Allot Communications Ltd.
Form 424B5
November 09, 2011

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Registration No. 333-171053

PROSPECTUS SUPPLEMENT

(To prospectus dated January 5, 2011)

5,500,000 Shares

ALLOT COMMUNICATIONS LTD.

Ordinary Shares

We are offering 5,500,000 of our ordinary shares. Our ordinary shares trade on the NASDAQ Global Select Market under the symbol ALLT and on the Tel Aviv Stock Exchange under the symbol ALLT. On November 8, 2011, the last sale price of the ordinary shares as reported on the NASDAQ Global Select Market was $14.53 per share.

Investing in these securities involves certain risks. Please carefully consider the Risk Factors beginning on page S-12 of this prospectus supplement, on page 2 of the accompanying prospectus and in the documents incorporated by reference.

	Per Share	Total
Public offering price	$14.25	$78,375,000
Underwriting discount	$.7837	$4,310,350
Proceeds, before expenses, to us	$13.4663	$74,064,650

The underwriters may also purchase up to an additional 825,000 ordinary shares from us at the public offering price, less underwriting discounts and commissions, within 30 days from the date of this prospectus supplement to cover overallotments, if any.

None of the Securities and Exchange Commission, the Israeli Securities Authority or any state securities commission has approved or disapproved of the securities being offered by this prospectus supplement or accompanying prospectus, or determined if this prospectus supplement or accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The ordinary shares will be ready for delivery on or about November 15, 2011.

Joint Book-Running Managers

BofA Merrill Lynch

Jefferies **RBC Capital Markets**

Lead Manager

Oppenheimer & Co.

Co-Manager

Wunderlich Securities

The date of this prospectus supplement is November 8, 2011.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus are part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, utilizing a shelf registration process. The document is in two parts. The first part is the prospectus supplement, which describes the specific terms of this offering. The second part is the prospectus, which provides more general information about securities we may offer from time to time, some of which may not apply to this offering. Generally, when we refer to this prospectus, we are referring to both parts of this document combined. We urge you to carefully read this prospectus supplement and the prospectus, and the documents incorporated by reference herein and therein, before buying any of the securities being offered under this prospectus supplement. This prospectus supplement may add or update information contained in the prospectus and the documents incorporated by reference therein. To the extent that any statement we make in this prospectus supplement is inconsistent with statements made in the accompanying prospectus or any documents incorporated by reference therein that were filed before the date of this prospectus supplement, the statements made in this prospectus supplement will be deemed to modify or supersede those made in the accompanying prospectus and such documents incorporated by reference therein.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus, or contained in any free writing prospectus prepared by or on our behalf. We have not, and the underwriters have not, authorized anyone to provide you with different information. The distribution of this prospectus supplement and sale of these securities in certain jurisdictions may be restricted by law. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. This prospectus supplement and the accompanying prospectus are not, and under no circumstances are to be construed as an advertisement or a public offering of securities in Israel. Any public offer or sale of securities in Israel may be made only in accordance with the Israeli Securities Law-1968 (which requires, among others, the filing of a prospectus in Israel or an exemption therefrom). Persons in possession of this prospectus supplement or the accompanying prospectus are required to inform themselves about and observe any such restrictions. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, and in any free writing prospectus that we have authorized for use in connection with this offering, is accurate only as of the date of those respective documents.

Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus supplement or prospectus to the Company, we, us, our and Allot Communications refer to Allot Communications Ltd., a incorporated under the laws of the State of Israel.

FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein contain forward-looking statements which involve known and unknown risks and uncertainties. We include this notice for the express purpose of permitting us to obtain the protections of the safe harbor provided by the Private Securities Litigation Reform Act of 1995 with respect to all such forward-looking statements. Examples of forward-looking statements include: projections of capital expenditures, competitive pressures, revenues, growth prospects, product development, financial resources and other financial matters. You can identify these and other forward-looking statements by the use of words such as may, plans, expects, anticipates, believes, estimates, intends, potential or the negative of such terms, or other comparable terminology.

Our ability to predict the results of our operations or the effects of various events on our operating results is inherently uncertain. Therefore, we caution you to consider carefully the matters described under the caption Risk Factors and certain other matters discussed in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in any of the foregoing, and other publicly available sources. Such factors and many other factors which are beyond the control of our management could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by the forward-looking statements. Unless we are required to do so under U.S. federal securities laws or other applicable laws, we do not intend to update or revise any forward-looking statements.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary is not complete and does not contain all of the information that you should consider before investing in the securities offered by this prospectus supplement. You should read this summary together with the entire prospectus supplement and the accompanying prospectus, including our financial statements, the notes to those financial statements and the other documents that are incorporated by reference in this prospectus supplement and the accompanying prospectus, before making an investment decision. See Risk Factors beginning on page S-12 of this prospectus supplement for a discussion of the risks involved in investing in our securities.

Our Business

We are a leading provider of intelligent Internet Protocol (IP) service optimization, monetization and personalization solutions for mobile, fixed and wireless broadband service providers and enterprises. Demand from users for faster and more reliable access to the Internet, an increase in the number and complexity of broadband applications, and growth in mobile data-enhanced smart phones have resulted in the rapid proliferation of broadband access networks in recent years. Our portfolio of hardware platforms and software applications uses our proprietary deep packet inspection (DPI) technology, which we refer to as Dynamic Actionable Recognition Technology, or DART, to transform broadband connections or pipes into smart networks that can manage data traffic efficiently and rapidly deploy value-added services. The resulting intelligent, content-aware broadband networks enable our customers to accurately monitor and manage IP traffic per application, subscriber, network topology and device.

We have a global, diversified end-customer base consisting primarily of mobile and fixed service providers, cable operators, private networks, data centers, governments and enterprises, such as financial and educational institutions. Our scalable, carrier-grade solutions integrate capabilities that allow our customers to optimize the delivery and performance of over-the-top applications and services, monetize network utilization through value-added service deployment, real-time metering and application-aware charging models and personalize the user experience through service tiering and differentiation. We derive a significant and growing portion of our revenue from direct sales to large mobile and fixed-line service providers. We generate the remainder of our revenue through a select and well-developed network of channel partners, generally consisting of distributors, resellers, original equipment manufacturers (OEMs) and system integrators all of whom purchase products from us upon receiving orders from end-customers and who are responsible for installing and providing initial customer support for our products. In 2010, we derived 60% of our revenues from Europe, the Middle East and Africa, 22% from Asia and Oceania and 18% from the Americas.

