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

**FORM 20-F**

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2012

OR

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

OR

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

Commission file number: 001-20892

**ATTUNITY LTD**

(Exact name of registrant as specified in its charter and translation of registrant's name into English)

**Israel**

(Jurisdiction of incorporation or organization)

**16 Atir Yeda Street, Atir Yeda Industrial Park, Kfar Saba, 4464321, Israel**  
(Address of principal executive offices)

**Dror Harel-Elkayam, CFO**

**Tel: +972-9-8993000; Fax: +972-9-8993001**

**Attunity Ltd, 16 Atir Yeda Street, Atir Yeda Industrial Park, Kfar Saba, 4464321, Israel**

(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 0.4 par value per share**

**NASDAQ Capital Market**

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

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

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, 2012): **10,919,930**

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

Yes  No

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

Yes  No

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

Yes  No

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

Yes  No

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

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

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

Item 17  Item 18

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

Yes  No

## INTRODUCTION

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

- “we”, “us”, “our”, “Attunity”, the “Company” or the “Registrant” are to Attunity Ltd and its subsidiaries;
- “dollars” or “\$” are to United States dollars;
- “NIS” or “shekel” are to New Israeli Shekels;
- the “Companies Law” or the “Israeli Companies Law” are to the Israeli Companies Law, 5759-1999;
- the “SEC” are to the United States Securities and Exchange Commission;
- “Investors Group” are to certain investors, which included, among others, Mr. Shimon Alon, the Chairman of our board of directors and our Chief Executive Officer, Mr. Ron Zuckerman, a member of our board of directors, and Mr. Itzhak (Aki) Ratner, our former Chief Executive Officer and, until December 30, 2010, a member of our board of directors. We are not aware of any agreement which is currently in force, in writing or otherwise, among the members of the Investors Group, or any of them, with respect to the Company;
- “Big Data” are to very large and complex quantities of datasets that are difficult to process using traditional data processing applications;
- “CDC” are to change data capture, a process that captures and replicate only the changes made to enterprise data sources rather the entire data sources;
- “Cloud computing” are to the use of computing resources, hardware and software, that are generally delivered as a service over the Internet;
- “Convertible Notes” or “Notes” are to the convertible promissory notes we issued to the Investors Group pursuant to a Note and Warrant Purchase Agreement, dated March 22, 2004, as amended from time to time, by and between us and the Investors Group, or the Note Agreement;
- “RepliWeb” are to RepliWeb Inc., a Delaware corporation we acquired in September 2011; and
- “OTCBB” are to the Over-The-Counter Bulletin Board.

We have obtained trademark registrations in the United States for Attunity®, Attunity B2B®, Attunity Connect®, Attunity Stream®, Attunity Federate®, Attunity Replicate®, Attunity InFocus®, RepliWeb® and FASTCOPY®. Unless indicated otherwise by the context, any other trademarks and trade names appearing in this annual report are owned by their respective holders.

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

On March 1, 2013, the exchange rate between the NIS and the dollar, as quoted by the Bank of Israel, was NIS 3.723 to \$1.00. Unless indicated otherwise by the context, 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 July 19, 2012, we effected a one-for-four reverse split of our ordinary shares, and accordingly the par value of our ordinary shares was changed from NIS 0.1 to NIS 0.4 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 in this annual report, the statements contained in this annual report are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the Private Securities Litigation Reform Act of 1995, as amended, and other federal securities laws with respect to our business, financial condition and results of operations. Such forward-looking statements reflect our current view with respect to future events and financial results.*

*We urge you to consider that statements which use the terms “anticipate,” “believe,” “expect,” “plan,” “intend,” “estimate,” and similar expressions are intended to identify forward-looking statements. We remind readers that forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors and involve known and unknown risks that could cause the actual results, including revenues from agreements we signed, expansion of our operations, development and release of new products, performance, levels of activity, our achievements, or industry results, to be materially different from any future results, plans to expand our operations, plans to develop and release new products, performance, levels of activity, or our achievements, or industry results, expressed or implied by such 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. The forward-looking statements contained in this annual report 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 undertake no obligation to publicly release any update or revision to any forward-looking statements to reflect new information, future events or circumstances, or otherwise after the date hereof.*

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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 selected consolidated statements of operations data for the years ended December 31, 2012, 2011 and 2010 and the selected consolidated balance sheet data as of December 31, 2012 and 2011, which have been prepared in accordance with U.S. GAAP, are derived from our audited consolidated financial statements set forth elsewhere in this annual report. The selected consolidated statements of operations data for the years ended December 31, 2009 and 2008 and the selected consolidated balance sheet data as of December 31, 2010, 2009 and 2008, which have also been prepared in accordance with U.S. GAAP, have been derived from audited consolidated financial statements not included in this annual report.

*The selected consolidated financial data set forth below should be read in conjunction with, and are qualified by reference to, Item 5 "Operating and Financial Review and Prospects" and our consolidated financial statements and notes thereto and the other financial information appearing elsewhere in this annual report.*

*On September 19, 2011, we completed the acquisition of RepliWeb, which is described elsewhere in this annual report, including in Item 10.C "Material Contracts - Acquisition of RepliWeb." As a result of this transaction, the revenues and expenses of RepliWeb are consolidated with our results of operations starting September 19, 2011. The assets and liabilities of RepliWeb are consolidated with our balance sheet as of December 31, 2011. See Note 3 to our consolidated financial statements included in this annual report.*

**Balance Sheet Data:**

	<u>December 31,</u>				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(U.S. dollars in thousands)				
Working capital (deficiency)	\$ (3,046)	\$ (6,891)	\$ (2,643)	\$ (2,710)	\$ (5,480)
Total assets	26,132	22,993	10,705	11,895	13,030
Current maturities of long term-debt, short-term convertible debt, including current maturities of long-term convertible debt	-	950	1,259	1,250	2,193
Long-term debt, less current maturities	-	-	1,661	2,750	2,000
Warrants and bifurcated conversion feature, and other liabilities presented at fair value	730	510	1,215	303	-
Shareholders' equity	9,562	5,188	733	2,042	2,532
Additional paid-in capital	110,318	107,345	102,459	102,095	104,279

**Income Statement Data:**

	Year ended December 31,				
	2012	2011	2010	2009	2008
	(U.S. dollars and share amounts in thousands, except per share data)				
Software licenses	\$ 14,437	\$ 8,140	\$ 4,645	\$ 4,126	\$ 5,373
Maintenance and services	11,042	7,029	5,430	5,327	6,099
<b>Total revenues</b>	<b>25,479</b>	<b>15,169</b>	<b>10,075</b>	<b>9,453</b>	<b>11,472</b>
Cost of software licenses	719	563	1119	2,347	1,659
Cost of maintenance and services	1,637	890	832	723	965
Research and development expenses	7,748	4,960	2,482	1,894	2,916
Selling and marketing expenses	9,833	5,851	3,831	3,469	6,341
General and administrative expenses	3,024	2,835	1,854	1,608	2,138
<b>Total operating expenses</b>	<b>22,961</b>	<b>15,099</b>	<b>10,118</b>	<b>10,041</b>	<b>14,019</b>
Operating income (loss)	2,518	70	(43)	(588)	(2,547)
Financial expenses, net	1,241	1,284	1,388	697	1,250
Other income	--	--	--	10	--
Income (loss) before taxes on income	1,277	(1,214)	(1,431)	(1,275)	(3,797)
Taxes on income (benefit)	(209)	(399)	74	28	60
<b>Net income (loss)</b>	<b>1,486</b>	<b>(815)</b>	<b>(1,505)</b>	<b>(1,303)</b>	<b>(3,857)</b>
Basic net income /(loss) per share	\$ 0.14	\$ (0.09)	\$ (0.20)	\$ (0.20)	\$ (0.68)
Weighted average number of shares used in computing basic net income / (loss) per share	10,716	8,662	7,993	7,124	5,799
Diluted net income /(loss) per share	\$ 0.12	\$ (0.09)	\$ (0.20)	\$ (0.20)	\$ (0.68)
Weighted average number of shares used in computing diluted net income / (loss) per share	12,311	8,662	7,993	7,124	5,799

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

The following risk factors, among others, could in the future affect our actual results of operations and could cause our actual results to differ materially from those expressed in forward-looking statements made by us. These forward-looking statements are based on current expectations and we assume no obligation to update this information. Before you decide to buy, hold, or sell our ordinary shares, you should carefully consider the risks described below, in addition to the other information contained elsewhere in this annual report. The following risk factors 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. Our business, financial condition and results of operation could be seriously harmed if any of the events underlying any of these risks or uncertainties actually occurs. In that event, the price for our ordinary shares could decline, and you may lose all or part of your investment.

## Risk Factors Relating to Our Business

*We have a history of operating losses and may not achieve or sustain profitability in the future.*

Although we generated operating income of approximately \$2.5 million and \$70,000 in the fiscal years ended December 31, 2012 and December 31, 2011, respectively, we incurred an operating loss in each of the preceding five fiscal years. Our ability to sustain profitability in the future depends in part on the global economy; the rate of growth of, and changes in technology trends in, our market; our ability to develop new products and technologies in a timely manner; the competitive position of our products; our ability to manage expenses and other risks, some of which are described in this annual report. We may also seek to increase our operating expenses and make additional expenditures in anticipation of generating higher revenues, which we may not realize, if at all, until sometime in the future. As such, there can be no assurance that we will be able to achieve or sustain profitable operations in the future. Even if we maintain profitability, we cannot assure that future net income will offset our cumulative losses, which, as of December 31, 2012, were approximately \$101.4 million.

*We depend on strategic relationships with our distributors, OEM and VAR partners and our revenues may be reduced if such relationships are not successful or are terminated. In particular, a loss of one of our OEM partners may have a material adverse effect on our business, operating results and financial condition.*

Our products and services are sold through both direct and indirect channels, including distributors, value-added resellers, or VAR, and original equipment manufacturers, or OEM, partners. Specifically, we rely on strategic relationships with OEM partners and resellers to sell our products and services and these relationships are likely to account for a larger portion of our revenues in the future. Typically, where our fees depend on orders of products (and not fixed license fees), these parties are not obligated to sell any of our products. Any failure of these relationships to market our products effectively or generate significant revenues for us, a termination of any of these relationships, or if we are unable to form additional strategic alliances in the future that will prove beneficial to us, could have a material adverse effect on our business, operating results and financial condition.

In particular, we rely on our strategic relationship with Microsoft Corporation, or Microsoft. For example, in December 2010, we entered into two five-year OEM agreements with Microsoft for aggregate consideration of nearly \$9 million. We expect Microsoft to continue to be strategic to our business and future growth. A termination or other disruption of our commercial relationship with Microsoft could have a material adverse effect on our business, operating results and financial condition.

*The loss of one or more of our significant customers or a decline in demand from one or more of these customers could harm our business.*

Historically, we have relied on a limited number of customers for a substantial portion of our total sales. For example, in 2012, Microsoft, our largest customer that year, accounted for 10.9% of our revenues. There can be no assurance that such customers will continue to order our products in the same level or at all. A reduction or delay in orders from such customers, including reductions or delays due to market, economic or competitive conditions, could have a material adverse effect on our business, operating results and financial condition.

***We face risks associated with acquisition of businesses and technologies.***

In September 2011, we completed the acquisition of RepliWeb and, as part of our growth strategy, we may evaluate and pursue additional acquisitions of, or significant investments in, other complementary companies or technologies to increase our technological capabilities and expand our product offerings. Future acquisitions and the successful integration of new technologies, products, assets or businesses into our own would require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. Other risks commonly encountered with acquisitions include disruption of our ongoing business; difficulties in integration of the acquired operations and personnel; inability of our management to maximize our financial and strategic position by the successful implementation of uniform product offerings and the incorporation of uniform technology into our product offerings and control system; being subject to known or unknown contingent liabilities, including tax, expenses and litigation costs; and inability to realize expected synergies or other anticipated benefits. We cannot assure you that we will be successful in overcoming these risks or any other problems we may encounter in connection with the Repliweb acquisition or other potential future acquisitions. Our inability to successfully integrate the operations of an acquired business and realize anticipated benefits associated with an acquisition could have a material adverse effect on our business, financial condition, results of operations and cash flows. Acquisitions or other strategic transactions may also result in dilution to our existing shareholders if we issue additional equity securities as consideration and may increase our debt. We may also be required to amortize significant amounts of intangible assets or record impairment of goodwill in connection with future acquisitions, which would adversely affect our operating results.

***We may need to raise additional capital in the future, which may not be available to us.***

We had cash and cash equivalents of approximately \$3.8 million as of December 31, 2012. Although we anticipate that our existing capital resources will be adequate to satisfy our working capital and capital expenditure requirements in the next 12 months, we may need to raise additional funds in the future in order to satisfy our future working capital and capital expenditure requirements. There is no assurance that we will be able to obtain additional funds on a timely basis, on acceptable terms or at all.

If we cannot raise needed funds on acceptable terms, we may be required to delay, scale back or eliminate some aspects of our operations and we may not be able to:

- develop new products;
- enhance our existing products;
- remain current with evolving industry standards;
- expand our sales and marketing programs;
- take advantage of future opportunities;
- respond to competitive pressures or unanticipated requirements; or
- successfully integrate the operations of RepliWeb.

If additional funds are raised through the issuance of equity securities, the percentage ownership of then current shareholders would be diluted.

***We may be required to pay additional taxes due to tax positions that we undertook.***

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 regarding filing of various tax returns or in cases where we determined not to file tax returns. In particular, not all of the tax returns of our operations are final and may be subject to further audit and assessment by the applicable tax authorities. There can be no assurance that the applicable tax authorities will accept our tax positions. In such event, we may be required to pay additional taxes, as a result of which, our future results may be adversely affected.

***Severe global economic conditions may materially adversely affect our business.***

Our business and financial condition is affected by global economic conditions. For example, starting in late 2008 and lasting through much of 2009, a steep downturn in the global economy sparked by uncertainty in credit markets and deteriorating consumer confidence, reduced technology spending by many organizations. More recently, credit and sovereign debt issues have destabilized certain European economies as well and thereby increased 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, it may cause our customers to reduce or postpone their technology spending significantly, which could result in reductions in sales of our products, longer sales cycles, slower adoption of new technologies and increased price competition, which would have a material adverse effect on our business, operating results and financial condition.

***Our freedom to operate our business is limited as a result of certain restrictive covenants contained in our credit facility.***

In August 2012, we secured a short-term line of credit of approximately \$1.0 million from an Israeli bank. In order to secure our obligations to the bank, we pledged and granted to the bank a first priority floating charge on all of our assets and a first priority fixed charge on certain other immaterial assets (namely, rights for unpaid shares, securities and other deposits deposited with the bank from time to time, and rights for property insurance). We refer to the agreement relating to such charges as the Pledge. The Pledge contains a number of customary restrictive terms and covenants that limit our operating flexibility, such as (1) limitations on the creation of additional liens, on the incurrence of indebtedness, on the provision of loans and guarantees and on distribution of dividends, and (2) the ability of the bank to accelerate repayment in certain events, such as breach of covenants, liquidation, and a change of control of our Company. In addition, we have committed to the bank that, for as long as the credit line is available to us, we will maintain a financial ratio to the effect that the sum of our accounts receivables and cash, as measured in each quarter, will exceed 150% of the amount outstanding under the credit facility. Such provisions may hinder our future operations or the manner in which we operate our business, which could have a material adverse effect on our business, financial condition or results of operations.

***We are subject to risks associated with international operations.***

We are based in Israel and generate a large portion of our sales outside the United States. Our sales outside of the United States accounted for approximately 35%, 29% and 40% of our total revenues for the years ended December 31, 2012, 2011 and 2010, respectively. Although we commit significant management time and financial resources to developing direct and indirect international sales and support channels, we cannot be certain that we will be able to maintain or increase international market demand for our products. To the extent that we cannot do so in a timely manner, our business, operating results and financial condition may be adversely affected.

As we conduct business globally, our future results could also be adversely affected by a variety of uncontrollable and changing factors and inherent risks, including the following:

- the impact of the recessionary environments in multiple foreign markets, such as in some European countries;
- longer receivables collection periods and greater difficulty in accounts receivable collection;
- unexpected changes in regulatory requirements;
- difficulties and costs of staffing and managing foreign operations;
- reduced protection for intellectual property rights in some countries;
- potential tax consequences; and
- political and economic instability.

We cannot be certain that we, our distributors or our resellers will be able to sustain or increase revenues from international operations or that the foregoing factors will not have a material adverse effect on our future revenues and, as a result, on our business, operating results and financial condition.

*Our business and operating results may be adversely affected by competition, including as a result of consolidation of our competitors.*

The markets for our software products are intensely competitive and, particularly in the file replication and application release automation markets, also fragmented. Competition in the industry is generally based on product performance, depth of product line, technical support and price. We compete both with international and local software providers, many of whom have significantly greater financial, technical and marketing resources than us. In the fields of application release automation, web deployment and enterprise file replication, we also compete with providers of open source and freeware solutions, which are substantially less expensive than our solutions. We anticipate continued growth and competition in the software products market. In the past few years, we have identified a trend of consolidation in the software industry in general, and in the real-time data integration and event capture market in particular. For example, in July 2011, Informatica Corporation acquired WisdomForce. Consolidation and mergers in our market may result in stronger competition by larger companies that threaten our market positioning.

Our existing and potential competitors, such as IBM, Informatica, Oracle (following the acquisition of Golden Gate) and HP, who compete with different products we offer, may offer or be able to develop software products and services that are as effective as, or more effective or easier to use than, those offered by us. Such existing and potential competitors may also enjoy substantial advantages over us in terms of research and development expertise, manufacturing efficiency, name recognition, sales and marketing expertise and distribution channels, as well as financial resources. There can be no assurance that we will be able to compete successfully against current or future competitors or that competition will not have a material adverse effect on our future revenues and, consequently, on our business, operating results and financial condition.

***We must develop new products as well as enhancements and new features to existing products to remain competitive and our future growth will depend upon market acceptance of our products.***

We compete in a market that is characterized by technological changes and improvements and frequent new product introductions and enhancements. The introduction of new technologies and products could render existing products and services obsolete and unmarketable and could exert price pressures on our products and services. Any future success and our future growth will depend upon our ability to address the increasingly sophisticated needs of our customers by, among others:

- supporting existing and emerging hardware, software, databases and networking platforms;
- developing and introducing new and enhanced applications that keep pace with such technological developments, emerging new markets and changing customer requirements; and
- gaining and consecutively increasing market acceptance of our products.

We are currently developing new products as well as enhancements and new features to our existing products, including the new Attunity CloudBeam and new solutions for cloud computing and other integrated products with technology initially developed by RepliWeb. We may not be able to successfully complete the development and market introduction of new products or product enhancements or new features. If we fail to develop and deploy new products and product enhancements or features 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. For example, in late 2005, we launched Attunity InFocus, and, following significant investments in developing and marketing of this product which have not resulted in generating strong demand for this product, we determined to end the sales of this product in the end of 2008.

***Our products may contain defects that may be costly to correct, delay market acceptance of our products, harm our reputation and expose us to litigation.***

Despite testing by us, errors may be found in our software products. If defects are discovered, we may not be able to successfully correct them in a timely manner, or at all. Defects and failures in our products could result in a loss of, or delay in, market acceptance of our products and could damage our reputation. Although our standard license agreement with our customers contains provisions designed to limit our exposure to potential product liability claims, it is possible that these provisions may not be effective or enforceable under the laws of some jurisdictions, and we could fail to realize revenues and suffer damage to our reputation as a result of, or in defense of, a substantial claim.

***We are subject to risks relating to proprietary rights and risks of infringement.***

We are dependent upon our proprietary software technology and we rely primarily on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary rights. Except for our trademark registrations in the United States, and one registered patent which we do not view as material, we do not have any other registered trademarks, patents or copyrights. To protect our software, documentation and other written materials, we rely on trade secret and copyright laws, which afford only limited protection. It is possible that others will develop technologies that are similar or superior to our technology. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. It is difficult to police the unauthorized use of products in our field, and we expect software piracy to be a persistent problem, although we are unable to determine the extent to which piracy of our software products exists. In addition, the laws of some foreign countries do not protect our proprietary rights as fully as do the laws of the United States. We cannot be certain that our means of protecting our proprietary rights in the United States or abroad will be adequate or that our competition will not independently develop similar technology.

We are not aware that we have infringed any proprietary rights of third parties. It is possible, however, that third parties will claim that we have infringed upon their intellectual property rights. It would be time consuming for us to defend any such claims, with or without merit, and any such claims could:

- result in costly litigation;
- divert management's attention and resources;
- cause product shipment delays; and
- require us to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us, if at all.

If there is a successful claim of infringement against us and we are not able to license the infringed or similar technology or other intellectual property, our business, operating results and financial condition would be materially adversely affected.

***We incorporate open source technology in our products which may expose us to liability and have a material impact on our product development and sales.***

Some of our products utilize open source technologies. These technologies are licensed to us under varying license structures, including the General Public License. If we have improperly integrated, or in the future improperly integrate software that is subject to such licenses into our products, in such a way that our software becomes subject to the General Public License or similar licenses, we may be required to disclose our own source code to the public. This could enable our competitors to eliminate any technological advantage that our products may have over theirs. Any such requirement to disclose our source code or other confidential information related to our products could materially and adversely affect our competitive position and impact our business, results of operations and financial condition.

***If our products are unable to interoperate with hardware and software technologies developed and maintained by third parties that are not within our control, our ability to develop and sell our products to our customers could be adversely affected, which would result in harm to our business and operating results.***

Our products are designed to interoperate with and provide access to a wide range of third-party developed and maintained hardware and software technologies, which are used by our customers. The future design and development plans of the third parties that maintain these technologies are not within our control and may not be in line with our future product development plans. We may also rely on such third parties, particularly certain third-party developers of database and application software products, to provide us with access to these technologies so that we can properly test and develop our products to interoperate with the third-party technologies. These third parties may in the future refuse or otherwise be unable to provide us with the necessary access to their technologies. In addition, these third parties may decide to design or develop their technologies in a manner that would not be interoperable with our own. If any of the situations described above were to occur, we would not be able to continue to market our products as interoperable with such third-party hardware and software, which could adversely affect our ability to successfully sell our products to our customers.

***Our products have a lengthy sales cycle.***

Our customers typically use our products to deploy applications that are critical to their business. As a result, the licensing and implementation of our products generally involves a significant commitment of attention and resources by prospective customers. Because of the long approval process that typically accompanies strategic initiatives or capital expenditures by companies, our sales process is often delayed, with little or no control over any delays encountered by us. Our sales cycle can be further extended for sales made through third party distributors. We cannot control such delays and cannot control the timing of sales cycles or our sales revenue, especially in light of the current global economic recession. Delay in the sales cycle of our products could result in significant fluctuations in our quarterly operating results.

*Our operating results fluctuate significantly and are affected by seasonality.*

Our quarterly results have fluctuated significantly in the past and may fluctuate significantly in the future. Our future operating results will depend on many factors, including, but not limited to, the following:

- the size and timing of significant orders and their timely fulfillment;
- demand for our products;
- seasonal trends and general domestic and international economic and political conditions, among others;
- changes in our pricing policies or those of our competitors;
- the number, timing and significance of product enhancements;
- new product announcements by us and our competitors;
- our ability to successfully market newly acquired products and technologies;
- our ability to develop, introduce and market new and enhanced products on a timely basis;
- changes in the level of our operating expenses;
- budgeting cycles of our customers;
- customer order deferrals in anticipation of enhancements or new products that we or our competitors offer;
- product life cycles;
- software bugs and other product quality problems;
- personnel changes;
- changes in our strategy;
- currency exchange rate fluctuations and economic conditions in the geographic areas where we operate; and
- the inherent uncertainty in marketing new products or technologies.

Due to the foregoing factors, quarterly revenues and operating results are difficult to forecast, and it is likely that our future operating results will be affected by these or other factors.

Revenues are also difficult to forecast because our sales cycle, from initial evaluation to purchase, is lengthy and varies substantially from customer to customer. In light of the foregoing, we cannot predict revenues for any future quarter with any significant degree of accuracy and period-to-period comparisons of our operating results may not necessarily be meaningful.

We have often recognized a substantial portion of our revenues in the last quarter of the year and in the last month, or even weeks or days, of a quarter. Our expense levels are relatively fixed in the short term. If revenue levels fall below expectations, our quarterly results are likely to be disproportionately adversely affected because a proportionately smaller amount of our expenses varies with our revenues.

Our operating results reflect seasonal trends and we expect to continue to be affected by such trends in the future, primarily in the third quarter ending September 30, when we expect to continue to experience relatively lower sales mainly as a result of reduced sales activity during the summer months. Due to the foregoing factors, in some future quarter our operating results may be below the expectations of public market analysts and investors. In such event, it is likely that the price of our ordinary shares would be materially adversely affected.

*The loss of the services of our key personnel would negatively affect our business.*

Our future success depends to a large extent on the continued services of our senior management and key personnel, including, in particular, Shimon Alon, the Chairman of our board of directors and our Chief Executive Officer. Any loss of the services of members of our senior management or other key personnel, and especially those of Mr. Alon, would adversely affect our business.

*Although our internal control over financial reporting was considered effective as of December 31, 2012, there is no assurance that our internal control over financial reporting will continue to be effective in the future, which could result in our financial statements being unreliable, government investigation or loss of investor confidence in our financial reports.*

The Sarbanes-Oxley Act of 2002, or SOX, imposes certain duties on us. Our efforts to comply with the management assessment requirements of Section 404(a) of SOX have resulted in a devotion of management time and attention to compliance activities, and we expect these efforts to require the continued commitment of significant resources. If we fail to maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting. We may also identify material weaknesses or significant deficiencies in our internal control over financial reporting. In addition, our internal control over financial reporting has not and is not currently required to be audited by our independent registered public accounting firm. In the future, if we are unable to assert that our internal controls are effective, our investors could lose confidence in the accuracy and completeness of our financial reports, which in turn could cause our stock price to decline. Failure to maintain effective internal control over financial reporting could also result in investigation or sanctions by regulatory authorities.

#### **Risk Factors Relating to Our Ordinary Shares**

*Provisions of the Plenus Loan may make an acquisition of us more costly or difficult, which could depress the price of our shares.*

Pursuant to the loan agreement between Attunity and Plenus Technologies Ltd. (and certain of its affiliates, or Plenus), dated as of January 31, 2007, as amended, or the Plenus Loan, if on or before December 31, 2017, we enter into a "Fundamental Transaction", which is defined to include a sale through a merger, selling all or substantially all of our assets, or a transaction in which a person or entity acquires more than 50% of our outstanding shares, then we will be required to pay Plenus an amount equal to, in general, the higher of \$300,000 or 15% of the aggregate proceeds payable to our shareholders or us in connection with such Fundamental Transaction. Plenus' right to such payment, or the Plenus Right, remains outstanding despite us having repaid the Plenus Loan in full. As a result, an acquisition of our Company that triggers the Plenus Right will be more costly to a potential acquirer and these provisions, taken as a whole, may have the effect of making an acquisition of our Company more difficult. In addition, 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 of us.

***Provisions of our OEM agreements with Microsoft may make an acquisition of us more difficult, which could depress the price of our shares.***

Pursuant to the OEM agreements we entered with Microsoft with respect to our CDC and open database connectivity, or ODBC, technologies, Microsoft is entitled to a right of first offer, whereby we are required to notify Microsoft in the event that we wish to sell our Company or sell or grant an exclusive license of the technology underlying the CDC or ODBC products, as the case may be, and, if the offer is accepted by Microsoft, negotiate such transaction with Microsoft, or, if rejected by Microsoft, we may enter into such transaction with a third party only on substantially the same or more favorable terms than the initial offer made by us to Microsoft. Microsoft is also entitled to terminate the OEM agreements under certain circumstances, including upon a change of control of our Company. These provisions, taken as a whole, may have the effect of making an acquisition of our Company more difficult. In addition, 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 of us.

***Our directors and executive officers own a substantial percentage of our ordinary shares.***

As of March 1, 2013, our directors and executive officers beneficially own approximately 22.3% of our outstanding ordinary shares. As a result, if these shareholders acted together, they could exert significant influence on the election of our directors and on decisions by our shareholders on matters submitted to shareholder vote, including mergers, consolidations and the sale of all or substantially all of our assets. This concentration of ownership of our ordinary shares could delay or prevent proxy contests, mergers, tender offers, or other purchases of our ordinary shares that might otherwise give our shareholders the opportunity to realize a premium over the then-prevailing market price for our ordinary shares. This concentration of ownership may also adversely affect our share price.

***Issuance of a significant amount of additional ordinary shares upon exercise of outstanding options, warrants and rights and/or substantial future sales of our ordinary shares may depress our share price.***

As of March 1, 2013, we had approximately 11.0 million ordinary shares issued and outstanding and approximately 2.3 million of additional ordinary shares which are issuable upon exercise of outstanding employee stock options and warrants. The issuance of a significant amount of additional ordinary shares on account of these outstanding securities will dilute our current shareholders' holdings and may depress our share price.

If our existing shareholders or holders of our options or warrants sell substantial amounts of our ordinary shares, the market price of our ordinary shares may be adversely affected. Any substantial sales of our shares in the public market might also make it more difficult for us to sell equity or equity related securities in the future at a time and on terms we deem appropriate. Even if a substantial number of sales do not occur, the mere existence of this "market overhang" could have a negative impact on the market for, and the market price of, our ordinary shares.

***The market price of our ordinary shares may fluctuate and could be substantially affected by various factors.***

Our ordinary shares have experienced significant market price and volume fluctuations in the past and may experience significant market price and volume fluctuations in the future in response to factors such as the following, some of which are beyond our control:

- quarterly variations in our operating results;
- changes in expectations as to our future financial performance and cash position, including financial estimates by securities analysts and investors;

- announcements of technological innovations or new products by us or our competitors;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in the status of our intellectual property rights;
- announcements by third parties of significant claims or proceedings against us; and
- future substantial sales of our ordinary shares.

Domestic and international stock markets and electronic trading platforms often experience extreme price and volume fluctuations. Market fluctuations, as well as general political and economic conditions, such as a recession or interest rate or currency rate fluctuations or political events or hostilities in or surrounding Israel, could also adversely affect the price of our ordinary shares.

***If securities analysts do not publish research, or if securities analysts or other third parties publish inaccurate or unfavorable research, about us, the price of our ordinary shares could decline.***

The trading market for our ordinary shares will rely in part on the research and reports that securities analysts and other third parties choose to publish about us. We do not control these analysts or other third parties. The price of our ordinary shares could decline if one or more securities analysts downgrade our ordinary shares or if one or more securities analysts or other third parties publish inaccurate or unfavorable research about us or cease publishing reports about us.

***Provisions of our articles of association and of Israeli law as well as terms of compensation of some of our senior management may delay, prevent or make difficult an acquisition of us, which could depress the price of our shares.***

The provisions in our articles of association relating to the submission of shareholder proposals for shareholders meetings, and requiring a special majority voting in order to amend certain provisions of our articles of association relating to such proposals as well as to election and removal of directors, may have the effect of delaying or making an acquisition of our Company more difficult. In addition, provisions of Israeli corporate and tax law may have the effect of delaying, preventing or making an acquisition of our Company more difficult. For example, under the Israeli Companies Law, upon the request of a creditor of either party to a proposed merger, the court may delay or prevent the merger if it concludes that there 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, our executive officers and certain other key employees are entitled to certain benefits in connection with a change of control of the Company. 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 of us. Third parties who are otherwise willing to pay a premium over prevailing market prices to gain control of us may be unable or unwilling to do so because of these provisions of Israeli law.

