Ms. Nava Zisapel, (i) 2,505,243 are held directly; and (ii) 522,466 are held of record by Carm-AD Ltd., an Israeli company owned 50% by Nava Zisapel; As noted in note 1 in “Item 6E – Share Ownership,” Yehuda and Nava Zisapel have an agreement which provides for certain coordination in respect of sales of shares of Radware as well as for tag along rights with respect to off-market sales of shares of Radware.

(6) Of the ordinary shares beneficially owned by Mr. Yehuda Zisapel, (i) 2,255,777 are held directly; (ii) 522,466 are held of record by Carm-AD Ltd., an Israeli company owned 50% by Yehuda Zisapel; (iii) 7,602 options to purchase ordinary shares are fully vested or will be fully vested with Yehuda Zisapel within the next 60 days, at an exercise price of $4.39 per share, expiring in September, 2014; and (iv) 20,000 options to purchase ordinary shares are fully vested or will be fully vested with Yehuda Zisapel within the next 60 days, at an exercise price of 16.21 per share, expiring in January, 2018. As of March 25, 2012 Mr. Zisapel owned 13.26%, as of March 18, 2011 Mr. Zisapel owned 14.13% and as of April 10, 2010 Mr. Zisapel owned 16.91% of our outstanding shares. As noted in note 1 in "Item 6E – Share Ownership," Yehuda and Nava Zisapel have an agreement which provides for certain coordination in respect of sales of shares of Radware as well as for tag along rights with respect to off-market sales of shares of Radware.

(7) Includes: (i) 890,904 ordinary shares held directly; and (ii) 1,800,000 options to purchase ordinary shares, which are fully vested or which will be fully vested within the next 60 days. The options consist of 800,000 options at an exercise price of $4.39 per share which expire in September, 2014 and 1,000,000 options at an exercise price of $7.61 per share which expire in December 2014.

(8) Shares are beneficially owned by Federated Investors, Inc. (the "Parent") the parent holding company of Federated Equity Management Company of Pennsylvania and Federated Global Investment Management Corp. (the "Investment Advisers"), which act as investment advisers to registered investment companies and separate accounts that own our shares of common stock. The Investment Advisers are wholly owned subsidiaries of FII Holdings, Inc., which is wholly owned subsidiary of Federated Investors, Inc., the Parent. All of the Parent's outstanding voting stock is held in the Voting Shares Irrevocable Trust (the "Trust") for which John F. Donahue, Rhodora J. Donahue and J. Christopher Donahue act as trustees (collectively, the "Trustees"). This information is based on information provided in the Amendment No. 6 to Statement on Schedule 13G filed with the SEC by Parent, the Trust and the Trustees on February 12, 2014. Based on previous amendments to the Schedule 13G filed with the SEC by Federated Investors, Inc., it beneficially owned, as of February 12, 2013 5.80% of our outstanding ordinary shares, as of February 9, 2012 6.40% of our outstanding ordinary shares and as of March 18, 2011, 7.48% of our outstanding ordinary shares.

Major Shareholders Voting Rights

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

Record Holders

Based on a review of the information provided to us by our transfer agent, as of March 26, 2014, there were 31 holders of record of our ordinary shares, of which 18 record holders, holding approximately 11.57% of our ordinary shares, had registered addresses in Israel, and of which 11 record holders, holding approximately 88.43% 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 88.42% of our outstanding ordinary shares as of said date).

B. Related Party Transactions

General

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. See Item 4C – Organizational Structure." Of these agreements, the lease for our headquarters in Tel Aviv is material to our operations. We believe that the terms of the transactions to which we have entered with members of the RAD-Bynet Group are not different in any material respect from terms we could obtain from unaffiliated third parties. The pricing of the transactions was based on negotiations between the parties. Members of our management reviewed the pricing of the lease agreement, as well as, in some cases, used a third-party consulting firm, and confirmed that it was not different in any material respect than that which could have been obtained from unaffiliated third parties.

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

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The RAD-Bynet Group consists of high-tech manufacturers of hardware and software products and data communication providers, distributors and integrators as well as service providers. The RAD-Bynet Group includes approximately 15 different companies dealing in advanced communication technology, networks, and integration. Companies within the RAD-Bynet Group provide a variety of services to their customers, including: engineering, purchasing and sub-contracting, production and final testing, planning and control, and support for end users. The RAD-Bynet Group also includes a few companies which provide services in order to support the activities of the other RAD-Bynet Group members, such as real estate leasing and administrative services. Each company in the RAD-Bynet Group is independent from the others. The ownership and Board of Directors structure of each RAD-Bynet Group member is different and certain of the RAD-Bynet Group members are publicly traded companies.

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

Lease of Property

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

- One lease (the "Headquarters Lease") is a five-story building in Tel Aviv, Israel, consisting of approximately 36,000 square feet, plus storage and parking space. The lease expires in November 2017. The annual rent amounts to approximately $867,000.

- The second lease consists of two floors in the Or Tower in Tel Aviv, Israel with approximately 30,000 square feet, plus parking spaces. The lease expires in May 2014. The annual rent for such two floors amounts to approximately $625,000.

- The third lease consists of one floor in the second wing of Or Tower in Tel Aviv, Israel, with approximately 12,000 square feet, plus parking spaces. The lease expires in May 2014. The annual rent amounts to approximately $340,000.

- We lease approximately 6,300 square feet of space in Jerusalem, Israel, for development facilities from an affiliated company owned by Messrs. Yehuda and Zohar Zisapel. This lease expires in August 2014. The annual rent amounts to approximately $111,000.

- In addition, we lease approximately 15,000 square feet of space in Jerusalem, Israel, for manufacturing facilities from an affiliated company owned by Messrs. Yehuda and Zohar Zisapel. This lease expires in August 2016. The annual rent amounts to approximately $177,000

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 $234,000 (including taxes, electricity and management fees). The lease expires on April 20, 2014. We have exercised an option to extend such lease for an additional period of one year. During the extended period, the annual rent amounts to approximately $234,000.