We generated revenues of $57.0 million in 2010, representing a 36% increase over the prior year, and revenues of $55.7 million for the nine months ended September 30, 2011, representing an increase of 37% over the same period in the prior year. We derived 30% and 17% of our revenues in 2010 and in the nine months ended September 30, 2011, respectively, from one global Tier 1 mobile operator group. Our adjusted net income, which excludes share-based compensation expense, other non-cash expenses and expenses associated with the write-down of auction rate securities, was $4.1 million in 2010 (compared to an adjusted net loss of $1.3 million in the prior year) and was $8.3 million for the nine months ended September 30, 2011 representing a 277% increase over the same period in the prior year. See Summary Consolidated Historical Financial Data for a reconciliation of adjusted net income to net income.

Market Opportunity

We believe that the following market trends and challenges are driving the adoption of intelligent IP service optimization, monetization and personalization solutions:

Growth in data traffic in mobile broadband networks. The mobile data market is expanding rapidly due to the adoption of smartphones and tablets, and the use of modems in laptop computers. According to the Cisco Visual Networking Index Global Mobile Data Traffic Forecast Update for 2010 2015, global mobile data traffic grew 2.6-fold in 2010, nearly tripling for the third year in a row, and is expected to increase 26-fold by 2015. Additionally, according to that Forecast Update, the average smartphone is expected to generate 1.3 gigabytes of traffic per month in 2015, a 16-fold increase over the 2010 average of 79 megabytes per month. It is becoming increasingly apparent

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that unmanaged 3G, and even 4G mobile networks, will not be able to effectively cope with the rising tide of data traffic unless service providers implement intelligent bandwidth management solutions. At the same time, the cost of expanding mobile bandwidth at the access point, or the Gateway General Packet Radio Service Support Node (GGSN) in mobile networks, is significantly higher than in wireline networks. In addition, as capacity in mobile networks increases and more complex applications are introduced to the market, smartphone users will likely have increased expectations with respect to network speed and performance.

The challenge of aligning growth in network use to growth in revenue and rising demand for the ability to offer premium and differentiated services. Applications such as video streaming, video conferencing and gaming require large amounts of bandwidth compared to traditional applications, such as email and web-browsing. Video streaming, video conferencing, gaming and voice-over-IP (VoIP) are highly sensitive to network delays, thereby increasing the cost of maintaining network performance. According to data collected by us from our customers, VoIP and instant messaging along with video streaming were the fastest growing application types by bandwidth consumed in the first six months of 2011 within the monitored networks, with VoIP and instant messaging together showing 101% growth and video streaming showing 93% growth. Furthermore, without the tools to analyze and manage applications on their networks, service providers can only offer their subscribers undifferentiated connectivity for a flat fee, regardless of the type of application, its importance to the subscriber and level of usage. To address these issues, service providers have begun offering tiered service plans based on the willingness of subscribers to pay premium rates for guaranteed delivery and upgraded quality of service. To offer premium services and guaranteed service levels, however, service providers need to be able to identify, control and protect a variety of network applications and optimize the way they utilize available bandwidth in order to support increased capacity. By offering such tiered services and charging subscribers according to the value of these services, service providers can capitalize on the revenue enhancement opportunities presented by different broadband applications and their use of the network.

The challenge of implementing complex intelligent networks. Service providers and enterprises are seeking to transform generic access broadband networks into intelligent broadband networks. The ability to identify different network applications and enforce usage and charging policies plays a major role in intelligent network management, allowing service providers to optimize bandwidth usage and reduce operational costs, while maintaining high quality of service. Application designers are employing increasingly sophisticated methods to avoid detection by network operators who desire to manage network use. Traditional network infrastructure devices, such as switches and routers, can perform only a very limited examination of packets, rather than the granular visibility and dynamic control over application and subscriber usage throughout the network sought by service providers.

Increasing enterprise demand for visibility and delivery of mission-critical applications. The proliferation of network applications presents significant challenges for enterprises operating wide-area networks. Enterprises have become increasingly dependent on broadband Internet and Intranet access, as content distribution between partners and customers, employee remote access and VoIP has become common. Email, customer relationship management and other online transactional and business applications are critical to enterprise operations. In order to guarantee the performance of these mission-critical applications and to reduce infrastructure expenses, enterprises seek solutions to prioritize and control the traffic on their networks. We also believe the enterprise market will increasingly seek solutions such as ours as cloud computing is adopted and enterprises focus less on the accumulation of applications and resources and more on the efficient and reliable transfer of data to and from applications and resources in the cloud.

Our Solutions

Our solutions incorporate carrier-class, high-performance traffic management platforms with DART technology complemented by a growing, fully-integrated portfolio of value-added network and subscriber services. Our solutions help our customers reduce network costs and increase available network capacity by optimizing the

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way applications and subscribers utilize bandwidth resources. They also help our customers increase revenues by monetizing actual network usage and personalizing the service plans offered to subscribers.

Products and Services

DART is at the core of every Allot product and employs DPI and proprietary algorithms to identify subscriber-application traffic, network topology traffic (such as traffic volume from a particular radio mobile access cell or on a particular backhaul link) and the device in use. DART gives network providers the ability to act upon this data by mapping these elements directly into granular traffic management and charging policies. As a result, network operators can actively regulate bandwidth consumption and service delivery based on network conditions and charge for use based on subscriber profiles and tiered service level agreements.

Traffic management systems. Our traffic management systems consist of the Allot Service Gateway platforms and the Allot NetEnforcer devices:

Allot Service Gateway. The Allot Service Gateway is a carrier-grade, highly scalable line of DPI-based platforms for broadband optimization and revenue generation in fixed and mobile networks as well as large enterprises. It provides traffic prioritization, quality of service, optimization, filtering (including parental control), security threat blocking and media caching for both real-time and offline usage-based charging. Our Service Gateway reduces the cost of deploying new services and increases operational efficiency by enabling service providers to deploy multiple services through a single multi-purpose platform, and manages all services using the same policy control rules and management application. Our Service Gateway platforms provide built-in compatibility with 3G, 4G, Long Term Evolution (LTE) and converged network environments, and can be managed through our NetXplorer centralized management software. With up to 160 gigabits per second (Gbps) of throughput in a single platform, our Service Gateway enables operators to manage high-speed broadband performance, to control infrastructure and operating costs and to generate new revenue streams through the deployment of value-added network and subscriber services.

Allot NetEnforcer. The Allot NetEnforcer is a scalable line of traffic management devices designed to inspect, monitor and manage network traffic by both application and end-user at speeds ranging from 200 megabits per second (Mbps) to 30 Gbps. These devices provide real-time monitoring, policy enforcement and traffic steering to value added services, thereby helping operators control bandwidth usage while improving the quality of experience for network users.

Allot NetXplorer. The Allot NetXplorer is the management umbrella for the Allot Service Gateway platforms and the NetEnforcer devices. It provides a central vantage point for network-wide monitoring, reporting, alerting, accounting and quality of service policy provisioning. The Allot NetXplorer contains an intuitive graphical user interface that paints a consolidated picture of application, user and topology traffic, as well as a wide variety of real-time and historical reports that enable service providers to easily drill-down to the granular traffic data, including application and subscriber.