***We do not intend to pay cash dividends.***

Our policy is to retain earnings for use in our business. We have never declared or paid cash dividends, and we do not anticipate paying cash dividends in the foreseeable future.

## **Risk Factors Relating to Our Operations in Israel**

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

We are incorporated under the laws of the State of Israel, and our principal offices and research and development facilities are located in Israel. Accordingly, security, political and economic conditions in the Middle East in general, and in Israel in particular, directly affect our business.

Over the past several decades, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Since late 2000, there has also been a high level of violence between Israel and the Palestinians which has strained Israel's relationship with its Arab citizens, Arab countries and, to some extent, with 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 various 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 the State of Israel and these countries. In addition, this instability may affect the global economy and marketplace. Any armed conflicts or political instability in the region, including acts of terrorism or any other hostilities involving or threatening Israel, would likely negatively affect business conditions and could make it more difficult for us to conduct our operations in Israel, which could increase our costs and adversely affect our financial results.

Furthermore, some neighboring countries, as well as certain companies and organizations, continue to participate in a boycott of Israeli firms and others doing business with Israel or with Israeli companies. Restrictive laws, policies or practices directed towards Israel or Israeli businesses could have an adverse impact on the expansion of our business. In addition, we could be adversely affected by the interruption or curtailment of trade between Israel and its trading partners, a significant increase in the rate of inflation, or a significant downturn in the economic or financial condition of Israel.

### ***Our financial results may be adversely affected by currency fluctuations.***

Since we report our financial results in dollars, fluctuations in rates of exchange between the dollar and non-dollar currencies may have a material adverse effect on our results of operations. We generate a majority of our revenues in dollars or in dollar-linked currencies, but some of our revenues are generated in other currencies such as the NIS, Euro, the British Pound Sterling and the Hong-Kong Dollar. As a result, some of our financial assets are denominated in these currencies, and fluctuations in these currencies could adversely affect our financial results. In addition, a large portion of our expenses, principally salaries and related personnel expenses, are paid in NIS. For instance, during 2011, we witnessed a strengthening of the average exchange rate of the NIS against the dollar, which increased the dollar value of Israeli expenses. If the NIS strengthens against the dollar, as it did in 2011, the value of our Israeli expenses will increase. While we engage, from time to time, in currency hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on our results of operations, we cannot guarantee that such measures will adequately protect us against currency fluctuations in the future. Although exposure to currency fluctuations to date has not had a material adverse effect on our business, there can be no assurance such fluctuations in the future will not have a material adverse effect on our operating results and financial condition.

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

We have in the past received royalty-bearing grants from the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor, or the Chief Scientist, for research and development programs that meet specified criteria. Although we have no further obligation to pay royalties to the Chief Scientist in respect of sales of our products, the terms of the Chief Scientist's grants limit our ability to transfer know-how developed under an approved research and development program outside of Israel. In addition, any non-Israeli citizen, resident or entity that, among other things, 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, serves as a director of our Company or as our chief executive officer, is generally required to notify the same to the Chief Scientist and to undertake to observe the law governing the grant programs of the Chief Scientist, the principal restrictions of which are the transferability limits described above.

*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 if they determine 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 provides 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**

###### **Corporate History and Details**

Attunity Ltd was incorporated under the laws of the State of Israel in 1988 as a company limited by shares.

Our executive headquarters are located at 16 Atir Yeda Street, Atir Yeda Industrial Park, Kfar Saba 4464321, Israel, telephone number (972) 9-899-3000. Our authorized representative and agent in the U.S. is Attunity Inc., our wholly owned subsidiary, which maintains its principal offices at 70 Blanchard Road, Burlington, Massachusetts 01803, telephone number (781) 213-5200. Our address on the Internet is <http://www.attunity.com>. The information on our website is not incorporated by reference into this annual report.

We are a leading provider of information availability software solutions that enable access, sharing, replication, consolidation and distribution of data across heterogeneous enterprise platforms, organizations, and the cloud.

We began operations in 1989 and, when we went public on NASDAQ in December 1992, our principal products were the APT (Application Programming Tools) product family of software productivity tools, comprised of the APTuser - a production report generator and APTools - a comprehensive software development system. In 1993, we acquired Attunity Software Services (1991) Ltd. (formerly known as Meyad Computers Company (1991) Ltd.), which owned Mancal 2000 - a financial and logistic application software package. In 1994, we acquired Attunity Inc. (formerly known as Cortex Inc.), which owned CorVision - an application generator for enterprise applications. In 1996, we released Attunity Connect® - a universal data and application access product. In 2004, we released Attunity Federate - a virtual data federation, which is also commonly referred to as Enterprise Information Integration, or EII, and Attunity Stream - a CDC software that captures only the changes made to enterprise data sources with minimal impact on the database systems. In 2005, we released Attunity InFocus - a software platform for workplace - focused composite applications which, since late 2008, we no longer offer. In 2009, we released Attunity Operational Data Replication - a set of solutions that allow the transfer and synchronization of data between heterogeneous databases. In 2011, we acquired RepliWeb, a leading provider of enterprise file replication and managed file transfer technologies.

###### **Recent Major Business Developments**

Below is a summary of the major business developments in Attunity since January 1, 2012:

On July 23, 2012, we announced that we have become an Amazon Web Services (AWS) partner and introduced Attunity CloudBeam, a software-as-a-service (SaaS) platform designed to deliver high performance solutions for moving Big Data in, out and across AWS cloud data centers quickly and easily.

On July 24, 2012, we announced that we have teamed up with EMC Corporation, or EMC, to deliver a high-performance, easy-to-use Big Data replication solution for the EMC Greenplum Unified Analytics Platform and that Attunity Replicate, officially qualified by EMC, became available with optimizations tailored for EMC Greenplum products.

On October 23, 2012, we announced that we partnered with Teradata Corporation to offer Attunity Replicate for Teradata, a Big Data replication solution designed to enable loading of heterogeneous data to Teradata with high performance, efficiency and ease-of-use.

On February 19, 2013, we announced the imminent release by us of an optimized data loading solution for Amazon Redshift, AWS' new data warehouse in the cloud.

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

## **B. BUSINESS OVERVIEW**

### **Overview**

We are a leading provider of information availability software solutions that enable access, sharing, replication, consolidation and distribution of data across heterogeneous enterprise platforms, organizations, and the cloud. Our software solutions include data replication (Replicate), change data capture (CDC), data connectivity, enterprise file replication (EFR) and managed-file-transfer (MFT).

Our software solutions benefit our customers' businesses by enabling real-time access and availability of data and files where and when needed, across the maze of heterogeneous systems making up today's information technology, or IT, environment. Our software is commonly used for projects such as data warehousing and big data analytics, reporting migration and modernization, application release automation (ARA), file replication and distribution and cloud data transfer.

Our products form a comprehensive suite of software infrastructure that is designed to reduce the complexity of today's information systems and enable the use of enterprise information where and when needed. Our software includes products for real-time data integration; ARA (a process that automates the deployment and upgrade of custom applications and web content across various stages of the application and content lifecycle); and managed file transfer, or MFT (a process that allows organizations to secure and automate business-to-business information exchanges over standard internet connections). In addition, we offer a SaaS-based platform with a portfolio of services to enable cloud data transfer.

Our software offering currently consists of the following key products:

- *Attunity Replicate* - Attunity Replicate is high performance data replication software that enables organizations to accelerate and reduce the costs of distributing, sharing and ensuring the availability of data for meeting business operations and business intelligence needs.
- *Attunity Stream*<sup>®</sup> - Attunity Stream is a CDC technology that captures only the changes made to transactional systems and transfers them to another destination database.
- *Attunity Connect*<sup>®</sup> - Attunity Connect is a suite of pre-built software that provides access, connect-ability and integration to various data sources or applications across a wide range of computing platforms, including those on mainframes, enterprises, legacy and proprietary sources, as well as Windows and UNIX.

- *RepliWeb Managed File Transfer (MFT)* - RepliWeb-MFT is a file transfer management solution that allows organizations to secure and automate business-to-business, or B2B, information exchanges over standard internet connections.
- *RepliWeb Replication Manager* – RepliWeb Replication Manager is a heterogeneous file system and storage replication solution, optimized for Wide Area Network, or WAN, infrastructures.
- *RepliWeb Deployment Manager* – RepliWeb Deployment Manager is an ARA and Web deployment solution for Windows (.NET & SharePoint), UNIX and Linux applications and web infrastructures.
- *Attunity CloudBeam* - Attunity CloudBeam is a fully-managed data transfer SaaS-based platform that is designed to move data to, from and between cloud environments, including AWS, quickly, reliably and affordably.

In addition, as we announced on February 19, 2013, we are in the Beta stage of an optimized data loading solution for Amazon Redshift, AWS's new data warehouse in the cloud. Attunity's solution, based-off our Attunity Replicate solution as well as our file replication technology, is being designed to provide a high-speed, scalable and fully-managed solution to move data from various enterprise databases into Amazon Redshift quickly, easily and affordably. The new solution is expected to be available for public Beta testing in April 2013.

Our software solutions have been deployed at thousands of organizations worldwide in government, financial services, manufacturing, retail, pharmaceuticals and the supply chain industry. Over the years, our products have also won a number of awards for performance, including the following:

- In June 2012, our Attunity Replicate data replication software was named "Best of TechEd 2012" in the business intelligence category by SQL Server Pro magazine;
- In May 2012, our Attunity MFT ranked as "Best Overall Value" and earned top distinction as an innovator in InfoTech Research Group's MFT vendor landscape report; and
- In November 2011, our Attunity SQL Server-CDC for SSIS (Microsoft SQL Server Integration Services platform) data replication software was recognized in the Best BI/Reporting product category, winning the gold medal for SQL Server Magazine's "2011 Community Choice Award" and the silver medal for the SQL Server Magazine's "2011 Editors' Best Award."

Through distribution, OEM agreements and strategic relationships with global-class partners such as Microsoft, Oracle, IBM, HP, EMC, AWS and CenturyLink, Inc. (Savvis), our solutions have been deployed at thousands of organizations worldwide in government, financial services, manufacturing, retail, pharmaceuticals and the supply chain industry.

Our products and services are sold through direct sales and support offices in the United States, the United Kingdom, Hong Kong and Israel, as well as through distributors and local partners in several countries in Europe as well as in Japan, South Korea, Taiwan, Singapore, and South and Central America.

#### **The Market Opportunity and Our Solutions**

We believe that the world of IT data infrastructure is undergoing a significant change, one that enables very large information assets to be accessible in a timely manner, reaching more users through more applications and devices. This new paradigm in information access requires support for service-based standards, real-time detection of critical events, and the ability to manage very large quantities of datasets, to which we refer as Big Data. Consequently, our main focus and strategy is to establish Attunity as a leading provider of real-time data integration, replication and event capture software, which are all enabling technologies.

In 2009, we expanded our product offering to target the data replication market, an important segment of the data integration market that enables the real-time availability and consistency of data across heterogeneous databases. Specifically, we focus on what we call Operational Data Replication, or ODR, software solutions, which are designed to make information available to support operational business intelligence. In addition, we believe that the need for heterogeneous data integration and replication will increase with the adoption of cloud computing, as organizations start to manage data both in their own data centers as well as in cloud-based systems. In this respect, we focus on high speed bulk transfer and CDC capabilities to support cloud computing capabilities. In September 2011, we acquired RepliWeb, which allows us to offer an extensive data and content replication platform for cloud and enterprise data centers.

We believe that our suite of software solutions and services responds to the market need we identified by providing the following key benefits:

- our solutions allow organizations to access, detect, notify and act upon changing data and critical business events in real-time, and realize the full benefits of being a 'real-time enterprise';
- our solutions simplify the growing complex maze of different database systems, platforms, versions and hardware, on-premises and in the cloud, reducing the costs of interconnectivity and opening up the opportunity for new more valuable cross-system applications;
- our solutions empower organizations to manage all types of data structure, across substantially all network environments, and throughout commercially relevant business applications and computing environments; and
- our solutions enable real-time availability of data required to support business intelligence and operations, a requirement that is now a common enabler for improved efficiencies and competitive advantage.

## **Our Strategy**

The key elements of our strategy to achieve our objectives include:

- *Extend our Product Leadership.* Our flexible, open and standards-based architecture extends integration opportunities into more business applications and enterprise computing environments, including cloud computing. Our goal is to provide the most comprehensive and reliable suite of data management and integration solutions for enterprise data centers and cloud environments that accelerate information access, improve system uptime and reduce operational overhead and complexities.
- *Expand Our Selling Capabilities.* We market and sell our products in the U.S, the U.K, Europe, Latin America, the Middle East and the Asia-Pacific regions through direct sales, OEM, reseller and distributor channels. We intend to expand our sales channels in those territories and seek to enter into agreements with new OEMs and other indirect channels.
- *Enter New Markets.* To date, our revenues have been derived predominantly from licensing our software to enterprises that use it in their data centers to enable Big Data analytics, data integration, business intelligence, release automation and file replication. We believe that our software is well positioned to meet the new and fast growing markets of Big Data and cloud computing (including cloud data warehousing, analytics in Hadoop-based environment, cloud data archiving and disaster recovery), adding value to customers with new solutions as these markets evolve. We intend to capitalize upon these opportunities by marketing our software and services to companies with real-time information and event-driven initiatives.

- *Increased Penetration of Our Existing Customer Base.* Over the years, our different software solutions were licensed to over 2,500 customers worldwide. This large installed base affords us a unique opportunity for cross-selling our expanded product offering and future software solutions.
- *Expand and Leverage our Strategic Relationships.* We believe that a significant market opportunity exists to sell our software with the complementary products and services provided by other organizations. We plan to extend our existing strategic relationships and develop new alliances with leading global software providers, equipment manufacturers, application service providers, systems integrators and value-added resellers, in order to extend the functionality of our software and increase sales. We have strategic relationships with global-class partners such as Microsoft, IBM, Oracle, HP, EMC, AWS and CenturyLink, Inc. (Savvis), where our software is sold as an add-on product to their product line, or embedded within their own products. We intend to leverage the sales and marketing capabilities of our alliance partners and facilitate the wider adoption of our software.
- *Pursue Strategic Acquisitions and Investments.* In order to achieve our business objectives, we may evaluate and pursue the acquisition of, or significant investments in, other complementary companies, technologies, products and/or businesses that enable us to enhance and increase our technological capabilities and expand our software products and service offerings. For instance, in September 2011, we completed the acquisition of RepliWeb, a provider of enterprise file replication and managed file transfer technologies.

## **Products**

Our software offering currently consists of the following key products:

### *Attunity Replicate*

Attunity Replicate is a high-performance data replication software, which we believe enables organizations to accelerate and reduce the costs of distributing, sharing and ensuring the availability of data for meeting business operations and business intelligence needs. Using Attunity Replicate, organizations can load data efficiently and quickly to operational data stores/warehouses; create copies of production databases to enable operational reporting; offload queries from operational systems to reduce load and impact; facilitate zero-downtime migrations and upgrades; and distribute data across data sources/centers. The key features of Attunity Replicate are:

- Complete automation of database replication, including database schema, data and changes
- Simplified user experience delivering a "Click-2-Replicate" solution, which means it allows the user to simplify and automate the implementation of end-to-end data replication
- Heterogeneous replication supporting many types of source and target databases

*Attunity Stream®- captures changes to enterprise data sources and streams them in real-time*

Attunity Stream® captures and delivers the changes made to enterprise data sources to a destination database. Given the exponential growth rates of transactional data year-on-year, and the increasing demands for businesses to work with ever more timely information, streaming changed-data to applications and messaging systems has become a critical component of the modern 'real-time enterprise'. Using Attunity Stream, we believe organizations can significantly improve the movement of mainframe and enterprise operational data in real-time to data warehouses and data marts; significantly improve the efficiency of Extract Transform & Load, or ETL, processes, synchronize data sources; and enable event-driven business activity monitoring and processing. Attunity Stream provides agents that non-invasively monitor and capture changes to mainframe and enterprise data sources. Changes are delivered in real-time or consumed as required using standard interfaces. The key features of Attunity Stream are:

- Real-time capture of changes from most data sources, including Oracle and SQL Server, as well as mainframe data sources such as VSAM, DB2
- SQL-based change delivery for ETL and data-oriented applications
- XML-based change delivery for EAI and message-oriented applications
- Simple installation and fast configuration using wizard-based GUI
- Auditing and recoverability

*Attunity Connect - standard data access and legacy adapter suite*

Attunity Connect® is a suite of pre-built adapters to mainframe and enterprise data sources. It is designed to provide seamless access to legacy data for business intelligence and enterprise portals, build .NET and J2EE (Java 2 Enterprise Edition) applications that interoperate with legacy systems, and accelerate Enterprise Application Integration, or EAI, initiatives. Attunity Connect resides natively on the data server to provide standard, service-oriented integration (SQL, XML, and Web based services) to a broad list of data sources on platforms ranging from Windows and UNIX to HP NonStop and Mainframe. With robust support for metadata, bi-directional read/write access and transaction management, Attunity Connect simplifies and reduces the cost of legacy integration. The key features of Attunity Connect are:

- Standard, service-oriented interfaces (SQL, XML, Web services)
- Comprehensive pre-built adapter library on virtually any platform
- Transactional read/write integration
- Query governing
- Enterprise class scalability, reliability and performance
- Certified with leading BI and EAI products
- Simple installation and fast configuration using wizard-based Graphic User Interface, or GUI

*RepliWeb Managed File Transfer (MFT)*

RepliWeb-MFT is a file transfer management solution that allows organizations to secure and automate business-to-business (B2B) information exchanges over standard internet connections. RepliWeb-MFT delivers security policy enforcement, auditing, inspection policies, routing, and accelerated transfers of large-file payloads across each stage of the file transfer process. The key features of MFT are:

- Secure two-tier demilitarized zone architecture (a physical or logical separation between internal and external network or computing environments, which helps organizations address regulatory, compliance and information security requirements)
- Ability to address user, server and application-driven file transfer processes
- Support for most commercial encryption and security policies
- Rich application programming interface, or API, that supports extensive Inspection policies and file routing

### *RepliWeb Replication Manager*

RepliWeb Replication Manager is a heterogeneous file system and storage replication solution, optimized for WAN infrastructures. The Replication Manager provides organizations with widely distributed (global/regional/local) operations, a highly reliable and fast way to replicate, mirror, backup and/or migrate unstructured data. The key features of Replication Manager are:

- Comparative snap-shot technology enabling delta only replication
- Accelerated WAN transfer engines
- Extensive file and content include/exclude definitions
- Real-time replication engines for Windows server environments

### *RepliWeb Deployment Manager*

RepliWeb Deployment Manager is an ARA and Web deployment solution for Windows (.NET & SharePoint), UNIX and Linux applications and web infrastructures. The product is used by IT operations, application development and content/marketing teams to manage and automate the deployment of applications and digital content across on-premise and cloud-based servers. The key features of Deployment Manager are:

- Robust automation and scheduling engines
- End to end auditing and reporting of managed processes
- One-click rollback of applications, content & configurations

### *Attunity CloudBeam*

Attunity CloudBeam, initially introduced in limited availability in July 2012 and launched with commercial availability in November 2012, is our fully-managed data transfer SaaS-based platform that is designed to move data to, from and between cloud environments quickly, reliably and affordably. We believe Attunity CloudBeam helps users to realize the value of cloud computing by alleviating the challenges of uploading and managing the transmission of Big Data, also known as the "Big Data bottleneck," as well as address other infrastructure maintenance challenges. Supporting AWS cloud storage services, Attunity CloudBeam facilitates solutions such as loading data for analytics in the cloud, disaster recovery, content distribution, and cloud migrations. The key features of Attunity CloudBeam are:

- Automation – provides robust scheduling of data transfer processes, including continuous synchronization. The command line interface also enables application level automation.
- Acceleration – high-performance movement of very large files and large numbers of files to, from, and between cloud environments.
- Manageability – enables user to manage cloud data movement without the overhead of building and maintaining cloud infrastructure.
- Reliability – provides comprehensive audited and recoverable file transfers.
- Security – encrypts all transfers to ensure data is not tampered with or viewed inappropriately.
- Affordability – subscription-based services, enables customers to pay based on usage.

### **Sales and Marketing**

Our products and services are sold through both direct and indirect channels, including distributors, VARs and OEM partners.

We maintain direct sales operations through wholly owned subsidiaries in the United States, the United Kingdom, Hong Kong and Israel. In several countries in Europe as well as in Japan, South Korea, Taiwan, Singapore, and South and Central America we distribute our products through independent distributors. Our field force (including marketing, sales, technical pre-sales and support personnel) is comprised of 26 persons in North America, 13 persons in Europe, the Middle East and Africa and 4 persons in the Asia Pacific region.

Over the course of the past several years, we have focused on developing long-term strategic partnerships with platform vendors, business intelligence vendors, system integrators and managed service providers. We entered into a number of OEM and/or reseller agreements with Microsoft, IBM, Oracle, HP, CenturyLink, Inc. (Savvis) and other enterprise software vendors and integrators. For example, in February 2011, we announced that we had entered into an OEM agreement with Microsoft to provide our ODBC connector in Microsoft's next version of SQL Server. This OEM agreement was in addition to a multi-million dollar OEM agreement with Microsoft to provide our CDC in Microsoft's next version of SQL Server, which we announced in December 2010. The scope of these OEM agreements is global and it also covers resellers, developers and distributors of Microsoft's SQL Server.

#### **Customer Support Services**

We provide the following direct support services to our customers:

*Hot-line Support.* We provide technical advice and information on the use of our products. Our hot-line support is also responsible for publishing technical bulletins and distributing new versions of software and program "patches." Such hot-line customer support is typically provided through toll-free telephonic support during business hours, which, for an additional fee, can be extended to 24 hours a day, seven days a week. We have hot-line operations in the United States, Israel and China. Support is provided via telephone, remote-access and e-mail. A substantial majority of our customers are covered by support contracts, with, in some cases, services being provided by local subcontractors or resellers.

*Training.* We provide classroom and on-site training in the use of our products. The course curriculum includes product use education, product troubleshooting and system management. Our customers receive documentation that includes user manuals, reference manuals, tutorials, installation guides and release notes.

*Professional Services.* We offer consulting services and system integration assistance to customers, although our products do not require any material support in implementation.

#### **Seasonality**

Our business is subject to seasonal trends, primarily in the third quarter ending September 30, when we have typically experienced relatively low sales mainly as a result of reduced sales activity of our customers and prospects during the summer months. We have also often recognized a substantial portion of our revenues in the last quarters of the year and in the last month, or even weeks or days, of a quarter.

#### **Customers**

Our products are sold directly and indirectly primarily to large and medium-size enterprises in the financial services, manufacturing, retail, pharmaceuticals and the supply chain industry, as well as to governmental and public institutions. In addition, our products are sold indirectly through a number of regional resellers and world-class OEM partners, such as Microsoft, IBM, Oracle and HP, as well as other software vendors and integrators.

The table below shows the relative contributions of (1) our connectivity and data replication products and (2) our file replication products to our total license revenues for the years ended December 31, 2010, 2011 and 2012 (dollars in thousands). Our file replication products consist of our RepliWeb file replication, MFT and ARA solutions associated with the acquisition of RepliWeb in September 2011.

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Data replication	\$ 10,011	\$ 6,719	\$ 4,645
File replication	4,426	1,421	--
<b>Total license revenues</b>	<b>14,437</b>	<b>8,140</b>	<b>4,645</b>

Our maintenance and support revenues are derived from maintenance and support services we provide to customers who use (1) our connectivity and data replication solutions, (2) the Corvison and APTuser products, which are legacy products, and (3) commencing September 2011, our file replication products. The table below shows the relative contributions of each of these categories to our total maintenance and support revenues for the years ended December 31, 2010, 2011 and 2012 (dollars in thousands).

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Data replication	\$ 5,542	\$ 5,381	\$ 4,542
File replication	4,951	1,198	--
Legacy products	549	450	886
<b>Total maintenance and support revenues</b>	<b>11,042</b>	<b>7,029</b>	<b>5,428</b>

For the year ended December 31, 2012, Microsoft accounted for approximately 10.9% of our total revenues. For the year ended December 31, 2011, Microsoft and another OEM partner accounted for approximately 13.4% and 10.7%, respectively, of our total revenues. For the year ended December 31, 2010, no single customer accounted for more than 10% of our total revenues.

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

### Competition and Pricing

*General:* The IT marketplace is highly competitive and has very few barriers to entry. The primary competitive factors affecting sales of our products are product performance and features, depth of product line, technical support and price. We compete both with international and local software vendors, many of whom have significantly greater financial, technical and marketing resources than us.

We anticipate continued growth and competition in this market and, consequently, the entrance of new competitors into the market or intensified competition, including by way of consolidation. In the past few years, we have identified a trend of consolidation in the software industry in general, and in the real-time data integration market in particular, such as Informatica Corporation's acquisition of Wisdom Force (July 2011) and Oracle's acquisition of Golden Gate Software (July 2009). Consolidation and mergers in our market may result in stronger competition by larger companies that threatens our market positioning. New entrants may also include the IT departments of current and potential customers of ours that develop solutions that compete with our products.

*Connectivity and Data Replication:* The competitors with our connectivity (including CDC) and data replication offering include Oracle (through Golden Gate), Informatica Corporation and IBM. In light of current global economic conditions, we anticipate continued consolidation and increased competition in the market. Moreover, our existing and potential competitors may be able to develop software products and services that are as effective as, or more effective or easier to use, than those offered by us. Such existing and potential competitors may also enjoy substantial advantages over us in terms of research and development expertise, manufacturing efficiency, name recognition, sales and marketing expertise, distribution channels, as well as financial resources. However, we believe that our connectivity and data replication products are generally competitive in price and features and have certain advantages as compared to competitors' products.

*Application Release Automation (ARA)/ Web Deployment:* Our competitors in the ARA and Web Deployment market include major platform vendors, such as Microsoft, IBM and HP; server provisioning and configuration management vendors, such as BMC Software, Inc., CA Inc. and Serena Software, Inc.; and other providers of open source and freeware solutions. Our commercial competitors in this market enjoy significant advantages over us primarily in their abilities to manage both the operating systems and application stacks, stronger global brand recognition and deeper product development capabilities. The open source and freeware solutions offer significant cost benefits compared to our and other commercial solutions. However, we believe our offerings are competitive in that they address the needs of heterogeneous computing and application infrastructures, reduce the potential for vendor lock-in, are quicker and easier to install, and deliver a quicker total return on investment.

*Managed File Transfer (MFT):* Our competitors in the MFT market include the larger global software and middleware vendors, such as IBM (Sterling Commerce), Axway Software SA and Tibco Software Inc.; mid-tier software vendors, such as Globalscape Inc. and Ipswitch Inc.; and SaaS vendors such as Box.net and YouSendit. The MFT market is highly competitive with the larger global software vendors possessing significant advantages over us in terms of stronger global brand recognition, current feature sets, research and development resources, and sales infrastructure. Additionally, we face increased competition from SaaS vendors who offer low first-year product acquisition costs. However, we believe our MFT solution provides a rich portfolio of features that addresses the mainstream market needs, has a lower total cost of ownership and delivers high enterprise value.

*Enterprise File Replication (EFR):* Our competitors in the EFR market include the major platform vendors such as Microsoft, IBM and HP; the large storage management vendors such as EMC, CA and Symantec; mid-tier replication vendors such as Vision Solutions, Inc. (Double-Take Software); as well as other providers of open source and freeware solutions. The larger commercial vendors have strong visibility and penetration with storage management processes such as de-duplication and archival processes. The open source and freeware solutions offer significant cost benefits compared to our and other commercial solutions. However, we believe our EFR solution is very competitive in its ability to reliably manage massive file/folder structures, its ability to address organizations with large numbers of server endpoint connected over WAN links, and our low total cost of ownership.

#### **Intellectual Property Rights and Software Protection**

While we have one registered patent for a method for compressing and decompressing files in the field of file transfer software, we primarily rely upon a combination of security devices, copyrights, trademarks, trade secret laws and contractual restrictions to protect our rights in our products. Our policy has been to pursue copyright protection for our software and related documentation and trademark registration of our product names. In addition, our employees and independent contractors are generally required to sign non-disclosure agreements.

We have obtained trademark registrations for Attunity®, Attunity B2B®, Attunity Connect®, Attunity Stream®, Attunity Federate®, Attunity Replicate®, Attunity InFocus®, RepliWeb® and FASTCOPY® in the United States. We believe that copyright protection, which generally applies whether or not a license agreement exists, is sufficient to protect our rights in our products. We do not currently own any registered copyrights. Our policy is for our customers to sign non-transferable software license agreements providing contractual protection against unauthorized use of the software.

Preventing the unauthorized use of software is difficult, and unauthorized software use is a persistent problem in the software industry. However, we believe that, because of the rapid pace of technological change in the software industry, the legal protections for our products are less significant factors in our success than the knowledge, ability and experience of our employees, the frequency of product enhancements and the timeliness and quality of support services provided by us.

## **Government Regulations**

### *General*

Israel has the benefit of a free trade agreement with the United States which, generally, permits tariff-free access into the United States for products produced by us in Israel. In addition, as a result of an agreement entered into by Israel with the European Union, or the EU, and countries remaining in the European Free Trade Association, or EFTA, the EU and EFTA have abolished customs duties on Israeli industrial products.

### *Grants from the Office of the Chief Scientist*

The Government of Israel encourages research and development projects through the Office of Chief Scientist of the Israeli Ministry of Industry, Trade and Labor, or the Chief Scientist, pursuant to the Law for the Encouragement of Industrial Research and Development, 1984, and the regulations promulgated thereunder, or the R&D Law. Generally, grants from the Chief Scientist constitute up to 50% of qualifying research and development expenditures for particular approved projects. Under the terms of these Chief Scientist projects, a royalty of 3% to 5% is due on revenues from sales of products and related services that incorporate know-how developed, in whole or in part, within the framework of projects funded by the Chief Scientist. Royalty obligations are usually 100% of the dollar-linked amount of the grant, plus interest.

We have not received grants since 2000 and, since 2006, we have not had any liability to pay royalties to the Chief Scientist. Nevertheless, the R&D Law provides that know-how developed under an approved research and development program or rights associated with such know-how may not be transferred to third parties in Israel without the approval of the Chief Scientist. Such approval is not required for the sale or export of any products resulting from such research or development. The R&D Law, as amended, further provides that the know-how developed under an approved research and development program or rights associated with such know-how may not be transferred to any 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 R&D Law also 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 non-Israeli 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 R&D 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 R&D Law.

### C. ORGANIZATIONAL STRUCTURE

Our wholly owned subsidiaries act as marketing and customer service organizations in the countries where they are incorporated and in most instances for neighboring countries. The following table sets forth the legal name, location and country of incorporation and percentage ownership of each of our (direct and indirect) significant subsidiaries:

<u>Subsidiary Name</u>	<u>Country of Incorporation</u>	<u>Ownership Percentage</u>
Attunity Inc.	United States	100%
Attunity (UK) Limited	United Kingdom	100%
Attunity (Hong Kong) Ltd.	Hong-Kong	100%
Attunity Israel (1992) Ltd.	Israel	100%
RepliWeb Inc.	United States	100%

### D. PROPERTY, PLANTS AND EQUIPMENT

*General.* Other than the leased properties described below, we do not own or lease any material tangible fixed assets. As more fully described in Item 5.B "Operating and Financial Review and Prospects– Liquidity and Capital Resources – Principal Financing Activities – Credit Line," all our assets are subject to a first priority floating charge and certain other immaterial assets are subject to a first priority fixed charge.