Distribution Agreement

Bynet Data Communications Ltd., a member of the RAD-Bynet Group, distributes our products in Israel on a non-exclusive basis. We have a written distributor agreement with Bynet Data Communications Ltd. under which we provide Bynet Data Communications with discounts similar to the discounts provided to third-party distributors in the region in the ordinary course of business. The total sales to Bynet Data Communications (and other companies in the RAD-Bynet Group) amounted to approximately $4.2 million in 2013, compared to $6.2 million in 2012.

Additional RAD-Bynet Group Services

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

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

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

Compensation of Chief Executive Officer

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

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and other Financial Information

Financial Statements

See “Item 18 - Financial Statements”.

Export Sales

For the year ended December 31, 2013, the amount of our export sales (i.e., sales outside Israel) was approximately $187 million, which represents 97% of our total sales.

Legal Proceedings

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

SNMP Intellectual Property Claim

In November 2011, SNMP Research International, Inc. and SNMP Research, Inc. commenced a lawsuit in the United States Bankruptcy Court for the District of Delaware against Nortel Networks, Inc. (and certain of its affiliates entities), Genband US LLC, GENBAND, Inc., Performance Technologies, Inc., Perftech (PTI) Canada, Avaya, Inc. and Radware, Ltd. SNMP alleges that the Company has infringed certain of SNMP’s copyrights, misappropriated certain of SNMP’s trade secrets, were unjustly enriched, and converted certain of SNMP’s intellectual property. SNMP has asserted that as part of the Company’s acquisition of the Layer 4-7 Application Delivery business from Nortel Networks in March 2009, the Company received certain intellectual property of SNMP Research that was embedded in the Layer 4-7 business. The complaint does not specify the amount of damages and requests that such amount be determined at trial. The Company was served with the complaint in Israel in March 2013 and advised SNMP Research that it diligently investigated whether software received from Nortel included SNMP Software, and based on such investigation no SNMP Software was found. The Company moved to dismiss the action in May 2013 based on failure of the complaint to plead facts sufficient to state plausible causes of action for which relief can be granted. Oral argument on the motion was conducted on October 29, 2013. On December 10, 2013, Chief Judge Gross granted our motion and dismissed the complaint as to us. SNMP filed an amended complaint with the same claims on December 27, 2013, but the Company has not yet been served with the amended complaint. The Company is discussing settlement with SNMP. Draft settlement agreements have been exchanged which impose no liability on the Company. If settlement is not reached and SNMP Research does not voluntarily dismiss the amended complaint against the Company, the Company intends to vigorously defend the litigation, and cannot estimate what impact, if any, the litigation may have on our results of operations, financial condition or cash flows.

Parallel Networks Intellectual Property Claim

On December 23, 2013, Parallel Networks, LLC filed suit in the United States District Court for the District of Delaware, alleging infringement of U.S. Patents relating to the Company’s products that offer certain caching and URL re-writing features. The Company denies that it has infringed any valid claims of the asserted patents and has filed counterclaims for a declaration that the Company’s products do not infringe and that the asserted patents are invalid. The Company intends to continue to vigorously oppose Plaintiff’s claims. However, since the litigation is still in a preliminary stage, we cannot estimate what impact, if any, the litigation may have on our results of operations,

financial condition or cash flows.

F5 Intellectual Property Counterclaim

On August 29, 2013, F5 Networks Inc. (“F5”) filed an amended answer and counterclaim in an action brought by the Company against F5 on May 1, 2013 for infringement of three of the Company’s patents regarding link load balancing technology. In its counterclaim, F5 alleged infringement of four F5 patents related to cookie persistence technology. In particular, while F5 acknowledged that the Company is licensed to each of the F5 patents-in-suit, F5 contends that the Company’s AppDirector and Alteon product lines perform unlicensed modes of the patents-in-suit. F5’s counterclaim further alleged trade libel and unfair competition resulting from statements made by the Company asserting that F5 is responsible for certain internet service problems at major banks, including the Bank of America. On December 6, 2013, Radware filed an answer denying the allegations in F5’s counterclaims. No date has been set for trial in this matter and we currently cannot estimate what impact, if any, the litigation may have on our results of operations, financial condition or cash flows.

BB&T Indemnification Claim

On October 22, 2012, Branch Banking and Trust Co. (“BB&T”) filed a third-party complaint in the Eastern District of Texas against Radware Inc., seeking indemnification for patent infringement claims brought by TQP Development LLC (“TQP”) against BB&T in the same court. The complaint alleges that BB&T purchased certain products from Nortel Networks Inc. (“Nortel”) and Covelight Systems Inc. and that TQP has alleged that BB&T’s use of these products infringes certain TQP patents. BB&T further alleges that Radware is the successor in interest to Nortel and Covelight and that Radware, Inc. has refused to defend and hold BB&T harmless against TQP’s allegations in breach of BB&T’s agreements and warranties with Nortel and Covelight. On January 14, 2013, Radware filed an answer and counterclaim denying that Radware has any indemnity obligations to BB&T and seeking declaratory judgment as to each of BB&T’s asserted causes of action. On April 8, 2013, the Court granted BB&T’s motion to dismiss its action against Radware without prejudice. On September 6, 2013 TQP moved to dismiss all claims against BB&T. On January 14, 2014 Magistrate Judge Payne issued an order recommending granting TQP’s motion to dismiss.

ITA Litigation

In August 2013 the Company reached a settlement with the Israeli Tax Authorities regarding the Company’s corporate tax returns from the years 2004, 2005, 2006 and 2008. The settlement amounted to a total payment of NIS 8.3 million ($2.3M). The Company had provisions for the related years in the amount of NIS 6.4 million ($1.8M). The amount in excess (approximately $500) was recorded as an additional tax expense during 2013. During 2013 the ITA began assessment of 2009-2011 tax years.