Subscriber Management Platform. The Allot Subscriber Management Platform (SMP) is a scalable system that enables the centralized creation, provisioning, management and charging of subscriber-centric services, which allows for personalization of broadband offerings and maximization of revenues. Our SMP operates seamlessly with our traffic management systems and our NetXplorer management system, which provides per-subscriber visibility and policy control to help service providers rapidly create and deploy personalized, tiered service plans, including different quality of service agreements and quota-based plans that meter, control and charge for individual use of bandwidth resources in real-time. Our SMP integrates with operator online and offline charging systems and policy provisioning systems to enable end-to-end solutions for subscriber traffic reporting, management and policy control and charging. This

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capability facilitates innovative service packaging and pricing based on individual subscriber demand and preference, which in turn, helps service providers differentiate their service offerings, reduce churn and increase average revenue per user.

Allot value-added subscriber services. Our subscriber services consist of a growing portfolio of value-added services that are fully integrated with our platforms. Currently, our portfolio of value-added subscriber services includes Allot ServiceProtector, Allot MediaSwift and Allot Websafe. Allot ServiceProtector is an attack detection and mitigation service that protects commercial networks against Denial of Service attacks, Zero Day attacks, worms, zombie and spambot behavior. Our ServiceProtector helps service providers avoid domain name system blacklisting and maintain network integrity and availability. Allot MediaSwift is a carrier-class media caching and video acceleration service that reduces the costs associated with the delivery of over-the-top video content and file sharing, while ensuring high quality of experience. Allot MediaSwift also facilitates the creation of personalized broadband service packages that can enhance subscriber satisfaction and service provider revenue. Allot WebSafe is a uniform resource locator (URL) filtering service that blocks access to blacklisted websites and assists operators in complying with emerging legislation surrounding the distribution of illegal content on the Internet.

Our Competitive Strengths

Our competitive strengths include the following:

Market-leading core technology. We believe our focus on developing the most efficient and accurate means of inspecting network traffic, combined with our extensive database of algorithms and signatures that identify network applications, provide us with a significant competitive advantage. In particular, DART integrates our expertise in DPI and policy enforcement into a highly effective technology toolkit for managing bandwidth consumption and service performance in broadband networks. DART is at the core of our intelligent IP service optimization, monetization and personalization solutions and plays a key role in helping service providers reduce network costs and ensure that the data-usage needs and expectations of subscribers are met. We believe that our new Allot Service Gateway Sigma E is the only DPI platform that can inspect traffic at 160 Gbps in a single unit.

Broad product portfolio tailored to network convergence. We believe that our broad range of products meets the needs of small, midsize and large service providers, allowing us to serve a wider range of profitable markets than our competitors. We designed our standalone solutions to allow for easy deployment, seamless interoperability and less disruption to existing networks as opposed to embedded solutions, which require changes or upgrades to expensive network infrastructure, such as the mobile network s GGSN. Our standalone solutions can be easily upgraded to respond to new applications as well as rapid changes in the behaviour of existing applications. Our standalone solutions also give our customers the flexibility to choose any infrastructure equipment vendor and, in many cases, to deploy a single traffic management and/or policy control and charging solution that is network-convergence ready and easily integrates with other-vendor products in both fixed and mobile networks.

Intelligent policy control and charging in a standalone solution. To remain competitive in the dynamic mobile broadband environment, mobile operators must maximize infrastructure investments while more effectively managing network use. Intelligent Policy and Charging Enforcement Function (PCEF) solutions provide a policy management vehicle for 3G, High Speed Packet Access (HSPA), 4G and LTE networks to achieve these goals. Our standalone intelligent PCEF solution, the Allot Service Gateway, comprises a dedicated, in-line network element that integrates seamlessly with operators policy charging and rules function (PCRF). We believe that our standalone PCEF architecture gives us a compelling advantage over competing solutions in which DPI capability is embedded in an existing network element because it employs DPI to identify subscriber-application traffic that enables real time policy-based enforcement actions (including online and offline charging and traffic steering to various network and subscriber services). Our standalone PCEF architecture

offers service providers high performance levels, scalability, the ability to constitute a single point for policy enforcement and online charging across any type of access in converged networks. Our Service Gateway also offers service providers the ability to steer subscriber-application traffic in real time to a variety of value-added services such as video optimization, media caching and URL filtering.

Modular, integrated value-added services drive end-customer revenues. Our growing portfolio of value-added network and subscriber service solutions help mobile and fixed broadband service providers drive revenue through service differentiation. Our value-added services are integrated into the Allot Service Gateway platform through modular blades that can be purchased and deployed as service requirements increase, eliminating the need for service providers to purchase any additional hardware. The granular visibility, dynamic policy enforcement and traffic steering capabilities of our Service Gateway platforms and our NetEnforcer devices allow individual traffic flows to be directed in real-time to one or more service applications based on subscriber service plan. Our ability to host value-added network and subscriber services in the platform greatly reduces the complexity and cost of new service deployment and increases operational efficiency. Our open, standards-based platforms also facilitate rapid and trouble-free integration of third-party network and subscriber services.

Our Growth Strategies

Our goal is to be the leading provider of intelligent IP service optimization and revenue generation solutions for fixed and mobile service providers and high-end enterprises. Our rich portfolio of solutions allows us to transform broadband pipes into smart networks that can rapidly and efficiently deploy value-added services for both networks and subscribers. Our scalable, carrier-grade solutions provide the visibility, network topology awareness, security, application control and subscriber management that are vital to effectively manage Internet service delivery, enhance user experience and quality of service, contain operating costs and maximize revenue in broadband and mobile networks.

Our strategies to achieve this goal include the following:

Further our technological advantage. We intend to continue investing in the development of market leading broadband service optimization technologies and new broadband applications and services. Our newest product, the Service Gateway Sigma E platform, which is designed to support up to 160 Gbps of full performance throughput rates, utilizes open platforms such as Advanced Telecom Computing Architecture standards that better enable the integration of additional third-party services. We also actively participate in the 3rd Generation Partnership Project (3GPP) of the International Mobile Standards Organization and lead related development activities in the current and future releases of standards.

Focus on mobile operators and converged networks. We plan to continue to target mobile operators as they launch broadband internet services primarily using HSPA and LTE technologies. These deployments often involve a converged network of both mobile and fixed technologies, such as DSL. We believe that sales to these customers are more likely to result in sustained demand for our Service Gateway Sigma E platform as their networks grow. We intend to supplement these efforts by expanding our relationships with system integrators and OEMs who have existing relationships with larger service providers.

Continue to expand our sales and marketing activities. We intend to expand our world-wide sales and marketing teams to further service large, medium and small-sized service providers and high-end enterprises, including in the government and education sectors. We will seek to continue to establish relationships with key, leading-edge service providers, which we believe will give us early insights into market needs, trends and requirements. We will also continue to seek channel partners in new geographic territories as well as strengthen our relationships in countries where we already have an established presence.

