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, 2001

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: No. 0-20892

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)

Einstein Building, Tirat Carmel, Haifa, 39101, Israel

(Address of principal executive offices)

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
None	N/A

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

Ordinary Shares, NIS 0.1 Par Value

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares, par value NIS 0.1 per share
as of December 31, 2001……………………..14,580,160

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 _X_ No _____

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ___ Item 18 _X_

This Report on Form 20-F is incorporated by reference into our Form F-3 Registration Statements File Nos. 333-11972 and 333-12450.

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The statements contained in this annual report that are not purely historical are forward-looking statements. Such forward-looking statements also include statements in Item 4 – "Information on the Company" and Item 5 – "Operating and Financial Review and Prospects." These statements involve risks and uncertainties and actual results could differ materially from such results discussed in these statements as a result of the risk factors set forth in this annual report. All forward-looking statements included in this annual report are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements.

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 financial data for and as of the five years ended December 31, 2001 are derived from our audited consolidated financial statements which have been prepared in accordance with U.S. GAAP. The selected consolidated financial data as of December 31, 1999, 1998 and 1997 and for the years ended December 31, 1998 and 1997 have been derived from audited consolidated financial statements not included in this Annual Report and have also been prepared in accordance with U.S. GAAP. The selected consolidated financial data set forth below should be read in conjunction with and are qualified by reference to "Operating and Financial Review and Prospects" and our consolidated financial statements included elsewhere in this Annual Report.

Income Statement Data:

	Year ended December 31,				
	1997	1998	1999	2000	2001
	(U.S. dollars in thousands, except per share data)				
Revenues	$ 11,819	$ 14,900	$ 20,507	$ 18,671	$ 16,869
Cost of revenues	3,587	5,332	7,322	8,345	8,451
Gross profit	8,232	9,568	13,185	10,326	8,418
Research and development costs, net (1)	2,059	2,272	2,476	3,559	3,982
Selling and marketing expenses	5,202	7,012	8,544	11,992	12,120
General and administrative expenses	1,346	1,960	2,533	5,463	3,829
Impairment of investment and other assets	--	--	--	6,090	2,658
Restructuring	--	--	--	--	1,326
In-process research and development write-off	--	--	--	12,997	--
Operating loss	(375)	(1,676)	(368)	(29,775)	(15,497)
Financial income, net	557	252	160	416	48
Taxes on income (tax benefit)	--	--	188	(200)	402
Gain (loss) from continuing operations	182	(1,424)	(396)	(29,159)	(15,851)
Earnings from discontinued operations of a segment, net of taxes	--	--	--	82	--
Gain (loss) on disposal of segment	--	--	--	(2,224)	220
Gain (loss) from discontinued operations	--	--	--	(2,142)	220
Net loss	$ 182	$ (1,424)	$ (396)	$(31,301)	$ (15,631)
Basic and diluted net earnings (loss) per share from continuing operations	$ 0.02	$ (0.17)	$ (0.05)	$ (2.96)	$ (1.36)
Basic and diluted net earnings (loss) per share from discontinued operations	$ --	$ --	$ --	$ (0.22)	$ 0.02
Basic and diluted net earnings (loss) per share	$ 0.02	$ (0.17)	$ (0.05)	$ (3.18)	$ (1.34)
Number of shares used to compute diluted earnings (loss) per share	8,555	8,157	8,365	9,844	11,668

(1) Total research and development costs are offset in part by royalty-bearing grants and the capitalization of certain computer software development costs.

Balance Sheet Data:

	Year ended December 31,				
	1997	1998	1999	2000	2001
	(U.S. dollars in thousands)				
Working capital	$ 11,202	$ 6,582	$ 7,636	$ 6,983	$ 60
Total assets	24,904	26,971	27,209	33,506	21,294
Short-term debt, including current maturities of long-term debt	653	607	140	260	405
Long-term debt, less current maturities	92	96	93	268	211
Shareholders' equity	19,186	17,735	19,516	23,977	12,325

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Investing in our ordinary shares involves a high degree of risk and uncertainty. You should carefully consider the risks and uncertainties described below before investing in our ordinary shares. If any of the following risks actually occurs, our business, prospects, financial condition and results of operations could be harmed. In that case, the value of our ordinary shares could decline, and you could lose all or part of your investment.

Risk Factors Relating to Our Company

We have a history of operating losses.

We have incurred operating losses in each of the last five years including operating losses of $15.5 million and $29.8 million in the two years ended December 31, 2001 and 2000, respectively. No assurance can be given that we will be able to operate profitably in the future.

Our operating results fluctuate significantly.

Our quarterly results have fluctuated significantly in the past and are likely to 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 fulfillment;
- demand for our products;
- 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;
- seasonal trends and general domestic and international economic and political conditions, among others;
- currency exchange rate fluctuations and economic conditions in the geographic areas where we operate; and
- the assurance of success 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 adversely affected by these or other factors.

Revenues are also difficult to forecast because the market for our products is rapidly evolving and our sales cycle, from initial evaluation to purchase, is lengthy and varies substantially from customer to customer. We typically ship product orders shortly after receipt and, consequently, order backlog at the beginning of any quarter has in the past represented only a small portion of that quarter's revenues. As a result, license revenues in any quarter depend substantially on orders booked and shipped in that quarter.

Due to all of the foregoing, we cannot predict revenues for any future quarter with any significant degree of accuracy. Accordingly, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and you should not rely upon them as indications of future performance. Although we have experienced revenue growth in the past, we may not be able to sustain this growth rate, and you should not consider such past growth indicative of future revenue growth, or of future operating results.

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

Our working capital requirements and the cash flow provided by our operating activities are likely to vary greatly from quarter to quarter, depending on the timing of orders and deliveries, and the payment terms offered to our customers. We anticipate that our existing capital resources will be adequate to satisfy our working capital and capital expenditure requirements until June 30, 2003, but we may need to raise additional funds in the next twelve months for a number of uses, including:

- working capital and operating activities;
- implementing marketing and sales activities for our products and services;
- maintaining and expanding research and development programs;
- expanding investment in fixed assets; and
- hiring additional qualified personnel.

We may not be able to obtain additional funds 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;
- take advantage of future opportunities; or
- respond to competitive pressures or unanticipated requirements.

Any equity or debt financings, if available at all, may cause dilution to our then-existing shareholders. If additional funds are raised through the issuance of equity securities, the net tangible book value per share of our ordinary shares would decrease and the percentage ownership of then current shareholders would be diluted.

Our operating results vary quarterly and seasonally.

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 substantially based on our expectations for future revenues and are therefore 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. We expect to continue to experience relatively higher sales in the first and second quarters of the year and relatively lower sales in the third quarter ending September 30, as a result of reduced sales activity in Europe 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.

We may not succeed in penetrating the e-Business integration market.

We may not have the resources, skills and product offerings that will be required to successfully penetrate the market for e-Business integration software. To succeed in this market, we will need to:

- develop expertise in marketing and selling business process integration technology;
- develop and cultivate new sales channels to market our products to prospective customers;
- hire, train and integrate additional technical and sales personnel; and

- effectively establish and support relationships with end-users, with whom we have had limited interaction to date.

Our success in selling legacy integration software is dependent on the growth of demand for web enablement of legacy data and applications.

Our success in selling legacy integration software is dependent in large part upon the continued growth of the use of the Internet. Because the use of the Internet for e-Business and other applications is evolving, we cannot predict with any certainty that such use will continue to grow in the long term. If the use of the Internet does not continue to grow, the marketing of our legacy integration software will not succeed.

We are subject to risks associated with international operations.

We are based in Israel and generate a large percentage of our sales outside the United States. Our sales in the United States accounted for 41.1%, 48.4% and 45.0% of our total revenues for the years ended December 31, 1999, 2000 and 2001, respectively. Although we continue to expand our international operations and 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 will be adversely affected.

International operations are subject to inherent risks, including the following:

- the impact of possible recessionary environments in multiple foreign markets;
- 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;
- potentially adverse 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, our business, operating results and financial condition.

We may be adversely affected by fluctuations in currency exchange rates. While our revenues are generally denominated in United States dollars, the Euro and British Pound, a significant portion of our expenses are incurred in NIS. If we were to determine that it was in

our best interests to enter into any hedging transactions in the future, there can be no assurance that we will be able to so do or that such transactions, if entered into, will materially reduce the effect of fluctuations in foreign currency exchange rates on our results of operations. In addition, if for any reason exchange or price controls or other restrictions on the conversion of foreign currencies into NIS were imposed, our business could be adversely affected. 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 revenues from international sales and, consequently our business, operating results and financial condition.

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. We try to protect our software, documentation and other written materials under 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 our products, 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. We believe that software product developers will increasingly be subject to infringement claims as the number of products and competitors in our industry segment grows and the functionality of products in different industry segments overlaps. 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; or
- 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 product infringement against us and we are not able to license the infringed or similar technology, our business, operating results and financial condition would be materially adversely affected.

We rely on maintenance revenues from customers using CorVision® and Mancal 2000 software.

A significant portion of our revenues derives from annual maintenance payments made by customers who use CorVision® and Mancal 2000 which are both older software products. In 1999, 2000 and 2001, these revenues, on a consolidated basis, totaled $3.9 million, $3.3 million and $3.0 million respectively. Some of these customers may replace these products with products from other vendors and, as a result, discontinue use of these products. This would result in a reduction in our maintenance revenues and adversely affect our operating results.

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. Delay in the sales cycle of our products could result in significant fluctuations in our quarterly operating results.

Rapid technological change may adversely affect the market acceptance of our products and services.

We compete in a market that is characterized by rapid technological change. The introduction of new technologies could render existing products and services obsolete and unmarketable and could exert price pressures on our products and services. Any future success will depend upon our ability to address the increasingly sophisticated needs of our customers by:

- supporting existing and emerging hardware, software, databases and networking platforms; and
- developing and introducing new and enhanced applications that keep pace with such technological developments, emerging new markets and changing customer requirements.

Our products may contain defects that may be costly to correct, delay market acceptance of our products 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 currently do not carry product liability insurance.

We are dependent on our senior management. Any loss of the services of our senior management would negatively affect our business.

Our future success depends to a large extent on the continued services of our senior management and key personnel. Any loss of the services of members of our senior management or other key personnel would negatively affect our business.