Dividend Distribution Policy

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

B. Significant Changes

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

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ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

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

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

	NASDAQ Global Select Market	
	High	Low
2009	$ 7.56	$ 2.58
2010	$ 19.89	$ 7.46
2011	$ 21.37	$ 9.91
2012		
First Quarter	$ 18.72	$ 14.48
Second Quarter	$ 19.87	$ 17.59
Third Quarter	$ 19.38	$ 14.52
Fourth Quarter	$ 17.96	$ 15.56
ANNUAL	$ 19.87	$ 14.48
2013		
First Quarter	$19.28	$16.70
Second Quarter	$18.79	$13.76
Third Quarter	$15.24	$13.70
Fourth Quarter	$17.98	$13.78
ANNUAL	$19.28	$13.70
Most recent six months		
2013		
October	$15.24	$13.78
November	$17.00	$14.54
December	$17.98	$16.67
2014		
January	$19.22	$16.77
February	$17.56	$16.40
March (*)	$18.18	$16.62

*Through March 24, 2014

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 60,000,000 ordinary shares of nominal (par) value NIS 0.05 each. There are no other classes of shares. All of our outstanding shares are fully paid and non-assessable. The shares do not entitle their holders to preemptive rights and fully paid ordinary shares may be freely transferred pursuant to our Articles of Association unless such transfer is restricted or prohibited by another instrument.

Dividend and Liquidation Rights

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

In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares in proportion to their respective holdings. This liquidation right may be affected by the grant of preferential dividends or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

Voting, Shareholders' Meetings and Resolutions

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

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

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

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

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

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

General Duties of Shareholders

Under the Companies Law, each and every shareholder has a duty to act in good faith in exercising his rights and fulfilling his obligations towards the company and other shareholders and refrain from abusing his power in the company, such as in voting in the general meeting of shareholders on the following matters:

- any amendment to the articles of association;
- an increase of the company's authorized share capital;
- a merger; or
- approval of certain related party transactions and actions, which require shareholder approval pursuant to the Companies Law.

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

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

ability of a shareholder to act in what the shareholder perceives to be its own best interests.

Restrictions on Non-Israeli Residents

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

Mergers and Acquisitions under Israeli Law

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

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

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

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

If, as a result of an acquisition of shares, the acquirer will hold more than 90% of a company’s outstanding shares, the acquisition must be made by means of a tender offer for all of the outstanding shares. In general, if less than 5% of the

outstanding shares are not tendered in the tender offer and more than half of the offerees who have no personal interest in the offer tendered their shares, all the shares that the acquirer offered to purchase will be transferred to it. Shareholders may request appraisal rights in connection with a full tender offer for a period of six months following the consummation of the tender offer, but the acquirer is entitled to stipulate that tendering shareholders will forfeit such appraisal rights.

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

Modification of Class Rights

Our Articles of Association provide that the rights attached to any class (unless otherwise provided by the terms of such class), such as voting, rights to dividends and the like, may be varied by written consent of holders of seventy-five percent of the issued shares of that class, or by adoption by the holders of seventy-five percent of the shares of that class at a separate class meeting. Subject thereto, the conditions imposed by our Articles of Association governing changes in the rights of any class of shares, are no more stringent than is required by Israeli law.

Board of Directors

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

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

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

Exculpation, Insurance and Indemnification

Exculpation of Office Holders

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

Insurance of Office Holders

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

- a breach of his or her duty of care to us or to another person;

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

Indemnification of Office Holders

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

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

Limitations on Insurance and Indemnification

The Companies Law provides that a company may not indemnify an office holder, or enter into an insurance contract which would provide coverage for any monetary liability incurred as a result of any of the following:

- A breach by the office holder of his or her duty of loyalty unless, with respect to indemnification or insurance coverage, the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice

the company;

- A breach by the office holder of his or her duty of care if the breach was done intentionally or recklessly unless the breach was done negligently;

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- 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 with an aggregate coverage limit of $15 million. In addition, we provide our directors and officers indemnification pursuant to the terms of a Letter of Indemnification substantially in the form approved by our shareholders.

C. Material Contracts

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

D. Exchange Controls

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

E. Taxation

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

Israeli Tax Considerations

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

General Corporate Tax Structure

Generally, Israeli companies are subject to “Corporate Tax” on their taxable income at the rate of 25% for the 2013 and 26.5% for the 2014 tax year. Following an amendment to the Tax Ordinance, which came into effect on January 1, 2014, the Corporate Tax rate is scheduled to remain at a rate of 26.5% for future tax years. Israeli companies are generally subject to Capital Gains Tax at the corporate tax rate. However, the effective tax rate payable by a company which derives income from an approved enterprise (as further discussed below) may be considerably less.

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

The 2005 Amendment to the Investments Law

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

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

The duration of tax benefits is subject to a limitation of the earlier of 7 to 10 years from the commencement year, or 12 years from the first day of the Year of Election. The tax benefits granted to a Privileged Enterprise are determined, as applicable to its geographic location within Israel, according to the following new tax route, 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 Privileged 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. If the company distributes a dividend out of income derived from the Privileged Enterprise during the tax exemption period, such income will be subject to corporate tax at the applicable rate of the gross amount (10%-25%). The company is required to withhold tax at the source at a rate of 15% from any dividends distributed from income derived from the Privileged Enterprise; and

- Tax exempt profits, resulting from utilization of tax benefits under the Amendment to the law might be subject to future taxation on the corporate level upon distribution to shareholders by a way of dividend or liquidation.

We elected 2009 and 2012 as years of election according to the law prior to the reform mentioned below.

Reform of the Investments Law

On December 29, 2010, the Israeli parliament approved an amendment to the Investments Law, effective as of January 1, 2011, which constitutes a reform of the incentives regime under such law.

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

- A reduced corporate tax rate for industrial enterprises, provided that more than 25% of their annual income is derived from export, which will apply to the enterprise's entire preferred income so that in the tax years 2011 and 2012 the reduced tax rate will be 10% for preferred income derived from industrial facilities located in development area A and 15% for those located elsewhere in Israel, in the tax year 2013 the reduced tax rate will be 7% for development area A and 12.5% for the rest of Israel, and in the tax year 2014 and onwards the reduced tax rate will be 9% for development area A and 16% for the rest of Israel.