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Corporate Information

We are incorporated under the laws of the State of Israel. Our principal executive offices are located at 22 Hanagar Street, Neve Ne eman Industrial Zone B, Hod-Hasharon 45240, Israel, and our telephone number is +972 (9) 761-9200. Our website address is *www.allot.com*. The information on our website does not constitute part of this prospectus. Our agent in the United States is our subsidiary, Allot Communications, Inc. The address of Allot Communications, Inc. is 300 Trade Center, Suite 4680, Woburn, Massachusetts 01801, United States.

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The Offering

Ordinary shares offered by us

5,500,000 ordinary shares (or 6,325,000 ordinary shares if the underwriters exercise their option to purchase additional shares in full).

Ordinary shares outstanding immediately following this offering

29,921,911 ordinary shares (or 30,746,911 ordinary shares if the underwriters exercise their option to purchase additional shares in full).

Use of proceeds

We estimate that the net proceeds from this offering, after deducting underwriting discounts and commissions and estimated expenses relating to this offering payable by us, will total $73.8 million. This amount is based on the public offering price of $14.25 per share. We intend to use the net proceeds from this offering for general corporate purposes, including working capital and potential acquisitions. We do not currently have any acquisitions or investments planned. See Use of Proceeds.

NASDAQ Global Select Market and TASE symbol

ALLT

Risk factors

See Risk Factors beginning on page S-12 of this prospectus supplement and beginning on page 2 of the accompanying prospectus for a discussion of factors you should carefully consider before deciding to invest in our ordinary shares.

The number of our ordinary shares to be outstanding immediately after the closing of this offering is based on 24,421,911 ordinary shares outstanding as of September 30, 2011 and excludes, as of that date:

3,231,122 ordinary shares issuable upon the exercise of outstanding stock options as of September 30, 2011 at a weighted average exercise price of $5.47 per share;

850 ordinary shares issuable upon the vesting and settlement of restricted stock units; and

421,431 ordinary shares available for future grant under our 2006 Incentive Compensation Plan.

Unless specifically stated, the information in this prospectus supplement does not take into account the exercise of the underwriters option to purchase up to an additional 825,000 ordinary shares pursuant to the overallotment option granted to the underwriters by us.

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Summary Consolidated Historical Financial Data

The following table sets forth a summary of our historical financial data. The summary historical consolidated statements of operations data for the years ended December 31, 2010, 2009 and 2008, and the summary consolidated historical balance sheet data as of December 31, 2010 and 2009, have been derived from our audited consolidated financial statements (including the notes thereto, the audited financial statements) included in this prospectus supplement. The audited financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States, except as otherwise described therein. The summary historical consolidated balance sheet data as of December 31, 2008 has been derived from other consolidated financial statements not included in this prospectus supplement that were also prepared in accordance with GAAP. The summary historical consolidated statements of operations data for the nine months ended September 30, 2011 and 2010 and the summary historical consolidated balance sheet data as of September 30, 2011 and 2010 have been derived from our unaudited financial statements that have been prepared on a basis consistent with our audited financial statements and, in the opinion of management, include all adjustments that management considers necessary for the fair presentation of the information for the unaudited periods. Interim results are not necessarily indicative of results that may be expected for any future period or the entire year. The historical results presented below are not necessarily indicative of results that can be expected for any future period and should be read in conjunction with the section entitled Use of Proceeds.

	Year Ended December 31,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
	(in thousands of U.S. dollars, except per share and share data)				
Consolidated Statements of Operations:					
Revenues:					
Products	$27,121	$29,641	$40,852	$29,313	$40,777
Services	9,980	12,110	16,120	11,452	14,948
Total revenues	37,101	41,751	56,972	40,765	55,725
Cost of revenues(1):					
Products	8,198	10,094	14,015	9,930	14,112
Services	1,498	1,741	1,970	1,464	1,773
Total cost of revenues	9,696	11,835	15,985	11,395	15,885
Gross profit	27,405	29,916	40,987	29,370	39,840
Operating expenses:					
Research and development, gross	14,635	11,705	14,038	10,373	12,305
Less royalty-bearing participation	2,671	2,440	2,774	2,112	2,774
Research and development, net(1)	11,964	9,265	11,264	8,261	9,531
Sales and marketing(1)	19,781	20,408	22,021	16,275	19,276
General and administrative(1)	6,174	5,541	5,473	4,019	5,785
In process research and development	244				
Total operating expenses	38,163	35,214	38,758	28,555	34,592
Operating income (loss)	(10,758)	(5,298)	2,229	815	5,248
Financing and other income (expenses), net	(5,517)	(2,311)	(7,907)	(7,730)	178
	(16,275)	(7,609)	(5,678)	(6,915)	5,426

Income (loss) before income tax expenses (benefit)					
Income tax expenses (benefit)	220	63	84	196	114
Net income (loss)	$(16,495)	$(7,672)	$(5,762)	$(7,111)	$5,312
Basic net earnings (loss) per share	$(0.75)	$(0.35)	$(0.25)	$(0.31)	$0.22
Diluted net earnings (loss) per share	$(0.75)	$(0.35)	$(0.25)	$(0.31)	$0.20
Weighted average number of shares used in computing basic net earnings (loss) per share	22,054,211	22,185,702	22,831,014	22,656,343	24,159,643
Weighted average number of shares used in computing diluted net earnings (loss) per share	22,054,211	22,185,702	22,831,014	22,656,343	26,072,423

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	Year Ended December 31,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
	(in thousands of U.S. dollars)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 40,029	$ 36,470	$ 42,858	$ 49,928	$ 29,794
Marketable securities	15,319	14,490	15,531	5,243	17,325
Working capital[(2)]	40,688	38,179	59,841	55,006	68,280
Total assets	82,851	82,943	95,187	86,162	101,570
Total liabilities	19,672	22,531	30,199	25,118	28,574
Accumulated deficit	(63,703)	(63,694)	(69,456)	(70,805)	(64,141)
Share capital	482	492	527	509	545
Total shareholders equity	63,179	60,412	64,988	61,044	72,996
Other Financial Data:					
Adjusted net income (loss)[(3)]	(6,552)	(1,314)	4,059	2,218	8,308

(1) Includes stock-based compensation expense related to options granted to employees and others as follows:

	Year Ended December 31,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
	(in thousands of U.S. dollars)				
Cost of revenues	$50	$ 104	$ 95	$72	$ 69
Research and development expenses, net	321	357	352	273	287
Sales and marketing expenses	465	775	851	655	682
General and administrative expenses	866	1,062	692	528	532
Total	$1,702	$ 2,298	$ 1,990	$1,528	$ 1,570

(2) Working capital is defined as current assets less current liabilities.