Our results may be adversely affected by competition.

The market for our software products is fragmented and is intensely competitive. 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. We anticipate continued growth and competition in the software products market and, consequently, the entrance of new competitors into the market. 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 and distribution channels. 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 do not intend to pay cash dividends.

Our policy is to retain earnings for use in our business and, for this reason, we do not intend to pay cash dividends on the ordinary shares in the foreseeable future.

Risk Factors Relating to Our Operations in Israel

Conducting business in Israel entails special risks.

We are incorporated under the laws of, and our executive offices and research and development facilities are located in, the State of Israel. Although most of our sales are made to customers outside Israel, we are nonetheless directly affected by the political, economic and military conditions affecting Israel. Any major hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could have a material adverse effect on our business, financial condition and results of operations. Since the establishment of the State of Israel in 1948, a state of hostility has existed, varying in degree and intensity, between Israel and the Arab countries. While Israel has entered into peace agreements with both Egypt and Jordan and several other countries have announced their intentions to establish trade and other relations with Israel, Israel has not entered into any peace arrangement with Syria or Lebanon. Since September 2000, there has been a significant deterioration in the relationship between Israel and the Palestinian Authority, and as a result of riots in Gaza and the West Bank and a spate of terrorist attacks inside Israel, the peace process between the parties has stagnated.

Efforts to resolve the problem have failed to result in an agreeable solution. In recent months there has been a marked acceleration in the number and frequency of the hostile incidents, which culminated in numerous lethal suicide attacks in Israeli cities since March 2002. In response, the Israeli Army called up a large number of reservists and made incursions into most Palestinian-controlled cities and towns. The continued hostilities between the Palestinian community and Israel and any failure to settle the conflict has had and continues to have a material adverse effect on the Israeli economy and a material adverse effect on our business and us. Further expansion of hostilities might require more widespread military reserve service by some of our employees, which may have a material adverse effect on our business.

Many of our directors, officers, employees and professional service providers are obligated to perform annual military reserve duty in Israel. We cannot assess the potential impact of these obligations on our business.

Our directors, officers and employees who are male adult citizens and permanent residents of Israel under the age of 48 are, unless exempt, obligated to perform annual military reserve duty and are subject to being called to active duty at any time under emergency circumstances. We cannot assess the full impact of these requirements on our workforce or business if conditions should change, and we cannot predict the effect on us of any expansion or reduction of these obligations.

Our financial results may be adversely affected by inflation and 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 affect on our results of operations. A significant portion of our expenses are paid in NIS (primarily salaries) and are influenced by the timing of, and the extent to which, any increase in the rate of inflation in Israel over the rate of inflation in the United States is not offset by the devaluation of the NIS in relation to the dollar. We believe that the rate of inflation in Israel has not had a material adverse effect on our business to date. However, our dollar costs in Israel will increase if inflation in Israel exceeds the devaluation of the NIS against the dollar or if the timing of such devaluation lags behind inflation in Israel. Over time, the NIS has been devalued against the dollar, generally reflecting inflation rate differentials. Likewise, our operations could be adversely affected if we are unable to guard against currency fluctuations in the future. We do not currently engage in any currency hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on our results of operations. We cannot guarantee that we will not enter into such transactions in the future or that such measures will adequately protect us from serious harm due to the impact of inflation in Israel.

We benefit from government programs and receive tax benefits.

We have received certain Israeli government grants and tax benefits. To remain eligible for these grants and tax benefits, we must continue to meet certain conditions, including making some specified investments in fixed assets. If we fail to comply with these conditions in the future, the benefits we receive could be canceled and we may have to refund payments previously received under these programs (with interest and linkage differentials) or pay certain taxes. We cannot guarantee that these programs and tax benefits will be continued in the future,

at their current levels or at all. If these programs and tax benefits are ended, our business, financial condition and results of operations could be negatively affected.

We may be adversely affected by proposed tax reform in Israel.

On February 2002, the Minister of Finance appointed a committee to review the current Israeli tax structure and to make recommendations. The committee presented its recommendations to the Minister of Finance on June 12, 2002. If implemented, the recommendations might result in the imposition of Israeli capital gains taxes at the rate of 15% to 35% on sales of securities of Israeli companies by Israeli residents. In addition, the committee has proposed that a tax be imposed on all income of Israeli residents (individuals and corporations) regardless of the territorial source of income and tax will be imposed on income of foreign corporations controlled by Israeli residents if the majority of profits or income of such foreign company originate from "passive income", including interest, dividends, royalties and rental income. Because we cannot predict whether such recommendations will be adopted and eventually enacted into law, we and our shareholders face uncertainties as to the potential consequences of this effort.

Service and enforcement of legal process on us and our directors and officers may be difficult to obtain.

Service of process upon our directors and officers and the Israeli experts named herein, many of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, since a substantial portion of our assets, almost all of our directors, some of the officers and the Israeli experts named in this annual report are located outside the United States, any judgment obtained in the United States against us or these individuals or entities may not be collectible within the United States. There is doubt as to the enforceability of civil liabilities under the Securities Act and the Securities Exchange Act in original actions instituted in Israel. However, subject to certain time limitations and other conditions, Israeli courts may enforce final judgments of United States courts for liquidated amounts in civil matters, including judgments based upon the civil liability provisions of those Acts.

Risk Factors Relating to Our Ordinary Shares

Our share price has been volatile in the past and may decline in the future.

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;
- operating results that vary from the expectations of securities analysts and investors;
- changes in expectations as to our future financial performance, 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;
- additions or departures of key personnel;
- future sales of our ordinary shares; and
- stock market price and volume fluctuations.

Domestic and international stock markets 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 adversely affect the market price of our ordinary shares.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management's attention and resources.

We may be delisted from the Nasdaq National Market if we fail to meet listing maintenance requirements.

Pursuant to the current Nasdaq National Market listing maintenance requirements, in order to maintain the listing of our ordinary shares, the minimum value of our public free float must be $5.0 million. Effective November 1, 2002, we will be required to have a minimum of $10.0 million in shareholders' equity. We cannot assure you that we will be able to comply with these and other maintenance requirements in the future. Should we fail to meet such requirements, our ordinary shares may be delisted from the Nasdaq National Market and transferred to the Nasdaq SmallCap Market, or to the OTC bulletin board.

Anti-takeover provisions could negatively impact our shareholders.

Some of the provisions of Israeli law could:

- discourage potential acquisition proposals;
- delay or prevent a change in control over us; and
- limit the price that investors might be willing to pay in the future for our ordinary shares.

Generally, under Israeli corporate law, a merger must be approved by the board of directors and the shareholders of each of the merging companies. If the share capital of the non-surviving company consists of more than one class of shares, the approval of each class is also required. Further, if the company was incorporated before February 1, 2000, as we were, the approval of the merger requires a majority of 75% of the shareholders present and voting at a meeting. In certain cases, court approval is also required. Under the Companies Law, a merger may be completed only after 70 days have elapsed from the date all the necessary approvals and the merger proposals have been submitted to the Israeli Companies Registrar. The Companies Law also provides that an acquisition of shares of a public company must be made by means of a tender offer if, as a result of such acquisition, the purchaser would become a 25% or more shareholder of the company. This rule does not apply if there is already another 25% shareholder of the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of tender offer if, as a result of the acquisition, the purchaser would become a 45% shareholder of the company, unless someone else already holds a majority of the voting power of the company. These rules do not apply if the acquisition is made by way of a merger. Regulations promulgated under the Companies Law provide that, generally, these provisions do not apply to companies whose shares are listed for trading outside of Israel. The requirements of Israeli corporate law generally make these forms of acquisition significantly more difficult than under United States corporate laws.

Other potential means of acquiring a public Israeli company might involve significant obstacles, such as a requirement for court approval for the acquisition. In addition, a body of case law has not yet developed with respect to the new Companies Law. Until this happens, uncertainties will exist regarding its interpretation.

Finally, Israeli tax law treats some acquisitions, particularly stock-for-stock swaps between an Israeli company and a foreign company, less favorably than United States tax law. Israeli tax law may, for instance, subject a shareholder who exchanges his or her shares in us for shares in a foreign corporation to immediate taxation.

These provisions of Israeli corporate and tax law and the uncertainties surrounding such law may have the effect of delaying, preventing or making more difficult a merger or acquisition involving our company. This could prevent a change of control in our company and depress the market price of our ordinary shares that might otherwise rise as a result of such change of control.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Historical Background

Attunity Ltd is our legal and commercial name. We were incorporated under the laws of the State of Israel in 1988 as I.S.G. Software Industries Ltd. for an indefinite term and began operations in 1989 when we acquired the marketing and certain ownership rights to two software products from a corporation wholly owned by our Chairman, Mr. Arie Gonen.

We changed our name to ISG International Software Group Ltd. in 1992 and in October 2000 we changed our name to Attunity Ltd.

We have subsidiaries in Israel, the United States, the United Kingdom, France, Australia, Singapore and Hong Kong (PRC). Our executive headquarters are located at Einstein Building, Tirat Carmel, Haifa, Israel 39101, telephone number (972)-4-855-9666. Our United States-based subsidiary, Attunity Inc., maintains its principal offices at 40 Audubon Road, Wakefield, Massachusetts 01880, telephone number (781) 359-3500. Our address on the internet is http://www.attunity.com. The information on our website is not incorporated by reference into this annual report.

In February 2000, we acquired Bridges for Islands Ltd., an Israeli corporation which was then developing Attunity BPI™, a business process integration solution, in consideration of $18.5 million, of which we paid $4.5 million in cash and the balance by the issuance of 747,650 ordinary shares and 127,350 options in exchange for the options held by the employees of Bridges for Islands as of the acquisition date. As part of the agreement, we provided the shareholders of Bridges for Islands with a share price protection guarantee, based on an issuance price of $16.00 per share, for a one-year period. This agreement was amended in June 2001 to provide that, instead of the price protection, we issue, or transfer, or cause third parties to transfer, an additional 350,000 ordinary shares to the former shareholders of Bridges for Islands and issue 147,291 additional options to employees of Bridges for Islands. The shareholders of Medatech Information Technology Ltd. and VisOpt B.V. transferred 300,000 of these 350,000 ordinary shares to the former shareholders of Bridges for Islands and we issued 50,000 ordinary shares to these shareholders. As additional consideration to the former shareholders of Bridges for Islands, we agreed that in the event of a merger, consolidation or other business combination in which we are not the surviving entity, or in an acquisition of all or substantially all of our outstanding share capital or assets, that they will receive $11,962,400 for their 1,097,650 ordinary shares. We agreed to provide these shareholders with either cash or additional ordinary shares of our company in order to insure that they will receive $11,962,400 for their 1,097,650 ordinary shares.