*Israeli Leases.* Our executive, marketing and sales offices as well as research and development facilities are located in the industrial park of Kfar Saba, Israel. In August 2012, in order to consolidate our Israeli facilities described below into one location, we entered into a new lease agreement for the lease of approximately 18,400 square feet in said location. In accordance with the lease, we relocated to these new facilities in mid March 2013. The lease expires in February 2018 and may be extended for two additional periods of three years each. The annual rent is approximately \$550,000 (\$460,000 for the period in 2013).

Prior to the relocation to Kfar Saba, our facilities were located in the industrial park of Kfar Netter, Israel, where we leased approximately 11,800 square feet, of which we subleased, during 2012, approximately 1,100 square feet to third parties. The premises were occupied under a lease which expired on March 15, 2013. The annual rent for the premises we occupied (i.e., excluding the spaces we sublease to third parties) was approximately \$267,000 in 2012, compared with approximately \$244,000 in 2011.

In connection with the acquisition of RepliWeb, we also leased until recently approximately 5,200 square feet in Petach Tikva, Israel. The premises, which were used as our second research and development facility, were occupied under a lease which expired on December 31, 2012. The annual rent for these premises was approximately \$148,000 in 2012.

*North America Leases.* We lease approximately 3,300 square feet of office space in Burlington, MA and approximately 2,500 square feet of office space in Coconut Creek, FL. The aggregate annual rent of these facilities was approximately \$124,000 in 2012. In February 2013, we entered into an additional lease agreement of approximately 900 square feet of office space in the same location in Burlington, MA for annual rent of approximately \$19,800.

*Leases in Other Locations.* We lease additional office space in Hong Kong and in Chertsey, England. The aggregate annual rent for these premises was approximately \$126,000 in 2012. In February 2013, we entered into a new lease agreement for additional office space in Chertsey, England, for annual rent of approximately \$115,000.

*Facilities - 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**

Not applicable.

**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 U.S. GAAP. 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**

We were founded in 1988 and became a public company in the United States in 1992. We have been delivering software solutions to organizations around the world for over twenty years and we are now a leading provider of information availability software solutions that enable access, sharing, replication, consolidation and distribution of data across heterogeneous enterprise platforms, organizations, and the cloud. Our software solutions include data replication (Replicate), change data capture (CDC), data connectivity, enterprise file replication (EFR) and managed-file-transfer (MFT).

Our software solutions benefit our customers' businesses by enabling real-time access and availability of data and files where and when needed, across the maze of heterogeneous systems making up today's IT environment. Our software is commonly used for projects such as data warehousing and Big Data analytics, reporting migration and modernization, application release automation, file replication and distribution and cloud data transfer.

Through distribution, OEM agreements and strategic relationships with global-class partners such as Microsoft, Oracle, IBM, HP, EMC, AWS and CenturyLink, Inc. (Savvis), our solutions have been deployed at thousands of organizations worldwide in government, financial services, manufacturing, retail, pharmaceuticals and the supply chain industry. Our products and services are sold through direct sales and support offices in the United States, the United Kingdom, Hong Kong and Israel, as well as through distributors and local partners in several countries in Europe as well as in Japan, South Korea, Taiwan, Singapore, and South and Central America.

## **Executive Summary**

### *2012 Highlights*

In 2012, our total revenues were approximately \$25.5 million, compared to \$15.2 million in 2011. This overall 68% increase is composed of (1) a 77% increase in license revenues, from \$8.1 million in 2011 to \$14.4 million in 2012, and (2) a 57% increase in maintenance and service revenues, from \$7.0 million in 2011 to \$11.0 million in 2012. This growth was primarily due to:

- the acquisition of RepliWeb in September 2011. RepliWeb's operating results are consolidated with our results of operations commencing September 19, 2011 and 2012 was the first full fiscal year in which RepliWeb's operations were consolidated with ours. Accordingly, RepliWeb's business contributed approximately \$9.5 million to our total revenues in 2012, of which approximately \$4.4 million was in license revenues and the balance of approximately \$5.0 million was in maintenance and service revenues. In 2011, RepliWeb's business contributed approximately \$2.8 million to our total revenues, of which approximately \$1.4 million was in license revenues and the balance of approximately \$1.4 million was in maintenance and service revenues; and
- the launch and market acceptance of Attunity Replicate in the fourth quarter of 2011 with first sales starting in the second quarter of 2012, resulting also in an increase in the average size of our deals.

Our operating results improved to approximately \$2.5 million of operating income in 2012 compared to \$70,000 in 2011.

In 2012, we generated net income of \$1.5 million, compared to a net loss of \$0.8 million in 2011. The change to profitability is primarily due to our ability to increase revenues by approximately \$10.4 million, while our operating expenses increased by approximately \$7.9 million.

We had cash and cash equivalents of approximately \$3.8 million as of December 31, 2012 compared to \$1.5 million as of December 31, 2011. This increase in our cash position is mainly attributable to cash provided from operations of approximately \$1.9 million and the exercise of stock options, warrants and similar rights of approximately \$0.6 million. This increase was partially offset by the repayment of Convertible Notes and the loan from Plenus in the total amount of \$0.25 million.

During January 2012, the holders, in the aggregate, of approximately \$0.5 million of principal amount of the Convertible Notes, or approximately 67% of the then total outstanding principal amount of the Convertible Notes, converted their Convertible Notes into a total of 223,750 ordinary shares pursuant to an offer we made to all holders of the Convertible Notes, or the Prepayment Offer. In July 2012, the holders, in the aggregate, of the remaining Convertible Notes in the principal amount of approximately \$0.2 million, converted their Convertible Notes into a total of 92,743 ordinary shares, such that, as of December 31, 2012, there were no Convertible Notes outstanding.

On July 25, 2012, our ordinary shares were relisted on the NASDAQ Capital Market. Trading commenced on the following day.

On September 27, 2012, we filed a shelf registration statement on Form F-3 registering for sale by us of up to \$20 million of our ordinary shares, warrants, units and/or combination thereof. The shelf registration statement was declared effective by the SEC on November 14, 2012.

Our shareholders' equity increased to \$9.6 million as of December 31, 2012 compared to \$5.2 million as of December 31, 2011.

#### *2013 Outlook*

We identified the following trends that may influence our market and the demand for our software solutions:

- Continued growth of the already large open systems database, or DBMS, market, which is a target market for Attunity with our CDC and data replication software. Continued and accelerated growth of the amounts of data stored and managed by organizations;
- Big Data, which is a relatively new target market for Attunity with our ability to enable information availability and to facilitate the replication and transfer of large amounts of structured and unstructured data to enable analytics and business intelligence, seems to continue growing rapidly, with numerous software vendors, developers and integrators looking to invest substantial resources in this market;
- Information immediacy, or the growing need and expectation by business users to have fresh and up-to-date information;
- Ongoing extensive growth in unstructured data and a need to deploy, migrate and integrate this data across distributed computing environments; and
- Cloud computing, which is a relatively new target market for Attunity with our CDC and data replication software solutions, and which seems to continue growing significantly, with numerous software vendors, developers and integrators looking to invest substantial resources in this market.

In 2013, we intend to continue to invest in developing new markets, solutions and products and enhancing existing solutions and products, to support continued growth in our sales and enhancement of market acceptance for our offerings. In particular, we intend to continue to introduce and market several of our new software solutions, such as our optimized data loading solution for Amazon Redshift, expected to be released for public Beta testing during April 2013.

We may face certain challenges during 2013. Our ability to continue our growth and achieve profitability depends, in part, on the global economy and the growth rates and changes in technology trends in industries in which we operate as well as the market acceptance of our solutions. As such, our results may be adversely affected if there is a further economic slowdown, a decrease in the overall market's IT spending, a reduction in the capital expenditures by companies in our target markets or a failure of our new products to achieve market recognition.

*For additional details regarding our capital resources and contractual obligations, see Item 5.B "Operating and Financial Review and Prospects– Liquidity and Capital Resources – Principal Financing Activities," Item 5.B "Operating and Financial Review and Prospects– Liquidity and Capital Resources –Outlook" and Item 5.F "Operating and Financial Review and Prospects– Tabular Disclosure of Contractual Obligations."*

## Critical Accounting Policies

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including, but not limited to those related to (1) revenue recognition, (2) stock-based compensation, (3) liabilities presented at fair value, (4) provisions for income taxes, (5) business combinations, and (6) goodwill and intangible assets. We base our estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Under different assumptions or conditions, actual results may differ from these estimates.

We believe that the following significant accounting policies are the basis for the most significant judgments and estimates used in the preparation of our consolidated financial statements.

**Revenue Recognition.** We generate revenues mainly from license fees and sub-license fees for the right to use our software products, maintenance, support, consulting and training services. We sell our products primarily through our direct sales force to customers and indirectly through distributors, OEMs and VARs. Both the customers and the distributors or resellers are considered end users. We are also entitled to fees from some of our OEMs and VARs upon the sublicensing of our software to end users. We account for software sales in accordance with Accounting Standards Codification, or ASC, No. 985-605, "Software Revenue Recognition".

Revenues from license and services fees are recognized when persuasive evidence of an arrangement exists, delivery of the product has occurred or the services have been rendered, the fee is fixed or determinable and collectability is probable. We do not grant a right of return to our customers.

We determine that persuasive evidence of an arrangement exists with respect to a customer when we have a purchase order from the customer a written contract or an approved quote, which is signed by both us and customer (documentation is dependent on the business practice for each type of customer).

Our software may be either physically or electronically delivered to the customer. We determine that delivery has occurred upon shipment of the software or when the software is made available to the customer through electronic delivery, when the customer has been provided with access codes that allow the customer to take immediate possession of the software on its hardware. We consider all arrangements with payment terms extending beyond five months not to be fixed or determinable. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer, provided that all other revenue recognition criteria have been met.

We determine whether collectability is probable on a case-by-case basis. When assessing probability of collection, we consider the number of years in business and history of collection. If we determine from the outset that collectability is not probable based upon our review process, revenue is recognized as payments are received.

With regard to software arrangements involving multiple elements, we allocate revenues to the different elements in the arrangement under the "residual method," in accordance with ASC No. 985-605, when Vendor Specific Objective Evidence, or VSOE, of fair value exists for all undelivered elements. Under the residual method, at the outset of the arrangement with the customer, we defer revenue for the fair value of our undelivered elements (maintenance and support) and recognize revenue for the remainder of the arrangement fee attributable to the elements initially delivered in the arrangement (software product) when the basic criteria have been met. Any discount in the arrangement is allocated to the delivered element.

Our determination of fair value of each element in multiple-element arrangements is based on the price charged when the same element is sold separately. We have established VSOE for professional services based on the hourly or daily rates we charge when we sell such services separately. VSOE for maintenance and support is determined based upon the price charged for renewals of such services.

Fees from OEMs or VARs are calculated either as a percentage of the revenue generated by the seller on sales of our products, or as a percentage of the OEM's or VAR's products in which our products are embedded, as specified in the applicable agreement. Those revenues are recognized on a quarterly basis in arrears based on reports received from the OEM or VAR.

Maintenance and support revenue included in multiple element arrangement is deferred and recognized on a straight-line basis over the term of the maintenance and support agreement.

Services revenues are recognized as the services are performed.

Deferred revenues include unearned amounts received under maintenance and support contracts and amounts charged to customers but not recognized as revenues.

**Stock-based Compensation.** We account for equity-based compensation in accordance with ASC 718 "Compensation – Stock Compensation." Under the fair value based measurement approach 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 period. Determining the fair value of stock-based awards at the grant date requires the exercise of judgment, as well as the determination of the amount of stock-based awards that are expected to be forfeited. If actual forfeitures differ from our estimates, equity-based compensation expense and our results of operations would be impacted.

We estimate the fair value of employee stock options using a Black-Scholes-Merton valuation model. The fair value of an award is affected by our share price on the date of grant as well as other assumptions, including the estimated volatility of our share 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 ordinary shares in order to estimate future share price trends. In order to determine the estimated period of time that we expect employees to hold their stock options, we use the "simplified method" as adequate historical experience is not available to provide a reasonable estimate. The simplified method will continue to apply until enough historical experience is available to provide a reasonable estimate of the expected term. 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.

**Liabilities Presented at Fair Value.** Some of our warrants (namely, the warrants issued to Plenus and the warrants issued in 2006 as part of a private placement), the conversion feature of our Convertible Notes and the Plenus Right (refer to note 9 to our consolidated financial statements) were classified as liabilities in accordance with ASC No. 815-40, "Contracts in Entity's Own Equity". Accordingly, these warrants and the conversion feature of the Convertible Notes were required to be marked to market at each reporting date. All of the above, with the exception of the Plenus Right, were either exercised or converted during 2012, and as such were marked to market only through the date of exercise or conversion, as the case may be, and were then allocated to "additional paid-in capital" in our balance sheet and are no longer presented as a liability that is marked to market.

We estimated the fair value of these warrants and the conversion feature using a Black-Scholes-Merton valuation model. We determined the fair value of the Plenus Right taking into account data provided by a third-party valuation specialist who assisted us in estimating the probability of occurrence of events triggering the exercisability of such right and used the Cox, Ross and Rubinstein's Binomial model for options valuation; however, we are ultimately responsible for determining the value. In both models, (1) the fair value is affected by our share price on the date of issuance as well as other assumptions, including the estimated volatility of our share price over the term of these securities, and (2) the risk-free interest rate assumption is based upon U.S. Treasury interest rates appropriate for the term of the securities. We use the historical volatility of our ordinary shares in order to estimate future share price trends and our expected dividend rate is zero since we do not currently pay cash dividends on our ordinary shares and do not anticipate doing so in the foreseeable future.

**Provisions for Income Taxes.** We are subject to income taxes in Israel, the United States and a number of 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 No. 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 expense or benefit as the largest amount that is more than 50% likely of being realized upon settlement.

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

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, 2012 and 2011 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 14 to our consolidated financial statements included elsewhere in this annual report for further information regarding income taxes.*

The amount of income tax we pay is subject to ongoing audits by the tax authorities, which often result in proposed assessments. We believe that we adequately provided for any reasonably foreseeable outcomes related to tax audits and settlement. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, audits are closed or when statutes of limitation on potential assessments expire.

**Business Combinations.** We account for business combinations in accordance with ASC No. 805, "Business Combinations". ASC No. 805 requires recognition of assets acquired, liabilities assumed, and any non-controlling interest at the acquisition date, measured at their fair values as of that date. Any excess of the fair value of net assets acquired over purchase price and any subsequent changes in estimated contingencies are to be recorded in earnings. In accordance with business combination accounting, we allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. In addition, we expense acquisition-related expenses as they are incurred. We engage third-party appraisal firms to assist management in determining the fair values of certain assets acquired and liabilities assumed. Such valuations require our management to make significant estimates and assumptions, especially with respect to intangible assets.

Our management makes estimates of fair value based upon assumptions it believes to be reasonable. These estimates are based on historical experience and information obtained from the management of the acquired companies and relevant market and industry data and are, inherently, uncertain. Critical estimates made in valuing certain of the intangible assets include, but are not limited to, the following: (1) future expected cash flows from license sales, maintenance agreements, customer contracts and acquired developed technologies and patents; and (2) discount rates. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results. Changes to these estimates, relating to circumstances that existed at the acquisition date, are recorded as an adjustment to goodwill during the purchase price allocation period (generally within one year of the acquisition date) and as operating expenses, if otherwise.

In connection with purchase price allocations, we estimate the fair value of the support obligations assumed in connection with acquisitions. The estimated fair value of the support obligations is determined utilizing a cost build-up approach. The cost build-up approach determines fair value by estimating the costs related to fulfilling the obligations plus a normal profit margin. The sum of the costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume the support obligation. *See Note 3 to our consolidated financial statements for additional information on accounting for our acquisition of RepliWeb.*

**Goodwill and Intangible Assets.** 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 31st or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. We have elected to first assess the qualitative factors to determine whether it is more likely than not that the fair value of our single reporting operating unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment under the new authoritative guidance issued by the Financial Accounting Standards Board (FASB). If we determine that it is more likely than not that its fair value is less than its carrying amount, then the two-step goodwill impairment test will be performed. The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the second step will be performed; otherwise, no further step is required. 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, 2012, no impairment of goodwill has been identified.

## Results of Operations

The following discussion of our results of operations for the years ended December 31, 2012, 2011 and 2010, including the following table, which presents selected financial information data in dollars and as a percentage of total revenues, is based upon our statements of operations contained in our financial statements for those periods, and the related notes, included in this annual report.

	<i>Year Ended December 31, (U.S. dollars in thousands)</i>					
	2012		2011		2010	
<b>Revenues:</b>	100%	\$ 25,479	100%	\$ 15,169	100%	\$ 10,075
Software licenses	57%	14,437	54%	8,140	46%	4,645
Maintenance and services	43%	11,042	46%	7,029	54%	5,430
<b>Operating expenses:</b>						
Cost of software licenses	3%	719	4%	563	11%	1,119
Cost of maintenance and services	7%	1,637	6%	890	8%	832
Research and development	34%	7,748	33%	4,960	25%	2,482
Selling and marketing	43%	9,833	37%	5,581	38%	3,831
General and administrative	13%	3,024	19%	2,835	18%	1,854
<b>Total operating expenses</b>	<b>90%</b>	<b>22,961</b>	<b>99%</b>	<b>15,099</b>	<b>100%</b>	<b>10,118</b>
<b>Operating income (loss)</b>	<b>10%</b>	<b>2,518</b>	<b>*</b>	<b>70</b>	<b>*</b>	<b>(43)</b>
<b>Financial expenses, net</b>	<b>5%</b>	<b>1,241</b>	<b>8%</b>	<b>1,284</b>	<b>14%</b>	<b>1,388</b>
<b>Income / (loss) before tax on income</b>	<b>5%</b>	<b>1,277</b>	<b>(8)%</b>	<b>(1,214)</b>	<b>(14)%</b>	<b>(1,431)</b>
<b>Taxes on income (benefit)</b>	<b>(*)</b>	<b>(209)</b>	<b>(3)%</b>	<b>(399)</b>	<b>*</b>	<b>74</b>
<b>Net income (loss)</b>	<b>6%</b>	<b>\$ 1,486</b>	<b>(5)%</b>	<b>\$ (815)</b>	<b>(15)%</b>	<b>\$ (1,505)</b>

\* Less than 1%

### Comparison of Years Ended December 31, 2012, 2011 and 2010

*Revenues.* Our revenues are derived primarily from software licenses, maintenance and services. For additional details regarding the manner in which we recognize revenues, see the discussion under the caption "Critical Accounting Policies - Revenue Recognition" above.

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

	2012		2011		2010		% Change	
							2012 vs. 2011	2011 vs. 2010
Software licenses	\$ 14,437	57%	\$ 8,140	54%	\$ 4,645	46%	77%	75%
Maintenance and services	11,042	43%	7,029	46%	5,430	54%	57%	29%
<b>Total</b>	<b>\$ 25,479</b>	<b>100%</b>	<b>\$ 15,169</b>	<b>100%</b>	<b>10,075</b>	<b>100%</b>	<b>68%</b>	<b>51%</b>

The following table provides a breakdown by geographical area of our revenues (including maintenance and services revenues) and relative percentages out of total revenues during the last three fiscal years (dollars in thousands):

	<u>2012</u>		<u>2011</u>		<u>2010</u>		<u>% Change</u> <u>2012 vs. 2011</u>	<u>% Change</u> <u>2011 vs. 2010</u>
Israel	\$ 2,234	8.8%	\$ 948	6.2%	\$ 857	8.5%	135%	10%
United States	16,568	65%	10,729	70.7%	6,051	60.1%	54%	77%
Europe	3,646	14.3%	2,191	14.4%	1,693	16.8%	66%	29%
Far East	1,478	5.8%	869	5.7%	968	9.6%	70%	(11)%
Other	1,553	6.1%	432	2.8%	506	5.0%	259%	(5)%
<b>Total</b>	<b>\$ 25,479</b>	<b>100%</b>	<b>\$ 15,169</b>	<b>100%</b>	<b>\$ 10,075</b>	<b>100%</b>	<b>68%</b>	<b>50%</b>

In 2012, our total revenues were approximately \$25.5 million, compared to \$15.2 million in 2011. This overall 68% increase is composed of (1) a 77% increase in license revenues, from \$8.1 million in 2011 to \$14.4 million in 2012, and (2) a 57% increase in maintenance and service revenues, from \$7.0 million in 2011 to \$11.0 million in 2012. This growth was primarily due to:

- the acquisition of RepliWeb in September 2011. RepliWeb's operating results are consolidated with our results of operations commencing September 19, 2011 and 2012 was the first full fiscal year in which RepliWeb's operations were consolidated with ours. Accordingly, RepliWeb's business contributed approximately \$9.5 million to our total revenues in 2012, of which approximately \$4.4 million was in license revenues and the balance of approximately \$5.0 million was in maintenance and service revenues. In 2011, RepliWeb's business contributed approximately \$2.8 million to our total revenues, of which approximately \$1.4 million was in license revenues and the balance of approximately \$1.4 million was in maintenance and service revenues; and
- the launch and market acceptance of Attunity Replicate in the fourth quarter of 2011 with first sales starting in the second quarter of 2012, resulting also in an increase in the average size of our deals.

The 77% growth in license revenues was primarily due to the same aforesaid factors. Similarly, while our revenues increased primarily in the United States, where revenues increased by approximately \$5.9 million to \$16.6 million in 2012 from \$10.7 million in 2011, the growth in our revenues is primarily related to the aforesaid factors, rather than a specific demand for our products in any region. The \$4.0 million increase in maintenance and service revenues in 2012 compared to 2011, reflecting a 57% growth, was primarily due to the acquisition of RepliWeb that contributed approximately \$5.0 million to our maintenance and service revenues in 2012 compared to \$1.4 million in 2011.

In 2011, total revenues increased by approximately 51% to \$15.2 million from \$10.1 million in 2010. This increase was primarily attributable to the 75% increase in license revenues and a 29% increase in maintenance and services revenues. The 75% growth in license revenues between 2010 and 2011 was primarily due to the acquisition of RepliWeb that contributed approximately \$1.4 million to our license revenues in 2011; an increase in revenues from our OEM channels and in our direct sales in the United States, partially offset by a decrease in our direct sales in Europe and the Far East; and the launch and market acceptance of our replication products. The \$1.6 million increase in maintenance and service revenues in 2011 compared to 2010, reflecting a 29% growth, was primarily due to the acquisition of RepliWeb that contributed approximately \$1.4 million to our maintenance and service revenues in 2011.

*Cost of Revenues.* Cost of software license revenues consists of amortization of core technology acquired and royalties to a third party. Cost of maintenance and services consists primarily of salaries of employees performing the services and related overhead.

The following table sets forth a breakdown of our cost of revenues between license and maintenance and services for the last three fiscal years (dollars in thousands):

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>% Change 2012 vs. 2011</u>	<u>% Change 2011 vs. 2010</u>
Cost of software licenses	\$ 719	\$ 563	\$ 1,119	27.7%	(49.7)%
Cost of maintenance and services	1,637	890	832	83.9%	7.0%
<b>Total</b>	<u>\$ 2,356</u>	<u>\$ 1,453</u>	<u>1,951</u>	<u>62.1%</u>	<u>(25.5)%</u>

Our cost of revenues increased to approximately \$2.4 million in 2012 from approximately \$1.5 million in 2011. This increase is due mainly to (1) \$0.4 million in additional support personnel related costs that were incurred in connection with the acquisition of RepliWeb, (2) an increase in amortization of intangible assets of approximately \$0.2 million associated with the acquisition of RepliWeb, and (3) an increase in commissions and benefits as associated with the increase in license revenues of approximately \$0.3 million.

Our cost of revenues decreased to approximately \$1.5 million in 2011 from approximately \$2.0 million in 2010. This decrease is due to the decrease in the cost of software licenses, which is mainly due to the decrease in amortization of capitalized software from \$1.1 million in 2010 to \$0.3 million in 2011, partially offset by an increase in amortization of intangibles of approximately \$0.2 million associated with the acquisition of RepliWeb in September 2011 and by an increase of royalties paid to a third party of approximately \$0.1 million. Cost of maintenance and services in 2011 remained at substantially the same level as in 2010 despite the 29% increase in maintenance and services revenues.

*Operating Expenses.* The following table sets forth a breakdown of our operating expenses for the last three fiscal years (dollars in thousands):

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>% Change 2012 vs. 2011</u>	<u>% Change 2011 vs. 2010</u>
Research and development	\$ 7,748	\$ 4,960	\$ 2,482	56.2%	99.8
Selling and marketing	9,833	5,851	3,831	68.1%	52.7%
General and administrative	3,024	2,835	1,854	6.7%	52.9%
<b>Total</b>	<u>20,605</u>	<u>\$ 13,646</u>	<u>\$ 8,167</u>	<u>51%</u>	<u>67.1%</u>

*Research and Development.* Research and development, or R&D, expenses consist primarily of salaries of employees engaged in on-going research and development activities and other related costs.

Total R&D costs increased by approximately 56% from \$5.0 million in 2011 to \$7.7 million in 2012. The increase is attributed mainly to additional costs of approximately \$3.2 million associated with the consolidation of RepliWeb's operating results, including as related to the increase in the number of our R&D employees as a result of the acquisition. This increase was partially offset by a reduction in the number of R&D employees and a strengthening of the average exchange rate of the dollar against the NIS, which decreased the dollar value of Israeli, including R&D, expenses.

Total R&D costs increased by approximately 100% from \$2.5 million in 2010 to \$5.0 million in 2011. The increase is attributed mainly to additional costs associated with the acquisition of RepliWeb of approximately \$1.4 million (including costs of RepliWeb's R&D employees) and costs of approximately \$0.6 million associated with additional compensation costs, including hiring of additional R&D employees, during 2011.

*Selling and Marketing.* Selling and marketing expenses consist primarily of costs relating to compensation and overhead to sales, marketing and business development personnel, travel and related expenses, and sales offices maintenance and administrative costs.

Selling and marketing expenses increased by approximately 68% to \$9.8 million in 2012 from \$5.9 million in 2011. This increase is primarily due to an increase in sales commissions of approximately \$1.6 million as a result of the corresponding increase in revenues, approximately \$1.5 million related to additional costs related to the acquisition of RepliWeb, and approximately \$0.9 million associated with the expansion of our marketing activities, including recruitment of additional personnel and travel expenses.

Selling and marketing expenses increased by approximately 53% to \$5.9 million in 2011 from \$3.8 million in 2010. This increase is primarily due to additional selling and marketing costs of approximately \$0.4 million and costs of \$0.4 million of amortization of customers' relationship, both associated with the acquisition of RepliWeb; approximately \$0.3 million associated with the expansion of our marketing activities; approximately \$0.3 million associated with the recruitment of selling and marketing personnel; and approximately \$0.5 million increase in sales commissions resulting from the growth in license revenue.

*General and Administrative.* General and administrative expenses consist primarily of compensation costs for finance, general management and administration personnel, and legal, audit, and other administrative costs.

General and administrative expenses increased by approximately 7% to \$3.0 million in 2012 from \$2.8 million in 2011. The increase is primarily attributable to the consolidation of RepliWeb's operating results.

General and administrative expenses increased by approximately 53% to \$2.8 million in 2011 from \$1.9 million in 2010. The increase is primarily attributable to the costs, including transaction expenses, associated with the acquisition of RepliWeb of approximately \$0.5 million, general and administrative expenses associated with RepliWeb's own operations for the period commencing September 19, 2011, and an increase in legal and travel expenses due to an increase in sales and expansion of corporate activities.

*Operating Income (Loss).* Based on the foregoing, our operating income improved from \$70,000 in 2011 to approximately \$2.5 million in 2012. In 2010, we had an operating loss of \$43,000.

*Financial Expenses, Net.* In 2012, we had net financial expenses of \$1.2 million compared to \$1.3 million in 2011. This decrease is attributed mainly to the conversion and the repayment of the Convertible Notes and loan from Plenus during the first half of 2012, resulting in lower interest and inducement expenses. This decrease was offset by the financial expenses associated with the accretion of the \$2.0 million contingent payment due in connection with the RepliWeb acquisition and with revaluation of the Plenus Right.

In 2012, approximately \$0.7 million of financial expenses was attributed to the increase in the valuation of certain outstanding warrants and the conversion features of the Convertible Notes, as well as an increase in the valuation of the Plenus Right, compared to approximately \$0.6 million for the same items in 2011. In general, for as long as these securities contained antidilution and price protection features, any change in our share price would lead to recognition of financial income (in the event of decrease of our share price) or financial expense (in the event of increase of our share price) in accordance with ASC No. 815-40, which could have an impact on our results of operations. During 2011, we were able to secure waivers from the price protection provisions from the holders of most of the warrants and Convertible Notes, which waivers partially mitigated the aforesaid impact of fluctuations in our share price over our financial income or expense starting with the first quarter of 2011. During 2012, we were able to secure waivers from the price protection provisions from the remaining holders of these securities. *See also notes 21 and 15 to our consolidated financial statements included elsewhere in this annual report.*

In 2010, we had net financial expenses of \$1.4 million, attributable mainly to the valuation of warrants and conversion features of convertible debt, in the amount of \$1.0 million.

*Taxes on Income.* The corporate tax rate in Israel, effective as of January 1, 2012, is 25%, compared with 24% in 2011 and 25% in 2010.

Income tax benefit for 2012 was (\$209,000) compared to (\$399,000) in 2011. The decrease in the tax benefit is mainly due to the increase in the taxable income.

Income taxes for 2011 were (\$399,000) compared to \$74,000 in 2010. The decrease is attributed mainly to a tax benefit resulting from a deferred tax asset of approximately \$0.6 million recognized as a result of the acquisition of RepliWeb, and by the amortization of tax liability of approximately \$0.2 million associated with the acquisition, partially offset by an increase in tax withheld on certain export sales.

#### **Impact of Currency Fluctuations and of Inflation**

Our financial results may be negatively impacted by foreign currency fluctuations and inflation.

Except as set forth below, foreign currency fluctuations and the rate of inflation did not have a material impact on our financial results in the past three years.

In 2012, the revaluation of the dollar in relation to the NIS decreased the dollar reporting value of our operating expenses by approximately \$0.85 million for that year. We have engaged in a currency hedging transaction intended to reduce the effect of fluctuations in currency exchange rates on our financial statements and we may enter into similar transactions in the future. As of December 31, 2012, we had outstanding currency options in the total amount of approximately \$0.5 million. These options expire in various dates until June 2013. We cannot guarantee that such measures will effectively protect us from adverse effects due to the impact of change in currency exchange rates.

*For additional details, see Item 11 "Qualitative and Quantitative Disclosures about Market Risk" below.*

## B. LIQUIDITY AND CAPITAL RESOURCES

In the past few years, we financed our operations through cash generated by operations, equity investments in private placements, short-term loans and, until mid 2012, borrowings under loans from Plenus and the Convertible Notes.

### *Principal Financing Activities*

In the past year, we have engaged in several financing activities designed to improve our cash position, including restructuring of our borrowings, as follows:

**Credit Line.** In August 2012, we secured a short-term line of credit of approximately \$1.0 million from an Israeli bank. Draws under the credit line bear interest, most of which at the bank's cost of funds plus a margin of 3.0%. As of December 31, 2012, we have drawn approximately \$0.75 million under the credit line to support our currency hedging activities and the bank guarantees we granted in connection with our Israeli office lease. The credit line is scheduled to expire in April 2014.