- The reduced tax rates will no longer be contingent upon making a minimum qualifying investment in productive assets.

- A definition of "preferred income" was introduced into the Investments Law to include certain types of income that are generated by the Israeli production activity of a preferred enterprise.

- A reduced dividend withholding tax rate of 15% will apply to dividends paid from preferred income to both Israeli and non-Israeli investors, which tax rate was increased to 20% for dividends paid from preferred income which was accumulated from 2014 and onwards, and with an exemption from such withholding tax applying to dividends paid to an Israeli company.

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

We examined the possible effect of the 2011 Amendment on our financial statements, if at all, and as of the date of this report, we do not believe we will opt to apply the amendment for the 2013 tax year.

A substantial portion of our taxable operating income is derived from our Privileged Enterprise programs 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 programs.

Captured Earnings – 2012 amendment

The Investment Law treats certain payments made by a company from cash resources derived from tax exempt income, as a deemed dividend distribution event, triggering a corporate tax liability, at the regular Approved or Privileged income tax rates. Such payments include but are not limited to, repurchase of shares and payments made to substantial shareholders as defined in the Law. The above amendment to the Law stipulated that investments in subsidiaries including in the form of acquisition of subsidiaries from unrelated party, may be also considered as a deemed dividend distribution event, thus increasing the risk of triggering a deemed dividend distribution event and therefore a potential tax exposure. The ITA interpretation is that this provision applies retroactively to investments and acquisitions made prior to the amendment.

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, 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.

Capital Gains Tax on Sales of Our Ordinary Shares

Israeli law generally imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares in Israeli companies, by non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is a portion of the total capital gain which is equivalent to the increase of the relevant asset's purchase price which is attributable to the increase in the Israeli consumer price index or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

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

As of January 1, 2013, shareholders that are individuals who have taxable income that exceeds NIS 800,000 in a tax year (linked to the CPI each year), will be subject to an additional tax, referred to as High Income Tax, at the rate of 2% on their taxable income for such tax year which is in excess of NIS 800,000. For this purpose taxable income will include taxable capital gains from the sale of our shares and taxable income from dividend distributions.

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 more than 25% in such non-Israeli corporation, or (ii) are the beneficiaries or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

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

Pursuant to the Convention Between the government of the United States of America and the government of Israel with Respect to Taxes on Income, as amended (the "U.S.-Israel Tax Treaty"), the sale, exchange or disposition of ordinary shares by a person who (i) holds the ordinary shares as a capital asset, (ii) qualifies as a resident of the United

States within the meaning of the U.S.-Israel Tax Treaty and (iii) is entitled to claim the benefits afforded to such person by the U.S.-Israel Tax Treaty, generally, will not be subject to the Israeli capital gains tax. Such exemption will not apply if (i) such Treaty U.S. Resident holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding such sale, exchange or disposition, subject to certain conditions, or (ii) the capital gains from such sale, exchange or disposition can be allocated to a permanent establishment in Israel. In such case, the sale, exchange or disposition of ordinary shares would be subject to Israeli tax, to the extent applicable; however, under the U.S.-Israel Tax Treaty, such Treaty U.S. Resident would be permitted to claim a credit for such taxes against the U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel Tax Treaty does not relate to U.S. state or local taxes.

Taxation of Dividends paid to Non-Resident Holders of Shares

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. Such sources of income include passive income such as dividends. On distributions of dividends other than bonus shares, or stock dividends, income tax is applicable at the rate of 25%, or 30% for a shareholder that is considered a "significant shareholder" at any time during the 12-month period preceding such distribution, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence. However, under the Investments Law, dividends generated by an Approved Enterprise, Privileged Enterprise or Preferred Enterprise, are taxed at the rate of 15%-20%.

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, Privileged Enterprise or Preferred 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, Privileged Enterprise or Preferred 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;

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

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

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

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

Taxation of Ordinary Shares

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

Dividends that are received by non-corporate U.S. Holders will generally be taxed at the rate applicable to long-term capital gains (currently a maximum rate of 20% for taxable years beginning after December 31, 2012), 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. In addition, a non-corporate U.S. Holder will be able to take a qualified dividend into account in determining its deductible investment interest (which is generally limited to its net investment income) only if it elects to do so; in such case the dividend will be taxed at ordinary income rates.

Distributions of current or accumulated earnings and profits paid in foreign currency to a U.S. Holder (including any non-U.S. taxes withheld therefrom) will generally be includible in the income of a U.S. Holder in a U.S. dollar amount calculated by reference to the exchange rate on the day the distribution is received regardless of whether the foreign currency is converted into U.S. dollars. A U.S. Holder that receives a foreign currency distribution and converts the foreign currency into U.S. dollars after the date of receipt may have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the U.S. dollar, which will generally be U.S. source ordinary income or loss.

U.S. Holders may have the option of claiming the amount of any non-U.S. income taxes withheld on a dividend distribution either as a deduction from gross income or as a dollar-for-dollar credit against their U.S. federal income tax liability. Individuals who do not claim itemized deductions, but instead utilize the standard deduction, may not claim a deduction for the amount of the non-U.S. income taxes withheld, but such amount may be claimed as a credit against the individual's U.S. federal income tax liability. The amount of non-U.S. income taxes which may be claimed as a credit in any year is subject to complex limitations and restrictions, which must be determined on an individual basis by each U.S. Holder. These limitations include, among others, rules which limit foreign tax credits allowable with respect to specific classes of income to the U.S. federal income taxes otherwise payable with respect to each such class of income. The total amount of allowable foreign tax credits in any year generally cannot exceed the pre-credit U.S. tax liability for the year attributed to non-U.S. source taxable income. A U.S. Holder will be denied a foreign tax credit with respect to non-U.S. income tax withheld from a dividend received on the ordinary shares if such U.S. Holder has not held the ordinary shares for at least 16 days of the 30-day period beginning on the date which is 15 days before the ex-dividend date with respect to such dividend, or to the extent such U.S. Holder is under an obligation to make related payments with respect to substantially similar or related property. Any days during which a U.S. Holder has substantially diminished its risk of loss on the ordinary shares are not counted toward meeting the required 16-day holding period. Distributions of current or accumulated earnings and profits generally will generally be foreign source passive income for U.S. foreign tax credit purposes.