In March 2000, we acquired all of the shares of Medatech Information Technology Ltd., or Medatech, a provider of software system integration services, for $1.3 million, and 19.9% of the outstanding shares of VisOpt B.V, or VisOpt, a Netherlands company, a provider of ERP system integration services, for $6.5 million. The aggregate purchase price of $7.8 million was paid by the issuance of 50,000 ordinary shares to the shareholders of Medatech and 250,000 ordinary shares to the shareholders of VisOpt. We provided a share price protection guarantee to the Medatech and VisOpt shareholders based on an assumed issuance price of $26 per share for a one-year period. Due to the unfavorable consequences of this price protection mechanism which were unforeseen by the parties at the time the agreements were entered into, we reached an agreement in principle in February 2001 to rescind these transactions as of the date of signature of the agreements and to reverse any actions performed with respect to these transactions, without liability or claims to any party. Final agreements to this effect were signed on May 28, 2001. The 300,000 ordinary shares issued to the Medatech and VisOpt shareholders have been transferred to the former shareholders of Bridges for Islands.

On October 16, 2001, we entered into a stock purchase agreement, or the Purchase Agreement, with Special Situations Fund III, L.P., Special Situations Private Equity Fund, L.P., Special Situations Technology Fund, L.P. and Special Situations Cayman Fund, L.P., or the Investors. Pursuant to the Purchase Agreement, the Investors purchased an aggregate of 3,846,156 ordinary shares for $5 million or $1.30 per share. In addition, the Investors acquired (i) Series A Warrants to purchase an aggregate of 2,884,617 ordinary shares at an exercise price of $1.75 per share expiring on October 16, 2005, and (ii) Series B Warrants to purchase an aggregate of 961,539 ordinary shares at an exercise price of $2.25 per share expiring on October 16, 2005. Should all of the warrants be exercised, we will receive an additional $7,211,542 in proceeds. The warrants contain certain anti-dilution provisions that would reduce the exercise price of the warrants in the event that we issued securities at a price below the exercise prices of the warrants. Pursuant to the Purchase Agreement, we agreed to provide the Investors with the right to designate one director for election to our Board of Directors and to file a Registration Statement with the Securities Exchange Commission to register the resale of the ordinary shares issued to the Investors and the ordinary shares issuable upon exercise of the warrants. On November 28, 2001 we filed an F-3 Registration Statement with respect to these shares with the SEC for which we will seek effectiveness upon the filing of this Annual Report on Form 20-F. Prior to the issuance of the securities, the Nasdaq staff informally indicated that the transaction conformed to Nasdaq standards. Subsequently, we were informed by the Nasdaq staff that they deemed the transaction not to be in compliance with the Nasdaq Rules and the Nasdaq staff requested that we seek shareholder ratification of the transaction. Our shareholders ratified the transaction at our Extraordinary Meeting of Shareholders which was held on March 24, 2002.

During 2001, we implemented a restructuring plan. In accordance with such plan, we reduced the number of our employees by 30 persons (a 16% reduction from our September 2001 level of 190 employees) and decreased salaries by 20% on average.

B. BUSINESS OVERVIEW

We market software products for legacy integration. Our principal products are Attunity Connect™ and Attunity BPI. We also provide consulting, maintenance and other related services for our products including maintenance services to our legacy products: CorVision®, an application generator, APTuser®, a database retrieval and production report generator, and Mancal 2000, a logistics and financial application software package.

Products and Services

- Attunity Connect™ (formerly ISG Navigator) - for universal data and application access.
- Attunity BPI™ – for service-oriented process creation and management across the extended enterprise.
- CorVision® - an application generator for enterprise applications.
- APTuser® - a production report generator.
- Mancal 2000 – a financial and logistic application software.

Attunity Connect™

Attunity Connect™ enables IT departments, software developers, systems integrators, OEMs and others to transparently access a wide array of data sources and applications on many major computing platforms and is optimized for distributed enterprise-wide deployment. Support of TCP/IP and its distributed architecture add the capability for transparent networking. Attunity Connect™ offers both relational (SQL) and object-based (J2EE CA) data views. Users may employ the models separately, or in combination, without regard to the underlying data source or computing platform on which they reside. This is achieved through standard programming interfaces including ODBC, OLE DB, MS ADO, JDBC, XML and J2EE CA.

Attunity Connect™ Features

- Attunity Connect™ accesses different data sources transparently using standard interfaces.
- Attunity Connect™ promotes an expanded data model extending SQL to address heterogeneous databases that span pre-relational, relational, and post-relational models.
- Attunity Connect™ provides the ability to integrate object-based data using the Attunity Application Framework, or AAF, through Sun Microsystems's J2EE Connector Architecture (JCA).

Market requirements addressed

Attunity Connect™ addresses today's most demanding enterprise data access requirements for:

- seamless, native data access to heterogeneous databases: pre-relational, relational, and post-relational;
- integration of a vast array of data sources through either relational (SQL) or object-based access (J2EE CA) or a combination of both;
- a total, integrated, industrial-strength solution for handling and optimizing both data access and connectivity; and
- allowing businesses to integrate their existing legacy systems into web-based and e-Business applications.

Attunity BPI™

Attunity BPI™ provides users with the ability to transform legacy data and programs into dynamic reusable services. Attunity BPI™ includes Attunity Process Designer and Attunity Process Server. Process Designer is the graphical user interface that allows users to "draw" their business processes. Process Server executes the processes. Attunity BPI processes are presented as XML documents assuring easy transport, independence of platforms and ease of integration

and collaboration. Attunity BPI™ enables processes to be distributed over a TCP/IP, LAN, WAN or Internet network. Attunity BPI™ supports transport protocols including RMI, CORBA, COM/DCOM, HTTP, SMTP and native sockets. The ability to create, integrate and manage Web-services is inherent in the architecture of Attunity BPI™ through its support of standards such as SOAP and UDDI. Process security is addressed through the support for standards including X.509, SSL3, HTTP/S, MIME/S, public keys and digital certificates.

Attunity BPI™ was developed using Java language and Java Enterprise Edition (J2EE) APIs and technologies. Attunity BPI™ implements and adheres to many of the J2EE specifications including Enterprise Java Beans (EJB), Java Messaging Service (JMS), JDBC, J2EE CA, and JSP.

Attunity BPI™ Features

- Ability to reuse business processes as services.
- Dynamic modification of services and processes.
- A distributed and secure architecture allowing a process to serve the extended enterprise.
- Many pre-built services are delivered with the product.
- The ability for users having different levels of expertise to use the product.
- An open and portable environment that follows the J2EE specifications.

Market requirements addressed

Attunity BPI™ enables an enterprise to easily and cost effectively design, deploy, integrate and manage processes within and across the extended enterprise. Advantages include:

- Shorter time to market. The intuitive Process Designer with its dynamic process modification capability provides the agility needed by today's enterprises.
- Expanded revenue opportunities. By facilitating collaboration and integration, supporting a services-oriented design, and adhering to standards, Attunity BPI™ enables an enterprise to swiftly adopt new business models.
- Open, flexible, reliable and secure. An agile enterprise must base its processes on these qualities. Our adherence to standards addresses these requirements.

CorVision®

CorVision® is an application generator tool that runs on Digital VAX computers under the Open VMS operating system and allows developers to use either terminals or a Client/Server Windows application connected to VAX computers.

APTuser®

APTuser® is a production report generator able to access data residing in different databases and file managers such as Oracle, Ingres, Informix, Sybase, Rdb, Adabas, RMS and C-ISAM. APTuser® is able to generate combined reports, which access all of these files and databases concurrently. APTuser® is available for OpenVMS, HP/UNIX, IBM AIX, Data General Aviion and SUN Solaris operating systems.

Mancal 2000

Mancal 2000 is a comprehensive financial and logistics software application package developed to address the accounting and material management requirements of large organizations.

Customer Support Services

We provide the following direct support services to our customers:

- Hot-line support,
- Training, and
- Professional services.

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." We have hot-line operations in the United States, Israel, France, the United Kingdom, Hong Kong and Australia.

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

Professional Services. We provide consulting services to enable customers to use our products efficiently and effectively.

Sales and Marketing

Distribution Channels. Our products and services are sold through both direct and indirect channels, including distributors and value-added resellers, or VARs. We maintain direct sales operations in Israel, the United States, France, the United Kingdom, Australia and Hong

Kong. We do business in Japan, Korea, Taiwan and Singapore through independent direct software sales agents. Our field force is comprised of 14 persons in North America, 15 persons in Europe, the Middle East and Africa, and 7 persons in Asia Pacific. We have indirect sales operations for Attunity Connect™ including hardware vendors and resellers, database and other data source vendors.

We have non-exclusive distribution and reseller agreements for Attunity Connect™ with Oracle, Compaq, Webgain and others.

Customers

Our products are sold to large corporations and governmental and public institutions with in-house IT staffs. The following table provides a breakdown by geographical area of our revenues, including maintenance revenues, during the last three fiscal years:

	1999	2000	2001
		(in thousands)	
Israel	$ 4,366	$ 3,231	$ 2,761
United States	8,434	9,037	7,589
Europe	5,920	5,001	4,012
Asia	1,288	889	1,212
South America	-	-	1,066
Other	499	513	229
Total	$20,507	$18,671	$16,869

Competition and Pricing

The markets in which we compete are intensely competitive. Competition is generally based on product performance, depth of product line, technical support and price. We compete both with international and local software product providers, many of whom have significantly greater financial, technical and marketing resources than us. We anticipate continued growth and competition and, consequently, the entrance of new competitors into the market. 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 and distribution channels. We believe that the prices for our products compare favorably with those of competing products.