In order to secure our obligations to the bank, we pledged and granted to the bank a first priority floating charge on all of our assets and a first priority fixed charge on certain other immaterial assets (namely, rights for unpaid shares, securities and other deposits deposited with the bank from time to time, and rights for property insurance). We refer to the agreement relating to such charges as the Pledge. The Pledge contains a number of customary restrictive terms and covenants that limit our operating flexibility, such as (1) limitations on the creation of additional liens, on the incurrence of indebtedness, on the provision of loans and guarantees and on distribution of dividends, and (2) the ability of the bank to accelerate repayment in certain events, such as breach of covenants, liquidation, and a change of control of our Company. In addition, we have committed to the bank that, for as long as the credit line is available to us, we will maintain a financial ratio to the effect that the sum of our accounts receivables and cash, as measured in each quarter, will exceed 150% of the amount outstanding under the credit facility. Such provisions may hinder our future operations or the manner in which we operate our business, which could have a material adverse effect on our business, financial condition or results of operations.

**Convertible Notes.** Between December 31, 2011 and January 31, 2012, the holders, in the aggregate, of approximately \$1.2 million of principal amount of the Convertible Notes, or approximately 76% of the then total outstanding principal amount of the Notes, including Shimon Alon, our Chairman and CEO, and Ron Zuckerman, a member of our Board of Directors, converted their Convertible Notes into a total of approximately 0.6 million ordinary shares pursuant to an offer we made to all holders of the Convertible Notes, or the Prepayment Offer, the key terms of which were as follows:

- the conversion ratio of that portion of the Notes being converted was increased, reflecting a reduction of the conversion price of the Notes from \$2.48 to a conversion price of \$2.00 (or \$2.13, depending on the share price at the time of the conversion) per share; and
- each Note holder was entitled to payment, in cash or in additional ordinary shares (based on the new conversion ratio), of the interest payment due in 2012 (in a total amount of approximately \$0.1 million for all Notes) plus accrued and unpaid interest for 2011 (in a total amount of approximately \$0.2 million for all Notes).

The Prepayment Offer expired on January 31, 2012. On July 29, 2012, the holders, in the aggregate, of the remaining Convertible Notes in the principal amount of approximately \$0.2 million, converted their Convertible Notes into a total of 92,743 ordinary shares at a conversion price per share of \$2.48. *For additional details, see Item 10.C "Material Contracts – Convertible Notes."*

### Working Capital and Cash Flows

As of December 31, 2012, we had \$3.8 million in cash, cash equivalents and restricted cash, compared to \$1.5 million in cash, cash equivalents and restricted cash as of December 31, 2011.

As of December 31, 2012, the entire principal amount outstanding (including interest accrued thereon) under the Convertible Notes and the Plenus Loan was fully repaid, compared to a balance of \$0.8 million and \$0.1 million, respectively, as of December 31, 2011. As such, as of December 31, 2012, we did not have any third-party debt other than the short-term credit line described above.

As of December 31, 2012, we had a deficit of \$3.0 million in working capital, compared to a deficit of \$6.9 million as of December 31, 2011.

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):

	2012	2011	2010
Net cash provided by (used in) operating activities	\$ 1,942	\$ 4,249	\$ 456
Net cash provided by (used in) investing activities	54	(2,685)	(58)
Net cash provided by (used in) financing activities	363	(947)	(973)

Net cash provided by operating activities was \$1.9 million in 2012, compared to \$4.3 million in 2011. The decrease is primarily due to the payment in the aggregate amount of \$3.9 million we received from Microsoft during 2011.

Net cash provided by investing activities was \$54,000 in 2012, compared to \$2.7 million used in 2011. The change is mainly attributable to \$2.4 million of cash used in 2011 in connection with the acquisition of RepliWeb during that year.

Net cash provided by financing activities in 2012 was \$0.4 million. Net cash used in financing activities in 2011 was \$1.0 million. This change is attributable mainly to repayments of loans of \$0.3 million in 2012, compared to \$1.3 million in 2011, and to proceeds we received from exercises of warrants and stock options in the aggregate amount of approximately \$0.6 million in 2012, compared to \$0.3 million in 2011.

### Principal Capital Expenditure and Divestitures

During 2012, our capital expenditures totaled approximately \$308,000 (compared to \$161,000 during 2011 and \$58,000 during 2010), most of which was used for the purchase of computers and license of software. Other than future capital expenditures of the types and consistent with the amounts described above, we have no significant capital expenditures in progress. We did not effect any principal divestitures in the past three years.

### Outlook

In the past several years, we performed several restructuring and financing activities in order to improve our financial condition. These activities, which included the aforesaid Prepayment Offer, resulted in a reduction of our outstanding debt from approximately \$4.0 million in 2007 to zero in 2012, excluding the short-term credit line of up to \$1.0 million. Currently, our principal commitments consist of liability for the payment obligation due to RepliWeb former shareholders in the amount of \$2.0 million (presented in the consolidated financial statements at present value of approximately \$1.9 million), expected to be paid in April 2013 by using our internal cash resources.

In light of the aforesaid, as well as other factors, including our ability to generate cash, we anticipate that our existing capital resources will be adequate to satisfy our working capital and capital expenditure requirements in the next 12 months. *See also Item 5.F "Tabular Disclosure of Contractual Obligations."*

**C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES**

The software industry is characterized by rapid product changes resulting from new technological developments, performance improvements and lower hardware costs and is highly competitive with respect to timely product innovation. We, through our research and development and support personnel, work closely with our customers and prospective customers to determine their requirements, to design enhancements and new releases to meet their needs and to adapt our products to new platforms, operating systems and databases. Research and development activities for all products principally take place in our research and development facilities in Israel. As of December 31, 2012, we employed 59 persons in research and development.

We have committed substantial financial resources to our research and development efforts. During 2012, 2011 and 2010, our research and development expenditures were \$7.7 million, \$5.0 million and \$2.5 million, respectively.

As described in Item 4.B "Information on the Company - Business Overview - Government Regulations," we participated in the past in programs sponsored by the Office of the Chief Scientist.

**D. TREND INFORMATION**

See Item 5.A "Operating Results – Executive Summary."

**E. OFF-BALANCE SHEET ARRANGEMENTS**

We do not have any off-balance sheet arrangements, as such term is defined under Item 5.E 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 that is material to investors.

## F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations and commercial commitments, as of December 31, 2012:

Contractual Obligations	Payments due by Period (U.S. dollars in thousands)				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 Years
Severance pay obligation (*)	1,109	--	--	--	--
Operating lease obligations (**)	3,650	931	1,479	1,144	95
RepliWeb payment obligation (***)	1,934	1,934	--	--	--
Total (****)	\$ 6,693	\$ 2,865	\$ 1,479	1,144	95

(\*) Severance payments of \$3,989 are payable only upon termination, retirement or death of the respective employee. Of this amount, \$1,109 is unfunded. Since we are unable to reasonably estimate the timing of settlement, the timing of such payments is not specified in the table. See also Note 2(r) to our Consolidated Financial Statements.

(\*\*) Includes rent expense of approximately \$3,193 related to our leased facilities for the next five years.

(\*\*\*) Represents the present value of a contingent payment of \$2,000 payable in April 2013 to former RepliWeb shareholders.

(\*\*\*\*) Excludes (1) \$201 for an accrual for uncertain income tax position under ASC No. 740 "Income Taxes," which is paid upon settlement because we are unable to reasonably estimate the ultimate amount or timing of settlement. See Note 2(j) of our consolidated financial statements included elsewhere in this annual report, and (2) \$730 for liabilities presented at fair value associated with the Plenus Right because we are unable to reasonably estimate the ultimate amount of, or timing of payment for, such Plenus Right. See Note 9 of our consolidated financial statements included elsewhere in this annual report.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. DIRECTORS AND SENIOR MANAGEMENT

The following lists the name, age, principal position and a biographical description of each of our directors and senior management.

<u>Name</u>	<u>Age</u>	<u>Director Since</u>	<u>Position with the Company</u>
Shimon Alon	63	2004	Chairman of the Board of Directors and Chief Executive Officer
Dror Harel-Elkayam	45	--	Chief Financial Officer and Secretary
Erez Zeevi	47	--	Vice President, Research and Development and Worldwide Support
Dov Biran	60	2003	Director
Dan Falk (1) (2)	68	2002	Director
Tali Alush-Aben (1) (2)	48	2008	Outside Director
Ron Zuckerman	55	2004	Director
Gil Weiser (1) (2)	71	2010	Outside Director

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

**Shimon Alon** was appointed Chairman of our Board of Directors in April 2004 and was appointed our Chief Executive Officer in June 2008. From September 1997 until June 2003, Mr. Alon served as Chief Executive Officer of Precise Software Solutions Ltd., or Precise, a provider of application performance management. Since the acquisition of Precise by Veritas Software Corp., or Veritas, in June 2003, Mr. Alon has served as an executive advisor to Veritas. Prior to Precise, Mr. Alon held a number of positions at Scitex Corporation Ltd. and its subsidiaries, including President and Chief Executive Officer of Scitex America and Managing Director of Scitex Europe. Mr. Alon holds a degree from the Executive Management Program at the Harvard Business School.

**Dror Harel-Elkayam** was appointed Chief Financial Officer in October 2010. Prior to that, he served as our Vice President - Finance and Secretary since October 2004. From August 1997 until June 2003, he served as the Director of Finance and Corporate Secretary of Precise. Since the acquisition of Precise by Veritas in June 2003 and until September 2004, he served as a Director of Finance of Precise. Mr. Harel-Elkayam holds a B.A. degree in economics and accounting from the Hebrew University, Jerusalem. He is also a certificated public accountant in Israel.

**Erez Zeevi** was appointed as our Vice President, Research and Development and Worldwide Support in March 2009. From January 2006 until March 2009, he served as our Director of Research and Development. Mr. Zeevi joined Attunity in 1993 and has served in various positions associated with our Research and Development activities. He holds a B.Sc. degree in software engineering from the Technion, Israel Institute of Technology in Haifa.

**Dr. Dov Biran** has been a director since December 2003. From March 2000 through October 2001, he served as acting Chief Executive Officer, Chief Technology Officer and a Director of Attunity. Dr. Biran is the founder and the Chief Executive Officer of Fitango, Inc. Prior thereto, Dr. Biran was the founder and President of Bridges for Islands, which was acquired by us in February 2000. Dr. Biran was the Chief Executive Officer of Optimal Technologies, Chief Information Officer of Dubek Ltd. and an officer in the computer unit of the Israeli Defense Forces. He also served as a Professor of entrepreneurship and computers at Babson College, Northeastern University and Tel Aviv University. Dr. Biran holds a B.Sc., M.B.A., and a Ph.D. in computer science from Tel Aviv University.

**Dan Falk** has been a director since April 2002. From 1999 until 2000, he served as the President and Chief Operating Officer and then Chief Executive Officer of Sapiens International Corporation N.V., or Sapiens, a publicly traded company that provides cost-effective business software solutions. From 1995 until 1999, Mr. Falk was Executive Vice President and Chief Financial Officer of Orbotech Ltd., a maker of automated optical inspection and computer aided manufacturing systems. Mr. Falk is a member of the boards of directors of Orbotech, Nice Systems Ltd., Ormat Technologies Inc., Plastopil Ltd., Nova Measuring Systems Ltd., Amiad Water Systems Ltd., and the Chairman of the Board of Directors of Orad Hi-Tech Systems Ltd. He holds a B.A degree in economics and political science and an M.B.A. degree, both from the Hebrew University, Jerusalem.

**Tali Alush-Aben** has been an outside director since December 2008. She is currently an independent consultant. Until January 2008, she was a General Partner at Gemini, an Israeli venture capital fund she joined in 1994. Her focus in Gemini was primarily on software companies, with recent activities in Cleantech. Prior to joining Gemini, she served as Marketing Director of RadView, then a start-up software company, and as Senior Product Marketing Manager at SunSoft Inc. From 1990 to 1992, she served as Marketing Director for Mercury Interactive Corporation. Ms. Alush-Aben is also a member of the board of directors of Vizrt Ltd. and Alvarion Ltd. She holds a B.Sc. degree in mathematics and computer science and an M.B.A. degree, both from Tel-Aviv University.

**Ron Zuckerman** has been a director since May 2004. Mr. Zuckerman co-founded Precise and served as its Chairman until it was acquired by Veritas in June 2003. Mr. Zuckerman co-founded Sapiens and served as its Chairman and Chief Executive Officer until March 2000. Mr. Zuckerman was a co-founder and director of GVT Holdings SA, a Brazilian telephone operator, until it was acquired by the Vivendi Group in late 2009. Mr. Zuckerman was also an early investor and a director of Wintegra Inc. until it was acquired by PMC-Sierra Inc. in late 2010. He is also an investor and a director in several other privately held companies. Mr. Zuckerman holds a B.Sc. degree in economics from Brandeis University.

**Gil Weiser** has been an outside director since December 2010. Mr. Weiser currently serves as a director of several companies, including ClickSoftware Technologies Ltd., and as the Chairman of BG Technologies Ltd. He has more than 25 years of experience in management and operations, with executive posts at corporate, academic and financial entities. He served as the Chief Executive Officer of Orsus Solutions Ltd. from August 2006 to June 2010, and as the Chief Executive Officer of Hewlett Packard (Israel) and CMS Corporation from 1995 to 2000. From 1993 until 1995, he served as President and Chief Executive Officer of Fibronics International Inc. and as Chief Executive Officer of Digital (DEC Israel) from 1978 to 1993. He also served as a director of the Tel Aviv Stock Exchange from 2002 to 2004 and as Chairman of the Multinational Companies Forum. Mr. Weiser holds a B.Sc. degree from Technion, Israel Institute of Technology in Haifa as well as a M.Sc. degree in science from the University of Minnesota.

#### **Additional Information**

There are no family relationships between any of the directors or members of senior management named above.

Our articles of association provide for a Board of Directors of not fewer than two nor more than eleven members. Our Board of Directors is currently composed of six directors (including two outside directors). Officers serve at the pleasure of the Board of Directors, subject to the terms of any agreement between the officer and us. In accordance with the Companies Law, the concurrent office of Mr. Alon as both our Chairman and Chief Executive Officer for a term of three years was approved by our shareholders in December 2011.

Messrs. Alon, Biran, Falk and Zuckerman will serve as directors until our annual general meeting of shareholders in 2013. Ms. Alush-Aben was elected as an outside director in December 2011 for a three-year term, until our 2014 annual general meeting of shareholders. Mr. Weiser was elected as an outside director in December 2010 for a three-year term, until our annual general meeting of shareholders in 2013.

We are not aware of any arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any person referred to above was selected as a director or member of senior management.

## B. COMPENSATION

### General

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

	<b>Salaries, fees, commissions and bonuses</b>	<b>Pension, retirement and similar benefits</b>
2011 - All directors and executive officers as a group, consisting of 8 persons for the year ended December 31, 2011	\$ 828,000	\$ 104,000
2012 - All directors and executive officers as a group, consisting of 8 persons for the year ended December 31, 2012	\$ 948,000	\$ 106,000

We provide leased automobiles to our executive officers in Israel pursuant to standard policies and procedures.

In accordance with the approval of our shareholders in December 2012, our non-employee directors, including outside directors, receive an annual fee of \$9,000 and an attendance fee of NIS 1,650 (equivalent to approximately \$450) per meeting attended, linked to the Israeli Consumer Price Index, or CPI.

In November 2011, our Audit Committee and Board of Directors adopted a revised stock option policy for non-employee directors, which policy was subsequently approved by our shareholders. According to the stock option policy, each of our non-employee directors who may serve from time to time, including our outside directors, will be granted options, as follows:

- a grant of options under our stock option plans to purchase 20,000 ordinary shares, which vest in three equal installments over three years;
- the exercise price of all options will be equal to the fair market value of the ordinary shares on the date of the grant (i.e., the closing price of our shares on the date of the annual general meeting of shareholders in which such director is elected or reelected); and
- the portion of outstanding options scheduled to vest during any year in which the director's service with us is terminated or expires will accelerate and become fully vested and exercisable for a period of 180 days thereafter, unless termination was due to the director's resignation or for one of the causes set forth in the Companies Law.

All of the options granted to the directors are made pursuant to one of our equity incentive plans and expire six years after the grant date.

In 2012, our directors and executive officers were granted options exercisable into 37,500 ordinary shares, all at an exercise price of \$2.96 per share. Such options will expire in 2018.

Other than the foregoing fees, reimbursement for expenses and the award of stock options, we do not compensate our directors for serving on our board of directors.

## Our Chief Executive Officer

Mr. Shimon Alon began serving as a director of our Company in April 2004. We entered into an employment agreement with Mr. Alon, under which he agreed to serve as our Chief Executive Officer effective June 1, 2008. Pursuant to the employment agreement, Mr. Alon has agreed to devote his full working time and best efforts to our business and affairs, and to the performance of his duties under the agreement as long as he is employed by us. Pursuant to his employment agreement, as amended, we provide Mr. Alon the following payments and benefits:

- A gross monthly salary (denominated in NIS) of the NIS equivalent of \$26,860 during the term of his employment;
- A company car and all related expenses, except related taxes;
- Company contributions for the benefit of Mr. Alon to (1) our Managers Insurance Policy in the amount of 18.33% of Mr. Alon's gross salary (a portion of which is for severance pay, to which Mr. Alon would be entitled), and (2) our Education Fund ("Keren Hishtalmut") in the amount of 7.5% of Mr. Alon's gross salary;
- Options to purchase 240,000 ordinary shares at an exercise price equal to \$1.20 per share. In December 2009, we granted Mr. Alon options to purchase 62,500 additional ordinary shares, at an exercise price equal to \$1.00 per share. In December 2010, we granted Mr. Alon additional options to purchase 25,000 ordinary shares, at an exercise price equal to \$2.80 per share. In December 2011, we granted Mr. Alon additional options to purchase 50,000 ordinary shares, at an exercise price equal to \$2.84 per share. All such options are subject to the terms of our 2003 Israeli Stock Option Plan and vest as follows: (1) the initial grant of 240,000 options - one third of the options vest at the end of each of the three years following the commencement of Mr. Alon's employment (all of which are currently vested); and (2) with respect to the additional grants, one third of the options vest one year after the grant date, with the balance vesting in eight equal quarterly installments. Vesting of the options will accelerate upon certain change of control events. All options expire six years after the date of grant. All exercise prices reflect the market price of our shares on the applicable date of grant;
- An annual bonus (denominated in NIS) that, starting 2013, will not exceed the NIS equivalent of \$214,880 gross. The bonus is payable on a quarterly basis, subject to Mr. Alon achieving certain milestones that will be set by our compensation committee and Board of Directors;
- Up to 22 days paid vacation per year;
- 10 days recreation payment a year in an amount normally paid by our Company; and
- In the event of termination of Mr. Alon's employment for any reason (other than (1) by the company under circumstances that he is not entitled to severance pay under Israeli law, (2) by resignation at any time without the required prior notice, or (3) by resignation within 36 months of his employment with our Company, regardless of prior notice), Mr. Alon will be entitled to an adjustment period of 12 months following the end of the prior notice period under the agreement (or from the date that he actually ceased to provide services should we choose to waive the prior notice period). During the adjustment period, Mr. Alon will be entitled to all rights to which he is entitled under his employment agreement and he will be entitled to exercise any vested options; however, his options will cease to vest. The employee-employer relationship will not terminate until the end of the adjustment period. Mr. Alon will be entitled to reimbursement of all expenses in connection with his employment.

Mr. Alon's employment agreement contains customary confidentiality and non-solicitation provisions as well as an undertaking of Mr. Alon not to compete with us or our field of business for 12 months following termination of his employment.

### *Change of Control Arrangements*

All of our executive officers as well as certain additional key employees are entitled to (1) accelerated vesting of the ordinary shares subject to outstanding options granted to them in connection with a change in control of the Company and (2) an extended period of six months of termination notice in connection with a termination of employment within one year following a change in control of the Company.

## **C. BOARD PRACTICES**

### **Introduction**

According to the Israeli Companies Law and our articles of association, 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.

### **Election of Directors; Board Meetings**

Pursuant to our articles of association, all of our directors are elected at annual meetings of our shareholders. Except for our outside directors (as described below), our directors hold office until the next annual meeting of shareholders following the annual meeting at which they were appointed, which is required to be held at least once during every calendar year and not more than fifteen months after the last preceding meeting. Pursuant to applicable NASDAQ rules, director nominees are recommended for the board of directors' selection by a majority of our "independent directors" within the meaning of the NASDAQ Listing Rule 5605(a)(2).

Except for our outside directors (as described below), directors may be removed earlier from office by resolution passed at a general meeting of our shareholders and our board of directors may temporarily fill vacancies in the board until the next annual meeting of shareholders.

Our articles of association provide for a board of directors of not fewer than two nor more than eleven members. Our board is currently composed of six directors (including two outside directors). Under the Israeli Companies Law, our board of directors is required to determine the minimum number of directors who must have "accounting and financial expertise" (as such term is defined in regulations promulgated under the Companies Law). Our board determined that the board should consist of at least one director who has "accounting and financial expertise." However, our board has determined that both Mr. Dan Falk and Mr. Gil Weiser have the requisite "accounting and financial expertise."

Meetings of the board of directors are generally held at least once each quarter, with additional special meetings scheduled when required.

### **Outside Directors**

The Israeli Companies Law requires Israeli companies with shares that have been offered to the public in or outside of Israel, such as Attunity, to appoint at least two outside directors.

To qualify as an outside 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" (i) with the company, the company's controlling shareholder or its relative, or another entity affiliated with the company or its controlling shareholder, or (ii) in a company without a controlling shareholder (or a shareholder that owns more than 25% of its voting power), such as Attunity, with 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 outside 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 business manager, a vice president and any officer that reports directly to the chief executive officer.

In addition, pursuant to the Companies Law, (1) an outside 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 outside directors must have "accounting and financial expertise." Our outside directors are Mr. Gil Weiser and Ms. Tali Alush-Aben. We have determined that Mr. Weiser has the requisite "accounting and financial expertise" and that Ms. Alush-Aben has the requisite "professional qualifications."

No person may serve as an outside director if the person's position or other activities create, or may create a conflict of interest with the person's responsibilities as an outside director or may otherwise interfere with the person's ability to serve as an outside director. If, at the time an outside director is to be appointed, all current members of the Board of Directors who are not controlling shareholders or their relatives are of the same gender, then the outside director must be of the other gender.

Outside directors are elected by shareholders. The shareholders voting in favor of their election must include at least a majority of the shares of the non-controlling shareholders of the company who voted on the matter. This minority approval requirement need not be met if the total shareholdings of those non-controlling shareholders who vote against their election represent 2% or less of all of the voting rights in the company.

The initial term of an outside director is three years and he or she may be reelected for up to two additional three-year terms. Thereafter, in a company whose shares are listed for trading on, among others, the NASDAQ Capital Market, such as Attunity, he or she may be reelected by our shareholders for additional periods of up to three years each, if our audit committee and the Board of Directors confirm that, in light of the outside 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 outside 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 outside 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.

Outside directors can be removed from office only by the same special percentage of shareholders as can elect them, or by a court, and then only if the outside directors cease to meet the statutory qualifications with respect to their appointment or if they violate their duty of loyalty to the company.

Any committee of the board of directors must include at least one outside director, except that the audit committee must include all of the outside directors. An outside director is entitled to compensation as provided in regulations adopted under the Israeli Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with such service.

#### **Independent Directors**

Under the NASDAQ rules, a majority of our board of directors must qualify as independent directors within the meaning of NASDAQ Listing Rule 5605(a)(2). Our board of directors has determined that all of our directors, except for Mr. Alon, our Chairman of the Board of Directors and Chief Executive Officer, would qualify as "independent directors" within the meaning of such rule.

#### **Committees of the Board of Directors**

Subject to the provisions of the Israeli Companies Law, our board of directors may delegate its powers to committees consisting of board members. Our board of directors currently operates an audit committee and a compensation committee.

##### *Audit Committee*

Pursuant to applicable SEC and NASDAQ rules, we are required to have an audit committee of at least three members, each of whom must satisfy the independence requirements of the SEC and NASDAQ. In addition, pursuant to NASDAQ rules, all of the members of the audit committee must be financially literate and at least one member must possess accounting or related financial management expertise. The audit committee must also have a written charter specifying the committee's duties and responsibilities, which include, among other things, the selection and evaluation of our independent auditors.

Under the Companies Law, our board of directors is required to appoint an audit committee, which must be comprised of at least three directors, include all of the outside directors, a majority of its members must satisfy the independence standards under the Companies Law, and the chairman is required to be an outside director. The duties of the audit committee under the Companies Law include, among others, examining flaws in the business management of the company and suggesting remedial measures to the board, assessing the company's internal audit system and the performance of its internal auditor, and, as more fully described under Item 10.B. below, approval of certain interested party transactions.

Our audit committee adopted a written charter specifying the committee's duties and responsibilities, which include, among other things, assisting our board of directors in overseeing the accounting and financial reporting processes of our Company and audits of our financial statements, including the integrity of our financial statements; compliance with legal and regulatory requirements; our independent public accountants' appointment, qualifications and independence; the performance of our internal audit function and independent public accountants; finding any defects in the business management of our Company for which purpose the audit committee may consult with our independent auditors and internal auditor and proposing to the board of directors ways to correct such defects; approving related-party transactions; and such other duties as may be directed by our board of directors or required by applicable law. In addition, our audit committee functions as our Qualified Legal Compliance Committee, or the QLCC. In its capacity as the QLCC, the audit committee is also 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.

Our audit committee is currently composed of Mr. Weiser, the chairman of our audit committee, Ms. Alush-Aben and Mr. Falk, all of whom satisfy the respective "independence" requirements of the Companies Law, SEC and NASDAQ rules for audit committee members.

Our audit committee meets at least once each quarter, with additional special meetings scheduled when required.

#### *Compensation Committee*

Pursuant to currently 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. Recent amendments to NASDAQ rules will require us, among others, to have a compensation committee with a written charter by July 2013.

Under a recent amendment to the Companies Law, our board of directors is required to appoint a compensation committee, which must be comprised of at least three directors, include all of the outside directors, its other members must satisfy certain independence standards under the Companies Law, and the chairman is required to be an outside director. Under the Companies Law, the role of the compensation committee is to recommend 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; to review, from time to time, modifications to the compensation policy and examine its implementation; to approve the actual compensation terms of office holders prior to approval thereof by the board of directors; and to resolve whether to exempt the compensation terms of a candidate for chief executive officer from shareholder approval.

Our compensation committee, established in December 2012, also oversees the administration of our equity based plans.

Our compensation committee is currently composed of Ms. Alush-Aben, the chairman of our compensation committee, Mr. Weiser and Mr. Falk, all of whom satisfy the respective "independence" requirements of the Companies Law, SEC and NASDAQ rules for compensation committee members.

Our compensation committee meets at least once each quarter, with additional special meetings scheduled when required.

#### **Internal Audit**

Under the Companies Law, our board of directors is also required to appoint an internal auditor proposed by the audit committee. The role of the internal auditor is to examine, among other things, whether our activities comply with the law and orderly business procedure. The internal auditor may not be an interested party or office holder, or a relative of any interested party or office holder, and may not be a member of our independent accounting firm. The Companies Law defines the term "interested party" to include a person who holds 5% or more of the company's outstanding share capital or voting rights, a person who has the right to appoint one or more directors or the general manager, or any person who serves as a director or as the general manager. Mr. Eyal Weitzman of EWC Audit Ltd., an Israeli accounting firm, serves as our internal auditor.

#### **Directors' Service Contracts**

*Our Chief Executive Officer.* We entered into an employment agreement with Mr. Alon, our chief executive officer, who is also a member of our board of directors. See Item 6.B "Directors, Senior Management and Employees – Compensation – Our Chief Executive Officer."

*Other.* Except as set forth above and in Item 6.B "Directors, Senior Management and Employees – Compensation," there are no arrangements or understandings between us and any of our current directors or Chief Executive Officer for benefits upon termination of service.

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

- information on the advisability of a given action brought for his approval or performed by him by virtue of his position; and
- all other important information pertaining to these actions.

The duty of loyalty of an office holder requires an office holder to act in good faith and for the benefit of the company, and includes a duty to:

- refrain from any conflict of interest between the performance of his duties in the company and his performance of his other duties or personal affairs;
- refrain from any action that constitutes competition with the company's business;
- refrain from exploiting any business opportunity of the company to receive a personal gain for himself 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 position as an office holder.

Each person listed in the table under Item 6.A "Directors and Senior Management" above is considered an office holder under the Companies Law.

## **Approval of Related Party Transactions Under Israeli Law**

*General.* Under the Companies Law, the company may approve an action by an office holder from which the office holder would otherwise have to refrain, as described above, if:

- the office holder acts in good faith and the act or its approval does not cause harm to the company; and
- the office holder disclosed the nature of his or her interest in the transaction (including any significant fact or document) to the company at a reasonable time before the company's approval of such matter.

*Disclosure of Personal Interests of an Office Holder.* The Companies Law requires that an office holder disclose to the company, promptly, and, in any event, not later than the board meeting at which the transaction is first discussed, any direct or indirect personal interest that he or she may have and all related material information known to him or her relating to any existing or proposed transaction by the company. If the transaction is an extraordinary transaction, the office holder must also disclose any personal interest held by:

- the office holder's relatives. Relatives are defined to include the spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of these people; or

- any corporation in which the office holder or his or her relatives holds 5% or more of the shares or voting rights, serves as a director or general manager or has the right to appoint at least one director or the general manager.

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

- not 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.

The Companies Law does not specify to whom within the company nor the manner in which required disclosures are to be made. We require our office holders to make such disclosures to our board of directors.

Under the Companies Law, 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 and provided that the transaction is not detrimental to the company's interest. If the transaction is an extraordinary transaction, first the audit committee and then the board of directors, in that order, must approve the transaction. Under specific circumstances, shareholder approval may also be required. A director who has a personal interest in an extraordinary transaction, 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 board of directors or the audit committee, as the case may be, has a personal interest. If a majority of the board of directors has a personal interest, then shareholder approval is generally also required.

*Approval of Office Holder Compensation.* A recent amendment to the Companies Law imposes new approval requirements for the compensation of office holders. Every Israeli public company, such as Attunity, must adopt a compensation policy, recommended by the compensation committee, and approved by the board of directors and the shareholders, in that order, no later than September 2013. 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 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.

#### **Exculpation, Indemnification and Insurance of Directors and Officers**

*Exculpation of Office Holders.* Under the Companies Law, an Israeli company may not exempt an office holder from his or her liability for a breach of the duty of loyalty to the company, but may exempt an office holder, in advance, from his or her liability, in whole or in part, for a breach of his or her duty of care to the company (except with regard to distributions), if the articles of association so provide. Our articles of association permit us to exempt our office holders to the fullest extent permitted by law.

*Office Holders' Insurance.* As permitted by the Companies Law, our articles of association provide that, subject to the provisions of the Companies Law, we may enter into a contract for the insurance of the liability of any of our office holders concerning an act performed by him or her in his or her capacity as 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 for an act performed in his or her capacity as an office holder, retroactively (after the liability has been incurred) or in advance against the following:

- a financial liability incurred by, or imposed on, him or her in favor of another person by any judgment, including a settlement or an arbitration award approved by a court; provided that our undertaking to indemnify with respect to such events on a prospective basis 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 standard that our board of directors determines to be reasonable under the circumstances, and further provided that such events and amount or criteria are set forth in the undertaking to indemnify;
- reasonable litigation expenses, including attorney's fees, incurred by the office holder as a result of an investigation or proceeding instituted against him by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against him and either (A) concluded without the imposition of any financial liability in lieu of criminal proceedings or (B) concluded with the imposition of a financial liability in lieu of criminal proceedings 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, incurred by the office holder or charged to him or her by a court, resulting from the following: 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 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 Exculpation, Insurance and Indemnification.* The Companies Law provides that a company may not indemnify an office holder nor exculpate an office holder nor 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 and insurance, 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 committed intentionally or recklessly, unless it was committed only negligently;
- any act or omission committed with the intent to derive an illegal personal benefit; or
- any fine levied against the office holder.