Taxation of the Disposition of Ordinary Shares. Subject to the discussion below under "Passive Foreign Investment Company Status," upon the sale, exchange or other disposition of our ordinary shares, a U.S. Holder will recognize capital gain or loss in an amount equal to the difference between such U.S. Holder's basis in such ordinary shares, which is usually the cost of such shares, and the amount realized on the disposition. A U.S. Holder that uses the cash method of accounting calculates the U.S. dollar value of the proceeds received on the sale as of the date that the sale settles, while a U.S. Holder that uses the accrual method of accounting is required to calculate the value of the proceeds of the sale as of the "trade date," unless such U.S. Holder has elected to use the settlement date to determine its proceeds of sale. Capital gain from the sale, exchange or other disposition of our ordinary shares held more than one year is long-term capital gain, and may be eligible for a reduced rate of taxation for individuals, estates or trusts (currently taxable at a maximum of 20%). 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 may be 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.

Medicare Tax. With respect to taxable years beginning after December 31, 2012, certain non-corporate U.S. holders will be subject to an additional 3.8% Medicare tax on all or a portion of their "net investment income," which may include dividends on, or capital gains recognized from the disposition of, our ordinary shares. U.S. holders are urged to consult their own tax advisors regarding the implications of the additional Medicare tax on their investment in our ordinary shares.

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 of our total assets (by value, determined on a quarterly basis) that are passive assets during the taxable year is at least 50 percent. If we were a PFIC, each U.S. Holder would (unless it made one of the elections discussed below on a timely basis) be taxable on gain recognized from the disposition of our ordinary shares (including gain deemed recognized if the ordinary shares are used as security for a loan) and upon receipt of certain distributions with respect to our ordinary shares as if such income had been recognized ratably over the U.S. Holder's holding period for the ordinary shares. The U.S. Holder's income for the current taxable year would include (as ordinary income) amounts allocated to the current year and to any period prior to the first day of the first taxable year for which we were a PFIC. Tax would also be computed at the highest ordinary income tax rate in effect for each other period to which income is allocated, and an interest charge on the tax as so computed would also apply. Additionally, if we were a PFIC, U.S. Holders who acquire our ordinary shares from decedents (other than certain nonresident aliens) would be denied the normally-available step-up in basis for such shares to fair market value on the date of death and, instead, would generally have a tax basis in such shares equal to the lower of the decedent's basis or the fair market value of such shares on the date of the decedent's death. Further, if we are a PFIC, each U.S. Holder generally will be required to file an annual report with the IRS.

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

As an alternative to making a QEF election, a U.S. Holder of PFIC stock which is "marketable stock" (e.g., "regularly traded" on the NASDAQ Global Select Market) may in certain circumstances avoid certain of the tax consequences generally applicable to holders of stock in a PFIC by electing to mark the stock to market as of the beginning of such U.S. Holder's holding period for the ordinary shares. As a result of such election, in any taxable year that we are a PFIC, a U.S. Holder would generally be required to report gain or loss to the extent of the difference between the fair market value of the ordinary shares at the end of the taxable year and such U.S. Holder's tax basis in its ordinary shares at that time. Any gain under this computation, and any gain on an actual disposition of the ordinary shares in a

taxable year in which we are a PFIC, would be treated as ordinary income. Any loss under this computation, and any loss on an actual disposition of the ordinary shares in a taxable year in which we are a PFIC, generally would be treated as ordinary loss to the extent of the cumulative net-mark-to-market gain previously included. Any remaining loss from marking ordinary shares to market will not be allowed, and any remaining loss from an actual disposition of ordinary shares generally would be capital loss. A U.S. Holder's tax basis in its ordinary shares is adjusted annually for any gain or loss recognized under the mark-to-market election. There can be no assurances that there will be sufficient trading volume with respect to the ordinary shares for the ordinary shares to be considered "regularly traded" or that our ordinary shares will continue to trade on the NASDAQ Global Select Market. Accordingly, there are no assurances that the ordinary shares will be marketable stock for these purposes. As with a QEF election, a mark-to-market election is made on a shareholder-by-shareholder basis, applies to all ordinary shares held or subsequently acquired by an electing U.S. Holder and can only be revoked with consent of the IRS (except to the extent the ordinary shares no longer constitute "marketable stock").

As indicated above, we will be a PFIC for any taxable year if the average percentage (by fair market value determined on a quarterly basis) of our assets held for the production of, or that produce, passive income is at least 50 percent. The Code does not specify how a corporation must determine the fair market value of its assets for this purpose and the issue has not been definitively determined by the IRS or the courts. The market capitalization approach has generally been used to determine the fair market value of the assets of a publicly traded corporation. The IRS and the courts, however, have accepted other valuation methods besides the market capitalization approach in certain other valuation contexts. For our 2013 taxable year, we believe that we should not be classified as a PFIC. However, there can be no assurance that the IRS will not challenge this treatment and it is possible that the IRS could attempt to treat us as a PFIC for 2013 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, assets and market capitalization, including 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 2013 or in other taxable years.

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

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

Except as described in “Information Reporting and Backup Withholding” below, a Non-U.S. Holder of ordinary shares will not be subject to U.S. federal income or withholding tax on the payment of dividends on, and the proceeds from the disposition of, ordinary shares, unless, in the case of U.S. federal income taxes:

- Such item is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States and, in the case of a resident of a country which has a treaty with the United States, such item is attributable to a permanent establishment or, in the case of an individual, a fixed place of business, in the United States; or

- The Non-U.S. Holder is an individual who holds the ordinary shares as a capital asset and is present in the United States for 183 days or more in the taxable year of the disposition and certain other requirements are met.