Intellectual Property Rights and Software Protection

We do not hold any patents and 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 CorVision®, CorVision Workbench, and Builder, and have applied for trademark registration for Attunity, Attunity Connect™ and Attunity BPI™ in the United States. The use and registration rights of our trademarks do not ensure that we have superior rights over other third parties that may have registered or used identical related marks on related goods or services. We believe that copyright protection, which generally applies whether or not a license agreement exists, is sufficient to protect our rights in our products. Our policy is for our customers to sign non-transferable software licenses 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.

C. ORGANIZATIONAL STRUCTURE

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

Subsidiary Name	Country of Incorporation	Ownership Percentage
Attunity Inc.	U.S.	100%
Attunity (UK) Limited	United Kingdom	100%
Attunity France	France	100%
Attunity Australia	Australia	100%
Attunity Hong Kong Limited	Hong-Kong (PRC)	100%
Attunity Singapore PTE Ltd.	Singapore	100%
Bridges for Islands, Ltd.	Israel	100%
Attunity Israel (1992) Ltd.	Israel	100%
Attunity Software Services Ltd.	Israel	100%

D. PROPERTY, PLANTS AND EQUIPMENT

Our executive offices and research and development facilities are located at Einstein Building, Tirat Carmel, Haifa, Israel 39101, where we occupy 6,000 square feet. The premises are occupied under a lease which terminates on December 31, 2003. Our Tel Aviv marketing and sales offices, constituting approximately 2,500 square feet, are occupied under a lease which expires on November 30, 2005. Our subsidiary Attunity Software Services Ltd., (formerly known as Meyad), or Attunity Software, operates out of a 5,000 square-feet facility in Moshav Ya'ad (Galilee). The lease for the Attunity Software facility expires on December 31, 2002. Our annual rental cost for all of our facilities in Israel was approximately $263,000 in 2001.

Our marketing and sales offices in the United States are located in an approximately 28,783 square-feet facility in Burlington, Massachusetts and are occupied under a lease expiring on August 31, 2005. The annual rental cost for this facility was approximately $825,000 in 2001.

In April 2002 we leased approximately 6,137 square feet of office space at 40 Audubon Road, Wakefield, MA 01880 at an annual rental fee of $97,885. The lease expires in June 2005.

The aggregate annual rent for our sales and service offices in Hong Kong; Shanghai, the People's Republic of China; Sydney, Australia; Reading, England and Paris, France was approximately $276,000 in 2001.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

The following discussion and analysis should be read in conjunction with our Financial Statements and notes thereto included elsewhere in this Report.

We maintain our books and records in Israeli currency in compliance with statutory requirements and in United States dollars ("dollars"). Approximately 84% (51% in dollars) of our revenues in 2001 and approximately 82.7% (58.5% in dollars) of our revenues in 2000 were derived outside of Israel and received in currencies other than the New Israeli Shekel, or NIS. In addition, a substantial portion of our costs is incurred in dollars. In view of the foregoing, our management considers the dollar to be the currency of the primary economic environment in which we operate and therefore, our functional and operating currency. Transactions denominated in dollars are presented at their original amounts. Transactions and balances in other currencies are remeasured into dollars in accordance with the principles set forth in Statement No. 52 of the Financial Accounting Standards Board. The functional currency of each of our non-U.S. foreign subsidiaries and our Israeli subsidiaries has been determined to be their respective local currency, and therefore, other than with respect to our subsidiaries in the United States, our assets and liabilities are translated at year-end exchange rates and income statement items are translated at average exchange rates prevailing during the year. Such translation adjustments are recorded as a separate component of shareholders' equity, accumulated other comprehensive income (loss).

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, “Business Combinations” (“SFAS 141”) and No. 142, “Goodwill and Other Intangible Assets” (“SFAS 142”). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. All other intangible

assets will continue to be amortized over their estimated useful lives. The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, we are required to adopt SFAS 142 effective January 1, 2002. The adoption of SFAS 141 and 142 is expected to result in a decrease in the net loss of $733,000 per year in amortization costs.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). Although SFAS 144 supersedes FASB Statement No. 121, it retains the requirements of SFAS 121 regarding recognition of impairment loss for long-lived assets to be held and used (based on undiscounted cash flows) and resolves certain implementation issues. Also, the accounting model used in SFAS 121 for long-lived assets to be disposed of by sale (lower of carrying amount or fair value less cost to sell) is broadened by SFAS 144 to include discontinued operations and supersedes APB Opinion No. 30. Therefore, discontinued operations will no longer be measured on a net realizable value basis and future operating losses will no longer be recognized before they occur. SFAS 144 also broadens the presentation of discontinued operations to include a component of an entity (rather than a segment of a business). The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those years. We believe that the adoption of SFAS 144 will not have a material impact on our financial statements.

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 those related to revenue recognition, bad debts 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.

The following critical accounting policies, among others described in note 2 to our financial statements, are the basis for our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue recognition. We generate revenues from licensing the rights to use our software products directly to end-users and indirectly through sub-license fees from distributors. We also generate revenues from sales of professional services, including consulting, implementation, project and training and maintenance. Revenues from software license agreements are recognized upon delivery of the software when collection is probable; all license payments are due within one year; the license fee is otherwise fixed or determinable; no significant obligations with regard to implementation remain; and persuasive evidence of an arrangement exists.

Bad debt allowance. An allowance for doubtful accounts is determine with respect to those specific amounts that our management has determined to be doubtful accounts.

Intangible assets. Goodwill that resulted from transactions before June 2001 is amortized using the straight-line method over the estimated useful life, which is 10 years until December 31, 2001. Goodwill that resulted from transactions subsequent to July 2001 will not be amortized but will be subject to annual impairment tests. The carrying value of goodwill is periodically reviewed by management, based on the expected future undiscountinued operating cash flows over the remaining goodwill amortization period. If this review indicates that goodwill and contract rights will not be recoverable, the carrying value of the goodwill is reduced to estimated fair value.

Research and Development Expenses. Research and development costs, net of government royalty-bearing grants, are charged to income as incurred before technological feasibility is established. Based on our product development process, technological feasibility is established upon completion of a working model. Costs that are incurred between completion of a working model and the point at which the product is ready for general release are capitalized according to the principles set forth in SFAS Statement No. 86 "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed." Capitalized software costs are amortized by the greater of: (i) the ratio that current gross revenues from sales of the software bear to the total of current and anticipated future gross revenues from sales of that software, or (ii) the straight-line method over the remaining estimated useful life of the product (not greater than five years).

Results of Operations

The following discussion of our results of operations for the years ended December 31, 1999, 2000 and 2001, including the following table, which presents selected financial information 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:

	1999	2000	2001
Revenues:			
Software licenses	37%	42%	40%
Maintenance	23	24	27
Services	40	34	33
Total revenues	100	100	100
Cost of revenues:			
Software licenses	6	11	15
Maintenance	5	5	6
Services	24	29	29
Total cost of revenues	35	45	50
Gross profit	65	55	50
Research and development, net	12	19	24
Selling and marketing	42	64	72
General and administrative	13	29	22

Impairment of investment	-	33	16
Restructuring	-	-	8
In process research and development write-off	-	69	-
Operating loss	(2)	(159)	(92)
Financial income, net	1	2	0
Taxes on income (tax benefit)	(1)	1	2
Loss from continuing operations, net of taxes	-	(156)	(94)
Earnings from discontinued operations of a segment, net of taxes	-	0	1
Gain (loss) on disposal of segment	-	(12)	1
Gain (loss) from discontinued operations	-	(12)	-
Net loss	(2)%	(168)%	(93)%

Year Ended December 31, 2001 Compared with Year Ended December 31, 2000

Revenues. **Revenues consist primarily of software licenses, maintenance and services (including service center income, project development, maintenance and support). Total revenues decreased 9.7% to $16.8 million in 2001 from $18.7 million in 2000. This decrease is mainly attributable to a 14.3% decrease in revenues from software services, which declined to $5.5 million in 2001 from $6.4 million in 2000.**

Gross Profit. **Our gross profit decreased 18.5% to $8.4 million in 2001 from $10.3 million in 2000, as a direct result of decreased revenues in 2001.**

Cost of Revenues. Cost of revenues consists primarily of (i) production costs including media, packaging, freight and documentation, (ii) amortization of capitalized software, (iii) certain royalties and licenses payable to third parties and to the Chief Scientist, and (iv) support costs.Our cost of revenues increased 1.3% to $8.5 million in 2001 from $8.3 million in 2000.

Research and Development, Net. Research and development expenses consist primarily of salaries of employees engaged in on-going research and development activities and other related costs. Grants from the Office of Chief Scientist are applied as a reduction to total research and development costs to calculate net research and development expenses. Total research and development costs increased by 3.6% to $5.8 million in 2001 from $5.6 million in 2000. The increase is principally attributable to intensive research and development activity in the first half of 2001 relating to Attunity BPI™. This increase was partly offset by a 20% reduction in salaries and headcount reduction of 16% that was in effect by the end of the year. We capitalized approximately $1.8 million of software developments costs in 2001 and $2.0 million in 2000. We did not receive any royalty-bearing grants from the Chief Scientist in both 2001 and 2000. As a result of the foregoing, net research and development costs increased by 11.1% to $4.0 million in 2001 from $3.6 million in 2000.

Selling and Marketing, Net. Selling and marketing expenses consist primarily of costs relating to promotion, advertising, trade shows and exhibitions, compensation, sales support, travel and related expenses and royalties payable to the Israeli Government's Marketing Fund.

Selling and marketing expenses increased by 1.0% to $12.1 million in 2001 from $12.0 million in 2000 due to the increase in investments in marketing and sales force.

General and Administrative. General and administrative expenses consist primarily of compensation costs for administration, finance and general management personnel and office maintenance and administrative costs. General and administrative expenses decreased by 29.9% to $3.8 million in 2001 from $5.5 million in 2000. The decrease is principally attributable to the reduction of expenses especially in U.S. and includes the worldwide 20% reduction in salaries and 16% headcount reduction.

Impairment of Investment and Other Assets. We recorded a $2.7 million asset impairment charge with respect to our capitalized software costs and workforce in 2001 and a $6.1 million asset impairment charge with respect to our investment in VisOpt in 2000.