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(3) The following table reconciles net income to adjusted net income as reported for the periods presented and is unaudited:

	Year Ended December 31,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
	(in thousands of U.S. dollars)				
Reconciliation of Net Income to Adjusted Net Income:					
Net income (loss)	$(16,495)	$(7,672)	$(5,762)	$(7,111)	$ 5,312
Expenses recorded for stock-based compensation:					
Cost of revenues	50	104	95	72	69
Research and development costs	321	357	352	273	287
Sales and marketing	465	775	851	655	682
General and administrative	866	1,062	692	528	532
In-process research and development	244				
Expenses related to a law suit	197				
Expenses related to M&A and financing activities					1,336
Core technology amortization cost of revenues	119	116	120	90	90
Inventory write off cost of revenues		523			
Fixed assets write off sales and marketing		385			
Total adjustments to operating income (loss)	2,262	3,322	2,110	1,618	2,996
Impairment of auction rate securities:					
Financial and other expenses, net	7,681	3,036	7,711	7,711	
Total adjustments	9,943	6,358	9,821	9,329	2,996
Adjusted net income (loss)	$(6,552)	$(1,314)	$4,059	$2,218	$ 8,308

Adjusted net income is a metric used by management to measure operating performance. Adjusted net income represents net income excluding the impact of stock-based compensation, amortization of certain intangibles, other non-cash charges and extraordinary expenses. We present adjusted net income because we believe it presents a better measure of our core business and management uses adjusted net income internally to evaluate our ongoing performance. We believe adjusted net income is useful to investors in enhancing an understanding of our operating performance. Adjusted net income is not a measurement of our financial performance under GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with GAAP or as an alternative to cash flow from operating activities as measures of our profitability or liquidity. We understand that although adjusted net

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income is frequently used by securities analysts, lenders and others in their evaluation of companies, adjusted net income has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

Adjusted net income does not reflect our share-based compensation expense, other non-cash expenses and expenses associated with the write-down of auction rate securities;

Adjusted net income does not reflect changes in, or cash requirements for, our working capital needs; and

other companies in our industry may calculate adjusted net income differently than we do, limiting its usefulness as a comparative measure.

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RISK FACTORS

Investing in our ordinary shares involves a high degree of risk. You should consider carefully the risks described below, together with the financial and other information discussed in those documents incorporated by reference in this prospectus supplement. If any of the following risks actually occurs, our business, financial condition and results of operations would suffer. In this case, the trading price of our ordinary shares would likely decline and you might lose all or part of your investment. The risks described below are not the only ones we face. Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our business operations.

Risks Relating to Our Business

We have a history of losses, may incur future losses and may not achieve profitability.

Other than in 2006, we incurred net losses in every fiscal year since 1997, when we commenced operations, through 2010. We had a net loss of $5.8 million in 2010, of which $7.7 million resulted from a realized loss related to the sale of our portfolio of auction-rate securities, or ARS, compared to a net loss of $7.7 million in 2009, of which $3.0 million resulted from a net impairment charge related to ARS and a net loss of $16.5 million in 2008, of which $7.7 million resulted from an impairment charge related to ARS. During 2010, we sold our entire ARS portfolio. We can provide no assurance that we will be able to achieve profitability and we may incur losses in the future if we do not generate sufficient revenues.

We may be unable to compete effectively with other companies in our market who offer, or may in the future offer, competing technologies.

We compete in a rapidly evolving and highly competitive sector of the networking technology market. Our principal competitors are Cisco Systems, Inc. and Sandvine Inc. in the service provider market, including the segment of the largest service providers referred to as Tier 1 operators, and Blue Coat Systems, Inc. in the enterprise market. Our competitors have also identified the potential market opportunity of Tier 1 operators and we therefore expect intensive competition in this segment in the future. We also compete with a number of smaller competitors, such as CloudShield Technologies, Inc. and Procera Networks, Inc., and we compete indirectly with router and switch infrastructure companies that have features that address some of the problems that our products address. We also face competition from companies that offer partial or alternative solutions addressing only one aspect of the challenges facing broadband providers, such as network monitoring or security. Our competitors may announce new products, services or enhancements that better meet the needs of customers or changing industry requirements, or may offer alternative methods to achieve customer objectives. One of our direct competitors, Cisco Systems, is substantially larger than we are and has significantly greater financial, sales and marketing, technical, manufacturing and other resources. As the mobile DPI market has grown, new competitors have entered and may continue to enter the market. The entry of new competitors into our market and acquisitions of our existing competitors by companies with significant resources and established relationships with our potential customers could result in increased competition and harm to our business. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on our business, financial condition or result of operations.

We depend on one or more significant customers and the loss of any such significant customer could harm our results of operations.

The loss of any significant customer or a significant decrease in business from any such customer could harm our results of operations and financial condition. In addition, revenues from individual customers may fluctuate from time to time based on the timing and the terms under which further orders are received and the duration of the delivery and implementation of such orders. During 2008, no single customer accounted for more than 10% of our revenues. We derived 15%, 30% and 17% of our total revenues in 2009, 2010 and the nine months ended September 30, 2011, respectively, from one global Tier 1 mobile operator group.

Our revenues and business will be harmed if we do not keep pace with changes in broadband applications and with advances in technology, including through significant investment.

We will need to invest heavily in the continued development of our technology in order to keep pace with rapid changes in applications and increased broadband network speeds and with our competitors efforts

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to advance their technology. Designers of broadband applications that our products identify and manage are using increasingly sophisticated methods to avoid detection and management by network operators. Even if our products successfully identify a particular application, it is sometimes necessary to distinguish between different types of traffic belonging to a single application. Accordingly, we face significant challenges in ensuring that we identify new applications and new versions of current applications as they are introduced without impacting network performance, especially as networks become faster. This challenge is increased as we seek to expand sales of our products in new geographic territories because the applications vary from country to country and region to region. Our business and revenues will be adversely affected if we fail to address the needs of customers in particular geographic markets or if we fail to develop enhancements to our products in order to keep pace with advances in technology.

The network equipment market is subject to rapid technological progress and to compete, we need to achieve widespread market acceptance.

The network equipment market is characterized by rapid technological progress, frequent new product introductions, changes in customer requirements and evolving industry standards. To compete, we need to achieve widespread market acceptance. Developments in routers and routing software could also significantly reduce demand for and sales of our products and could cause our products to become obsolete, which may result in inventory write downs. Alternative technologies could achieve widespread market acceptance and displace the technology on which we have based our product architecture. We can give no assurance that our technological approach will achieve broad market acceptance or that other technology or devices will not supplant our technology and products.

Demand for our products may be impacted by government regulation of the telecommunications industry.