In addition, under the Companies Law, exculpation of, an undertaking to indemnify or indemnification of, and procurement of insurance coverage for, our office holders must be approved by our audit committee and our board of directors and, in specified circumstances, such as if the office holder is a director, by our shareholders.

We have undertaken to indemnify our office holders to the fullest extent permitted by law by providing them with a Letter of Indemnification, the form of which was approved by our shareholders. We also currently maintain directors and officers liability insurance with an aggregate coverage limit of \$15 million, including legal costs incurred.

#### D. EMPLOYEES

The following table details certain data on the workforce of Attunity and its consolidated subsidiaries for the periods indicated:

	As at December 31,		
	2012	2011	2010
<i>Numbers of employees by geographic location</i>			
United States	26	27	11
Israel	76	79	28
Europe	6	5	3
Other	6	7	7
<b>Total workforce</b>	<b>114</b>	<b>118</b>	<b>49</b>
<i>Numbers of employees by category of activity</i>			
Research and development	59	66	19
Sales and marketing	33	29	17
Product and customer support	11	14	7
Management and administrative	11	9	6
<b>Total workforce</b>	<b>114</b>	<b>118</b>	<b>49</b>

The overall decrease in our workforce, from 118 employees in 2011 to 114 employees in 2012, is primarily due to a decrease in the number of R&D personnel as a result of synergies related to the acquisition of RepliWeb in September 2011. The overall increase in our workforce, from 49 employees in 2010 to 114 employees in 2012, is primarily due to the acquisition of RepliWeb in September 2011.

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

Our employees are not represented by labor unions. Nevertheless, with respect to our employees in Israel, who constitute a majority of our workforce, certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (including the Industrialists' Association) may be applicable to our employees by virtue of an order of the Israeli Ministry of Labor. These provisions concern mainly the length of the workday, minimum daily wages, insurance for work-related accidents, determination of severance pay and other conditions of employment. We generally provide our employees with benefits and working conditions beyond the required minimums.

Pursuant to Israeli law, we are legally required to pay severance benefits upon certain circumstances, including the retirement or death of an employee or the termination of employment of an employee without due cause. Israeli employers and employees are required to pay predetermined amounts to the National Insurance Institute, which is substantially similar to the United States Social Security Administration. In 2012, payments to the National Insurance Institute amounted to approximately 17.9% of wages, of which approximately two thirds was contributed by employees with the balance contributed by the employer.

#### **E. SHARE OWNERSHIP**

##### **Beneficial Ownership of Executive Officers and Directors**

See the table in Item 7.A "Major Shareholders and Related Party Transactions – Major Shareholders" below, which is incorporated herein by reference.

##### **Equity Incentive Plans**

###### *Our Option Plans*

In 2001, we adopted our 2001 Employee Stock Option Plan, or the "2001 Plan", under which stock options could be granted to employees, officers, directors and consultants of our Company and its subsidiaries. The 2001 Plan does not have a specific expiration date, although our Board of Directors may terminate it in its discretion.

In 2003, we adopted the 2003 Israeli Stock Option Plan, or the "2003 Plan", under which stock options may be granted to employees employed by us or by our affiliates, to permit our Israeli employees to benefit from tax advantages that became available at that time under Section 102 of the Israeli Tax Ordinance. The 2003 Plan has a term of ten years and will terminate in December 2013.

In 2012, we adopted the 2012 Stock Incentive Plan, or the "2012 Plan", under which stock options as well as other equity-based awards, including restricted stock units and performance units, may be granted to employees employed by us or by our affiliates. The 2012 Plan has a term of ten years and will terminate in December 2022.

All of these plans, to which we refer as the Option Plans, are administered by our compensation committee. Subject to the Option Plans and applicable law, our compensation committee has the authority to make all determinations deemed necessary or advisable for the administration of such plans, including to whom equity awards may be granted, the time and the extent to which these awards may be exercised, the exercise or purchase price of shares covered by each option or other award, the type of awards and how to interpret such plans. Among others, the compensation committee has the authority to provide for, or, where applicable, recommend for approval by the board of directors, accelerated vesting of the ordinary shares subject to outstanding options. See also in Item 6.B above under "Change of Control Arrangements."

The number of shares reserved for issuance under all of the Option Plans is currently 2,450,625 ordinary shares. Any options or similar awards which are canceled or forfeited before expiration become available for future grants. As of March 1, 2013, 309,848 ordinary shares remain available for grant of awards under the Option Plans.

*Grants in 2012*

In 2012, we granted options exercisable into 207,625 ordinary shares under the Option Plans.

*Total Outstanding Options*

The following table sets forth, as of December 31, 2012, the number of options outstanding under our Option Plans and their respective exercise prices and expiration dates:

<u>Number of Outstanding Options</u>	<u>Range of exercise price</u>	<u>Weighted average remaining contractual life (in years)</u>
204,625	\$0.32-\$0.56	2.09
302,500	\$1.00-\$1.20	1.43
169,354	\$1.48-\$1.52	3.07
113,499	\$1.96-\$2.32	1.19
201,460	\$2.60-\$2.76	4.71
567,244	\$2.80-\$3.44	4.47
76,250	\$7.68-\$8.76	1.25
35,000	\$9.68--\$9.84	1.7
<b>Total: 1,669,932(*)</b>		<b>2.47</b>

(\*) Includes 1,142,190 options that are vested and exercisable as of December 31, 2012.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

**A. MAJOR SHAREHOLDERS**

**Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth certain information, to our knowledge, as of March 1, 2013 regarding the beneficial ownership by (i) all shareholders who own beneficially more than 5% of our ordinary shares and (ii) by each of our directors and executive officers:

	Number of Ordinary Shares Beneficially Owned (1)	Percentage of Outstanding Ordinary Shares (2)
Shimon Alon	1,568,994(3)	13.49%
Ron Zuckerman	810,060(4)(5)	7.32%
Directors and Officers as a group (consisting of 8 persons)*	2,665,229(6)	22.27%

\* Except for Messrs. Alon and Zuckerman, all of our directors and executive officers beneficially own less than 1% of our outstanding shares.

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Ordinary shares relating to options currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.

- (2) The percentages shown are based on 10,987,363 shares issued and outstanding as of March 1, 2013. This figure of outstanding ordinary shares outstanding does not include:
- employee stock options to purchase an aggregate of 1,681,546 ordinary shares at a weighted average exercise price of approximately \$2.51 per share, with the latest expiration date of these options being January 27, 2019 (of which, options to purchase 1,220,569 of our ordinary shares were exercisable as of March 1, 2013); and
  - outstanding warrants to purchase an aggregate of 579,748 ordinary shares at an exercise price of \$0.48 per share, of which warrants to purchase 500,938 ordinary shares expire on December 31, 2013 and the balance expire between December 30, 2014 and July 29, 2015.
- (3) Mr. Alon is the Chairman of our Board and our Chief Executive Officer. Includes (i) 921,812 ordinary shares; (ii) 27,600 ordinary shares issuable upon exercise of warrants that expire on December 31, 2013, exercisable at an exercise price of \$0.48 per ordinary share; (iii) 250,297 ordinary shares issuable upon exercise of warrants that expire on December 31, 2013, exercisable at an exercise price of \$0.48 per ordinary share; (iv) 19,703 ordinary shares issuable upon exercise of warrants that expire on December 30, 2014 at an exercise price of \$0.48 per ordinary share; and (v) 349,582 ordinary shares issuable upon exercise of stock options at exercise prices ranging from \$1.00 to \$9.68 per ordinary share. These options expire between December 31, 2013 and December 22, 2017.
- (4) Mr. Zuckerman is a member of our Board. Includes (i) 733,591 ordinary shares; (ii) 27,600 ordinary shares issuable upon exercise of warrants that expire on December 31, 2013, exercisable at an exercise price of \$0.48 per ordinary share; (iii) 19,703 ordinary shares issuable upon exercise of warrants that expire on December 31, 2014 at an exercise price of \$0.48 per ordinary share; and (v) 29,166 ordinary shares issuable upon exercise of stock options at exercise prices ranging from \$0.32 to \$9.68 per ordinary share. These options expire between December 31, 2013 and December 22, 2017. See also footnote 5 below.
- (5) Based on an Amendment No. 9 to a Schedule 13D filed by Mr. Zuckerman with the SEC on March 13, 2012 (the "Schedule 13D"), Bonale Foundation, a trust for the benefit of persons related to Mr. Zuckerman, beneficially owns 420,724 ordinary shares, which represent approximately 3.78% of our outstanding ordinary shares. Such figure includes (i) 280,483 ordinary shares and (ii) 140,241 ordinary shares issuable upon exercise of warrants that expire on December 31, 2013, exercisable at an exercise price of \$0.48 per ordinary share, or, together, the Bonale Shares. According to the Schedule 13D, Mr. Zuckerman does not direct the management of Bonale Foundation, its investment or voting decisions and disclaims beneficial ownership of the Bonale Shares.
- (6) Includes (i) 1,686,124 ordinary shares; (ii) 55,200 ordinary shares issuable upon exercise of warrants that expire on December 31, 2013, exercisable at an exercise price of \$0.48 per ordinary share; (iii) 250,297 ordinary shares issuable upon exercise of warrants that expire on December 31, 2013, exercisable at an exercise price of \$0.48 per ordinary share; (iv) 39,406 ordinary shares issuable upon exercise of warrants that expire on December 31, 2014, at an exercise price of \$0.48 per ordinary share; and (v) 634,202 ordinary shares issuable upon exercise of stock options at an exercise price ranging from \$0.32 to \$9.68 per ordinary share. These options expire between December 31, 2013 and January 23, 2018.

### Significant Changes in the Ownership of Major Shareholders

In September 2011, as a result of the acquisition of RepliWeb, and in accordance with the anti-dilution provisions of the Convertible Notes, their conversion price was adjusted to \$2.48 per share (rather than \$5.00 per share), such that the Convertible Notes owned by Messrs. Alon and Zuckerman became convertible into an aggregate of 296,774 ordinary shares (rather than 147,200 ordinary shares). In addition, on December 31, 2011, Messrs. Alon and Zuckerman agreed to immediately convert all of their Convertible Notes into ordinary shares pursuant to the terms of the Prepayment Offer described in Item 5.B "Liquidity and Capital Resources - Principal Financing Activities". The following table sets forth the beneficial ownership of Mr. Alon and Mr. Zuckerman on September 1, 2011, before the adjustment to the conversion price of the Convertible Notes, and as of March 1, 2013:

	<b>Beneficial Ownership (September 1, 2011)*</b>	<b>Beneficial Ownership (March 1, 2013)**</b>
Shimon Alon	15.43%	13.49%
Ron Zuckerman	7.99%	7.32%

\* The percentages shown are based on 8,329,720 shares issued and outstanding as of September 1, 2011.

\*\* The percentages shown are based on 10,987,363 shares issued and outstanding as of March 1, 2013.

### Major Shareholders Voting Rights

Our major shareholders do not have different voting rights.

### Record Holders

Based on a review of the information provided to us by our transfer agent, as of March 1, 2013, there were 42 holders of record of our ordinary shares, of which 11 record holders, holding approximately 84.7% of our ordinary shares, had registered addresses in the United States. These numbers are not representative of the number of beneficial holders of our 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 76.0% of our outstanding ordinary shares as of said date).

### B. RELATED PARTY TRANSACTIONS

#### Compensation to Chief Executive Officer

See Item 6.C "Directors, Senior Management and Employees - Board Practices - Directors' Service Contracts – Our Chief Executive Officer."

#### Convertible Notes

See Item 10.C "Material Contracts – Convertible Notes."

## ITEM 8. FINANCIAL INFORMATION

### A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

#### Financial Statements

See the consolidated financial statements, including the notes thereto, included in Item 18 "Financial Statements" of this annual report.

## Export Sales

In the year ended December 31, 2012 the amount of our export sales (i.e., sales outside Israel) was approximately \$24.0 million, which represents 94.3% 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.

## Dividend Distribution Policy

We have never paid and do not intend to pay cash dividends on our ordinary shares in the foreseeable future. Our earnings and other cash resources will be used to continue the development and expansion of our business. Any future dividend policy will be determined by our board of directors and will be based upon conditions then existing, including our results of operations, financial condition, current and anticipated cash needs, contractual restrictions and other conditions.

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. Notwithstanding the foregoing, 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 surpluses, as evidenced by financial statements prepared no more than six months prior to the date of distribution.

### B. SIGNIFICANT CHANGES

Except as otherwise disclosed in this annual report, no significant change has occurred since December 31, 2012.

## ITEM 9. THE OFFER AND LISTING

### A. OFFER AND LISTING DETAILS

#### Annual Share Price Information

The following table sets forth, for each of the years indicated, the range of high and low sale prices of our ordinary shares on the NASDAQ Capital Market (through February 22, 2008), and, starting February 26, 2008, on the OTCBB (through July 25, 2012), and, starting July 26, 2012, on the NASDAQ Capital Market:

<u>Year</u>	<u>High</u>	<u>Low</u>
2008	\$ 2.40	\$ 0.32
2009	\$ 1.40	\$ 0.36
2010	\$ 2.92	\$ 1.04
2011	\$ 3.56	\$ 1.56
2012	\$ 9.75	\$ 2.36

### Quarterly Share Price Information

The following table sets forth, for each of the full financial quarters in the years indicated, the range of high ask and low bid prices and high and low sale prices, as applicable, of our ordinary shares on the OTCBB (through July 25, 2012), and, starting July 26, 2012, on the NASDAQ Capital Market:

	<u>High</u>	<u>Low</u>
<b>2011</b>		
First Quarter	\$ 3.56	\$ 2.24
Second Quarter	\$ 2.80	\$ 1.76
Third Quarter	\$ 2.80	\$ 1.56
Fourth Quarter	\$ 3.12	\$ 1.92
<b>2012</b>		
First Quarter	\$ 4.00	\$ 2.36
Second Quarter	\$ 6.60	\$ 2.92
Third Quarter	\$ 9.75	\$ 5.08
Fourth Quarter	\$ 8.25	\$ 6.00

### Monthly Share Price Information

The following table sets forth, for each of the most recent last six months, the range of high and low sale prices, as applicable, of our ordinary shares on the NASDAQ Capital Market:

<u>Month</u>	<u>High</u>	<u>Low</u>
September 2012	\$ 8.29	\$ 7.00
October 2012	\$ 8.25	\$ 7.29
November 2012	\$ 8.20	\$ 6.54
December 2012	\$ 7.34	\$ 6.00
January 2013	\$ 8.25	\$ 7.00
February 2013	\$ 7.85	\$ 7.03
March 2013 (through March 28, 2013)	\$ 7.34	\$ 6.65

On March 28, 2013, the last reported sale price of our ordinary shares on the NASDAQ Capital Market was \$6.78 per share.

### B. PLAN OF DISTRIBUTION

Not applicable.

### C. MARKETS

Our ordinary shares were traded on the NASDAQ Global Market from our initial public offering on December 17, 1992 through August 15, 2007 and on the NASDAQ Capital Market from August 16, 2007 through February 22, 2008. From February 26, 2008 through July 25, 2012, our ordinary shares were quoted on the OTCBB. Effective July 26, 2012, our ordinary shares were relisted on the NASDAQ Capital Market under the symbol ATTU.

**D. SELLING SHAREHOLDERS**

Not applicable.

**E. DILUTION**

Not applicable.

**F. EXPENSE 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 Israeli Companies Law (as currently in effect) related to such provisions, unless otherwise specified. 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 as exhibits to this “annual report, and to Israeli law.*

**Purposes and Objects of the Company**

We are a public company registered under the Israeli Companies Law as Attunity Ltd, registration number 52-003801-9. Pursuant to our memorandum and articles of association, our objectives are to carry on any lawful activity.

**The Powers of the Directors**

Under the provisions of the Israeli Companies Law and our articles of association, a director generally cannot participate in a meeting nor vote on a proposal, arrangement or contract in which he or she is personally interested. In addition, our directors generally cannot vote compensation to themselves or any members of their body without the approval of our compensation committee and our shareholders at a general meeting. See Item 6.C “Directors, Senior Management and Employees – Board Practices – Approval of Related Party Transactions Under Israeli Law.”

The authority of our directors to enter into borrowing arrangements on our behalf is not limited, except in the same manner as any other transaction by us.

Under our articles of association, retirement of directors from office is not subject to any age limitation and our directors are not required to own shares in our Company in order to qualify to serve as directors.

## **Rights Attached to Shares**

Our authorized share capital consists of 32,500,000 ordinary shares of a nominal value of NIS 0.4 each. The shares do not entitle their holders to preemptive rights.

**Dividend rights.** Subject to any preferential, deferred, qualified or other rights, privileges or conditions attached to any special class of shares with regard to dividends, the profits of the Company available for dividend and resolved to be distributed shall be applied in payment of dividends upon the shares of the Company in proportion to the amount paid up or credited as paid-up per the nominal value thereon respectively. Unless otherwise specified in the conditions of issuance of the shares, all dividends with respect to shares which were not fully paid up within a certain period, for which dividends were paid, shall be paid proportionally to the amounts paid or credited as paid on the nominal value of the shares during any portion of the abovementioned period. Our board of directors may declare interim dividends and propose the final dividend with respect to any fiscal year only out of profits legally available for distribution, in accordance with the provisions of the Israeli Companies Law. *In this respect, see Item 8.A "Financial Information – Consolidated and Other Financial Information – Dividend Distribution Policy."* If after one year a dividend has been declared and it is still unclaimed, our board of directors is entitled to invest or utilize the unclaimed amount of dividend in any manner to our benefit until it is claimed. We are not obligated to pay interest on an unclaimed dividend.

**Voting rights.** Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. Such voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future.

**Rights to share in profits.** Our shareholders have the right to share in our profits distributed as a dividend and any other permitted distribution. See this Item 10.B "Additional Information – Memorandum and Articles of Association – Rights Attached to Shares – Dividend Rights."

**Rights to share in surplus in the event of liquidation.** 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 the nominal value of their holdings. This right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

**Liability to capital calls by the Company.** Under our memorandum and articles of association as well as the Israeli Companies Law, the liability of our shareholders is limited to the unpaid amount of the par value of the shares held by them.

**Limitations on any existing or prospective major shareholder.** See Item 6.C "Directors, Senior Management and Employees – Board Practices – Approval of Related Party Transactions Under Israeli Law."

## **Changing Rights Attached to Shares**

The rights attached to any class of shares (unless otherwise provided by the terms of issuance of the shares of that class) may be varied with the consent in writing of the holders of all the issued shares of that class, or with the sanction of a vote at a meeting of the shareholders passed at a separate meeting of the holders of the shares of the class by a majority of the voting rights of such class represented at the meeting in person or by proxy and voting thereon.

Under our articles of association, unless otherwise provided by the conditions of issuance, the enlargement of an existing class of shares, or the issuance of additional shares thereof, shall not be deemed to modify or abrogate the rights attached to the previously issued shares of such class or of any other class.

## Shareholders Meetings

The Board of Directors must convene an annual meeting of shareholders at least once every calendar year, within fifteen months of the last annual meeting. A special meeting of shareholders may be convened by the board of directors, as it decides.

The Companies Law generally allows shareholders (1) who hold at least 1% of the outstanding shares of a public company to submit a proposal for inclusion on the agenda of a general meeting of the company's shareholders and (2) who hold at least 5% of the outstanding ordinary shares of a public company to convene a special meeting of shareholders upon request in accordance with the Companies Law. Our articles of association contain procedural guidelines and disclosure items with respect to the submission of shareholder proposals for shareholders meetings.

In accordance with our articles of association, unless a longer period for notice is prescribed by the Israeli Companies Law, at least ten (10) days and not more than sixty (60) days' notice of any general meeting of shareholders shall 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.

The quorum required at any meeting of shareholders consists of at least two shareholders present in person or represented by proxy who hold or represent, in the aggregate, at least 25% of the total voting rights in the Company. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place or any time and place as the directors designate in a notice to the shareholders. If, at such adjourned meeting, a quorum is not present within half an hour from the time appointed for holding the meeting, any two shareholders present in person or by proxy shall constitute a quorum, except with respect to adjourned shareholder meetings convened for shareholder proposals.

Under our articles of association, all resolutions require approval of no less than a majority of the voting rights represented at the meeting in person or by proxy and voting thereon, except that certain provisions of our articles of association relating to shareholder proposals and election and removal of directors would require a special majority of two thirds (66.66%) or more of the voting power represented at the meeting in person or by proxy and voting thereon.

Pursuant to our articles of association, our directors (except outside directors) are elected at our annual general meeting of shareholders by a vote of the holders of a majority of the voting power represented and voting at such meeting. See Item 6.C "Directors, Senior Management and Employees – Board Practices – Election of Directors; Board Meetings."

## Limitations on the Rights to Own Securities in Our Company

Neither our memorandum of association or our articles of association nor the laws of the State of Israel restrict in any way the ownership or voting of shares by non-residents, except with respect to subjects of countries which are in a state of war with Israel.

## Duties of Shareholders

*Disclosure by Controlling Shareholders.* Under the Companies Law, the disclosure requirements that 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 rights if no other shareholder owns more than 50% of the voting rights, 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.

*Approval of Certain Transactions.* Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and the engagement of a controlling shareholder as an office holder or employee (including compensation therefor), generally require the approval of the audit committee (or compensation committee with respect to engagement as an office holder or employee), the board of directors and the shareholders, in that order. The shareholder approval must include at least a majority of the shares of non-interested shareholders voted on the matter. However, the transaction can be approved by shareholders without this special approval if the total shares of non-interested shareholders that voted against the transaction do not represent more than 2% of the voting rights 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.* In addition, under the Companies Law, each shareholder has a duty to act in good faith toward the company and other shareholders and to refrain from abusing his or her power in the company, such as in shareholder votes. In addition, specified shareholders have a duty of fairness toward the company. These shareholders include any controlling shareholder, any shareholder who knows that 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 prevent the appointment of an office holder or any other power with respect to the company. However, the Companies Law does not define the substance of this duty of fairness.

#### **Provisions Restricting Change in Control of Our Company**

Except for (1) establishing advance notice and procedural guidelines and disclosure items with respect to the submission of shareholder proposals for shareholders meetings, and (2) requiring a special majority voting in order to amend certain provisions of our articles of association relating to shareholder proposals and election and removal of directors, 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 Attunity or that would operate only with respect to a merger, acquisition or corporate restructuring involving us (or any of our subsidiaries). However, as described below, certain provisions of the Companies Law may have such effect.

The Companies Law includes provisions that allow a merger transaction and requires that each company that is a party to the merger have the transaction approved by its board of directors and a vote of the majority of its shares. For purposes of the shareholder vote of each party, 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 or 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 to 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 (1) 50 days have passed from the time that the requisite proposals for approval of the merger were filed with the Israeli Registrar of Companies by each merging company and (2) 30 days have passed since the merger was approved by the shareholders of each merging company.

The Companies Law also provides that an acquisition of shares in 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, unless there is already another 25% or greater shareholder of the company or (2) the purchaser would become a 45% or greater shareholder of the company, unless there is already a 45% or greater shareholder of the company. These requirements do not apply if, in general, the acquisition (1) was made in a private placement that received shareholder approval, (2) was from a 25% or greater shareholder of the company which resulted in the acquirer becoming a 25% or greater shareholder of the company, or (3) was from a 45% or greater shareholder of the company which resulted in the acquirer becoming a 45% or greater shareholder of the company. 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 (1) at least 5% of the company's outstanding shares will be acquired by the offeror and (2) 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.

Lastly, Israeli tax law treats some acquisitions, such as stock-for-stock exchanges between an Israeli company and a foreign company, less favorably than U.S. tax laws. For example, Israeli tax law may, under certain circumstances, subject a shareholder who exchanges his ordinary shares for shares in another corporation to taxation prior to the sale of the shares received in such stock-for-stock swap.

#### **Disclosure of Shareholders Ownership**

The Israeli Securities Law and regulations promulgated thereunder do not require a company whose shares are publicly traded solely on a stock exchange outside of Israel, as in the case of our Company, to disclose its share ownership.

#### **Changes in Our Capital**

Changes in our capital, such as increase of authorized share capital or creation of another class of shares, are subject to the approval of the shareholders by the holders of at least 75% of the votes of shareholders present by person or by proxy and voting in the shareholders meeting.

#### **C. MATERIAL CONTRACTS**

##### **Acquisition of RepliWeb**

On September 7, 2011, we entered into an Agreement and Plan of Merger, or the Merger Agreement, with RepliWeb, Attunity Inc., a Massachusetts corporation and our wholly owned subsidiary, or Buyer, Atlas Topaz Acquisition Inc., a Delaware corporation and a wholly owned subsidiary of Buyer, or Merger Sub, stockholders of RepliWeb and two of these stockholders, as the Stockholder Representatives.

On September 19, 2011, in accordance with the Merger Agreement, we acquired all of the outstanding shares of RepliWeb by way of a reverse triangular merger, whereby Merger Sub was merged with and into RepliWeb, with RepliWeb continuing after the merger as the surviving corporation and as our indirect wholly owned subsidiary. The total consideration is composed of:

- \$3.3 million in cash payable at closing;
- \$2.5 million paid in our ordinary shares based on a \$2.48 per share price, such that we issued, at the closing, approximately 1.0 million ordinary shares. These ordinary shares were subject to a "lock-up" period that ended on June 30, 2012, during which period they could not be sold or otherwise disposed, except to affiliates;

- \$4.0 million in cash payable within 10 business days following the closing. RepliWeb was acquired with all of its cash and cash equivalents of approximately \$4.0 million (following deduction of transaction expenses); and
- a milestone-based contingent cash payment of up to \$2.0 million payable in April 2013. We expect to make this payment, in full, in April 2013.

The acquisition was financed from our own working capital resources, including a \$3.5 million payment from Microsoft that was received during September 2011, and \$4.0 million in cash held by RepliWeb which we received upon the closing of the acquisition. In order to bridge a cash flow timing issue, we received a short-term loan in the principal amount of \$3.0 million from an Israeli bank, or the Bridge Loan, which was fully repaid in September 2011.

The Merger Agreement includes customary representations, warranties and covenants by the parties, which survived the closing and, in general, expire on March 31, 2013.

Under the Merger Agreement, the stockholders of RepliWeb agreed to indemnify Attunity for damages arising out of breaches or inaccuracies of RepliWeb's or RepliWeb stockholders' representations, warranties and covenants subject to certain limitations, including, in general, (1) a cap of \$2.0 million on RepliWeb stockholders' obligation to indemnify Attunity, the source for payment of which is limited to the aforesaid contemplated contingent payment; and (2) indemnification may not be sought unless and until the aggregate amount of damages equals or exceeds \$350,000. Similarly, Attunity agreed to indemnify the stockholders of RepliWeb for damages arising out of breaches or inaccuracies of Attunity's representations, warranties and covenants subject to certain limitations, including, in general, (i) a cap of \$1.0 million on Attunity's obligation to indemnify the RepliWeb stockholders; and (ii) indemnification may not be sought unless and until the aggregate amount of damages equals or exceeds \$350,000.

#### **Microsoft OEM Agreement (CDC)**

In December 2010, we entered into an OEM agreement, or the OEM Agreement, with Microsoft. Pursuant to the OEM Agreement, which has an initial term of five (5) years, we agreed to customize and integrate our CDC software into Microsoft's next version of SQL Server and to provide Microsoft with the associated maintenance services. Global in scope, the OEM Agreement also covers resellers, developers and distributors of Microsoft's SQL Server.

The overall value over the term of the OEM Agreement is nearly \$7 million for both the license and maintenance. As such, we are entitled to receive (1) a total of \$3.0 million in two payments, which were paid in full during 2011, and (2) a total of \$3.9 million in 12 quarterly payments of approximately \$0.3 million each, which are expected to start toward the end of 2012. We recognize revenues from this agreement ratably starting 2011 and, starting 2012, in equal quarterly installments during the remainder of the term of the agreement. The OEM Agreement contains customary representations, warranties and covenants of Attunity.

Pursuant to the OEM Agreement, Microsoft is also entitled to a right of first offer, whereby we are required to notify Microsoft in the event that we wish to sell the Company or sell or grant an exclusive license of the technology underlying the CDC product and, if the offer is accepted by Microsoft, negotiate such transaction with Microsoft, or, if rejected by Microsoft, we may enter into such transaction with a third party only on substantially the same or more favorable terms than the initial offer made by us to Microsoft. Microsoft is also entitled to terminate the OEM Agreement under certain circumstances, including upon a change of control of the Company.

## Convertible Notes

In March 2004, we entered into a Note and Warrant Purchase Agreement with the Investors Group, or the Note Agreement, pursuant to which we issued the investors convertible promissory notes, also referred to in this annual report as the Convertible Notes, in the aggregate principal amount of \$2 million, initially convertible into our ordinary shares at a conversion price of \$7.00, and warrants to purchase 112,500 of our ordinary shares at an initial exercise price of \$7.00 per share (subsequently adjusted to \$0.48 per share). In January 2009 and March 2010, we entered into two Extension Agreements with the Investors Group, whereby the maturity date of the Convertible Notes was extended in consideration for, among others, increases of the interest rate of the Convertible Notes and extension of the exercise period of warrants held by the Investors Group and another person.

Between December 2010 and February 2011, we entered into the Third Extension Agreement with holders of approximately \$1.5 million (out of a total \$1.8 million outstanding at that time) of the outstanding principal amount of our Convertible Notes, including, among others, Messrs. Shimon Alon and Ron Zuckerman, whereby the maturity date was further extended, such that the aggregate principal amount will become due and payable in four equal installments of \$377,334 on each of the following dates: (1) April 1, 2012; (2) June 30, 2012; (3) September 30, 2012; and (4) December 31, 2012. In consideration, the holders of the Convertible Notes received the following:

- the interest rate of the Convertible Notes was increased from a fixed annual rate of 9% to a fixed annual rate of 11%;
- the warrants issued in September 2006 to the holders of the Convertible Notes and another person, exercisable into a total of 150,000 ordinary shares, were amended so that the expiration date was extended from (A) the later of (1) February 4, 2012 and (2) date on which the principal amount under the Convertible Note issued to the holder, and any interest accrued and outstanding thereon, shall have been fully repaid to the holder to (B) the later of (1) December 31, 2013 and (2) date on which the principal amount under the Convertible Note issued to the holder, and any interest accrued and outstanding thereon, shall have been fully repaid to the holder; and
- the warrants issued in May 2009 to certain holders of the Convertible Notes and another person (including Bonale Foundation, a trust for the benefit of persons related to Mr. Zuckerman), exercisable into a total of 555,680 ordinary shares were amended so that the expiration date was extended from May 11, 2012 to the later of (1) December 31, 2013 and (2) date on which the principal amount under the Convertible Note issued to the holder, and any interest accrued and outstanding thereon, shall have been fully repaid to the holder.

Between December 31, 2011 and January 31, 2012, the holders, in the aggregate, of approximately \$1.2 million of principal amount of the Convertible Notes, or approximately 76% of the then total outstanding principal amount of the Convertible Notes, converted their Convertible Notes into a total of approximately 2.4 million ordinary shares pursuant to the Prepayment Offer. The Prepayment Offer expired on January 31, 2012. *For additional details about the Prepayment Offer and conversion, see Item 5.B "Liquidity and Capital Resources - Principal Financing Activities."*

On July 29, 2012, the holders, in the aggregate, of the remaining Convertible Notes in the principal amount of approximately \$0.2 million, converted their Convertible Notes into a total of 92,743 ordinary shares at a conversion price per share of \$2.48.