In Process Research and Development Write-off. In 2000, based on an appraisal performed by a specialist, we recorded a $13.0 million non-recurring charge with respect to the write-off of in process research and development costs acquired from Bridges for Islands Ltd. for which technological feasibility had not yet been established and for which no alternative future use existed.

Operating Loss. Based on the foregoing, we suffered an operating loss of $15.5 million in 2001 compared to an operating loss of $29.8 million in 2000.

Restructuring. We recorded restructuring charges of $1.3 million relating to severance payments, write-off of leasehold improvements and other related expenses.

Financial Income ,net. **Our financial income was offset in part by (i) interest expense and (ii) currency transaction adjustments between the dollar exchange rate and (a) the NIS and (b) the NIS adjusted for inflation imposed on our assets and liabilities in Israel. In 2001, we had net financial income of $48,000 as compared to financial income of $416,000 in 2000. This decrease in financial income is attributable to the declining interest bearing deposits and to the decrease in interest rate.**

Taxes on Income (tax benefit). **The income taxes for 2001 were $402,000 compared with an income tax provision of $200,000 in 2000.**

Loss from Continuing Operations. **As a result of the foregoing, we had a loss from continuing operations of $15.9 million in 2001 compared to a loss of $29.2 million in 2000.**

Earnings from Discontinued Operations of a Segment, Net of Taxes. We recorded earnings of $82,000, net of taxes of $74,000, with respect to the discontinued operations of Medatech in our financial statements for 2000.

Gain (Loss) on Disposal of Segment. We also recorded a $220,000 gain in 2001 with respect to the disposal of Medatech in our financial statements for 2000.

Gain (Loss) from Discontinued Operations. As a result of the foregoing, we recorded a $220,000 gain and a $2.1 million loss with respect to the discontinued operations of Medatech in our financial statements for 2001 and 2000, respectively.

Net Loss. **As a result of the foregoing, we had a net loss of $15.6 million in 2001 compared to a net loss of $31.3 million in 2000.**

Year Ended December 31, 2000 Compared with Year Ended December 31, 1999

Revenues. **Revenues consist primarily of software licenses, maintenance and services. Total revenues decreased 8.9% to $18.7 million in 2000 from $20.5 million in 1999. This decrease is mainly attributable to a 21% decrease in revenues from software services, which declined to $6.4 million in 2000 from $8.2 million in 1999.**

Gross Profit. **Our gross profit decreased 21.7% to $10.3 million in 2000 from $13.2 million in 1999, as a direct result of decreased revenues in 2000.**

Cost of Revenues. **Cost of revenues consists primarily of:**

- production costs including media, packaging, freight and documentation;
- amortization of capitalized software;
- certain royalties and licenses payable to third parties and to the Chief Scientist; and
- support costs.

Our cost of revenues increased 14% to $8.3 million in 2000 from $7.3 million in 1999.

Research and Development, Net. Research and development expenses consist primarily of salaries of employees engaged in on-going research and development activities and other related costs. Grants from the Office of Chief Scientist are applied as a reduction to total research and development costs to calculate net research and development expenses. Total research and development costs increased by 23.3% to $5.6 million in 2000 from $4.5 million in 1999. The increase is principally attributable to an increase in research and development activities for Attunity Connect™ and the addition of Bridges for Islands Ltd. We capitalized $2.0 million of software developments costs both in 2000 and in 1999. We did not receive any royalty-bearing grants from the Chief Scientist in 2000 compared to $26,000 in 1999. As a result of the foregoing, net research and development costs increased by 44% to $3.6 million in 2000 from $2.5 million in 1999.

Selling and Marketing, Net. Selling and marketing expenses consist primarily of costs relating to promotion, advertising, trade shows and exhibitions, compensation, sales support, travel and related expenses and royalties payable to the Israeli Government's Marketing Fund. Selling and marketing expenses increased by 41% to $12.0 million in 2000 from $8.5 million in 1999 due to the increase in investments in marketing and sales force.

General and Administrative. General and administrative expenses consist primarily of compensation costs for administration, finance and general management personnel and office maintenance and administrative costs. General and administrative expenses increased by 120% to $5.5 million in 2000 from $2.5 million in 1999. The increase is principally attributable to the acquisitions of Bridges for Islands Ltd., Medatech and VisOpt.

Impairment of Investment. We recorded a $6.1 million asset impairment charge with respect to our investment in VisOpt in our financial statements for 2000.

In Process Research and Development Write-off. In 2000, based on an appraisal performed by a specialist, we recorded a $13.0 million non-recurring charge with respect to the write-off of in process research and development costs acquired from Bridges for Islands Ltd. for which technological feasibility has not yet been established and for which no alternative future use exists.

Operating Loss. Based on the foregoing, we suffered an operating loss of $29.8 million in 2000 compared to an operating loss of $368,000 in 1999.

Financial Income, net. **Our financial income was offset in part by (i) interest expense and (ii) currency transaction adjustments between the dollar exchange rate and (a) the NIS and (b) the NIS adjusted for inflation imposed on our assets and liabilities in Israel. In 2000, we had net financial income of $416,000 as compared to financial income of $160,000 in 1999. This increase in financial income is attributable to the investment of the proceeds of a $13 million private placement of our securities in 2000.**

Taxes on Income (tax benefit). **The benefit for income taxes for 2000 was $200,000 compared with an income tax provision of $188,000 in 1999.**

Loss from Continuing Operations. **As a result of the foregoing, we had a loss from continuing operations of $29.2 million in 2000 compared to a loss of $396,000 in 1999.**

Earnings from Discontinued Operations of a Segment, Net of Taxes. We recorded earnings of $82,000, net of taxes of $74,000 with respect to the discontinued operations of Medatech in our financial statements for 2000.

Loss on Disposal of Segment. We also recorded a $2.2 million loss with respect to the disposal of Medatech in our financial statements for 2000.

Loss from Discontinued Operations. As a result of the foregoing, we recorded a $2.1 million loss with respect to the discontinued operations of Medatech in our financial statements for 2000.

Net Loss. **As a result of the foregoing, we had a net loss of $31.3 million in 2000 compared to a net loss of $396,000 in 1999.**

Conditions in Israel

We are incorporated under the laws of, and our principal executive offices and manufacturing and research and development facilities are located in, the State of Israel. Accordingly, we are directly affected by political, economic and military conditions in Israel.

Political Conditions

Since the establishment of the State of Israel in 1948, a state of hostility has existed, varying in degree and intensity, between Israel and the Arab countries. While Israel has entered into peace agreements with both Egypt and Jordan and several other countries have announced their intentions to establish trade and other relations with Israel, Israel has not entered into any peace arrangement with Syria or Lebanon. Since September 2000, there has been a significant deterioration in the relationship between Israel and the Palestinian Authority, and as a result of riots in Gaza and the West Bank and a spate of terrorist attacks inside Israel, the peace process between the parties has stagnated. Efforts to resolve the problem have failed to result in an agreeable solution. In recent months there has been a marked acceleration in the number and frequency of the hostile incidents, which culminated in numerous lethal suicide attacks in Israeli cities since March 2002. In response, the Israeli Army called up large number of reservists and made incursions into most Palestinian-controlled cities and towns. The continued hostilities between the Palestinian community and Israel and any failure to settle the conflict has had and continues to have a material adverse effect on the Israeli economy and a material adverse effect on our business and us.

Despite the peace between Israel and Egypt and Jordan, some countries, companies and organizations continue to participate in a boycott of Israeli firms and others doing business with Israel or with Israeli companies. Although we are precluded from marketing our products to such countries, we believe that in the past the boycott has not had a material adverse effect on us. In addition as a result of the Israeli military activities in the West Bank during April 2002, several European countries are considering whether to participate in a boycott of Israeli firms as well as on the shipment of weapons and other military supplies to Israel. Restrictive laws, policies or practices directed towards Israel or Israeli businesses could have an adverse impact on the expansion of our business.

All male adult citizens and permanent residents of Israel under the age of 48 are, unless exempt, obligated to perform up to 30 days of military reserve duty annually. Additionally, all such residents are subject to being called to active duty at any time under emergency circumstances. Many of our officers and employees are currently obligated to perform annual reserve duty. While we have operated effectively under these requirements since we began operations, we cannot assess the full impact of such requirements on our workforce or business if conditions should change, and we cannot predict the effect on us of any expansion or reduction of such obligations.

Economic Conditions

Israel's economy has been subject to numerous destabilizing factors, including a period of rampant inflation in the early to mid-1980s, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. The Israeli government has, for these and

other reasons, intervened in various sectors of the economy, by utilizing, among other means, fiscal and monetary policies, import duties, foreign currency restrictions and control of wages, prices and foreign currency exchange rates. In 1998, the Israeli currency control regulations were liberalized significantly, as a result of which Israeli residents may deal in foreign currency and non-residents of Israel may purchase and sell Israeli currency and assets. The Israeli government has periodically changed its policies in all these areas. There are currently no Israeli currency control restrictions on remittances of dividends on ordinary shares or the proceeds from the sale of shares; however, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time. In addition, Israeli residents are required to file reports pertaining to specific types of actions or transactions.

The Israeli government's monetary policy contributed to relative price and exchange rate stability in recent years, despite fluctuating rates of economic growth and a high rate of unemployment. In addition, as a result of the political instability, the increased level of hostilities with the Palestinian Authority and the world-wide economic crisis in the hi-tech and communication industries, during 2001 and especially during the first five months of 2002, the Israeli rate of economic growth has deteriorated, the Israeli currency has been devaluated and the rate of inflation has increased. The Israeli Government has proposed certain budgetary cuts and other changes, but it is not certain if such measures will be adopted by the Israeli Parliament and what the impact of these and other measures that may eventually be adopted will have on the Israeli economy. In addition, certain credit agencies such as Standard & Poors have stated that they are reviewing the credit rating of Israel. Should such agencies resolve to lower Israel's credit rating, the ability of the Israeli government to generate foreign financial and economic assistance may be adversely affected. We cannot assure you that the Israeli government will be successful in its attempts to stabilize the Israeli economy or to maintain the current credit rating of Israel. Economic decline as well as price and exchange rate instability may have a material adverse effect on us.