Service providers are subject to government regulation in a number of jurisdictions in which we sell our products. There are several proposals in the United States and Europe for regulating service providers ability to prioritize applications in their networks. Advocates for regulating this industry claim that collecting premium fees from certain preferred applications would distort the market for Internet applications in favor of larger and better-funded content providers. They also claim that this would impact end-users who already purchased broadband access only to experience response times that differ based on content provider. Opponents believe that content providers who support bandwidth-intensive applications should be required to pay service providers a premium in order to support further network investments. In August 2008, the United States Federal Communications Commission (the FCC) issued a ruling prohibiting Comcast, the second-largest broadband provider in the United States, from delaying certain peer-to-peer traffic on its network. Comcast filed an appeal of the ruling in September 2008. In April 2010, a federal appeals court ruled that under current law the FCC had limited power over Web traffic. In December 2010, the FCC adopted rules which would give it regulatory power over Internet service providers in order to prevent them from blocking or unreasonably discriminating against Web content, services or applications. Demand from service providers for the traffic management and subscriber management features of our products could be adversely affected if regulations prohibit or limit service providers from managing traffic on their networks. A decrease in demand for these features could adversely impact sales of our products and could have a material adverse effect on our business, financial condition or result of operations.

Industry consolidation may lead to increased competition and may harm our operating results.

Our market may be subject to industry consolidation, as companies attempt to maintain or strengthen their market positions in an evolving industry, are unable to continue their operations or are acquired. For example, some of our current and potential competitors have made, or have been reported as considering making, acquisitions or have announced new strategic alliances designed to position them with the ability to provide many of the same services that we provide, to both the service provider and enterprise markets. We believe that industry consolidation may result in stronger competitors that are better able to compete as sole-source vendors for customers. This could lead to more variability in our operating results and could have a material adverse effect on our financial condition or results of operations.

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We need to increase the functionality of our products and offer additional features and value-added services in order to maintain or increase our profitability.

The market in which we operate is highly competitive and unless we continue to enhance the functionality of our products and add additional features, our competitiveness may be harmed and the average sale prices for our products may decrease. Such decreases generally result from the introduction by competitors of competing products and from the standardization of DPI technology. To counter this trend, we endeavor to enhance our products by offering higher system speeds, additional features and value-added services such as additional security, video functions, support for additional applications and enhanced reporting tools. We may also need to reduce our per unit manufacturing costs at a rate equal to or greater than the rate at which selling prices decline. If we are unable to reduce costs or offer increased functionally and features, our profitability may be adversely affected.

Sales of our products to large service providers can involve a lengthy sales cycle, which may impact the timing of our revenues and result in us expending significant resources without making any sales.

Our sales cycles to large service providers, including carriers, mobile operators and cable operators, are generally lengthy because these end-customers consider our products to be capital equipment and undertake significant testing to assess the performance of our products within their networks. As a result, we often invest significant time from initial contact with a large service provider until it decides to incorporate our products in its network. We may also expend significant resources in attempting to persuade large service providers to incorporate our products into their networks without success. Even after deciding to purchase our products, the initial network deployment of our products by a large service provider may last up to one year. If a competitor succeeds in convincing a large service provider to adopt that competitor s product, it may be difficult for us to displace the competitor because of the cost, time, effort and perceived risk to network stability involved in changing solutions. As a result, we may incur significant expenses without generating any sales, which could adversely affect our profitability.

The complexity and scope of the solutions and services we provide to larger service providers is increasing. Larger projects entail greater operational risk and an increased chance of failure.

The complexity and scope of the solutions and services we provide to larger service providers is increasing. The larger and more complex such projects are, the greater the operational risks associated with them. These risks include failure to fully integrate our products into the service provider s network or with third-party products, our dependence on subcontractors and partners and on effective cooperation with third-party vendors for the successful and timely completion of such projects. Failure to complete a larger project successfully could expose us to potential contractual penalties, claims for breach of contract and in extreme cases, to cancellation of the entire project, or increase the likelihood of our having difficulty collecting payment and recognizing revenues.

We depend for a material portion of our business on third-parties to market, sell, install and provide initial technical support for our products.

We depend for a material portion of our business on third-party channel partners, such as distributors, resellers, OEMs and system integrators, to market and sell our products to end-customers. Our channel partners are also responsible for installing our products and providing initial customer support for them. As a result, we depend on the ability of our channel partners to successfully market and sell our products to these end-customers. We also depend on our ability to maintain our relationships with existing channel partners and to develop relationships with new channel partners in key markets. We cannot assure you that our channel partners will market our products effectively, receive and fulfil customer orders for our products on a timely basis or continue to devote the resources necessary to provide us with effective sales, marketing and technical support. In addition, any failure by our channel partners to provide adequate initial support to end-customers could result in customer dissatisfaction with us or our products, which could result in a loss of customers, harm our reputation and delay or limit market acceptance of our products. Our products are complex and it takes time for a new channel partner to gain experience in the operation and installation of these products. Therefore, it may take a period of time before a new channel partner can successfully market, sell and support our products if an existing channel partner ceases to sell our products. Additionally, our agreements with

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channel partners are generally not exclusive and our channel partners may market and sell products that compete with our products. Our agreements with our distributors and resellers are usually for an initial one-year term and following the expiration of this term, can be terminated by either party. We can give no assurance that these agreements will remain in effect and any termination of one or more of the agreements may adversely affect our profitability and results of operations.

We are dependent on our traffic management systems and network management application suites for the substantial majority of our revenues.

Sales of our NetEnforcer traffic management system and NetXplorer network management system continued to account for a significant portion of our revenues in 2010 and in the first nine months of 2011 and we currently expect that these systems will continue to account for a considerable portion of our revenues in the immediate future. As a result, any factor adversely affecting our ability to sell, or the pricing of or demand for, our NetEnforcer traffic management system and NetXplorer network management system would severely harm our ability to generate revenues and could have a material adverse effect on our business.

We integrate various third-party solutions into, or together with, our products and may integrate or offer additional third-party solutions in the future. If we lose the right to use such solutions, our sales could be disrupted and we would have to spend additional capital to replace such components.

We integrate various third-party solutions into, or together with, our products and may integrate or offer additional third-party solutions in the future. Sales of our products could be disrupted if such third-party solutions were either no longer available to us or no longer offered to us on commercially reasonable terms. In either case, we would be required to spend additional capital to either redesign our products to function with alternate third-party solutions or develop substitute components ourselves. We might, as a result, be forced to limit the features available in our current or future product offerings, which could have a material adverse effect on our business.

Our products are highly technical and any undetected software or hardware errors in our products could have a material adverse effect on our operating results.