## Plenus Loan

On January 31, 2007, we entered into the Plenus Loan, whereby Plenus provided us a \$2.0 million loan and in connection therewith, we issued to Plenus warrants to purchase up to 109,971 ordinary shares at an initial exercise price per share of \$5.456 (subsequently adjusted to \$0.48). On March 30, 2009, we entered into an amendment to the Loan Agreement, such that, among others things, our repayment of the outstanding loan amount would commence in February 2010 rather than in March 2009 and be fully repaid by February 2012 rather than March 2010.

In September 2011, in connection with the acquisition of RepliWeb, we and Plenus entered into a further amendment to the Plenus Loan and the related security agreements whereby, among other things, (1) Plenus provided its consent to the Bridge Loan described above under "Acquisition of RepliWeb", (2) the period during which Plenus is entitled to compensation upon consummation of a Fundamental Transaction, as described below, was extended until December 31, 2017, (3) during such extended period, Plenus may elect to receive \$300,000 in cash in lieu of such compensation, and (4) Plenus' right to compensation (in general, 15% of the Company's consolidated revenues in 2012) in the event that our consolidated revenues in 2012 exceed \$18 million was canceled. In particular, under the Plenus Loan, as amended, if on or before December 31, 2017, we enter into a "Fundamental Transaction", which is defined to include a sale through a merger, selling all or substantially all of our assets, or a transaction in which a person or entity acquires more than 50% of our outstanding shares, then we will be required to pay Plenus an amount equal to, in general, the higher of \$300,000 or 15% of the aggregate proceeds payable to our shareholders or us in connection with such Fundamental Transaction.

In January 2012, the Plenus Loan was fully repaid in accordance with its terms. However, Plenus' right to payment in connection with a Fundamental Transaction remains outstanding.

## D. EXCHANGE CONTROLS

Israeli law and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our ordinary shares. 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.

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.

## E. TAXATION

### Israeli Tax Considerations

*The following is a summary of the current tax structure applicable to companies 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. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. To the extent that the discussion is based on new tax legislation that has not been subject to judicial or administrative interpretation, we cannot assure you that the tax authorities will accept the views expressed in the discussion in question. The discussion is not intended, and should not be taken, as legal or professional tax advice and is not exhaustive of all possible tax considerations.*

## General Corporate Tax Structure

Israeli companies are generally subject to "Corporate Tax" on their taxable income at the rate of 24% for the 2011 tax year and 25% for the 2012 and 2013 tax years. Following an amendment to the Israeli Income Tax Ordinance [New Version], 1961 (the "Tax Ordinance"), which came into effect on January 1, 2012, the Corporate Tax rate is scheduled to remain at a rate of 25% for future tax years. Israeli companies are generally subject to Capital Gains Tax at the corporate tax rate.

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

According to the Law for the Encouragement of Industry (Taxes), 1969, or the Industry Encouragement Law, an Industrial Company is a company resident in Israel, at least 90% of the income of which, in a given tax year, determined in Israeli currency (exclusive of income from some government loans, capital gains, interest and dividends), is derived from an Industrial Enterprise owned by it. An "Industrial Enterprise" is defined as an enterprise whose major activity in a given tax year is industrial production activity.

Under the Industry Encouragement Law, Industrial Companies are entitled to the following preferred corporate tax benefits:

- amortization of purchases of know-how and patents over an eight-year period for tax purposes;
- deductions over a three-year period of expenses involved with the issuance and listing of shares on a stock market;
- the right to elect, under specified conditions, to file a consolidated tax return with additional related Israeli Industrial Companies; and
- accelerated depreciation rates on equipment and buildings.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority.

We believe that we currently qualify as an Industrial Company within the definition of the Industry Encouragement Law. We cannot assure you that we will continue to qualify as an Industrial Company or that the benefits described above will be available to us in the future.

### Tax Benefits and Government Support for Research and Development

Israeli tax law allows, under specific conditions, a tax deduction in the year incurred for expenditures, including capital expenditures, relating to scientific research and development projects, if the expenditures are approved by the relevant Israeli Government ministry, determined by the field of research, and the research and development is for the promotion of the company and is carried out by or on behalf of the company seeking such deduction. However, the amount of such deductible expenses shall be reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. Expenditures not so approved are deductible over a three-year period.

### Israeli Transfer Pricing Regulations

On November 29, 2006, Income Tax Regulations (Determination of Market Terms), 2006, promulgated under Section 85A of the Tax Ordinance, came into force (the "TP Regs"). Section 85A of the Tax Ordinance and the TP Regs generally require that all cross-border transactions carried out between related parties will be conducted on an arm's length principle basis and will be taxed accordingly.

## Capital Gains Tax

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 capital assets located in Israel, including shares of 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 that is equivalent to the increase of the relevant asset's purchase price which is attributable to the increase in the Israeli CPI, or 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.

### *Israeli Residents*

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 will not apply to: (i) dealers in securities; and (ii) shareholders who acquired their shares prior to an initial public offering (that may be subject to a different tax arrangement). Israeli Companies are subject to the Corporate Tax rate on capital gains derived from the sale of listed shares.

The tax basis of our shares acquired by individuals 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.

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 includes taxable capital gains from the sale of our shares and taxable income from dividend distributions.

### *Non-Israeli Residents*

Non-Israeli residents are generally 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 outside of Israel, provided however that such shareholders did not acquire their shares prior to an initial public offering, and that the gains did not derive from a permanent establishment of such shareholders in Israel. However, non-Israeli corporations will not be entitled to such exemption if Israeli residents (i) have a controlling interest of 25% or more in such non-Israeli corporation, or (ii) are the beneficiaries or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In certain 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.

In addition, 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 sale, exchange or disposition of ordinary shares by a person who qualifies as a resident of the United States within the meaning of the U.S.- Israel Tax Treaty and who 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 unless 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 particular conditions, or the capital gains from such sale, exchange or disposition can be allocated to a permanent establishment in Israel. In such case, the Treaty U.S. Resident 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 Non-Residents on Dividend Distributions**

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, royalties and interest, as well as non-passive income from services rendered in Israel. On distributions of dividends other than bonus shares or stock dividends, income tax will generally apply 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.

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%. Such tax rate is generally reduced to 12.5% if the shareholder is a U.S. corporation and holds at least 10% of our issued voting power during the part of the tax year that precedes the date of payment of the dividend and during the whole of its prior tax year, however this reduced rate will not apply if more than 25% of the Israeli company's gross income consists of interest or dividends, other than dividends or interest received from subsidiary corporations or corporations 50% or more of the outstanding shares of the voting stock of which is owned by the Israeli company.

#### **United States Federal Income Tax Consequences**

THE FOLLOWING SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION AND IS NOT INTENDED TO BE, AND SHOULD NOT BE CONSIDERED TO BE, LEGAL OR TAX ADVICE. EACH U.S. HOLDER SHOULD CONSULT WITH HIS OR HER OWN TAX ADVISOR AS TO THE PARTICULAR U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND SALE OF ORDINARY SHARES, INCLUDING THE EFFECTS OF APPLICABLE STATE, LOCAL, FOREIGN OR OTHER TAX LAWS AND POSSIBLE CHANGES IN THE TAX LAWS.

#### **U.S. Federal Income Taxation**

Subject to the limitations described in the next paragraph, the following discussion summarizes the material U.S. federal income tax consequences to a "U.S. Holder" arising from the purchase, ownership and sale of the ordinary shares. For this purpose, a "U.S. Holder" is a holder of ordinary shares that is: (1) an individual citizen or resident of the United States, including an alien individual who is a lawful permanent resident of the United States or meets the substantial presence residency test under U.S. federal income tax laws; (2) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) or a partnership (other than a partnership that is not treated as a U.S. person under any applicable U.S. Treasury regulations) created or organized in or under the laws of the United States or the District of Columbia or any political subdivision thereof; (3) an estate, the income of which is subject to U.S. federal income tax regardless of source; (4) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have authority to control all substantial decisions of the trust; (5) a trust that has a valid election in effect to be treated as a U.S. person to the extent provided in U.S. Treasury regulations; or (6) any person otherwise subject to U.S. federal income tax on a net income basis in respect of the ordinary shares, if such status as a U.S. Holder is not overridden pursuant to the provisions of an applicable tax treaty.

This summary is for general information purposes only and does not purport to be a comprehensive description of all of the U.S. federal income tax considerations that may be relevant to a decision to purchase or hold our ordinary shares. This summary generally considers only U.S. Holders that will own our ordinary shares as capital assets. Except to the limited extent discussed below, this summary does not consider the U.S. federal tax consequences to a person that is not a U.S. Holder, nor does it describe the rules applicable to determine a taxpayer's status as a U.S. Holder. This summary is based on the provisions of the Internal Revenue Code of 1986, as amended, or the Code, final, temporary and proposed U.S. Treasury regulations promulgated thereunder, administrative and judicial interpretations thereof, and the U.S./Israel Income Tax Treaty, all as in effect as of the date hereof and all of which are subject to change, possibly on a retroactive basis, and all of which are open to differing interpretations. Attunity will not seek a ruling from the U.S. Internal Revenue Service, or the IRS, with regard to the U.S. federal income tax treatment of an investment in our ordinary shares by U.S. Holders and, therefore, can provide no assurances that the IRS will agree with the conclusions set forth below.

This discussion does not address all of the aspects of U.S. federal income taxation that may be relevant to a particular shareholder based on such shareholder's particular circumstances and in particular does not discuss any estate, gift, generation-skipping, transfer, state, local or foreign tax considerations. In addition, this discussion does not address the U.S. federal income tax treatment of a U.S. Holder who is: (1) a bank, life insurance company, regulated investment company, or other financial institution or "financial services entity"; (2) a broker or dealer in securities or foreign currency; (3) a person who acquired our ordinary shares in connection with employment or other performance of services; (4) a U.S. Holder that is subject to the U.S. alternative minimum tax; (5) a U.S. Holder that holds our ordinary shares as a hedge or as part of a hedging, straddle, conversion or constructive sale transaction or other risk-reduction transaction for U.S. federal income tax purposes; (6) a tax-exempt entity; (7) real estate investment trusts; (8) a U.S. Holder that expatriates out of the United States or a former long-term resident of the United States; or (9) a person having a functional currency other than the U.S. dollar. This discussion does not address the U.S. federal income tax treatment of a U.S. Holder that owns, directly or constructively, at any time, ordinary shares representing 10% or more of our voting power. Additionally, the U.S. federal income tax treatment of persons who hold ordinary shares through a partnership or other pass-through entity are not considered.

*You are encouraged to consult your own tax advisor with respect to the specific U.S. federal and state income tax consequences to you of purchasing, holding or disposing of our ordinary shares, including the effects of applicable state, local, foreign or other tax laws and possible changes in the tax laws.*

#### **Distributions on Ordinary Shares**

We do not intend to pay dividends in the foreseeable future. In the event that we do pay dividends, and subject to the discussion under the heading "Passive Foreign Investment Companies" below, a U.S. Holder will be required to include in gross income as ordinary income the amount of any distribution paid on ordinary shares (including the amount of any Israeli tax withheld on the date of the distribution), to the extent that such distribution does not exceed our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. The amount of a distribution which exceeds our earnings and profits will be treated first as a non-taxable return of capital, reducing the U.S. Holder's tax basis for the ordinary shares to the extent thereof, and then capital gain. Corporate holders generally will not be allowed a deduction for dividends received. For noncorporate U.S. Holders, to the extent that their total adjusted income does not exceed applicable thresholds, the maximum federal income tax rate for "qualified dividend income" and long-term capital gains is generally 15%. For those noncorporate U.S. Holders whose total adjusted income exceeds such income thresholds, the maximum federal income tax rate for "qualified dividend income" and long-term capital gains is generally 20%. For this purpose, "qualified dividend income" means, *inter alia*, dividends received from a "qualified foreign corporation." A "qualified foreign corporation" is a corporation that is entitled to the benefits of a comprehensive tax treaty with the United States which includes an exchange of information program. The IRS has stated that the Israel/U.S. Tax Treaty satisfies this requirement and we believe we are eligible for the benefits of that treaty.

In addition, our dividends will be qualified dividend income if our ordinary shares are readily tradable on the NASDAQ Capital Market or another established securities market in the United States. Dividends will not qualify for the preferential rate if we are treated, in the year the dividend is paid or in the prior year, as a passive foreign investment company, or PFIC. A U.S. Holder will not be entitled to the preferential rate: (1) if the U.S. Holder has not held our ordinary shares or ADRs for at least 61 days of the 121 day period beginning on the date which is 60 days before the ex-dividend date, or (2) to the extent the U.S. Holder is under an obligation to make related payments on substantially similar property. Any days during which the U.S. Holder has diminished its risk of loss on our ordinary shares are not counted towards meeting the 61-day holding period. Finally, U.S. Holders who elect to treat the dividend income as "investment income" pursuant to Code section 163(d)(4) will not be eligible for the preferential rate of taxation.

The amount of a distribution with respect to our ordinary shares will be measured by the amount of the fair market value of any property distributed, and for U.S. federal income tax purposes, the amount of any Israeli taxes withheld therefrom. Cash distributions paid by us in NIS will be included in the income of U.S. Holders at a U.S. dollar amount based upon the spot rate of exchange in effect on the date the dividend is includible in the income of the U.S. Holder, and U.S. Holders will have a tax basis in such NIS for U.S. federal income tax purposes equal to such U.S. dollar value. If the U.S. Holder subsequently converts the NIS, any subsequent gain or loss in respect of such NIS arising from exchange rate fluctuations will be U.S. source ordinary exchange gain or loss.

Distributions paid by us will generally be foreign source income for U.S. foreign tax credit purposes. Subject to the limitations set forth in the Code, U.S. Holders may elect to claim a foreign tax credit against their U.S. income tax liability for Israeli income tax withheld from distributions received in respect of the ordinary shares. In general, these rules limit the amount allowable as a foreign tax credit in any year to the amount of regular U.S. tax for the year attributable to foreign source taxable income. This limitation on the use of foreign tax credits generally will not apply to an electing individual U.S. Holder whose creditable foreign taxes during the year do not exceed \$300, or \$600 for joint filers, if such individual's gross income for the taxable year from non-U.S. sources consists solely of certain passive income. A U.S. Holder will be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received with respect to the ordinary shares if such U.S. Holder has not held the ordinary shares for at least 16 days out of the 31-day period beginning on the date that is 15 days before the ex-dividend date or to the extent that such U.S. Holder is under an obligation to make certain related payments with respect to substantially similar or related property. Any day during which a U.S. Holder has substantially diminished his or her risk of loss with respect to the ordinary shares will not count toward meeting the 16-day holding period. A U.S. Holder will also be denied a foreign tax credit if the U.S. Holder holds the ordinary shares in an arrangement in which the U.S. Holder's reasonably expected economic profit is insubstantial compared to the foreign taxes expected to be paid or accrued. The rules relating to the determination of the U.S. foreign tax credit are complex, and U.S. Holders should consult with their own tax advisors to determine whether, and to what extent, they are entitled to such credit. U.S. Holders that do not elect to claim a foreign tax credit may instead claim a deduction for Israeli income taxes withheld, provided such U.S. Holders itemize their deductions.

## Disposition of Shares

Except as provided under the PFIC rules described below, 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 tax basis for the ordinary shares and the amount realized on the disposition (or its U.S. dollar equivalent determined by reference to the spot rate of exchange on the date of disposition, if the amount realized is denominated in a foreign currency). The gain or loss realized on the sale or exchange or other disposition of ordinary shares will be long-term capital gain or loss if the U.S. Holder has a holding period of more than one year at the time of the disposition.

In general, gain realized by a U.S. Holder on a sale, exchange or other disposition of ordinary shares will generally be treated as U.S. source income for U.S. foreign tax credit purposes. A loss realized by a U.S. Holder on the sale, exchange or other disposition of ordinary shares is generally allocated to U.S. source income. However, U.S. Treasury regulations require such loss to be allocated to foreign source income to the extent specified dividends were received by the taxpayer within the 24-month period preceding the date on which the taxpayer recognized the loss. The deductibility of a loss realized on the sale, exchange or other disposition of ordinary shares is subject to limitations.

## Tax on Net Investment Income

U.S. Holders who are individuals, estates or trusts will generally be required to pay a new 3.8% tax on their net investment income (including dividends on and gains from the sale or other disposition of our ordinary shares), or in the case of estates and trusts on their net investment income that is not distributed. In each case, the 3.8% Medicare tax applies only to the extent the U.S. Holder's total adjusted income exceeds applicable thresholds.

## Passive Foreign Investment Companies

Special U.S. federal income tax laws apply to a U.S. Holder who owns shares of a corporation that was (at any time during the U.S. Holder's holding period) a PFIC. We would be treated as a PFIC for U.S. federal income tax purposes for any tax year if, in such tax year, either:

75% or more of our gross income (including our *pro rata* share of gross income for any company, U.S. or foreign, in which we are considered to own 25% or more of the shares by value), in a taxable year is passive (the "Income Test"); or

At least 50% of our assets, averaged over the year and generally determined based upon value (including our *pro rata* share of the assets of any company in which we are considered to own 25% or more of the shares by value), in a taxable year are held for the production of, or produce, passive income (the "Asset Test").

For this purpose, passive income generally consists of dividends, interest, rents, royalties, annuities and income from certain commodities transactions and from notional principal contracts. Cash is treated as generating passive income.

If we are or become a PFIC, each U.S. Holder who has not elected to treat us as a qualified electing fund by making a "QEF election", or who has not elected to mark the shares to market (as discussed below), would, upon receipt of certain distributions by us and upon disposition of our ordinary shares at a gain, be liable to pay U.S. federal income tax at the then prevailing highest tax rates on ordinary income plus interest on such tax, as if the distribution or gain had been recognized ratably over the taxpayer's holding period for the ordinary shares. In addition, when shares of a PFIC are acquired by reason of death from a decedent that was a U.S. Holder, the tax basis of such shares would not receive a step-up to fair market value as of the date of the decedent's death, but instead would be equal to the decedent's basis if lower, unless all gain were recognized by the decedent. Indirect investments in a PFIC may also be subject to special U.S. federal income tax rules.

The PFIC rules would not apply to a U.S. Holder who makes a QEF election for all taxable years that such U.S. Holder has held the ordinary shares while we are a PFIC, provided that we comply with specified reporting requirements. Instead, each U.S. Holder who has made such a QEF election is required for each taxable year that we are a PFIC to include in income such U.S. Holder's *pro rata* share of our ordinary earnings as ordinary income and such U.S. Holder's *pro rata* share of our net capital gains as long-term capital gain, regardless of whether we make any distributions of such earnings or gain. In general, a QEF election is effective only if we make available certain required information. The QEF election is made on a shareholder-by-shareholder basis and generally may be revoked only with the consent of the IRS. Although we have no obligation to do so, we intend to notify U.S. Holders if we believe we will be treated as a PFIC for any tax year in order to enable U.S. Holders to consider whether to make a QEF election. In addition, we intend to comply with the applicable information reporting requirements for U.S. Holders to make a QEF election. U.S. Holders should consult with their own tax advisors regarding eligibility, manner and advisability of making a QEF election if we are treated as a PFIC.

A U.S. Holder of PFIC shares which are traded on qualifying public markets, including the NASDAQ Capital Market, can elect to mark the shares to market annually, recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the PFIC shares and the U.S. Holder's adjusted tax basis in the PFIC shares. Losses are allowed only to the extent of net mark-to-market gain previously included income by the U.S. Holder under the election for prior taxable years.

We believe that we were not a PFIC for any of our 2007 through 2012 taxable years. The tests for determining PFIC status, however, are applied annually, and it is difficult to make accurate projections of future income and assets which are relevant to this determination. Accordingly, there can be no assurance that we are not or will not become a PFIC. U.S. Holders who hold ordinary shares during a period when we are a PFIC will be subject to the foregoing rules, even if we cease to be a PFIC, subject to specified exceptions for U.S. Holders who made a QEF or mark-to-market election. U.S. Holders are strongly urged to consult their tax advisors about the PFIC rules, including tax return filing requirements and the eligibility, manner, and consequences to them of making a QEF or mark-to-market election with respect to our ordinary shares in the event that we qualify as a PFIC.

#### **Information Reporting and Withholding**

A U.S. Holder may be subject to backup withholding at a rate of 28% with respect to cash dividends and proceed from a disposition of ordinary shares. In general, back-up withholding will apply only if a U.S. Holder fails to comply with specified identification procedures. Backup withholding will not apply with respect to payments made to designated exempt recipients, such as corporations and tax-exempt organizations. Backup withholding is not an additional tax and may be claimed as a credit against the U.S. federal income tax liability of a U.S. Holder, provided that the required information is timely furnished to the IRS.

Under the Hiring Incentives to Restore Employment Act of 2010 (the "HIRE Act"), some payments made to "foreign financial institutions" in respect of accounts of U.S. stockholders at such financial institutions may be subject to withholding at a rate of 30%. U.S. Treasury Regulations provide that such withholding will only apply to distributions paid on or after January 1, 2014, and to other "withholdable payments" (including payments of gross proceeds from a sale or other disposition of our ordinary shares) made on or after January 1, 2017. U.S. Holders should consult their tax advisors regarding the effect, if any, of the HIRE Act on their ownership and disposition of our ordinary shares. See "—Non-U.S. Holders of Ordinary Shares."

## Non-U.S. Holders of Ordinary Shares

Except as provided below, an individual, corporation, estate or trust that is not a U.S. Holder generally 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, our ordinary shares.

A non-U.S. Holder may be subject to U.S. federal income or withholding tax on a dividend paid on our ordinary shares or the proceeds from the disposition of our ordinary shares if: (1) such item is effectively connected with the conduct by the non-U.S. Holder of a trade or business in the United States or, in the case of a non-U.S. Holder that is a resident of a country which has an income tax treaty with the United States, such item is attributable to a permanent establishment or, in the case of gain realized by an individual non-U.S. Holder, a fixed place of business in the United States; (2) in the case of a disposition of our ordinary shares, the individual non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the sale and other specified conditions are met; (3) the non-U.S. Holder is subject to U.S. federal income tax pursuant to the provisions of the U.S. tax law applicable to U.S. expatriates.

In general, non-U.S. Holders will not be subject to backup withholding with respect to the payment of dividends on our ordinary shares if payment is made through a paying agent, or office of a foreign broker outside the United States. However, if payment is made in the United States or by a U.S. related person, non-U.S. Holders may be subject to backup withholding, unless the non-U.S. Holder provides on an applicable Form W-8 (or a substantially similar form) a taxpayer identification number, certifies to its foreign status, or otherwise establishes an exemption. A U.S. related person for these purposes is a person with one or more current relationships with the United States.

The amount of any backup withholding from a payment to a non-U.S. Holder will be allowed as a credit against such holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that the required information is timely furnished to the IRS.

The HIRE Act may impose withholding taxes on some types of payments made to "foreign financial institutions" and some other non-U.S. entities. Under the HIRE Act, the failure to comply with additional certification, information reporting and other specified requirements could result in withholding tax being imposed on payments of dividends and sales proceeds to U.S. Holders that own ordinary shares through foreign accounts or foreign intermediaries and specified non-U.S. Holders. The HIRE Act imposes a 30% withholding tax on dividends on, and gross proceeds from the sale or other disposition of, ordinary shares paid from the United States to a foreign financial institution or to a foreign nonfinancial entity, unless (1) the foreign financial institution undertakes specified diligence and reporting obligations or (2) the foreign nonfinancial entity either certifies it does not have any substantial U.S. owners or furnishes identifying information regarding each substantial U.S. owner. In addition, if the payee is a foreign financial institution, it generally must enter into an agreement with the U.S. Treasury that requires, among other things, that it undertake to identify accounts held by specified U.S. persons or U.S.-owned foreign entities, annually report certain information about such accounts, and withhold 30% on payments to other specified account holders. U.S. Treasury Regulations provide that such withholding will only apply to distributions paid on or after January 1, 2014, and to other "withholdable payments" (including payments of gross proceeds from a sale or other disposition of our ordinary shares) made on or after January 1, 2017. You should consult your tax advisor regarding the HIRE Act.

### F. DIVIDENDS AND PAYING AGENTS

Not applicable.

### G. STATEMENT BY EXPERTS

Not applicable.

## H. DOCUMENTS ON DISPLAY

We are subject to the reporting requirements of the United States Securities Exchange Act of 1934, as amended, or the Exchange Act, as applicable to "foreign private issuers" as defined in Rule 3b-4 under the Exchange Act, and in accordance therewith, we file annual and interim reports and other information with the SEC.

As a foreign private issuer, we are exempt from certain provisions of the Exchange Act. Accordingly, our proxy solicitations are not subject to the disclosure and procedural requirements of Regulation 14A under the Exchange Act and transactions in our equity securities by our officers and directors are exempt from reporting and the "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 as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act.

Notwithstanding the foregoing, we furnish reports with the SEC on Form 6-K containing unaudited financial information for the first three quarters of each fiscal year and we solicit proxies and furnish proxy statements for all meetings of shareholders, a copy of which proxy statement is furnished promptly thereafter with the SEC under the cover of a Current Report on Form 6-K.

This annual report and the exhibits thereto and any other document we file pursuant to the Exchange Act may be inspected without charge and copied at prescribed rates at the following SEC public reference rooms: 100 F Street, N.E., Washington, D.C. 20549; and on the SEC Internet site (<http://www.sec.gov>) and on our website [www.attunity.com](http://www.attunity.com). The content of our website is not incorporated by reference into this annual report.

You may obtain information on the operation of the SEC's public reference room in Washington, D.C. by calling the SEC at 1-800-SEC-0330 or by visiting the SEC's website at <http://www.sec.gov>. The Exchange Act file number for our SEC filings is 0-20892.

The documents concerning our Company which are referred to in this annual report may also be inspected at our offices located at 16 Atir Yeda Street, Atir Yeda Industrial Park, Kfar Saba, 4464321, Israel.

## I. SUBSIDIARY INFORMATION

Not applicable.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

### General

We are exposed to a variety of market risks, including foreign currency fluctuations and changes in interest rates. To manage the volatility related to the foreign currency exposure, we have entered into various derivative transactions described below. However, we do not use financial instruments for trading purposes and are not a party to any leveraged derivative.

### Interest Rate Risk

Our exposure to market risk for changes in interest rates is immaterial primarily because our cash and cash equivalents are mostly deposited in short-term deposits and are used to satisfy our working capital requirements and our debt is comprised of the short-term credit line of approximately \$1.0 million described in Item 5.B "Operating and Financial Review and Prospects– Liquidity and Capital Resources – Principal Financing Activities – Credit Line".

Our cash and cash equivalents are held substantially in NIS and in U.S. dollars. We place our cash and cash equivalents with major financial banks.

For purposes of specific risk analysis, we use a sensitivity analysis to determine the impact that market risk exposure may have on the financial income derived from our cash and cash equivalents or financial expenses associated with our borrowings. The potential loss to us over one year that would result from a hypothetical change of 10% in the LIBOR or other prime interest rates would be immaterial, as we do not have material borrowings nor do we have material deposits.

#### Foreign Currency Exchange Risk

Our financial results may be negatively impacted by foreign currency fluctuations. Our foreign operations are generally transacted through our international sales subsidiaries in Europe, the Middle East and Asia Pacific. As a result, these sales and related expenses are denominated in currencies other than the U.S. dollar. Because our financial results are reported in U.S. dollars, our results of operations may be adversely impacted by fluctuations in the rates of exchange between the U.S. dollar and those other currencies. In addition, a significant portion of our operating costs are incurred in NIS. In the past several years, the NIS appreciated against the dollar, which raised the dollar cost of our Israeli operations.

The following table sets forth, for the periods indicated, (1) devaluation or appreciation of the U.S. dollar against the most significant currencies for our business, i.e., the NIS, the British Pound and the Euro; and (2) inflation as reflected in changes in the Israeli consumer price index.

	Year Ended December 31,				
	2008	2009	2010	2011	2012
NIS	1.2%	0.7%	6.4%	7.7%	(1.3)%
Euro	(5.3)%	3.5%	7.4%	4.2%	(0.4)%
British Pound	(27.2)%	10.9%	4.4%	7.3%	2.5%
Israeli Consumer Price Index	3.8%	3.9%	2.7%	2.2%	1.6%

Our operating results may be affected by fluctuations in the value of the dollar as it relates to foreign currencies, predominantly the NIS. In 2012, the revaluation of the dollar in relation to the NIS decreased the dollar reporting value of our operating expenses by approximately \$0.85 million for that year. Other than that, foreign currency fluctuations did not have a material impact on our financial results in the past three years.

A revaluation of the NIS in relation to the dollar, as was the case in 2008 through 2011, has the effect of increasing the dollar amount of any of our expenses or liabilities which are payable in NIS (unless such expenses or payables are linked to the dollar). For example, an increase of 10% in the value of the NIS relative to the U.S. dollar in 2012 would have resulted in an increase in the U.S. dollar reporting value of our operating expenses of approximately \$1.1 million for that year. A revaluation of the NIS relative to the U.S. dollar also has the effect of increasing the dollar value of any asset, which consists of NIS or receivables payable in NIS (unless such receivables are linked to the dollar). Conversely, any decrease in the value of the NIS in relation to the dollar, has the effect of decreasing the dollar value of any unlinked NIS assets and the dollar amounts of any unlinked NIS liabilities and expenses.

We have engaged in a currency hedging transaction intended to reduce the effect of fluctuations in currency exchange rates on our financial statements and we may enter into similar transactions in the future. As of December 31, 2012, we had outstanding currency options in the total amount of approximately \$0.5 million. These options expire in various dates until June 2013. We cannot guarantee that such measures will effectively protect us from adverse effects due to the impact of change in currency exchange rates.

**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**

None.

**ITEM 15. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures*

Our management, including our chief executive officer, or CEO, and our chief financial officer, or CFO, is responsible for establishing and maintaining our disclosure controls and procedures (within the meaning of Rule 13a-15(e) of the Exchange Act). These controls and procedures were designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information was accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. We evaluated these disclosure controls and procedures under the supervision of our CEO and CFO as of December 31, 2012. Based upon that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures are effective.

*Management's Annual Report on Internal Control Over Financial Reporting*

We performed an evaluation of the effectiveness of our internal control over financial reporting that is designed by, or under the supervision of, our principal executive and principal financial officers, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and 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.

Our management recognizes that there are inherent limitations in the effectiveness of any system of internal control over financial reporting, including the possibility of human error and the circumvention or override of internal control. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation, and may not prevent or detect all misstatements. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2012 based on the framework for Internal Control-Integrated Framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on such evaluation, our management, including the CEO and CFO, has concluded that our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended) as of December 31, 2012 is effective.

*Changes in Internal Control Over Financial Reporting*

There were no changes in the Company's internal control over financial reporting that occurred during the year ended December 31, 2012 that have 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. Dan Falk, who serves on our audit committee, meets the definition of an audit committee financial expert, as that term is defined in Item 16A of Form 20-F. Mr. Falk qualified as an "independent director" using the NASDAQ Stock Market definition of independence, in NASDAQ Listing Rule 5605(a)(2).