Information Reporting and Backup Withholding

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

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

Non-U.S. Holders generally are not subject to information reporting or backup withholding with respect to dividends paid on, or the proceeds from the disposition of, ordinary shares, provided that such Non-U.S. Holder provides a taxpayer identification number, certifies to its foreign status, or otherwise establishes an exemption.

Certain individuals who are U.S. Holders may be required to file a Form 8938 to report their ownership of specified foreign financial assets, which may include our ordinary shares, if the total value of those assets exceed certain thresholds. U.S. Holders are urged to consult their tax advisors regarding their tax reporting obligations, including the requirement to file a Form 8938.

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 fluctuations 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.

In addition, as of December 31, 2013, we had cash and cash equivalents, including short-term and long-term bank deposits and marketable securities, of $285.7 million. As of that date, approximately 99% of our cash, cash equivalents and marketable securities are held by Radware Ltd. in Israeli or U.S. financial institutions.

The majority of our cash and cash equivalents, and short-term and long-term bank deposits are invested in banks in Israel and, to a smaller extent, in banks in the United States. The Israeli bank deposits are not insured, while the deposits made in the United States 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.

Exposure to Interest Rate Fluctuations

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

Approximately half of our cash throughout the world is invested in fixed-income securities and is affected by changes in interest rates. Interest rates are highly sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. These securities are readily available for sale and are treated as such in our financial statements.

A decline in market interest rates, such as the significant global decline in 2008 and 2009, that continued through 2013, has had an adverse effect on our investment income. This is because, in a declining interest rate environment, borrowers may seek to refinance their borrowings at lower rates and, accordingly, prepay or redeem securities held earlier than initially expected. This action may cause us to reinvest the redeemed proceeds in lower yielding investments. Currently, approximately 1.4% of our marketable securities portfolio can be redeemed early. An increase in market interest rates could also have an adverse effect on the value of our investment portfolio, for example, by decreasing the fair values of the fixed income securities that comprise a substantial majority of our investment portfolio.

Our investments consist primarily of government and corporate debentures and bank deposits. As of December 31, 2013, approximately 33% of our portfolio was invested in foreign banks and government debentures, 21% 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.

Exposure to Currency Fluctuations

Approximately 87% of our sales are denominated in dollars or are dollar-linked and we incur most of our expenses in dollars, NIS, and Euros. We believe that the dollar is the primary currency of the economic environment in which we operate. Thus, our functional and reporting currency is the dollar and monetary accounts maintained in currencies other than the dollar are re-measured into U.S. dollars in accordance with ASC No. 830 “Foreign Currency Matters”. Changes in currency exchange rates between our functional currency and the currency in which a transaction is denominated are included in our results of operations as financial income (expense) in the period in which the currency exchange rates change.

Our revenues and expenses may be affected by fluctuations in the value of the dollar as it relates to foreign currencies, mainly the Euro and the NIS. For example, if there were no changes in the average exchange rates of the dollar relative to the Euro and to the NIS during the year in 2013 compared to the average exchange rates in 2012, our revenues would have been lower in an amount of $0.8 million and our expenses would have been lower in an amount of $3.5 million. Assuming our revenues and expenses in 2014 remain at the same level and with the same currency mix as in 2013, 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 $2.5 million and an increase in our expenses of $9.3 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	
2009	(0.7	)%	(3.3	)%
2010	(6.0	)%	8.0	%
2011	7.7	%	3.3	%
2012	(2.3	)%	(2.0	)%
2013	(7.0	)%	(4.3	)%
2014 (1)	0.5	%	0.1	%

(1) January 1, 2014 through March 24, 2014

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

ITEMS 12A, 12B AND 12C

Not applicable.

ITEM 12D

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

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

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

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

Not applicable.

ITEM 14E

The effective date of the registration statement (Commission File Number 333-10752) for our initial public offering of our ordinary shares was September 29, 1999. The offering commenced on October 5, 1999, and terminated after the sale of all the securities registered. The managing underwriter of the offering was Salomon Smith Barney. We registered 8,050,000 ordinary shares in the offering, including shares issued pursuant to the exercise of the underwriters' over-allotment option. Of such shares, we sold 7,000,000 ordinary shares at an aggregate offering price of $63.0 million ($9.00 per share) and certain selling shareholders sold an aggregate of 1,050,000 ordinary shares at an aggregate offering price of $9.45 million ($9.00 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, 2013. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2013, our disclosure controls and procedures were effective to ensure 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 our management, including our 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, under the supervision of our Chief Executive Officer and Chief Financial Officer, 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, with the participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. 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, 2013 based on these criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2013, 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, 2013.

c. Attestation Report of the Registered Public Accounting Firm

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

d. Changes In Internal Control Over Financial Reporting

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

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

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

ITEM 16B. CODE OF ETHICS

We have adopted a Code of Conduct and Ethics which applies to all directors, officers and employees of the Company, including our Chief Executive Officer and President, Chief Financial Officer, Director of Finance and Corporate Controller. Our Code of Conduct and Ethics has been posted on our Internet website, http://www.radware.com/corporategovernance/ .

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

In the annual meeting held on October 3, 2013, our shareholders re-appointed Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global ("Ernst & Young"), to serve as our independent auditors until the next annual meeting.

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

	Year Ended December 31,					
	2012			2013		
	(US$ in thousands)					
Audit Fees	$ 259	64	%	280	75	%
Audit-Related Fees	-	-		-	-	
Tax Fees	142	36	%	89	24	%
All Other Fees	-	-		6	1	%
Total	401	100	%	375	100	%

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

Audit-Related Fees principally included due diligence in connection with acquisitions.

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

Audit Committee's pre-approval policies and procedures

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

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

the catalog, approve the request accordingly. We inform the Audit Committee about these approvals on a quarterly basis. Services that are not included in the catalog require pre-approval by the Audit Committee on a case-by-case basis. Our Audit Committee is not permitted to approve any engagement of our auditors if the services to be performed either fall into a category of services that are not permitted by applicable law or the services would be inconsistent with maintaining the auditors' independence.