Our products are complex and are incorporated into broadband networks, which are a major source of revenue for service providers and support critical applications for subscribers and enterprises. Due to the highly technical nature of our products and variations among customers network environments, we may not detect product defects until our products have been fully deployed in our customers networks. Regardless of whether warranty coverage exists for a product, we may be required to dedicate significant technical resources to repair any defects. If we encounter significant product problems, we could experience, among other things, loss of major customers, cancellation of product orders, increased costs, delay in recognizing revenues and damage to our reputation. We could also face claims for product liability, tort or breach of warranty. Defending a lawsuit, regardless of its merit, is costly and may divert management s attention. In addition, if our business liability insurance is inadequate or future coverage is unavailable on acceptable terms or at all, our financial condition could be harmed.

Demand for our products depends in part on the rate of adoption of bandwidth-intensive broadband applications, such as Internet video and online video gaming applications and applications that are highly sensitive to network delays, such as VoIP.

Our products are used by service providers and enterprises to monitor and manage bandwidth-intensive applications that cause congestion in broadband networks and impact the quality of experience of users. Demand for our products is driven particularly by growth in these applications, which are highly sensitive to network delays and therefore require efficient network management, such as VoIP, Internet video and television and online video gaming applications. If the rapid growth in the adoption of VoIP and in the popularity of Internet video and online video gaming applications does not continue, the demand for our products may be adversely impacted.

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We currently depend on a single subcontractor to manufacture and provide hardware warranty support for our Service Gateway platforms and our NetEnforcer traffic management systems. If this subcontractor experiences delays, disruptions, quality control problems or a loss in capacity, it could materially and adversely affect our operating results.

We currently depend on a single subcontractor, Flextronics (Israel) Ltd., a subsidiary of Flextronics, a global electronics manufacturing services company, to manufacture, assemble, test, package and provide hardware warranty support for our Service Gateway platforms and our NetEnforcer traffic management systems. In addition, our agreement with Flextronics (Israel) requires it to procure and store key components for our products at its facilities. If Flextronics (Israel) experiences delays, disruptions or quality control problems in manufacturing our products, or if we fail to effectively manage our relationship with Flextronics (Israel), product shipments may be delayed and our ability to deliver products to customers could be materially and adversely affected. Flextronics (Israel) may terminate our agreement at any time during the term upon 180-days prior notice. We expect that it would take approximately six months to transition the manufacturing of our products to an alternate manufacturer and our inventory of completed products may not be sufficient for us to continue delivering products to our customers on a timely basis during any such transition period. Therefore, the loss of Flextronics (Israel) could adversely affect our sales and operating results and harm our reputation.

Certain hardware components for our products come from single or limited sources and we could lose sales if these sources fail to satisfy our supply requirements.

We obtain certain hardware components used in our products from single or limited sources. Because our systems have been designed to incorporate these specific components, any change to these components due to an interruption in supply or our inability to obtain such components on a timely basis would require engineering changes to our products before substitute components could be incorporated. Such changes could be costly and result in lost sales particularly to the central processing unit for our Service Gateway platforms and our NetEnforcer AC-1400, AC-3000, AC-5000 and AC-10000. The agreements with our suppliers do not contain any minimum supply commitments. If we or our contract manufacturer fail to obtain components in sufficient quantities when required, our business could be harmed. Our suppliers also sell products to our competitors and may enter into exclusive arrangements with our competitors, stop selling their products or components to us at commercially reasonable prices or refuse to sell their products or components to us at any price. Our inability to obtain sufficient quantities of single-source or limited-sourced components or to develop alternative sources for components or products would harm our ability to maintain and expand our business.

We may expand our business or enhance our technology through acquisitions that could result in diversion of resources and extra expenses. This could disrupt our business and adversely affect our financial condition.

Part of our strategy is to selectively pursue partnerships and acquisitions. In 2008, we acquired the business of Esphion, a developer of network protection solutions for telecommunications operators and internet service providers, which increased the scope of our product offerings. The negotiation of acquisitions, investments or joint ventures, as well as the integration of acquired or jointly developed businesses or technologies, could divert our management s time and resources. Acquired businesses, technologies or joint ventures may not be successfully integrated with our products and operations and we may not realize the intended benefits of these acquisitions. We may also incur future losses from any acquisition, investment or joint venture. In addition, acquisitions could result in:

- substantial cash expenditures;
- potentially dilutive issuances of equity securities;
- the incurrence of debt and contingent liabilities;
- a decrease in our profit margins; and
- amortization of intangibles and potential impairment of goodwill.

If acquisitions disrupt our operations or result in significant expenditures or liabilities, our business, operating results or financial conditions may suffer.

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If we fail to attract and retain skilled employees, we may not be able to timely develop, sell or support our products.

Our success depends in large part on the continued contribution of our research and development, sales and marketing and managerial personnel. If our business continues to grow, we will need to hire additional qualified research and development, sales and marketing and managerial personnel to succeed. The process of hiring, training and successfully integrating qualified personnel into our operation is a lengthy and expensive one. The market for qualified personnel is very competitive because of the limited number of people available with the necessary technical skills, sales skills and understanding of our products and technology. This is particularly true in Israel, where competition for qualified personnel is intense. Our failure to hire and retain qualified personnel could cause our revenues to decline and impair our ability to meet our research and development and sales objectives.

We may not be able to enforce employees covenants not to compete under the current laws of some jurisdictions in which we operate and therefore may be unable to prevent our competitors from benefiting from the expertise of some of our former employees.

It is our practice to have our employees sign appropriate non-compete agreements when permitted under applicable law. These agreements prohibit our employees who cease working for us from competing directly with us or working for our competitors for a limited period of time. The enforceability of non-compete clauses in certain jurisdictions in which we operate may be limited. Under the current laws of some jurisdictions in which we operate, we may be unable to enforce these agreements and it may thereby be difficult for us to restrict our competitors from gaining the expertise our former employees gained while working for us.

If we are unable to successfully protect the intellectual property embodied in our technology, our business could be harmed significantly.

Know-how relating to networking protocols, building carrier-grade systems and identifying applications is an important aspect of our intellectual property. To protect our know-how, we customarily require our employees, distributors, resellers, software testers and contractors to execute confidentiality agreements or agree to confidentiality undertakings when their relationship with us begins. Typically, our employment contracts also include the following clauses: assignment of intellectual property rights for all inventions developed by employees and non-disclosure of all confidential information. We cannot provide any assurance that the terms of these agreements are being observed and will be observed in the future. Because our product designs and software are stored electronically and thus are highly portable, we attempt to reduce the portability of our designs and software by physically protecting our servers through the use of closed networks, which prevent external access to our servers. We cannot be certain, however, that such protection will adequately deter individuals or groups from wrongfully accessing our technology. Monitoring unauthorized use of intellectual property is difficult and some foreign laws do not protect proprietary rights to the same extent as the laws of the United States. We cannot be certain that the steps we have taken to protect our proprietary information will be sufficient. In addition, to protect our intellectual property, we may become involved in litigation, which could result in substantial expenses, divert the attention of management, cause significant delays, materially disrupt the conduct of our business or adversely affect our revenue, financial condition and results of operations.