**ITEM 16B. CODE OF ETHICS**

We have adopted a code of ethics that applies to all of our directors, executive officers and employees. The code of ethics is publicly available on our website at [www.attunity.com](http://www.attunity.com). If we make any amendment to the code of ethics or grant any waivers, including any implicit waiver, from a provision of the codes of ethics, which applies to our chief executive officer, chief financial officer, chief accounting officer or controller, or persons performing similar functions, we will disclose the nature of such amendment or waiver on our website.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES****Fees Paid to Independent Public Accountants**

In the annual meeting held on December 27, 2012 our shareholders re-appointed Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global, or Ernst & Young, to serve as our independent registered public accounting firm until the next annual meeting.

The following table sets forth, for each of the years indicated, the aggregate fees billed by Ernst & Young and the percentage of each of the fees out of the total amount paid to them:

Services Rendered	Year Ended December 31,			
	2011		2012	
	Fees (in US\$)	Percentages	Fees (in US\$)	Percentages
Audit Fees (1)	148,108	49%	160,811	92%
Audit-Related Fees	--	--	--	--
Tax Fees (2)	28,378	7%	14,865	8%
All Other Fees (3)	48,024	44%	--	--
<b>Total</b>	<b>224,510</b>	<b>100%</b>	<b>175,676</b>	<b>100%</b>

- (1) Audit fees consist of fees for professional services rendered by our principal accountant for the audit of our consolidated annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements.
- (2) Tax fees relate to services performed by the tax division of Ernst & Young for tax compliance, planning and advice, including a transfer pricing study.
- (3) Other fees relate to tax due diligence and tax planning services associated with RepliWeb acquisition.

## **Pre-Approval Policies and Procedures**

Our audit committee has adopted a policy and procedures for the pre-approval of audit and non-audit services rendered by Ernst & Young. Pre-approval of an audit or non-audit service may be given as a general pre-approval, as part of the audit committee's approval of the scope of the engagement of Ernst & Young, or on an individual basis. Any proposed services exceeding general pre-approved levels also require specific pre-approval by our audit committee. The policy prohibits retention of the independent registered public accounting firm to perform the prohibited non-audit functions defined in Section 201 of the SOX or the rules of the SEC, and also requires the audit committee to consider whether proposed services are compatible with the independence of the public accountants. All of the fees in the table above were approved in accordance with these policies and procedures.

### **ITEM 16D. EXEMPTIONS FROM THE LISTING REQUIREMENTS AND STANDARDS FOR AUDIT COMMITTEES**

None.

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

None.

### **Item 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

### **Item 16G. CORPORATE GOVERNANCE**

We are a foreign private issuer whose ordinary shares are listed on the NASDAQ Capital 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 shareholder meetings. Our articles of association, as permitted under the Israeli Companies Law and Israeli practice, provide that the quorum requirements for shareholders meetings are at least 25% of the total voting rights in the Company or, with respect to adjourned shareholders meetings convened by the board of directors, the presence of a minimum of two shareholders.

Additionally, we have chosen to follow our home country practice in lieu of the requirements of NASDAQ Listing 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**

The Company has elected to furnish financial statements and related information specified in Item 18.

**ITEM 18. FINANCIAL STATEMENTS**

**Consolidated Financial Statements.**

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**ITEM 19. EXHIBITS**

**Exhibit    Description**

1.1	Memorandum of Association of the Registrant, as amended and restated ¶ (1)
1.2	Amended and Restated Articles of Association of the Registrant (2)
2.1	Specimen of Ordinary Share Certificate (3)
4.3	2001 Stock Option Plan, as amended (4)
4.4	2003 Israeli Stock Option Plan, as amended (5)
4.5	Note and Warrant Purchase Agreement dated March 22, 2004 among the Registrant and the purchasers listed on Exhibit A thereto; Form of Warrant issued in connection therewith; Form of Convertible Promissory Note issued in connection therewith; and Registration Rights Agreement dated May 4, 2004, among the Registrant and the purchasers signatory thereto (6), as amended by Extension Agreement, dated as of January 7, 2009 (7), by Extension Agreement, dated as of March 23, 2010 (8), by Extension Agreement, dated as of March 23, 2010 (9), and Form of Prepayment Offer (10)
4.6	Loan Agreement dated January 31, 2007 among the Registrant and Plenus Technologies Ltd.; Form of First and Second Warrants to purchase Ordinary Shares issued by the Registrant to Plenus; Floating Charge Agreement dated January 31, 2007 among the Registrant, Plenus and its affiliates; and Fixed Charge Agreement dated January 31, 2007 among the Registrant, Plenus and its affiliates (11), as amended by Amendment to the Loan Agreement and Charge Agreements, dated March 30, 2009 (12), and by Amendment No. 2 to the Loan Agreement and Charge Agreements, dated September 4, 2011 (13)
4.7	Form of Indemnification Letter (14)
4.8	Change Data Capture OEM Agreement, dated as of December 14, 2010, by and between Attunity Inc. and Microsoft Corporation (15)
4.9	Agreement and Plan of Merger, dated as of September 7, 2011, by and among the Registrant, Attunity Inc., RepliWeb Inc. and the other signatories thereto (16)
4.10	Summary – Directors Compensation*

- 4.11 2012 Stock Incentive Plan (17)  
8 List of Subsidiaries of the Registrant\*  
12.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended\*  
12.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended\*  
13.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350\*\*  
13.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350\*\*  
15.1 Consent of Kost Forer Gabbay & Kasierer, a Member of Ernst & Young Global\*  
101 The following financial information from the Registrant's Annual Report on Form 20-F for the year ended December 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statement of Comprehensive Income; (iv) Consolidated Statements of Changes in Shareholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements, tagged as blocks of text and in detail. Users of this data are advised, in accordance with Rule 406T of Regulation S-T promulgated by the SEC, that this Interactive Data File is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections\*\*

- (1) Filed as Exhibit 3.1 to the Registrant's Registration Statement on Form F-3, filed with the SEC on September 27, 2012, and incorporated herein by reference.  
(2) Filed as Exhibit 3.2 to the Registrant's Registration Statement on Form F-3, filed with the SEC on September 27, 2012, and incorporated herein by reference.  
(3) Filed as Exhibit 4.1 to the Registrant's Registration Statement on Form F-3, filed with the SEC on September 27, 2012, and incorporated herein by reference.  
(4) Filed as Exhibit 4.3 to the Registrant's Registration Statement on Form S-8, filed with the SEC on January 26, 2005, and incorporated herein by reference. The 2001 Stock Option Plan was amended in the annual general meetings of the Registrant's shareholders in December 2005 and December 2006, as reflected in Item 3 of the Registrant's Proxy Statement filed on Report of Foreign Private Issuer on Form 6-K submitted to the SEC on November 29, 2005, and in Item 2 of the Registrant's Proxy Statement filed on Report of Foreign Private Issuer on Form 6-K submitted to the SEC on November 22, 2006, which are incorporated herein by reference.  
(5) Filed as Exhibit 4.4 to the Registrant's Registration Statement on Form S-8, filed with the SEC on January 26, 2005, and incorporated herein by reference. The 2003 Israeli Stock Option Plan was amended in the annual general meetings of the Registrant's shareholders in December 2005 and December 2006, as reflected in Item 3 of the Registrant's Proxy Statement filed on Report of Foreign Private Issuer on Form 6-K submitted to the SEC on November 29, 2005, and in Item 2 of the Registrant's Proxy Statement filed on Report of Foreign Private Issuer on Form 6-K submitted to the SEC on November 22, 2006, which are incorporated herein by reference.  
(6) Filed as Items 3, 4, 5 and 6, respectively, to the Registrant's Report of Foreign Private Issuer on Form 6-K submitted to the SEC on March 25, 2004, and incorporated herein by reference.  
(7) Filed as Exhibit 4.5 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2008, and incorporated herein by reference.  
(8) Filed as Exhibit 4.5 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2009, and incorporated herein by reference.  
(9) Exhibit 99.2 to the Registrant's Report of Foreign Private Issuer on Form 6-K submitted to the SEC on February 2, 2011, and incorporated herein by reference.  
(10) Filed as Exhibit 4.5 to the Registrant's Annual Report on Form 20-F/A for the year ended December 31, 2011, and incorporated herein by reference.  
(11) Filed as Exhibits 4.1, 4.2, 4.3, 4.4 and 4.5, respectively, to the Registrant's Report of Foreign Private Issuer on Form 6-K submitted to the SEC on February 6, 2007, and incorporated herein by reference.  
(12) Filed as Exhibit 4.6 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2008, and incorporated herein by reference.  
(13) Filed as Exhibit 4.6 to the Registrant's Annual Report on Form 20-F/A for the year ended December 31, 2011, and incorporated herein by reference.  
(14) Filed as Annex B to the Registrant's Proxy Statement filed on Report of Foreign Private Issuer on Form 6-K submitted to the SEC on November 14, 2011, and incorporated herein by reference.  
(15) Filed as Exhibit 4.10 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2010, and incorporated herein by reference.  
(16) Filed as Exhibit 4.9 to the Registrant's Annual Report on Form 20-F/A for the year ended December 31, 2011, and incorporated herein by reference.  
(17) Filed as Annex A to the Registrant's Proxy Statement filed on Report of Foreign Private Issuer on Form 6-K submitted to the SEC on November 20, 2012, and incorporated herein by reference.

¶ Translated from Hebrew

\* Filed herewith.

\*\* Furnished herewith.

ATTUNITY LTD. AND ITS SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2012  
U.S. DOLLARS IN THOUSANDS  
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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Shareholders and Board of Directors of**

**ATTUNITY LTD.**

We have audited the accompanying consolidated balance sheets of Attunity Ltd. (the "Company") and its subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2012. These 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

Tel-Aviv, Israel  
March 29, 2013

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

## CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2012	2011
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 3,778	\$ 1,484
Restricted cash	-	362
Trade receivables (net of allowance for doubtful accounts of \$15 at December 31, 2012 and 2011)	3,671	1,988
Other accounts receivable and prepaid expenses	323	158
<b>Total current assets</b>	<b>7,772</b>	<b>3,992</b>
<b>LONG-TERM ASSETS:</b>		
Severance pay fund	2,880	2,684
Property and equipment, net	423	380
Intangible assets, net	1,870	2,854
Goodwill	13,094	13,011
Other assets	93	72
<b>Total long-term assets</b>	<b>18,360</b>	<b>19,001</b>
<b>Total assets</b>	<b>\$ 26,132</b>	<b>\$ 22,993</b>

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

## CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2012	2011
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term convertible debt	\$ -	\$ 835
Current maturities of long-term debt	-	115
Trade payables	316	452
Deferred revenues	4,759	5,197
Employees and payroll accruals	2,589	2,151
Accrued expenses and other current liabilities	1,220	2,133
Payment obligation	1,934	-
<b>Total current liabilities</b>	<b>10,818</b>	<b>10,883</b>
<b>LONG-TERM LIABILITIES:</b>		
Payment obligation	-	1,669
Other long-term liabilities	145	740
Long-term deferred revenue	888	536
Liabilities presented at fair value	730	510
Accrued severance pay	3,989	3,467
<b>Total long-term liabilities</b>	<b>5,752</b>	<b>6,922</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Share capital - ordinary shares of NIS 0.4 par value - Authorized: 32,500,000 shares at December 31, 2012 and 2011; Issued and outstanding: 10,919,930 and 9,987,777 shares at December 31, 2012 and 2011, respectively	1,270	1,146
Additional paid-in capital	110,318	107,572
Accumulated other comprehensive loss	(672)	(690)
Accumulated deficit	(101,354)	(102,840)
<b>Total shareholders' equity</b>	<b>9,562</b>	<b>5,188</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 26,132</b>	<b>\$ 22,993</b>

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

## CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2012	2011	2010
<b>Revenues:</b>			
Software licenses	\$ 14,437	\$ 8,140	\$ 4,645
Maintenance and services	11,042	7,029	5,430
<b>Total revenues</b>	<b>25,479</b>	<b>15,169</b>	<b>10,075</b>
<b>Operating expenses:</b>			
Cost of software licenses	719	563	1,119
Cost of maintenance and services	1,637	890	832
Research and development	7,748	4,960	2,482
Selling and marketing	9,833	5,851	3,831
General and administrative	3,024	2,835	1,854
<b>Total operating expenses</b>	<b>22,961</b>	<b>15,099</b>	<b>10,118</b>
Operating income (loss)	2,518	70	(43)
Financial expenses, net	1,241	1,284	1,388
Income (loss) before taxes on income	1,277	(1,214)	(1,431)
Taxes on income (benefit)	(209)	(399)	74
Net income (loss)	\$ 1,486	\$ (815)	\$ (1,505)
Basic net income / (loss) per share	\$ 0.14	\$ (0.09)	\$ (0.20)
Weighted average number of shares used in computing basic net income/(loss) per share (in thousands)	10,716	8,662	7,993
Diluted net income/(loss) per share	\$ 0.12	\$ (0.09)	\$ (0.20)
Weighted average number of shares used in computing Diluted net income/(loss) per share (in thousands)	12,311	8,662	7,993

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Year ended December 31,		
	2012	2011	2010
Net income (loss)	\$ 1,486	\$ (815)	\$ (1,505)
Other comprehensive income (loss):			
Foreign currency translation adjustment	18	(50)	(187)
Net change in accumulated comprehensive income (loss)	18	(50)	(187)
Comprehensive income (loss)	<u>\$ 1,504</u>	<u>\$ (865)</u>	<u>\$ (1,692)</u>

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

	Ordinary Shares		Additional paid-in capital	Accumulated Other Comprehensive Loss	Accumulated deficit	Total shareholders' Equity
	Number	Amount				
Balance as of January 1, 2010	7,892,787	\$ 920	\$ 102,095	\$ (453)	\$ (100,520)	\$ 2,042
Change in terms of equity-classified warrants in connection with loan extinguishment	-	-	53	-	-	53
Exercise of warrants and options	174,636	19	88	-	-	107
Stock-based compensation	-	-	223	-	-	223
Other comprehensive loss	-	-	-	(187)	-	(187)
Net loss	-	-	-	-	(1,505)	(1,505)
Balance as of December 31, 2010	8,067,423	939	102,459	(640)	(102,025)	733
Classification of warrants to equity	-	-	860	-	-	860
Exercise of warrants and options	465,475	51	198	-	-	249
Stock-based compensation	-	-	359	-	-	359
Issuance of shares to RepliWeb's employees in connection with the acquisition	34,371	4	84	-	-	88
Issuance of shares related to RepliWeb acquisition	973,694	105	2,428	-	-	2,533
Conversion of convertible debt	368,000	39	1,105	-	-	1,144
Exercise of rights related to convertible debt	78,804	8	30	-	-	38
Fair value of guarantee associated with short term loan	-	-	49	-	-	49
Other comprehensive loss	-	-	-	(50)	-	(50)
Net loss	-	-	-	-	(815)	(815)
Balance as of December 31, 2011	9,987,777	\$ 1,146	\$ 107,572	\$ (690)	\$ (102,840)	\$ 5,188

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

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

	Ordinary Shares		Additional paid-in capital	Accumulated other Comprehensive loss	Accumulated deficit	Total shareholders' Equity
	Number	Amount				
Balance as of December 31, 2011	9,987,777	\$ 1,146	\$ 107,572	\$ (690)	\$ (102,840)	\$ 5,188
Exercise of warrants, rights and options	519,715	53	683	-	-	736
Tax benefit related to exercise of stock options	-	-	40	-	-	40
Stock-based compensation	-	-	736	-	-	736
Conversion of convertible debt	316,491	61	1,251	-	-	1,312
Exercise of rights related to convertible debt	95,947	10	36	-	-	46
Other comprehensive income	-	-	-	18	-	18
Net Income	-	-	-	-	1,486	1,486
Balance as of December 31, 2012	10,919,930	\$ 1,270	\$ 110,318	\$ (672)	\$ (101,354)	\$ 9,562

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2012	2011	2010
<b>Cash flows from operating activities:</b>			
Net Income /(loss)	\$ 1,486	\$ (815)	\$ (1,505)
Adjustments required to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	255	123	94
Loss from disposals of property and equipment	10	-	-
Expenses related to RepliWeb's employees in connection with the acquisition	-	139	-
Stock-based compensation	736	359	223
Excess tax benefit from stock based compensation	(40)	-	-
Amortization of intangible assets	984	843	1,119
Fair value of guarantee associated with short term loan	-	49	-
Accretion of contingent payment obligation	265	75	-
Convertible debt inducement expense	108	202	-
Increase in accrued severance pay, net	326	40	193
Increase in trade receivables, net	(1,683)	(453)	(435)
Decrease (increase) in other accounts receivable and prepaid expenses	(165)	537	(45)
Decrease (increase) in other assets	(21)	(174)	25
Increase (decrease) in trade payables	(136)	(370)	17
Increase (decrease) in deferred revenues	(86)	2,228	19
Increase in employees and payroll accruals	438	785	28
Increase (decrease) in accrued expenses and other liabilities	(920)	882	(226)
Revaluation of restricted cash	-	(16)	(16)
Changes in liabilities presented at fair value	706	589	965
Change in deferred taxes, net	(321)	(774)	-
Net cash provided by operating activities	1,942	4,249	456
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	(308)	(161)	(58)
Decrease (increase) in restricted cash	362	(100)	-
Cash paid in connection with the RepliWeb acquisition, net of acquired cash	-	(2,424)	-
Net cash provided by (used in) investing activities	54	(2,685)	(58)

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2012	2011	2010
<b>Cash flows from financing activities:</b>			
Receipt of short term bridge loan to finance the acquisition	-	3,000	-
Repayment of bridge loan	-	(3,000)	-
Proceeds from exercise of employee stock options, warrants and rights related to convertible debt	576	287	107
Receipt of long-term debt	-	57	26
Repayment of long-term debt	(115)	(1,046)	(922)
Repayment of convertible debt	(138)	(245)	(184)
Excess tax benefit from stock based compensation	40	-	-
Net cash provided by (used in) financing activities	363	(947)	(973)
Foreign currency translation adjustments on cash and cash equivalents	(65)	(5)	19
Increase (decrease) in cash and cash equivalents	2,294	612	(556)
Cash and cash equivalents at the beginning of the year	1,484	872	1,428
Cash and cash equivalents at the end of the year	\$ 3,778	\$ 1,484	\$ 872
<b>Supplemental disclosure of cash flow activities:</b>			
Cash paid during the year for:			
Interest	\$ 225	\$ 63	\$ 484
Income taxes	\$ 298	\$ 202	\$ 74
<b>Supplemental disclosure of non-cash investing and financing activities:</b>			
Issuance of shares related to the acquisition of RepliWeb	\$ -	\$ 2,533	\$ -
Liability presented at fair value allocated to equity	\$ 1,410	1,144	-

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data****NOTE 1:- GENERAL**

- a. Attunity Ltd. (the "Company" or "Attunity") and its subsidiaries develop, market and support information availability software solutions that enable access, sharing and distribution of data, including Big Data, across heterogeneous enterprise platforms, organizations, and the cloud. In addition, the Company provides maintenance and other related services for its products.
- b. On July 19, 2012, the Company effected a reverse stock split of its ordinary shares of one for four (1:4) (i.e., four ordinary shares, NIS 0.1 nominal value each, were combined into one ordinary share NIS 0.4 nominal value) in connection with the listing of its ordinary shares on NSDAQ Capital Market. The earnings per share figures or results, stock options activity and share data presented for all periods were adjusted to reflect the reverse stock split.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), followed on a consistent basis.

- a. Use of estimates:

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, the Company's management evaluates estimates, including those related to fair values and useful lives of intangible assets, tax assets and liabilities, fair values of stock-based awards, certain financial instruments classified as liabilities, as well as in estimates used in applying the revenue recognition policy related to separation of multiple elements. Such estimates are based on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

- b. Financial statements in U.S. dollars ("dollars"):

A majority of the revenues of the Company and of certain of its subsidiaries is generated in dollars. In addition, a substantial portion of the Company's and certain subsidiaries' costs are denominated in dollars. Accordingly, the Company's management has determined that the dollar is the currency in the primary economic environment in which those companies operate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Thus, the functional and reporting currency of those companies is the dollar. Accordingly, monetary amounts denominated in a currency other than the functional currency are re-measured into the functional currency in accordance with Accounting Standards Codification ("ASC") No. 830, "Foreign Currency Matters," while all transaction gains and losses of the re-measured monetary balance sheet items are reflected in the statements of operations as financial income or expenses, as appropriate.

The financial statements of the Israeli and other foreign subsidiaries, whose functional currency is determined to be their local currency, have been translated into dollars. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Statement of operations amounts have been translated using the average exchange rate for the applicable year. The resulting translation adjustments are reported as an accumulated other comprehensive loss component of shareholders' equity.

## c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

## d. Reclassifications:

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation. The reclassification had no effect on previously reported net income or shareholders' equity.

## e. Cash equivalents:

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

## f. Restricted cash:

Restricted cash is primarily invested in highly liquid deposits. These deposits were used as security for rented premises, leased equipment and forward transactions.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

## g. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method, over the estimated useful lives of the assets, at the following annual rates:

	Percentage
Computers and peripheral equipment	20% – 33% (mainly 33)
Office furniture and equipment	10% – 20% (mainly 15)
Leasehold improvements	Over the shorter of the related lease period or the life of the asset

The Company's long-lived assets are reviewed for impairment in accordance with ASC No. 360-10-35, "Property, Plant, and Equipment- Subsequent Measurement," whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset (or an asset group) to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. In 2012, 2011 and 2010, no impairment losses were identified.

As required by ASC No. 820, "Fair Value Measurements", the Company would apply assumptions that marketplace participants would consider in determining the fair value of long-lived assets (or asset groups).

## h. Goodwill and other intangible assets:

The Company applies ASC No. 350, "Intangibles - Goodwill and Other." Goodwill is carried at cost and is not amortized but rather is tested for impairment at least annually or between annual tests in certain circumstances. The Company operates in one operating segment and this segment comprises the only reporting unit. In September 2011, the Financial Accounting Standards Board, ("FASB"), issued accounting standard update 2011-08 (ASU No. 2011-08) which amends goodwill impairment testing procedures. Based on the revised standard, companies have the option of initially utilizing qualitative assessment before engaging in quantitative testing methodology. Accordingly, the Company elected to first assess the qualitative factors to determine whether it is more likely than not that the fair value of its single reporting operating unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If it determined that it is more likely than not that its fair value is less than its carrying amount, then the two-step goodwill impairment test is performed. The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the second step would need to be performed; otherwise, no further step is required.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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, 2012, no impairment of goodwill has been identified.

The intangible assets of the Company are not considered to have an indefinite useful life and are amortized over their estimated useful lives of 5 years. Intangible assets consist of core technology and acquired customer relationships both of which are amortized over their estimated useful lives in proportion to the economic benefits realized. This accounting policy results in accelerated amortization of such assets as compared to the straight-line method.

According to ASC No. 360 "Property, Plant and Equipment", the carrying amount of these assets to be held and used is reviewed whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of each asset (or asset group) to the future undiscounted cash flows the asset (or asset group) is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. During 2010, 2011 and 2012, no impairment losses were identified.

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

i. Business combinations:

The Company accounted for business combination in accordance with ASC No. 805, "Business Combinations". ASC No. 805 requires recognition of assets acquired, liabilities assumed, and any non-controlling interest at the acquisition date, measured at their fair values as of that date. Any excess of the fair value of net assets acquired over purchase price and any subsequent changes in estimated contingencies are to be recorded in earnings. In addition, changes in valuation allowance related to acquired deferred tax assets and in acquired income tax position are to be recognized in earnings.

Acquisition related costs are expensed to the statement of operations in the period incurred.

j. Research and development costs:

Research and development costs are charged to the statement of operations as incurred. ASC No. 985-20, "Software- Costs of Software to Be Sold, Leased, or Marketed", requires capitalization of certain software development costs subsequent to the establishment of technological feasibility.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Based on the Company's product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working models and the point at which the products are ready for general release, have been insignificant. Therefore, all research and development costs are expensed as incurred.

## k. Income taxes:

The Company accounts for income taxes and uncertain tax positions in accordance with ASC No. 740, "Income Taxes". ASC No. 740 prescribes the use of the liability method, whereby deferred tax asset and liability account balances are determined based on temporary differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to amounts more likely than not to be realized (see Note 13).

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

ASC No. 740 contains a two-step approach to recognizing and measuring a liability for uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company accrues interest and penalties related to unrecognized tax benefits in its taxes on income.

## l. Revenue recognition:

The Company generates revenues mainly from license fees and sub-license fees for the right to use its software products and maintenance, support, consulting and training services. The Company sells licenses to its products primarily through its direct sales force and indirectly through distributors, original equipment manufacturers ("OEMs") and value added resellers ("VARs"). Both the customers and the distributors, OEMs or VARs are considered to be end users. The Company is also entitled to royalties from some distributors and OEMs upon the sublicensing of the software to end users.

The Company accounts for software sales in accordance with ASC No. 985-605, "Software Revenue Recognition". Revenue from license fees and services are recognized when persuasive evidence of an arrangement exists, delivery of the product has occurred or the services have been rendered, the fee is fixed or determinable and collectability is probable. The Company does not grant a right of return to its customers.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As required by ASC No. 985-605, the Company determines the value of the software component of its multiple-element arrangements using the residual method when vendor specific objective evidence ("VSOE") of fair value exists for all the undelivered elements of the support and maintenance agreements or services included. VSOE is based on the price charged when an element is sold separately or renewed. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

Software updates and maintenance provide customers with rights to unspecified software product upgrades released during the term of the agreement. Support services grant the Company's customers telephone access to technical support personnel during the term of the service. The Company recognizes revenues from software updates, maintenance and support services ratably over the term of the agreement.

Arrangements for the sale of software products that include consulting and training services are evaluated to determine whether those services are essential to the functionality of other elements of the arrangement. The Company determined that these services are not considered essential to the functionality of other elements of the arrangement; therefore, these revenues are recognized as a separate element of the arrangement.

Revenues from royalties are recognized according to quarterly royalty reports received from the applicable distributors and OEMs. The Company is entitled to either a percentage of the distributor or OEM's revenue from the combined product or to a percentage of the revenues of the product sold, as the case may be.

Service revenues are recognized as the services are performed.

Deferred revenues include unearned amounts paid under maintenance and support contracts and amounts received from customers under license agreements but not recognized as revenues.

m. Cost of Revenues:

Cost of software licenses is comprised mainly of amortization of technology acquired.

Cost of maintenance and services is comprised of post-sale customer support.

n. Concentrations of credit risks:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, restricted cash and trade receivables.

Cash and cash equivalents are invested in major banks in Israel, the United States, Europe and Hong Kong. Such deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. Generally these deposits may be redeemed upon demand and, therefore, bear low risk.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's trade receivables are mainly derived from sales to customers located primarily in the United States, the Far East, Europe and Israel. The Company performs ongoing credit evaluations of its customers and, through December 31, 2012, has not experienced any material losses. An allowance for doubtful accounts is determined with respect to those amounts that the Company has determined to be doubtful of collection. There were no bad debt expenses or write offs recorded for the years ended December 31, 2012, 2011 and 2010.

o. Accounting for stock-based compensation:

The Company accounts for stock-based compensation in accordance with ASC No. 718, "Compensation - Stock Compensation". ASC No. 718 is applicable for stock-based awards exchanged for employee services and in certain circumstances for nonemployee directors. Pursuant to ASC No. 718, stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period. ASC No. 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

ASC No. 718 requires the cash flows resulting from tax deductions in excess of the equity-based compensation costs recognized for those equity-based awards to be classified as financing cash flows. During the years ended December 31, 2010, 2011 and 2012, the Company classified \$0, \$0 and \$40, respectively, of excess tax benefit from equity-based compensation as financing cash flows.

The Company selected the Black-Scholes option pricing model as the most appropriate fair value method for its stock-options awards. The option-pricing model requires a number of assumptions, of which the most significant are the expected stock price volatility and the expected option term. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods ending on the grant date, equal to the expected option term. Expected term is calculated based on the simplified method as adequate historical experience is not available to provide a reasonable estimate. The simplified method will continue to apply until enough historical experience is available to provide a reasonable estimate of the expected term. The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term to the expected life of the options. Historically the Company has not paid dividends and in addition has no foreseeable plans to pay dividends, and therefore uses an expected dividend yield of zero in the option pricing model.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The fair value for options granted in 2012, 2011 and 2010 is estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Dividend yield	0%	0%	0%
Expected volatility	127%	129%	127%
Risk-free interest	0.56%	1.03%	1.84%
Expected life (in years)	4	4	4

The Company recognizes compensation expenses for the value of its awards based on the straight-line method over the requisite service period of each of the awards, net of estimated forfeitures. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

## p. Derivatives and hedging:

The Company accounts for derivatives and hedging based on ASC No. 815, "Derivatives and Hedging". ASC No. 815 requires the Company to recognize all derivatives on the balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship.

According to ASC No. 815, for derivative instruments that are designated and qualify as hedging instruments, the Company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. If the derivatives meet the definition of a hedge and are so designated, depending on the nature of the hedge, changes in the fair value of such derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is recognized in earnings.

During 2012 and 2011, the Company entered into forward and option contracts to hedge against the risk of overall changes in future cash flow from payments of payroll and related expenses denominated in Israeli Shekels. These contracts were not designated as hedging instruments and as such gains or losses are recognized in "financial income, net". As of December 31, 2012 and 2011, the Company had outstanding forward and cylinder contracts in the amount of \$1,800 and \$1,754, respectively. The Company measured the fair value of these contracts in accordance with ASC No. 820 and they were classified as level 2. Net losses recognized in "financial income (loss), net" during 2012 and 2011 were \$53 and \$(70), respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Basic and diluted income (loss) per ordinary share are presented in conformity with ASC No. 260 "Earnings Per Share", for all years presented. Basic income (loss) per ordinary share is computed by dividing the net income (loss) for each reporting period by the weighted average number of ordinary shares outstanding during the period. Diluted income (loss) per ordinary share is computed by dividing the net income (loss) for each reporting period plus additional expense or income that would have been outstanding if potentially dilutive securities had been exercised during the period by the weighted average number of ordinary shares outstanding during the period plus any additional ordinary shares that would have been outstanding if potentially dilutive securities had been exercised during the period, calculated under the treasury stock method.

For the years ended December 31, 2011 and 2010 all outstanding options and warrants were excluded from computation of diluted loss per share since they were anti-dilutive. For the year ended December 31, 2012, the total weighted average number of shares related to the outstanding options excluded from the calculations of diluted earnings per share, since they would have an anti-dilutive effect, were 1,594,663.

## r. Severance pay:

The Company's liability for severance pay for all employees located in Israel is calculated pursuant to Israel's Severance Pay Law based on the employees' most recent salary multiplied by the number of years of employment, as of the balance sheet date. Upon termination by the Company, or other circumstances under the Severance Pay Law, Israeli employees are entitled to one month's salary for each year of employment or a portion thereof. The Company's liability for all of its Israeli employees is fully provided by monthly deposits with a severance pay fund, insurance policies and by an accrual.

The deposited funds include profits or losses accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the employee's obligation pursuant to Israel's Severance Pay Law or employment agreements. The value of these policies is recorded as an asset in the Company's balance sheets.

Severance pay expense for the years ended December 31, 2012, 2011 and 2010 amounted to \$730, \$296 and \$185, respectively.

## s. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, restricted cash, trade receivables, trade payables, employees and payroll accruals, accrued expenses and other liabilities approximate their fair values due to the short-term maturity of these instruments.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company accounts for certain liabilities at fair value under ASC No. 820, "Fair Value Measurements and Disclosures". ASC No. 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date ("exit price"). When determining the fair value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and consider assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

ASC No. 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1- Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2- Include other inputs that are directly or indirectly observable in the marketplace.
- Level 3- Unobservable inputs which are supported by little or no market activity.