Trade Relations

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation. Israel is a member of the World Trade Organization and is a signatory to the General Agreement on Tariffs and Trade. In addition, Israel has been granted preferences under the Generalized System of Preferences from the United States, Australia, Canada and Japan. These preferences allow Israel to export the products covered by such programs either duty-free or at reduced tariffs.

Israel and the EEC, known now as the "European Union," concluded a Free Trade Agreement in July 1975 that confers some advantages with respect to Israeli exports to most European countries and obligates Israel to lower its tariffs with respect to imports from these countries over a number of years. In 1985, Israel and the United States entered into an agreement to establish a Free Trade Area. The Free Trade Area has eliminated all tariff and some non-tariff barriers on most trade between the two countries. On January 1, 1993, an agreement between Israel and the European Free Trade Association, known as the "EFTA," established a free-trade zone between Israel and the EFTA nations. In November 1995, Israel entered into a

new agreement with the European Union, which includes redefinement of rules of origin and other improvements, such as allowing Israel to become a member of the Research and Technology programs of the European Union. In recent years, Israel has established commercial and trade relations with a number of other nations, including Russia, China, India, Turkey and other nations in Eastern Europe and Asia.

Effective Corporate Tax Rate

Israeli companies are generally subject to income tax at the corporate rate of 36% of taxable income. We, together with our subsidiary, Attunity Software Services Ltd., have been granted the status of an "Approved Enterprise" under the Law for the Encouragement of Capital Investments, 1959 (the "Investment Law") with respect to our production facilities. An enlargement project of ours was granted "Approved Enterprise≅ status in December 1998. In accordance with the provisions of the Investment Law, we and Attunity Software Services Ltd. have elected to enjoy "alternative benefits," wherein a company waives the receipt of grants in return for a tax exemption. Income derived from an "Approved Enterprise" is tax-exempt for a period of two years, commencing with the year it first earns taxable income, and is subject to corporate tax at the rate of 10% to 25% for additional periods of five to eight years based on the percentage of foreign investments in our company.

Our taxes outside Israel are dependent on our operations in each jurisdiction as well as relevant laws and treaties. Under Israeli tax law, the results of our foreign consolidated subsidiaries, which have generally been unprofitable, cannot be consolidated for tax purposes with the results of operations of the parent company.

Impact of Currency Fluctuations and of Inflation

Since the majority of our sales are denominated and paid in dollars, we believe that inflation and fluctuations in the dollar exchange rate have no material effect on our sales. Inflation and dollar exchange rate fluctuations, however, have some influence on our expenses and, as a result, on our net income. The dollar cost of our operations in Israel is influenced by the extent to which any increase in the rate of inflation in Israel is not offset (or is offset on a lagging basis) by a devaluation of the NIS in relation to the dollar.

The dollar cost of our operations in Israel is influenced by the extent to which any increase in the rate of inflation in Israel is (or is not) offset, or is offset on a lagging basis, by the devaluation of the NIS in relation to the dollar. Unless offset by a devaluation of the NIS, inflation in Israel will have a negative effect on our profitability as we incur expenses, principally salaries and related personnel expenses, in NIS. For several years prior to 1997, the rate of inflation in Israel exceeded the rate of devaluation of the NIS against the dollar and companies experienced increases in the dollar cost of their operations in Israel. This trend was reversed during 1997 and 1998. In 1999, 2000 and 2001, the rate of inflation again exceeded the rate of devaluation of the NIS against the dollar. We cannot assure you that we will not be materially and adversely affected in the future if inflation in Israel exceeds the devaluation of the NIS against the dollar or if the timing of such devaluation lags behind inflation in Israel.

The following table sets forth, for the periods indicated, information with respect to the rate of inflation in Israel, the rate of devaluation of the NIS against the dollar, and the rate of inflation in Israel adjusted for such devaluation:

Year ended December 31,	**Israeli price index**	Israeli inflation rate %	Israeli devaluation rate %	Israeli inflation adjusted for devaluation %
1997	370.7	7.0	8.8	(1.7)
1998	402.6	8.6	17.6	(7.7)
1999	408.0	1.3	(0.2)	1.5
2000	408.0	0	(2.7)	2.8
2001	413.8	1.4	9.3	(7.8)

A devaluation of the NIS in relation to the dollar has the effect of reducing 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). Such a devaluation also has the effect of decreasing 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 increase in the value of the NIS in relation to the dollar has the effect of increasing the dollar value of any unlinked NIS assets and the dollar amounts of any unlinked NIS liabilities and expenses.

Because exchange rates between the NIS and the dollar fluctuate continuously (albeit with a historically declining trend in the value of the NIS), exchange rate fluctuations and especially larger periodic devaluations will have an impact on our profitability and period-to-period comparisons of our results. The effects of foreign currency re-measurements are reported in our consolidated financial statements in shareholders equity as other comprehensive income

Since the beginning of 2002, the NIS has devaluated approximately 12% in relation to the dollar. Among other factors contributing to the devaluation were the political instability and a reduction in the Bank of Israel interest rate. The devaluation eventually resulted in an increase in the inflation rate that was approximately 4% for the first four months in 2002, an inflation rate higher than the annual inflation rate in 2001.

Since most of our sales are quoted in dollars and in other foreign currencies, and a significant portion of our expenses are incurred in NIS, our results are adversely affected by a change in the rate of inflation in Israel when such change is not offset (or is offset on a lagging basis) by a corresponding devaluation of the NIS against the dollar and other foreign currencies.

B. LIQUIDITY AND CAPITAL RESOURCES

Historically, we have financed our operations through cash generated by operations, funds generated by our public offering in 1992 (approximately $12 million), private equity investments (approximately $24.8 million), exercise of stock options and warrants (approximately $9.5 million) as well as from research and development and marketing grants, primarily from the Government of Israel. In March 2000, we raised net proceeds of approximately $13 million in a private placement of our securities. In October 2001, we raised

additional proceeds of approximately $5 million in a private placement of our securities. On a limited basis we have also financed our operations through short-term loans and borrowings under available credit facilities.

As of December 31, 2001, we had $3.3 million in cash and cash equivalents and working capital of $6.0 million as compared to $5.9 million in cash and cash equivalents and working capital of $7.0 million at December 31, 2000.

As of December 31, 2001, we had a bank line of credit of approximately $364,000.

Net cash used in operating activities was $5.0 million in 2001 and $4.6 million was used in operating activities in 2000. The amount used in operating activities in 2001 was primarily attributable to our net loss in that year.

Net cash used in investing activities was $2.3 million in 2001 and $7.8 million in 2000, when we paid $4.4 million in connection with the purchase of Bridges for Islands Ltd.

Net cash provided by financing activities was $4.5 million in 2001 and $14.0 million in 2000, mainly from proceeds from the issuance of shares and the exercise of stock options by our employees.

Our principal commitments consist of obligations outstanding under operating leases. Our capital expenditures were approximately $700,000 in 2001 and $1.7 million in 2000. In 2001, the majority of our capital expenditures were principally for computer and electronic equipment and software, office furniture and equipment, and vehicle purchases. We currently do not have significant capital spending or purchase commitments. However, we anticipate an increase in capital expenditures and lease commitments consistent with our anticipated growth in operations, infrastructure and personnel.

We anticipate that our existing capital resources will be adequate to satisfy our working capital and capital expenditure requirements until June 30, 2003, but we may need to raise additional funds in the next twelve months in order to provide the necessary capital for our working capital and capital expenditure requirements in 2003.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

The software industry is characterized by rapid product change 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, 2001, we employed 36 persons in research and development.

We seek external resources for co-financing our development projects, mainly from the Office of the Chief Scientist of the Israeli Ministry of Industry and Trade. The Chief Scientist participated in financing Attunity Connect™, APTuser® and the Hungarian version of Mancal 2000. Under the Israeli Law for the Encouragement of Industrial Research and Development, or the Research Law, research and development programs approved by the research committee of the Chief Scientist are eligible for grants of up to 50% of project expenditures if they meet certain criteria, in return for the payment of royalties from the sale of the product developed in accordance with the program. The terms of these grants prohibit the manufacture outside of Israel or the transfer of the technology developed pursuant to the terms of these grants to any person or entity without the prior consent of the Chief Scientist. The Research Law also provides that know-how from the research and development which is used to produce the product may not be transferred to third parties without the approval of the Chief Scientist. There can be no assurance that such consent, if requested, will be granted.

We have committed substantial financial resources to our research and development efforts. During 1999, 2000 and 2001, our research and development expenditures were $4.5 million, $5.6 million and $6.0 million, respectively, for which the Chief Scientist reimbursed us approximately $26,000 in 1999. We did not receive any reimbursement from the Chief Scientist in either 2000 or 2001. We capitalized computer software development costs of $2.0 million, $2.0 million and $1.8 million in 1999, 2000 and 2001, respectively. We intend to maintain the amount of our investment in product development activities during the foreseeable future.

Under the research and development approval letters of the Chief Scientist and pursuant to the Research Law, we are required to pay royalties as follows: 3% of revenues during the first three years, 4% of revenues during the following three years, and 5% of revenues in the seventh year and thereafter, with the total royalties not to exceed 100% of the dollar value of the Chief Scientist grant (or in some cases up to 300%). Following the full payment of such royalties, there is no further liability for payment. For participation received with respect to approvals granted after December 31, 1998, interest at the 12-month LIBOR rate as published on the first business day of each calendar year will be added to the royalty payments. We paid $229,000, $100,519 and $186,000 in royalties to the Chief Scientist during the years 1999, 2000 and 2001, respectively.

The Research Law further requires that products developed with government grants be manufactured in Israel, unless a special approval has been granted. However, in the event that any portion of the manufacturing is not conducted in Israel, if approval is received from the Chief Scientist, we would be required to pay royalties that are adjusted in proportion to manufacturing outside of Israel as follows: when the manufacturing is performed outside of Israel by us or an affiliate company, the royalties are to be paid as described above with the addition of 1%, and when the manufacturing outside of Israel is not performed by us or an affiliate, the royalties paid shall be equal to the ratio of the amount of grant received from the Chief Scientist divided by the amount of grant received from the Chief Scientist and the investment(s) made by us in the project. The payback will also be adjusted to 120%, 150% or 300% of the grant if the portion of manufacturing that is performed outside of Israel is up to 50%, between 50% and 90%, or more than 90%, respectively. The technology developed pursuant to the terms of these grants may not be transferred to third parties without the prior approval of the Research Committee. Such approval is not required for the export of any

products resulting from such research or development. Approval of the transfer of technology may be granted only if the recipient abides by all the provisions of the Research Law and regulations promulgated thereunder, including the restrictions on the transfer of know-how and the obligation to pay royalties in an amount that may be increased.