As of September 30, 2011, we had a limited patent portfolio. We had two issued U.S. patents and three pending U.S. patent applications. While we plan to protect our intellectual property with, among other things, patent protection, there can be no assurance that:

- current or future U.S. or foreign patents applications will be approved;
- our issued patents will protect our intellectual property and not be held invalid or unenforceable if challenged by third-parties;
- we will succeed in protecting our technology adequately in all key jurisdictions in which we or our competitors operate;
- the patents of others will not have an adverse effect on our ability to do business; or

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others will not independently develop similar or competing products or methods or design around any patents that may be issued to us.

The failure to obtain patents, inability to obtain patents with claims of a scope necessary to cover our technology or the invalidation of our patents may weaken our competitive position and may adversely affect our revenues.

We may be subject to claims of intellectual property infringement by third-parties that, regardless of merit, could result in litigation and our business, operating results or financial condition could be materially adversely affected.

There can be no assurance that we will not receive communications from third-parties asserting that our products and other intellectual property infringe, or may infringe their proprietary rights. We are not currently subject to any proceedings for infringement of patents or other intellectual property rights and are not aware of any parties that intend to pursue such claims against us. Any such claim, regardless of merit, could result in litigation, which could result in substantial expenses, divert the attention of management, cause significant delays and materially disrupt the conduct of our business. As a consequence of such claims, we could be required to pay substantial damage awards, develop non-infringing technology, enter into royalty-bearing licensing agreements, stop selling our products or re-brand our products. If it appears necessary, we may seek to license intellectual property that we are alleged to infringe. Such licensing agreements may not be available on terms acceptable to us or at all. Litigation is inherently uncertain and any adverse decision could result in a loss of our proprietary rights, subject us to significant liabilities, require us to seek licenses from others and otherwise negatively affect our business. In the event of a successful claim of infringement against us and our failure or inability to develop non-infringing technology or license the infringed or similar technology, our business, operating results or financial condition could be materially adversely affected.

We use certain open source software tools that may be subject to intellectual property infringement claims, the assertion of which could impair our product development plans, interfere with our ability to support our clients or require us to pay licensing fees.

Certain of our products contain open source code and we may use more open source code in the future. Open source code is code that is covered by a license agreement that permits the user to liberally copy, modify and distribute the software without cost, provided that users and modifiers abide by certain licensing requirements. The original developers of the open source code provide no warranties on such code. As a result of our use of open source software, we could be subject to suits by parties claiming ownership of what we believe to be open source code and we may incur expenses in defending claims that we did not abide by the open source code license. If we are not successful in defending against such claims, we may be subject to monetary damages or be required to remove the open source code from our products. Such events could disrupt our operations and the sales of our products, which would negatively impact our revenues and cash flow. In addition, under certain conditions, the use of open source code to create derivative code may obligate us to make the resulting derivative code available to others at no cost. If we are required to publicly disclose the source code for such derivative products or to license our derivative products that use an open source license, our previously proprietary software products would be available to others, including our customers and competitors without charge. We monitor our use of such open source code to avoid subjecting our products to conditions that we do not intend. The use of such open source code, however, may ultimately subject some of our products to unintended conditions so that we are required to take remedial action that may divert resources away from our development efforts.

Unfavorable global economic conditions could have a material adverse effect on our business, financial condition or operating results.

The 2008 and 2009 crisis in the financial and credit markets in the United States, Europe and Asia led to a global economic slowdown that is ongoing, with economies in those territories continuing to show significant weakness and there is continuing economic uncertainty. If the economies of any part of the world remain uncertain or further deteriorate, many enterprises, telecommunication carriers and service providers may significantly reduce or postpone capital investments. This could result in reductions in the sales of our products or services, longer sales cycles, slower adoption of new technologies and increased price competition. We continuously monitor market trends and intend to take such steps as we deem appropriate to adjust our operations. Because a substantial portion of our operating expenses consist of salaries, we may not be able to reduce our operating expenses in line with any reduction in revenues or may elect not to do so for business reasons. We will need to continue to generate increased revenues and manage our costs to maintain profitability. If global economic and market conditions do not improve, or continue to remain uncertain, this may increase our inventories, decrease our revenues, result in additional pressure on the price of our products, prolong payment terms or increase the risk of our incurrence of bad debts. Such circumstances would have a material adverse effect on our results of operations and cash flow from operations.

Our international operations expose us to the risk of fluctuations in currency exchange rates.

Our revenues are generated primarily in U.S. dollars and a major portion of our expenses are denominated in U.S. dollars. As a result, we consider the U.S. dollar to be our functional currency. Other significant portions of our expenses are denominated in shekels and to a lesser extent in Euros and other Asian currencies. Our shekel-denominated expenses consist principally of salaries and related personnel expenses. We anticipate that a material portion of our expenses will continue to be denominated in shekels. In 2010, the shekel continued to fluctuate against the U.S. dollar. The shekel was devaluated by approximately 3% in the first half of the year and then appreciated by approximately 8% in the second half of the year. In total, during 2010, the shekel appreciated by approximately 6% against the U.S. dollar. During the first nine months of 2011, the shekel was devaluated by approximately 5% against the U.S. dollar. If the U.S. dollar weakens against the shekel or other currencies we are exposed to, there will be a negative impact on our results of operations. We use derivative financial instruments, such as foreign exchange forward contracts, to mitigate the risk of changes in foreign exchange rates on balance sheet accounts and forecast cash flows. We may not purchase derivative instruments adequately to insulate ourselves from foreign currency exchange risks. The volatility in the foreign currency markets may make hedging our foreign currency exposures challenging. In addition, because a portion of our revenue is not incurred in U.S. dollars, fluctuations in exchange rates between the U.S. dollar and the currencies in which such revenue is incurred may have a material adverse effect on our results of operations and financial condition. If we wish to maintain the U.S. dollar-denominated value of our products in non-U.S. markets, devaluation in the local currencies of our customers relative to the U.S. dollar could cause our customers to cancel or decrease orders or default on payment.

Risks Related to Our Ordinary Shares and this Offering

The share price of our ordinary shares has been and may continue to be volatile.

Our quarterly financial performance is likely to vary in the future, and may not meet our expectations or the expectations of analysts or investors, which may lead to additional volatility in our share price. The market price of our ordinary shares may be volatile and could fluctuate substantially due to many factors, including, but not limited to:

announcements or introductions of technological innovations, new products, product enhancements or pricing policies by us or our competitors;

winning or losing contracts with service providers;

disputes or other developments with respect to our or our competitors intellectual property rights;

announcements of strategic partnerships, joint ventures or other agreements by us or our competitors;

recruitment or departure of key personnel;

regulatory developments in the markets in which we sell our products;