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

t. Liabilities presented at fair value:

Some of the Company's warrants included anti-dilution price protection, and were classified as liability, which were marked to market at each reporting date in accordance with ASC No. 815-40, "Contracts in Entity's Own Equity". The conversion embedded feature of the convertible debt was bifurcated and accounted as a derivative under ASC 815 and was marked to market at each reporting date. In addition, the payment right under the loan agreement (see note 9 for further details) is accounted in accordance with ASC No. 815-40 and recorded as a liability and is marked to market at each reporting period.

u. Comprehensive income (loss):

The Company accounts for comprehensive income (loss) in accordance with ASC No. 220, "Comprehensive Income." This statement establishes standards for the reporting and display of comprehensive income (loss) and its components in a full set of general purpose financial statements. Comprehensive income (loss) generally represents all changes in stockholders' equity during the period except those resulting from investments by, or distributions to, stockholders. The Company determined that its only item of other comprehensive income (loss) relates to foreign currency translation adjustment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In May 2011, the FASB issued guidance that changed the requirement for presenting "Comprehensive Income" in the consolidated financial statements. The update requires an entity to present the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. The Company adopted this new guidance on January 1, 2012 and elected to present the comprehensive income in two separate but consecutive statements.

## NOTE 3:- ACQUISITION

On September 19, 2011 ("Closing Date"), the Company completed the acquisition of 100% of the shares of RepliWeb Inc. ("RepliWeb"), a U.S.-based provider of enterprise file replication and managed file transfer technologies, through the Company's wholly owned subsidiary, Attunity Inc. The financial results of RepliWeb are included in the consolidated financial statements from the Closing Date. The total consideration is composed as follows:

- \$ 3,300 in cash;
- \$ 4,000 in cash acquired from RepliWeb.
- 1,008,065 ordinary shares of the Company issued at closing for total value of \$2,621.
- A milestone-based contingent cash payment of up to \$2,000 payable in April 2013. In connection with this contingent payment consideration, the Company initially recorded at the Closing Date, an estimated liability of \$1,594, which was no longer contingent as of December 31, 2012 and is included as a current payment obligation on the balance sheet.

Out of the above mentioned total consideration, approximately 3.4% was to be paid to certain employees of RepliWeb, allocated pro-rata from the aforesaid cash, shares and contingent payment components. This resulted in an amount of \$386 recorded as compensation expense for the year 2011 in the statement of operations.

In addition, the Company incurred acquisition related costs in a total amount of \$421, which are included in general and administrative expenses for the year 2011. Acquisition related costs include legal, accounting fees and other external costs directly related to the acquisition.

In connection with the acquisition, the Company secured a short-term loan in the principal amount of \$ 3,000 from an Israeli bank (the "Bridge Loan"), which was repayable in January 2012 and bore interest at the rate of LIBOR plus 6%. The loan was repaid in September 2011.

The main reason for this acquisition was to leverage the synergy of the technologies of both companies and to benefit from a wide customer base. A significant amount of the acquisition was recorded as goodwill due to the synergies with RepliWeb.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 3:- ACQUISITION (Cont.)

*Purchase price allocation:*

Under business combination accounting, the total purchase price was allocated to RepliWeb's net tangible and intangible assets based on their estimated fair values as set forth below. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill.

Net assets (including cash of \$4,631)	\$ 4,124
Deferred revenues	(1,857)
Intangible assets	3,201
Goodwill	6,941
Deferred tax liability	<u>(1,280)</u>
<b>Total purchase price</b>	<b><u>\$ 11,129</u></b>

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

	<b>Fair value</b>
Core technology (1)	\$ 2,166
Customer relationships (2)	<u>1,035</u>
<b>Total intangible assets</b>	<b><u>\$ 3,201</u></b>

- (1) Core technology represents a combination of RepliWeb processes and trade secrets related to the design and development of its products. This proprietary know-how can be leveraged to develop new technology and improve the Company products and is amortized over 5 years using the accelerated method.
- (2) Customer relationships represent the underlying relationships and agreements with RepliWeb's installed customer base and are amortized over 5 years using the accelerated method.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 3:- ACQUISITION (Cont.)

The following unaudited condensed combined pro forma information for the years ended December 31, 2011 and 2010, gives effect to the acquisition of RepliWeb as if the acquisition had occurred on January 1, 2010. The pro forma information is not necessarily indicative of the results of operations, which actually would have occurred had the acquisition been consummated on that date, nor does it purport to represent the results of operations for future periods. For the purposes of the pro forma information, the Company has assumed that net income includes additional amortization of intangible assets related to the acquisition of \$777 and \$1,074 in 2011 and 2010, respectively, and related tax effects.

	Year ended December 31	
	2011	2010
	Unaudited	
Revenues	\$ 20,970	\$ 17,785
Net loss	\$ (1,863)	\$ (1,788)
Basic and diluted loss per share	\$ (0.05)	\$ (0.06)

## NOTE 4:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2012	2011
Prepaid expenses	\$ 146	\$ 93
Government authorities	56	37
Receivables on account of share capital	54	22
Forward and cylinder contracts	31	-
Other	36	6
	<u>\$ 323</u>	<u>\$ 158</u>

## NOTE 5:- PROPERTY AND EQUIPMENT, NET

	December 31,	
	2012	2011
Cost:		
Computers and peripheral equipment	\$ 2,810	\$ 2,533
Office furniture and equipment	378	356
Leasehold improvements	366	341
	<u>3,554</u>	<u>3,230</u>
Accumulated depreciation	3,131	2,850
Property and equipment, net	<u>\$ 423</u>	<u>\$ 380</u>

As for charges on the Company's property and equipment, see Note 11.

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

**NOTE 6:- GOODWILL AND OTHER INTANGIBLE ASSETS, NET**

a. Goodwill:

Changes in goodwill during the years ended December 31, 2012 and 2011 are as follows:

	December 31,	
	2012	2011
Goodwill, beginning of year	\$ 13,011	\$ 6,133
Revaluation (foreign currency exchange differences)	83	(63)
Acquisition of RepliWeb	-	6,941
<b>Goodwill, end of year</b>	<b>\$ 13,094</b>	<b>\$ 13,011</b>

b. Other intangible assets, net:

Net other intangible assets consisted of the following:

	December 31,	
	2012	2011
<b>Original amount:</b>		
Software development costs	\$ 22,272	\$ 22,272
Core technology	2,166	2,166
Customers relationship	1,035	1,035
	<u>25,473</u>	<u>25,473</u>
<b>Accumulated amortization:</b>		
Software development costs	22,272	22,112
Core technology	779	220
Customers relationship	552	287
	<u>23,603</u>	<u>22,619</u>
<b>Other Intangible assets ,net:</b>		
Software development costs	-	160
Core technology	1,387	1,946
Customers relationship	483	748
	<u>\$ 1,870</u>	<u>\$ 2,854</u>

The estimated future amortization expense of other intangible assets as of December 31, 2012 is as follows:

<b>December 31</b>	
2013	746
2014	617
2015	362
2016	145
	<u>\$ 1,870</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 7:- ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	December 31,	
	2012	2011
Government authorities	\$ 101	\$ 76
Accrued expenses	478	1,046
Tax liabilities	498	630
Bifurcated conversion feature presented in fair value	-	227
Others	143	154
	<u>\$ 1,220</u>	<u>\$ 2,133</u>

## NOTE 8:- OTHER LONG-TERM LIABILITIES

	December 31,	
	2012	2011
Long term payable	\$ -	\$ 166
Long term tax liability (Note 14a)	91	222
Deferred tax liability, net	54	352
	<u>\$ 145</u>	<u>\$ 740</u>

## NOTE 9:- LIABILITIES PRESENTED AT FAIR VALUE

The Company entered into a Loan Agreement with Plenus Technologies Ltd ("Plenus" or the "Lender"), dated January 31, 2007 (as amended on March 30, 2009 and September 4, 2011, the "Loan Agreement"). According to the Loan Agreement if, during the period between March 19, 2009 and December 31, 2017, the Company enters into a transaction or series of related transactions (a "Fundamental Transaction") which entails (i) the acquisition of the Company by means of a merger or other form of corporate reorganization in which 50% or more of the outstanding shares is exchanged for securities or other consideration issued or paid by the acquiring entity or, a transaction or a series of transactions in which a person or entity acquires more than 50% of the outstanding shares, (ii) the sale of all or substantially all of the assets of the Company; then an additional amount shall be paid to the Lender: in the cases of merger or acquisition, an amount equal to the higher of (A) 15% of the outstanding Loan Amount, and (B) 15% of the aggregate proceeds payable in connection with such Fundamental Transaction to the shareholders. In the case of the sale of substantially all of the Company's assets, an amount equal to the higher of (A) 15% of the outstanding Loan Amount, and (B) 15% of the aggregate proceeds payable to the Company in connection with such Fundamental Transaction; the "aggregate proceeds" shall be calculated while subtracting any amount of debts, liabilities and obligations which have accrued prior to the closing of such Fundamental Transaction and have not been assumed by the purchaser in such Fundamental Transaction. During such period, the Lender may elect to receive \$300 in cash in lieu of such compensation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**NOTE 9:- LIABILITIES PRESENTED AT FAIR VALUE (Cont.)**

The Company accounted for the above mentioned in accordance with ASC 815-40, based on which the above was considered as a derivative and recorded as a liability on the balance sheets and is marked to market at each reporting period. As of December 31, 2012 and 2011 the liability amounted to \$ 730 and \$ 440, respectively. The fair value of this derivative was based on valuation performed by third- party valuation firm using Binomial Model for options valuation based on assumptions provided by management. The Company classified the fair value of this derivative as level 3.

**NOTE 10:- CONVERTIBLE DEBT - CURRENT MATURITIES**

In April 2004, the Company issued to a group of investors interest-bearing convertible notes in the face amount of \$2,000, initially repayable after five years (as amended and extended from time to time, the "Convertible Notes"). As of December 31, 2012, all of the remaining principal amount and accrued interest was repaid in full by way of conversion of the Convertible Notes into ordinary shares. The Company recorded a bifurcated conversion feature embedded in the convertible debt, and marked it to market based on its fair value each reporting period.

In September 2011, in accordance with the terms of the Convertible Notes, as a result of the issuance of shares as part of the acquisition of RepliWeb, the conversion price was adjusted to \$2.48 per share (rather than \$5.00 per share), such that the Convertible Notes became convertible into an aggregate of 658,062 ordinary shares (rather than 327,397 ordinary shares).

On December 31, 2011, two holders converted all of their Convertible Notes into ordinary shares pursuant to the terms of an offer (the "Prepayment Offer"), which expired on January 31, 2012. The key terms of the Prepayment Offer were:

- The conversion ratio of the Convertible Notes being converted was increased, reflecting a reduction of the conversion price from \$2.48 to \$2.00 per share; and
- Each holder was entitled to payment, in cash or in additional ordinary shares (based on the new conversion ratio), of the interest payment due in 2012 plus accrued and unpaid interest for 2011 (in a total amount of approximately \$100 and \$200 for all Notes, respectively).

These holders converted an outstanding amount of \$736. The outstanding associated bifurcated conversion feature of \$206 was accordingly allocated to equity. In accordance with ASC No. 470-20-40-16, the Company recognized inducement expense of \$202 against additional paid-in-capital, related to the conversion based on the above offer.

The two holders have also exercised their rights (see Note 13c) to acquire an aggregate of 315,256 additional ordinary shares at \$0.48 per share.

In January 2012, holders, in the aggregate, of principal amount of \$467, converted their Convertible Notes pursuant to the Prepayment Offer. The outstanding associated bifurcated conversion feature of \$162 was accordingly allocated to equity and to additional paid in capital. The Company recognized inducement expense of \$108 against additional paid-in-capital.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 10:- CONVERTIBLE DEBT – CURRENT MATURITIES (Cont.)

In July 2012, holders, in the aggregate, of all remaining \$230 Convertible Notes, converted their Convertible Notes. The outstanding associated bifurcated conversion feature of approximately \$550 was accordingly allocated to equity. These holders have also exercised their rights to acquire an aggregate of 39,407 additional ordinary shares at \$0.48 per share.

## NOTE 11:- CHARGES (ASSETS PLEDGED)

- a. As collateral for certain liabilities of the Company to banks and others, fixed charges have been recorded on certain equipment of the Company.
- b. In August 2012, the Company secured a line of credit of \$ 1,000 from an Israeli bank. In order to secure its obligations to the bank, the Company pledged and granted the bank a first priority floating charge on all of its assets and a fixed charge on certain other assets (namely, rights for unpaid shares, securities and deposits deposited with the bank from time to time, and rights for property insurance).

## NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES

- a. Lease commitments:

The Company leases its operating facilities under non-cancelable operating lease agreements, which expire on various dates, the latest of which is in February 2018. In addition, the Company leases computers and peripheral equipment as well as motor vehicles under non-cancelable operating leases. Future minimum commitments under these leases as of December 31, 2012, are as follows:

<u>Year ended December 31,</u>	<u>Operating leases</u>
2013	\$ 931
2014	841
2015	638
2016	572
2017	572
2018	95
	<u>\$ 3,649</u>

- b. Rent expenses under operating leases for the years ended December 31, 2012, 2011 and 2010 were (net of sublease income in the amount of \$ 30, \$ 125 and \$ 75, respectively) \$ 812, \$ 636 and \$ 445, respectively.
- c. The Company has two outstanding bank guarantees in the aggregate amount of \$ 512 to its Israeli office lessors to secure its obligations under the office lease agreements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 13:- SHAREHOLDERS' EQUITY

- a. As noted in Note 1b, all per share figures or results, stock options or stock option activity and share data presented for all periods were adjusted to reflect the effects of the reverse stock split.
- b. The ordinary shares confer upon the holders the right to receive notice to participate and vote in general meetings of the Company, and the right to receive dividends, if declared.
- c. On May 12, 2009, the Company completed a rights offering raising cash proceeds of \$ 600, excluding offering expenses and the conversion of a \$393 bridge loan provided by certain affiliates of the Company (the "Lenders"). The Company issued to the subscribing shareholders and the Lenders a total of 2,064,688 ordinary shares and three-year warrants exercisable into 1,032,344 shares, at an exercise price of \$ 0.48 per share.

As a result of the rights offering, the holders of the Convertible Notes became entitled, in accordance with the terms of the Convertible Notes, to receive rights, exercisable until the maturity of the debt, to acquire up to an aggregate of 214,162 ordinary shares at a purchase price of \$ 0.48 per share, and for each two ordinary shares so purchased, warrants to purchase up to 107,079 ordinary shares at an exercise price of \$ 0.48 per share.

- d. Stock Option Plans:

Under the Company's 2001 Stock Option Plan, and 2003 Israeli Stock Option Plan (the "Plans"), the Company has granted options to purchase ordinary shares to employees, directors and officers as an incentive to attract and retain qualified personnel. In December 2012, the Company adopted the 2012 Stock Incentive Plan, under which stock options as well as other equity-based awards, including restricted stock units and performance units, may be granted to employees employed by the Company or by its affiliates. The 2012 Stock Incentive Plan has a term of ten years and will terminate in December 2022.

The exercise price of options granted under the Plans may not be less than 100% (110% in the case of a 10% shareholder) of the fair market value of the Company's ordinary shares on the date of grant for incentive stock options and 75% of the fair market for non-qualified options. Under the terms of the Plans, options generally become exercisable ratably over three years of employment, commencing with the date of grant or with the date of hire (for new employees at their first grant). The options generally expire no later than 6 years from the date of the grant, and are non-transferable, except under the laws of succession.

Under the Plans, 2,450,625 ordinary shares of the Company were reserved for issuance. Any options that are canceled or forfeited before expiration become available for future grants. As of December 31, 2012, there are 328,097 options available for future grants.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 13:- SHAREHOLDERS' EQUITY (Cont.)

The following is a summary of the Company's stock options granted under the Plans:

	Year ended December 31, 2012		
	Number of options In thousands	Weighted average exercise price (per share)	Aggregate intrinsic value
Outstanding at beginning of year	1,682	\$ 2.28	\$ 8,142
Granted	258	3.09	1,010
Exercised	(217)	1.75	1,147
Cancelled or forfeited	(53)	2.68	277
Outstanding at end of year	1,670	\$ 2.44	\$ 7,785
Vested and expected to vest at end of year	1,621	\$ 2.43	\$ 7,583
Exercisable at end of year	1,143	\$ 2.24	\$ 5,602

The total intrinsic value of options exercised during the years ended December 31, 2012, 2011 and 2010, was \$ 1,147, \$ 39 and \$ 24, respectively.

As of December 31, 2012, there was \$ 963 of total unrecognized compensation cost related to non-vested share-based compensation that are expected to be recognized over a period of up to three years.

The options outstanding as of December 31, 2012, have been separated into ranges of exercise price per share as follows:

Exercise price \$	Outstanding			Exercisable		
	Number outstanding (in thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable (in thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price \$
0.32-0.56	205	2.09	0.51	204	2.09	0.51
1.00-1.20	303	1.43	1.16	303	1.43	1.16
1.48-1.52	169	3.08	1.48	152	3.07	1.48
1.96-2.32	114	1.22	2.15	112	1.19	2.15
2.6-2.76	201	4.71	2.61	84	4.71	2.61
2.8-3.44	567	4.721	2.94	182	4.47	2.92
7.68-8.76	76	1.62	7.83	70	1.25	7.83
9.68-9.84	35	1.7	9.79	35	1.7	9.79
	1,670	3.19	2.44	1,143	2.47	2.24

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 13:- SHAREHOLDERS' EQUITY (Cont.)

Weighted average fair values and weighted average exercise prices per share of options whose exercise prices equal, less or more than the market price of the shares at date of grant are as follows:

	Year ended December 31,					
	2012		2011		2010	
	Weighted average fair value	Weighted average exercise price	Weighted average fair value	Weighted average exercise price	Weighted average fair value	Weighted average exercise price
Equals market price at date of grant	\$ 3.92	\$ 3.09	\$ 2.32	\$ 2.88	\$ 1.44	\$ 1.68
Less than market price at date of grant	\$ -	\$ -	\$ 2.44	\$ 2.6	\$ -	\$ -
More than market price at date of grant	\$ -	\$ -	\$ 1.88	\$ 2.76	\$ -	\$ -

Upon exercise of options by employees, the Company issues registered shares for each option exercised.

## d. Warrants:

The Company's outstanding warrants as of December 31, 2012 are as follows:

Issuance date	Outstanding	Exercise price	Exercisable through
September 2006 (1)	110,400	\$ 0.48	December 31, 2013
May 2009 (2)	39,406	\$ 0.48	December 31, 2013
May 2009 (2)	47,970	\$ 0.48	January - July 2015
May 2009 (3)	439,513	\$ 0.48	December 31, 2013 (*)

All outstanding warrants are excisable.

- (1) Issued in connection with the private investment carried out in September 2006.  
(2) Issued in connection with exercising the rights issued in the rights offering (see Note 13b).  
(3) Issued in connection with the rights offering (see Note 13c).  
(\*) 57,541 were exercised during the first quarter of 2013.

During 2011, certain holders of warrants, exercisable into 94,800 ordinary shares waived the price protection adjustment mechanism embedded in the warrants. Plenus also waived the price protection adjustment mechanism embedded in warrants exercisable into 220,698 ordinary shares. As a result, these warrants were no longer classified as a liability, and accordingly were no longer marked to market. The fair value of the warrants as of that date of \$ 860 was classified into equity. During 2012, the remaining warrants which were marked to market were exercised.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 14:- INCOME TAXES

- a. Accounting for uncertainty in income taxes:

A reconciliation of the beginning and ending amount of unrecognized tax benefits related to uncertain tax positions is as follows:

	December 31,	
	2012	2011
Opening balance	\$ 222	\$ -
Liability assumed in connection with the acquisition of RepliWeb	-	193
Additions for prior years' tax position	14	(2)
Additions for current year's tax position	-	31
Reduction of prior years' tax position due to lapse of statute of limitation	(35)	-
Closing balance	<u>\$ 201</u>	<u>\$ 222</u>
Included in accrued expenses and other current liabilities	<u>\$ 110</u>	<u>\$ -</u>
Included in other long term liabilities	<u>\$ 91</u>	<u>\$ 222</u>

As of December 31, 2012, the entire amount of the unrecognized tax benefits could affect the Company's income tax provision and the effective tax rate.

During the years ended December 31, 2012 and 2011, the Company recorded \$ 14 and \$ 4 for interest expense related to uncertain tax positions, respectively. As of December 31, 2012 and 2011, the Company had accrued interest liability related to uncertain tax positions in the amounts of \$ 33 and \$ 32, respectively, which is included in the liability balance. In the next 12 month, the statute of limitation with respect to 2008 tax year will lapse, which will impact the unrecognized tax position liability balance with respect to 2008 tax year.

The Company believes that it has adequately provided for any reasonably foreseeable outcomes related to tax audits and settlement. However, the final tax outcome of its tax audits could be different from that which is reflected in the Company's income tax provisions and accruals. Such differences could have a material effect on the Company's income tax provision and net income in the period in which such determination is made.

- b. Israeli taxation:

Taxable income of the Israeli companies is subject to the Israeli corporate tax at the rate as follows: 2010 - 25%, 2011 - 24%, 2012 – 25%.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 14:- INCOME TAXES (Cont.)

The Israeli entities have not received final tax assessments since incorporation. In accordance with the tax laws, tax returns submitted up to and including the 2007 tax year can be regarded as final.

Tax loss carryforward:

The Company's tax losses carryforward were approximately \$ 40,108 as of December 31, 2012. Such losses can be carried forward indefinitely to offset any future taxable income of the Company.

c. Income taxes of non-Israeli subsidiaries:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective countries of residence.

The U.S tax returns of Attunity Inc. and RepliWeb Inc. remain subject to examination by the U.S tax authorities for the tax years beginning in January 1, 2007 and January 1, 2005, respectively.

The U.S subsidiary's tax loss carry forward amounted to approximately \$ 845 as of December 31, 2012 for federal and state tax purposes. Such losses are available to offset any future U.S taxable income of the U.S subsidiaries and will expire in the year 2026.

Utilization of U.S. net operating losses may be subject to substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 14:- INCOME TAXES (Cont.)

## d. Deferred taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

	December 31,	
	2012	2011
Net operating loss carry forwards	\$ 11,425	\$ 13,158
Temporary differences related to R&D expenses	1,569	967
Temporary differences related to accrued employee costs	368	259
Deferred revenue and other	525	163
Total deferred tax asset before valuation allowance	13,887	14,547
Less - valuation allowance	(13,191)	(13,811)
Deferred tax asset	696	736
Intangible assets	(717)	(1,078)
Deferred tax liability	(717)	(1,078)
Deferred tax liability, net	\$ (21)	\$ (342)
Domestic	-	-
Foreign:		
Current deferred tax asset, net	33	8
Non-current deferred tax liability	(54)	(352)
	(21)	(344)
	\$ (21)	\$ (344)

The Company has provided valuation allowances in respect of deferred tax assets resulting from tax loss carry forwards and other temporary differences in Israel. Management currently believes that since the Company has a history of losses it is more likely than not that the deferred tax regarding the loss carry forwards and other temporary differences will not be realized in the foreseeable future.

The net change in the valuation allowance primarily relates to utilization of net operating losses for which a valuation allowance was provided.

ASC No. 718 prohibits recognition of a deferred tax asset for excess tax benefits due to stock option exercises that have not yet been realized through a reduction in income tax payable. All net operating loss carry forwards relate to excess tax deductions from stock options which have not yet been realized. Such unrecognized deferred tax benefits will be accounted for as a credit to additional paid-in-capital, if and when realized.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 14:- INCOME TAXES (Cont.)

- e. Reconciliation of the tax expenses to the actual tax expenses:

The main reconciling items of the statutory tax rate of the Company for the years 2010 and 2011 (2010 - 25%, 2011 - 24%) to the effective tax rate are valuation allowances provided for deferred tax assets. Tax expenses mainly represent business taxes in certain foreign locations.

A reconciliation between the theoretical tax expenses for the year ended December 31, 2012, assuming all income is taxed at the statutory tax rate applicable to income of the Company and the actual tax expense as reported in the statement of income is as follows:

Income before taxes, as reported in the consolidated statements of income	\$	<u>1,277</u>
Statutory tax rate		25%
Theoretical tax expense on the above amount at the Israeli statutory tax rate	\$	319
Tax adjustment in respect of different tax rate of foreign subsidiaries		21
Non-deductible expenses and other permanent differences		233
Losses and timing differences for which deferred taxes were not recorded in prior years		934
Utilization of tax losses for which valuation allowance was provided for in prior years		(1,538)
Taxes with respect to prior year		<u>(178)</u>
Actual tax benefit	\$	<u>(209)</u>

- h. Income (loss) before taxes on income (benefit):

	Year ended December 31,		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Domestic	\$ 1,147	\$ (789)	\$ (1,634)
Foreign	<u>130</u>	<u>(424)</u>	<u>203</u>
	<u>\$ 1,277</u>	<u>\$ (1,213)</u>	<u>\$ (1,431)</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 14:- INCOME TAXES (Cont.)

Taxes on income (benefit) are comprised as follows:

	Year ended December 31,		
	2012	2011	2010
Deferred tax benefit	\$ (321)	\$ (774)	\$ -
Current taxes	112	375	74
	<u>\$ (209)</u>	<u>\$ (399)</u>	<u>\$ 74</u>
Domestic	\$ 201	\$ 218	\$ 23
Foreign	(410)	(617)	51
	<u>\$ (209)</u>	<u>\$ (399)</u>	<u>\$ 74</u>
Domestic taxes:			
Current	\$ 201	\$ 218	\$ 23
Deferred	-	-	-
	<u>201</u>	<u>218</u>	<u>23</u>
Foreign taxes - US:			
Current	(89)	157	51
Deferred	(321)	(774)	-
	<u>(410)</u>	<u>(617)</u>	<u>51</u>
Taxes on income	<u>\$ (209)</u>	<u>\$ (399)</u>	<u>\$ 74</u>

## NOTE 15:- ENTITY-WIDE DISCLOSURES

Revenues by geographical areas were as follows:

	Year ended December 31,		
	2012	2011	2010
Israel	\$ 2,234	\$ 948	\$ 857
United States	16,568	10,729	6,051
Europe	3,646	2,191	1,693
Far East	1,478	869	968
Other	1,553	432	506
	<u>\$ 25,479</u>	<u>\$ 15,169</u>	<u>\$ 10,075</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 15:- ENTITY-WIDE DISCLOSURES (Cont.)

In 2012, 2011 and 2010, 69%, 82% and 90% of license revenues were derived from the connectivity and replication/ change data capture products respectively. For the year ended December 31, 2012, one of the Company's OEM partners accounted for approximately 10.9% of its revenues (13.4% in 2011). For the year ended December 31, 2011 another OEM partner accounted for approximately 2.4% of the Company's revenues (10.7% in 2011). For the year ended December 31, 2010, no single customer accounted for more than 10% of the Company's revenues.

All of the Company's long-lived assets are located in Israel apart for assets in insignificant amounts which are located elsewhere.

## NOTE 16:- FINANCIAL EXPENSE, NET

	Year ended December 31,		
	2012	2011	2010
Financial income:			
Interest	\$ (2)	\$ (9)	\$ (3)
	(2)	(9)	(3)
Financial expenses:			
Interest	124	286	293
Hedging	(53)	70	-
Exchange rate differences, net	94	22	133
Revaluation of liabilities presented at fair value	705	589	692
Expenses related to modification of convertible debt and change in terms of warrants	-	-	273
Convertible debt inducement expenses	108	202	-
Fair value of guarantee associated with short term loan	-	49	-
Accretion of contingent payment obligation	265	75	-
	1,243	1,293	1,391
	\$ 1,241	\$ 1,284	\$ 1,388

**SIGNATURES**

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.

ATTUNITY LTD

By: /s/ Shimon Alon  
Shimon Alon  
Chief Executive Officer

Dated: March 29, 2013

Summary – Directors Compensation**General**

The following table sets forth all cash and cash-equivalent compensation we paid with respect to all of our non-employee directors as a group for the periods indicated:

	<b>Salaries, fees, commissions and bonuses</b>	<b>Pension, retirement and similar benefits</b>
All non-employee directors as a group, consisting of 5 persons* for the year ended December 31, 2012	\$ 70,000	--

\* Excluding Shimon Alon, our Chairman Chief Executive Officer. For details, see Item 6B of the annual report.

In accordance with the approval of our shareholders, all non-employee directors, including outside directors, receive an annual fee of \$9,000 and an attendance fee of NIS 1,650 (equivalent to approximately \$450) per meeting attended, linked to the Israeli Consumer Price Index, or CPI.

In November 2011, our Audit Committee and Board of Directors adopted a revised stock option policy for non-employee directors, which policy was subsequently approved by our shareholders. According to the stock option policy, each of our non-employee directors who may serve from time to time, including our outside directors, will be granted options, as follows:

- a grant of options under our stock option plans to purchase 20,000 ordinary shares, which vest in three equal installments over three years;
- the exercise price of all options will be equal to the fair market value of the ordinary shares on the date of the grant (i.e., the closing price of our shares on the date of the annual general meeting of shareholders in which such director is elected or reelected); and
- the portion of outstanding options scheduled to vest during any year in which the director's service with us is terminated or expires will accelerate and become fully vested and exercisable for a period of 180 days thereafter, unless termination was due to the director's resignation or for one of the causes set forth in the Companies Law.

Other than the foregoing fees, reimbursement for expenses and the award of stock options, we do not compensate our directors for serving on our board of directors.

**LIST OF SUBSIDIARIES**

We have the following "significant subsidiaries" (as such term is defined in Rule 1-02(w) of Regulation S-X):

<u>Subsidiary Name</u>	<u>Country of Incorporation</u>	<u>Ownership Percentage</u>
Attunity Inc.	United States	100%
Attunity (UK) Limited	United Kingdom	100%
Attunity (Hong Kong) Ltd.	Hong-Kong	100%
Attunity Israel (1992) Ltd.	Israel	100%
RepliWeb Inc.	United States	100%

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CERTIFICATION

pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended

I, Shimon Alon, certify that:

1. I have reviewed this annual report on Form 20-F of Attunity Ltd;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 29, 2013

/s/ Shimon Alon  
Shimon Alon  
Chairman and Chief Executive Officer

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CERTIFICATION

pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended

I, Dror Harel-Elkayam, certify that:

1. I have reviewed this annual report on Form 20-F of Attunity Ltd;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 29, 2013

/s/ Dror Harel-Elkayam  
Dror Harel-Elkayam  
Chief Financial Officer

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350

In connection with the Annual Report of Attunity Ltd (the "Company") on Form 20-F for the period ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Shimon Alon, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Shimon Alon  
Shimon Alon  
Chairman and Chief Executive Officer

March 29, 2013

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350

In connection with the Annual Report of Attunity Ltd (the "Company") on Form 20-F for the period ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dror Harel-Elkayam, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Dror Harel-Elkayam  
Dror Harel-Elkayam  
Chief Financial Officer

Date: March 29, 2013

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**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements on Form F-3 (Registration No. 333-184139, 333-173205, 333-138044, 333-122937, 333-119157 and 333-142286) and Registration Statements on Form S-8 (Registration No. 033-84180, 333-932, 333-11648, 333-122271, 333-122302, 333-142284, 333-164656 and 333-184136) of Attunity Ltd. of our report dated March 29, 2013 with respect to the consolidated financial statements of Attunity Ltd. and its subsidiaries for the year ended December 31, 2012 included in this Annual Report on Form 20-F for the year ended December 31, 2012.

Tel-Aviv, Israel  
March 29, 2013

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

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