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

None.

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

During 2013 we repurchased our ordinary shares under a share repurchase plan, in an aggregate amount of $7.9 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	$ 40,000,000
February 1 through 28	0	N/A	0	$ 40,000,000
March 1 through 31	0	N/A	0	$ 40,000,000
April 1 through 30	0	N/A	0	$ 40,000,000
May 1 through 31	186,790	14.97	186,790	$ 37,204,437
June 1 through 30	0	N/A	0	$ 37,204,437
July 1 through 31	0	N/A	0	$ 37,204,437
August 1 through 31	0	N/A	0	$ 37,204,437
September 1 through 30	0	N/A	0	$ 37,204,437
October 1 through 31	274,859	14.42	274,859	$ 33,239,850
November 1 through 30	74,908	14.99	74,908	$ 32,117,177
December 1 through 31	0	N/A	0	$ 32,117,177

(1) In April 2013, the Company's Board of Directors authorized the repurchase of up to an aggregate of $ 40.0 million of the Company's ordinary shares in the open market, subject to normal trading restrictions, or in privately negotiated transactions. This plan was announced in a press release dated April 25, 2013 and will expire on April 24, 2014.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

None.

ITEM 16G. CORPORATE GOVERNANCE

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

practices differ from the corporate governance requirements of NASDAQ applicable to domestic U.S. listed companies:

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

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

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

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

ITEM 18. FINANCIAL STATEMENTS

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

ITEM 19. EXHIBITS

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

Exhibit No.	Exhibit
1.1	Memorandum of Association ¶ (A)
1.2	Amended and Restated Articles of Association (B)
4.1	Form of Directors and Officers Indemnity Deed (C)
4.2	Lease Agreement for the Company's Mahwah office (D)
4.3	Distributor Agreement with Bynet Data Communications Ltd. (E)
4.4	Summary of Material Terms of the Lease Agreements for the Company's Headquarters (F)
4.6	1997 Key Employee Share Incentive Plan, as amended and restated (G)
4.7	2010 Addendum (for international grantees) (H)
4.8	Radware Ltd. – 2010 Employee Share Purchase Plan (I)
4.9	Compensation Policy for Executive Officers and Directors (J)
8.1	List of Subsidiaries*
12.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
12.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
13.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
13.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
15.1	Consent of Independent Registered Public Accounting Firm*

¶ Translated from Hebrew

* Filed herewith.

(A) Incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-8, filed with the SEC on December 30, 2013.

(B) Incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-8, filed with the SEC on December 30, 2013.
(C) Incorporated by reference to Annex B to the Proxy Statement filed as Exhibit 1.2 to Report of Foreign Private Issuer on Form 6-K submitted to the SEC on July 28, 2011.
(D) Incorporated by reference to Exhibit 4.3 to the Annual Report on Form 20-F for the year ended December 31, 2001, filed with the SEC on April 5, 2002.
(E) Incorporated by reference to Exhibit 4.3 to the Annual Report on Form 20-F for the year ended December 31, 2001, filed with the SEC on April 5, 2002.
(G) Incorporated by reference to Exhibit 4.4 to the Annual Report on Form 20-F for the year ended December 31, 2012, filed with the SEC on March 28, 2013.
(H) Incorporated by reference to Exhibit 4.8 to the Annual Report on Form 20-F for the year ended December 31, 2009, filed with the SEC on April 29, 2010.
(I) Incorporated by reference to Exhibit 4.9 to the Annual Report on Form 20-F for the year ended December 31, 2009, filed with the SEC on April 29, 2010.
(J) Incorporated by reference to Appendix A to the Proxy Statement filed as Exhibit 1.2 to Report of Foreign Private Issuer on Form 6-K submitted to the SEC on August 26, 2013.

SIGNATURE

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

RADWARE LTD.

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

Date: March 31, 2014

RADWARE LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2013

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. and its subsidiaries ("the Company") as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 31, 2014 expressed an unqualified opinion thereon.

Tel-Aviv, Israel KOST FORER GABBAY & KASIERER
March 31, 2014 A Member of Ernst & Young Global

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

To the Board of Directors and Shareholders of
RADWARE LTD.

We have audited Radware Ltd.'s (the "Company") and its subsidiaries internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission - 1992 framework (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 included in the accompanying management's report. 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, is 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, 2013, 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, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2013 and our report dated March 31, 2014 expressed an unqualified opinion thereon.

Tel-Aviv, Israel
March 31 , 2014

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

RADWARE LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2012	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 20,048	$ 20,067
Available-for-sale marketable securities	14,004	30,372
Short-term bank deposits	54,155	84,387
Trade receivables (net of allowance for doubtful accounts and sales reserves in a total amount of $ 1,641 and $ 1,150 in 2012 and 2013, respectively)	18,408	24,911
Other current assets and prepaid expenses	3,975	6,323
Inventories	12,545	14,190
Total current assets	123,135	180,250
LONG-TERM INVESTMENTS:		
Available-for-sale marketable securities	121,114	113,377
Long-term bank deposits	65,625	37,497
Severance pay fund	2,957	3,319
Total long-term investments	189,696	154,193
Property and equipment, net	13,589	17,523
Intangible assets, net	5,128	5,070
Goodwill	24,465	30,069
Other assets	1,637	1,629
Total assets	$ 357,650	$ 388,734