D. TREND INFORMATION

We expect that our results will continue to be impacted by the continued decline in sales of our legacy products and by increased marketing expenditures while we attempt to gain market acceptance for our e-Business integration products. As a result of a less predictable business environment and the decline in worldwide software sales, we are unable to provide any guidance as to sales and profitability trends.

Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 20-F contains various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements reflect our current view with respect to future events and financial results. Forward-looking statements usually include the verbs "anticipates," "believes," "estimates," "expects," "intends," "plans," "projects," "understands" and other verbs suggesting uncertainty. We remind shareholders 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 our actual results, performance, levels of activity, or achievements, or industry results, to be materially different from any future results, performance, levels of activity, or achievements of us and our subsidiaries expressed or implied by such forward-looking statements. These uncertainties and other factors that could cause or contribute to such differences include, among other things, (i) the market's acceptance of Attunity Connect™ and Attunity BPI™, (ii) rapid technological changes in the industry, (iii) increasing competition and (iv) general and economic business conditions.

We have attempted to identify additional significant uncertainties and other factors affecting forward-looking statements in a Risk Factors section which appears in "Item 3 - Key Information."

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

The following table lists our executive officers and directors.

Name	Age	Position with the Company
Arie Gonen[(1)]	56	Chairman of the Board
Paul T. MacKay[(1)]	51	Chief Executive Officer, President and Director
Shlomo Baumgarten	53	Vice President-Finance, Chief Financial Officer and Secretary
Dan Falk [(1)]	57	Director

Roni Ferber [2]	59	Director
Stephen J. Kohn [1]	61	Director
Robert J. Majteles [1]	38	Director

(1) Messrs. Gonen, MacKay, Falk, Kohn and Majteles will serve as directors until our 2002 annual general meeting of shareholders and until their successors shall have been elected.

(2) Mr. Roni Ferber was designated an outside director by our board of directors in May 2001. According to regulations promulgated under the new Israeli Companies Law, the board of directors of companies like us whose shares are traded outside Israel is permitted to designate a director who was appointed prior to February 1, 2000 and who would otherwise qualify as an outside director, as an outside director. Mr. Roni Ferber will serve in such office pursuant to the provisions of the Israeli Companies Law for a three-year term until our 2004 annual general meeting of shareholders. Thereafter, his office may be renewed for only one additional three-year term.

Our articles of association provide for a Board of Directors of not fewer than three nor more than eleven members. The Board is currently composed of 4 directors. Officers serve at the pleasure of the Board of Directors, subject to the terms of any agreement between an officer and our company.

Arie Gonen has served as our Chairman and a director since December 1988. Prior thereto from 1976, he served as President of Milan Software Industries (1976) Ltd., an Israeli software company, or Milan. Mr. Gonen received a B.Sc. in Electrical Engineering and a M.Sc. in Computer Sciences from the Technion Israel Institute of Technology.

Paul T. MacKay was appointed as our Chief Executive Officer, President and a director in January 2001. Prior to joining us and since April 2000, he served as Co-President of Sonic Software, a wholly owned subsidiary of Progress Software Corporation, a global supplier of products and services for business applications deployed in an Internet or multi-tiered environment. From July 2000 until April 2000, Mr. MacKay was President and Chief Executive Officer of YOUpowered.com, a New York-based provider of smart personalization software Internet technology. From August 1996 until July 1999, Mr. MacKay served as President and Chief Operating Officer of NetCentric Corporation, a leading Internet fax company, located in Cambridge, MA. Prior to that, from January 1993 until August 1996, he was Senior Vice President, Worldwide Sales and Marketing at Powersoft Corporation, a leading provider of client/server development technologies. Previously, from 1988 through 1995, he served as Vice President of Sales at AI Corp., a developer of expert systems application tools. Before AI Corp. Mr. MacKay spent 6 years at Cullinet Software as the President and General Manager of Cullinet Canada. Mr. MacKay holds a B.S. in mathematics from the University of British Columbia and began his career working in the IBM research and development lab.

Shlomo Baumgarten has been Vice President-Finance since October 1992, and previously served as our Comptroller since our incorporation in October 1988. He served as a director of our company from our inception until November 2000. Prior thereto from 1983, he was the Comptroller of Milan. Mr. Baumgarten holds a B.A. degree in Economics and Auditing from Haifa University.

Dan Falk was appointed as a director in 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., 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, a maker of automated optical inspection and computer aided manufacturing systems. Mr. Falk serves as the chairman of the board of directors of Atara Technology Ventures and is a member of the boards of directors of Nice System Ltd, Orad Ltd, Netafim Ltd, Visionix Ltd., Ramdor Ltd., Medcon Ltd. and Advanced Vision Technology Ltd. He has an M.B.A. degree from the Hebrew University School of Business.

Roni Ferber was appointed to the Board of Directors in October 1995. Since 1992, Mr. Ferber has been self-employed as a business consultant. From 1967 until December 1992, Mr. Ferber was General Manager and President of Nikuv Computers Ltd., a publicly-traded software company located in Israel. Mr. Ferber serves as a director of Comtech Ltd., a computer software company, traded on the Tel Aviv Stock Exchange, and Dmatek Ltd, a manufacturer and distributor of electronic tagging systems, traded on the London Stock Exchange. He has a B.A in Economics from the Hebrew University in Jerusalem, and an M.A. in Semitic Languages from the Tel Aviv University.

Stephen J. Kohn has been a director since his election in October 1992. Since his retirement from Ernst & Young (United States) in June 1991, he has been an international business consultant. Mr. Kohn was employed by Ernst & Young from 1976 to 1991 and was a partner from 1979 until his retirement, except for a period in 1984 and 1985 during which he was a Vice President of Booz, Allen & Hamilton, a management consulting firm. At Ernst & Young, Mr. Kohn served as the National Director of Financial Institutions, Director of Management Consulting to Financial Institutions, and Deputy Chairman of the firm's International Financial Institutions Committee. He is a candidate for a Ph.D. in Economics from the City University of New York and holds a B.A. degree in Economics from Queens College of CUNY.

***Robert J. Majteles* was appointed as a director on June 11, 2002. From January 2000 through April 2001 he was the Chief Executive Officer of Citadon, Inc., a leading provider of collaboration software to the construction and engineering industries. Prior thereto and from April 1997 Mr. Majteles was the Chief Executive Officer of ULTRADATA Corporation, a publicly-traded developer of software for financial institutions. From January 1991 until June 1996, he held several management positions which included Vice President Sales, Chief Operating Officer, President and Chief Executive Officer in CAMAX Systems Inc., a mechanical engineering software firm. From January 1990 until January 1991 Mr. Majteles was a merchant banker with Investment Advisers, Inc., a fund management firm based in Minnesota. Prior thereto and from July 1989 he was a mergers and acquisitions attorney at Skadden, Arps, Slate, Meagher & Flom, a New York-based law firm. Mr. Majteles holds a J.D. degree from Stanford University Law School and a B.A. degree from Columbia University.**

Shlomo Inbar, who served as a director since October 1992, resigned as a director in April 2001. Dov Biran resigned as a director in September 2001.

Election of Directors

Pursuant to our articles of association, all of our directors (except the outside directors as detailed below) 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. All the members of our Board of Directors (except the outside directors as detailed below) may be reelected upon completion of their term of office. All our directors currently in office, except Dan Falk, who was appointed in April 2002 and Robert J. Majteles, who was appointed in June 2002, and Roni Ferber, an outside director, were elected by our shareholders at our annual meeting of shareholders of December 2001.

Alternate Directors

Our articles of association provide, to the extent allowed by Israeli law, that any director may, by written notice to us, appoint another person to serve as an alternate director (subject to the approval of a majority of the other directors in a written resolution or at the next meeting of the Board of Directors) and may cancel such appointment. The term of appointment of an alternate director may be for one meeting of the Board of Directors, or for a specified period, or until notice is given of the termination of the specified period, or of the appointment. Any person, provided he or she is not currently a director, may act as an alternate, and the same person may not act as the alternate for several directors. No director currently intends to appoint any other person as an alternate director.

Independent and Outside Directors

The Israeli Companies Law requires Israeli companies with shares that have been offered to the public in or outside of Israel to appoint at least two outside directors. No person may be appointed as an outside director if the person or the person's relative, partner, employer or any entity under the person's control has or had, on or within the two years preceding the date of the person's appointment to serve as outside director, any affiliation with the company or any entity controlling, controlled by or under common control with the company. The term affiliation includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; and
- service as an officer holder.

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 outside directors are to be appointed, all current members of the Board of Directors are of the same gender, then at least one outside director must be of the other gender. At our next annual general meeting scheduled to be held in September 2002, we intend to appoint a woman director who will qualify as an outside director under the Israeli Companies Law.

In addition, the Nasdaq National Market requires us to have at least three independent directors on our board of directors and to establish an audit committee. Messrs. Dan Falk, Roni Ferber, Stephen J. Kohn and Robert J. Majteles qualify as independent directors under the Nasdaq Market requirements.

Approval of Related Party Transactions Under Israeli Law

The Companies Law codifies the fiduciary duties that "office holders," including directors and executive officers, owe to a company. An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of care requires an office holder to act at a level of care that a reasonable office holder in the same position would employ under the same circumstances. The duty of loyalty includes avoiding any conflict of interest between the office holder's position in the company and his personal affairs, avoiding any competition with the company, avoiding exploiting any business opportunity of the company in order to receive personal gain for the office holder or others, and disclosing 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 as a director or executive officer in the table under " — Directors and Senior Management" above is an office holder. Under the Companies Law, all arrangements as to compensation of office holders who are not directors require approval of our board of directors, and the compensation of office holders who are directors must be approved by our audit committee, board of directors and shareholders.