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,	
	2012	2013
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 9,915	$ 8,798
Deferred revenues	36,304	38,674
Employees and payroll accruals	6,559	8,576
Other payables and accrued expenses	8,354	10,656
Total current liabilities	61,132	66,704
LONG TERM LIABILITIES:		
Deferred revenues	16,486	20,036
Other long term liabilities	8,802	7,874
Total long term liabilities	25,288	27,910
COMMITMENTS AND CONTINGENT LIABILITIES		
SHAREHOLDERS' EQUITY:		
Share capital -		
Ordinary shares of NIS 0.05 par value -		
Authorized: 60,000,000 at December 31, 2012 and 2013; Issued: 47,962,818 and 48,862,060 shares at December 31, 2012 and 2013, respectively; Outstanding: 44,370,904 and 44,733,589 shares at December 31, 2012 and 2013, respectively	599	611
Additional paid-in capital	249,739	262,809
Treasury stock (3,591,914) and (4,128,471) shares of common stock at December 31, 2012 and 2013, respectively	(18,082)	(25,984)
Accumulated other comprehensive income	2,078	1,733
Retained earnings	36,896	54,951
Total shareholders' equity	271,230	294,120
Total liabilities and shareholders' equity	$ 357,650	$ 388,734

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

RADWARE LTD. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2011	2012	2013
Revenues:			
Products	$103,285	$119,279	$118,727
Services	63,735	69,892	74,270
Total revenues	167,020	189,171	192,997
Cost of revenues:			
Products	24,231	26,386	27,066
Services	9,126	9,333	9,669
Total cost of revenues	33,357	35,719	36,735
Gross profit	133,663	153,452	156,262
Operating expenses:			
Research and development, net	36,064	36,187	40,983
Sales and marketing	69,543	76,646	82,815
General and administrative	9,629	9,696	14,895
Total operating expenses	115,236	122,529	138,693
Operating income	18,427	30,923	17,569
Financial income, net	4,200	4,792	4,494
Income before taxes on income	22,627	35,715	22,063
Taxes on income	1,290	3,958	4,008
Net income	$21,337	$31,757	$18,055
Basic net earnings per share	$0.51	$0.73	$0.40
Diluted net earnings per share	$0.47	$0.68	$0.39

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

RADWARE LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Year ended December 31,		
	2011	2012	2013
Net Income	$21,337	$31,757	$18,055
Other comprehensive income before tax:			
Unrealized gains (losses) on available-for-sale securities:			
Changes in unrealized gains	(1,788)	4,455	(221)
Less: reclassification adjustments for gains included in net income	-	(21)	(124)
Other comprehensive income (loss) before tax	(1,788)	4,434	(345)
Income tax expense related to components of other comprehensive income	-	(693)	-
Other comprehensive income (loss), net of tax	$(1,788)	$3,741	$(345)
Comprehensive income	$19,549	$35,498	$17,710

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

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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	Retained earnings (accumulated deficit)	Total
Balance as of January 1, 2011	40,921,146	$ 552	$ 218,593	$ (18,082)	$ 125	$ (16,198)	$ 184,990
Issuance of shares upon exercise of stock options	1,579,454	22	8,512	-	-	-	8,534
Stock based compensation	-	-	5,458	-	-	-	5,458
Tax benefit related to exercise of stock options	-	-	790	-	-	-	790
Other comprehensive loss	-	-	-	-	(1,788)	-	(1,788)
Net income	-	-	-	-	-	21,337	21,337
Balance as of December 31, 2011	42,500,600	574	233,353	(18,082)	(1,663)	5,139	219,321
Issuance of shares upon exercise of stock options	1,870,304	25	10,631	-	-	-	10,656
Stock based compensation	-	-	5,383	-	-	-	5,383
Tax benefit related to exercise of stock options	-	-	372	-	-	-	372
Other comprehensive income, net of tax	-	-	-	-	3,741	-	3,741
Net income	-	-	-	-	-	31,757	31,757
Balance as of December 31, 2012	44,370,904	599	249,739	(18,082)	2,078	36,896	271,230
Repurchase of shares	(536,557)	-	-	(7,902)	-	-	(7,902)
Issuance of shares upon exercise of stock options	899,242	12	5,510	-	-	-	5,522
	-	-	5,374	-	-	-	5,374

Stock based compensation							
Tax benefit related to exercise of stock options	-	-	2,186	-	-	-	2,186
Other comprehensive income, net of tax	-	-	-	-	(345)	-	(345)
Net income	-	-	-	-	-	18,055	18,055
Balance as of December 31, 2013	44,733,589	$ 611	$ 262,809	$ (25,984)	$ 1,733	$ 54,951	$ 294,120

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

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RADWARE LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2011	2012	2013
Cash flows from operating activities:			
Net income	$21,337	$31,757	$18,055
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	10,299	9,867	8,086
Stock based compensation	5,458	5,383	5,374
Gain from sale of available-for-sale marketable securities	-	(21)	(124)
Amortization of premiums, accretion of discounts and accrued interest on available-for-sale marketable securities, net	3,652	2,198	2,326
Accrued interest on bank deposits	(243)	(354)	(813)
Decrease in accrued severance pay, net	(59)	(165)	(74)
Changes in deferred income taxes, net	(1,358)	(1,584)	(699)
Decrease (increase) in trade receivables, net	3,978	(5,843)	(6,356)
Decrease (increase) in other current assets and prepaid expenses	772	(1)	(276)
Decrease (increase) in inventories	(2,425)	(398)	(1,569)
Increase (decrease) in trade payables	(814)	4,816	(1,231)
Increase in deferred revenues	977	296	5,920
Increase in other payables and accrued expenses and other long-term liabilities	1,206	5,941	3,767
Excess tax benefit from stock-based compensation	(790)	(372)	(2,186)
Net cash provided by operating activities	41,990	51,520	30,200
Cash flows from investing activities:			
Purchase of property and equipment	(5,734)	(9,337)	(8,712)
Investment in (proceeds from) other long-term assets	(35)	(13)	11
Investment in bank deposits, net	(32,089)	(30,653)	(1,290)
Purchase of available-for-sale marketable securities	(68,777)	(32,066)	(35,149)
Proceeds from redemption and maturity of available-for-sale marketable securities	57,423	12,183	23,279
Payment for acquisition of subsidiary, net of cash acquired	-	-	(8,126)
Net cash used in investing activities	(49,212)	(59,886)	(29,987)

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,		
	2011	2012	2013
Cash flows from financing activities:			