The Companies Law requires that an office holder promptly disclose any personal interest that he or she may have and all related material information known to him or her, in connection with any existing or proposed transaction by us. In addition, if the transaction is an extraordinary transaction, that is, a transaction other than in the ordinary course of business, other than on market terms, or likely to have a material impact on the company's profitability, assets or liabilities, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing, or by any corporation in which the office holder or a relative is a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager. Some transactions, actions and arrangements involving an office holder (or a third party in which an office holder has an interest) must be approved by the board of directors or as otherwise provided for in a company's articles of association, as not being adverse to the company's interest. In some cases, such a transaction must be approved by the audit committee and by the board of directors itself (with further shareholder approval required in the case of extraordinary transactions). An office holder who has a personal interest in a matter, which is considered at a meeting of the board of directors or the audit committee, may not be present during the board of directors or audit committee discussions and may not vote on this matter, unless the majority of the members of the board or the audit committee have a personal interest, as the case may be.

The Companies Law also provides that some transactions between a public company and a controlling shareholder, or transactions in which a controlling shareholder of the company has a personal interest but which are between a public company and another entity, require the approval of the board of directors and of the shareholders. Moreover, an extraordinary transaction with a controlling shareholder or the terms of compensation of a controlling

shareholder must be approved by the audit committee, the board of directors and shareholders. The shareholder approval for an extraordinary transaction must include at least one-third of the shareholders who have no personal interest in the transaction and are present at the meeting. The transaction can be approved by shareholders without this one-third approval, if the total shareholdings of those shareholders who have no personal interest and voted against the transaction do not represent more than one percent of the voting rights in the company.

However, under the Companies Regulations (Relief From Related Party Transactions), 5760-2000, promulgated under the Companies Law and amended in January 2002, certain transactions between a company and its controlling shareholder(s) do not require shareholder approval.

In addition, pursuant to the recent amendment to these regulations, directors' compensation and employment arrangements do not require the approval of the shareholders if both the audit committee and the board of directors agree that such arrangements are for the benefit of the company. If the director or the office holder is a controlling shareholder of the company, then the employment and compensation arrangements of such director or office holder do not require the approval of the shareholders provided that certain criteria are met.

The above exemptions will not apply if one or more shareholders, holding at least 1% of the issued and outstanding share capital of the company or of the company's voting rights, objects to the grant of such relief, provided that such objection is submitted to the company in writing not later than seven (7) days from the date of the filing of a report regarding the adoption of such resolution by the company pursuant to the requirements of the Israeli Securities Law. If such objection is duly and timely submitted, then the compensation arrangement of the directors will require shareholders' approval as detailed above.

The Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% shareholder of the company. This rule does not apply if there is already another 25% shareholder of the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% shareholder of the company, unless there is a 50% shareholder of the company. Regulations under the Companies Law provide that the Companies Law's tender offer rules do not apply to a company whose shares are publicly traded outside of Israel, if pursuant to the applicable foreign securities laws and stock exchange rules there is a restriction on the acquisition of any level of control of the company, or if the acquisition of any level of control of the company requires the purchaser to make a tender offer to the public shareholders.

Indemnification of Directors and Officers

The Companies Law provides that an Israeli company cannot exculpate an office holder from liability with respect to a breach of his duty of loyalty, but may exculpate in advance an office holder from his liability to the company, in whole or in part, with respect to a breach of his duty of care. Our articles of association provide that, subject to any restrictions imposed by corporate law, we may enter into a contract for the insurance of the liability of any of our office holders with respect to:

- a breach of his duty of care to us or to another person;
- breach of his duty of loyalty to us, provided that the office holder acted in good faith and had reasonable cause to assume that his act would not prejudice our interests; or
- a financial liability imposed upon him in favor of another person in respect of an act performed by him in his capacity as an office holder.
- In addition, we may indemnify an office holder against:
- a financial liability imposed on him in favor of another person by any judgment, including a settlement or an arbitrator's award approved by a court in respect of an act performed in his capacity as an office holder; and
- reasonable litigation expenses, including attorneys' fees, expended by such office holder or charged to him by a court, in proceedings we institute against him or instituted on our behalf or by another person, or in a criminal charge from which he was acquitted, all in respect of an act performed in his capacity as an office holder.

These provisions are specifically limited in their scope by the Companies Law, which provides that a company may not indemnify an office holder, nor enter into an insurance contract which would provide coverage for any monetary liability incurred as a result of certain improper actions.

Pursuant to the Companies Law, indemnification of, and procurement of insurance coverage for, our office holders must be approved by our audit committee and our board of directors and, in specified circumstances, by our shareholders.

We have undertaken to indemnify our office holders to the fullest extent permitted by law. We currently maintain directors and officers liability insurance with a per claim and aggregate coverage limit of $10 million including legal costs incurred in Israel.

B. COMPENSATION

The following table sets forth all compensation we paid with respect to all of our directors and executive officers as a group for the year ended December 31, 2001.

	Salaries, fees, commissions and bonuses	Pension, retirement and similar benefits
All directors and executive officers as a group, consisting of 7 persons.........................	$772,924	$39,354

Non-employee directors received an annual fee of $9,000 and an attendance fee of $300 per board meeting attended.

As of December 31, 2001, our directors and executive officers as a group, consisting of 7 persons, held options to purchase an aggregate of 601,499 ordinary shares, at an exercise price of

$1.05-$10.125 per share, with vesting over two-year terms. Of such options, 60,000 options expire in 2002 and the rest expires between 2003 and 2008. All options were issued under our 1992, 1994 and 1998 Employee Stock Option Plans. See "E. Share Ownership – Stock Option Plans."

C. BOARD PRACTICES

Employment Agreements

In 1995, our Audit Committee and Board approved and our shareholders ratified three-year employment contracts for Arie Gonen and Shlomo Baumgarten. The agreement with Mr. Gonen was automatically extended on December 31, 2000 and on January 1, 2001 we entered into a new employment agreement with Mr. Baumgarten. Under the terms of Mr. Gonen's agreement, he received salary of $10,444 per month in 2001, payable in NIS and linked to the CPI. We agreed that the compensation of Arie Gonen would be reviewed once a year at which time his monthly gross salary may be increased, but in no event may his adjusted gross salary exceed 150% of his base salary. In addition, Mr. Gonen's agreement provides for the payment of bonuses as determined by the Board of Directors. The bonuses for Mr. Gonen may not exceed $48,000 in any year. The agreement of Mr. Gonen also provides for the continued payment of his salary and certain prerequisites if we undergo a "change of control." In addition, the employment agreement of Mr. Gonen provides that we, subject to Board approval, may give him loans of up to $25,000. Under the terms of the new agreement, Shlomo Baumgarten received salary of $8,327 per month in 2001, payable in NIS. We agreed to evaluate Mr. Baumgarten's performance once a year. Mr. Baumgarten is entitled to a yearly bonus at the sole discretion of our Chief Executive Officer and Board of Directors.

On January 1, 2001, we entered into a three-year employment contract with Paul MacKay. Under the terms of such agreement, Mr. MacKay will receive a salary of $25,000 per month. We agreed that his compensation would be reviewed once a year. In addition, the agreement provides for the quarterly payment of performance-based bonuses. Mr. MacKay's bonus for 2001 was guaranteed to be at least $75,000.

Audit Committee

The Israeli Companies Law provides that public companies must appoint an audit committee. The responsibilities of the audit committee also include approving related-party transactions as required by law. Under the Israeli Companies Law, an audit committee must consist of at least three members, and include all of the company's outside directors. However, the chairman of the board of directors, any director employed by the company or providing services to the company on a regular basis, any controlling shareholder and any relative of a controlling shareholder may not be a member of the audit committee. An audit committee may not approve an action or a transaction with a controlling shareholder, or with an office holder, unless at the time of approval two outside directors are serving as members of the audit committee and at least one of the outside directors was present at the meeting in which an approval was granted.

As a result of the resignation of Shlomo Inbar from the Board of Directors in April 2001, we will be required to appoint a third member to our audit committee who will meet the requirements of the Israeli Companies Law. At our next annual general meeting scheduled to be held in September 2002, we will appoint a woman director who will qualify both as an independent director under the Nasdaq National Market requirements and as an outside director under the Israeli Companies Law who will serve on the audit committee. It is currently contemplated that the audit committee, when constituted, will meet at least four times each year. The responsibilities of the audit committee include identifying irregularities in the management of our business and approving related-party transactions as required by law. The audit committee is authorized generally to investigate any matter within the scope of its responsibilities and has the power to obtain from the internal auditing unit, our independent auditors or any other officer or employee any information that is relevant to such investigations.

Internal Audit

The Companies Law requires the board of directors of a public company to appoint an internal auditor nominated by the audit committee. A person who does not satisfy the Companies Law's independence requirements may not be appointed as an internal auditor. The role of the internal auditor is to examine, among other things, the compliance of a company's conduct with applicable law and orderly business practice. Our internal auditor complies with the requirements of the Companies Law.

D. EMPLOYEES

On December 31, 2001, we employed 156 persons, comprised of 39 persons in research and development, 12 persons in product and customer support, 52 persons in software services, 38 persons in marketing and sales and 15 persons in sales management and administration, general administration and management. As of December 31, 2001, we had 114 employees in Europe, the Middle East and Africa, 26 employees in the United States and 16 employees located in other countries.

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) are applicable to our employees by order of the Israeli Ministry of Labor. These provisions concern mainly the length of the workday, minimum daily wages for professional workers, contributions to a pension fund, insurance for work-related accidents, procedures for dismissing employees, 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 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 similar to the United States Social Security Administration. In 2001 payments to the National Insurance Institute amounted to approximately 13.9% of wages, of which approximately two-thirds was contributed by employees with the balance contributed by the employer.

Our U.S. subsidiary maintains a 401(k) Savings and Profit Sharing Plan. The 401(k) Plan covers employees who have completed one year of service and have attained the age of 21. Employees who participate in the 401(k) Plan may elect to defer, in the form of before-tax contributions to the 401(k) Plan, an amount up to 12% of his or her compensation for each year. A participant's before-tax contributions cannot exceed $10,500 per year, adjusted for cost-of-living increases. Contributions to the 401(k) Plan made on behalf of a participant are invested in the manner directed by the participant. Before-tax contributions are fully vested and nonforfeitable at all times. Our subsidiary does not contribute to the 401(k) Plan.

E. SHARE OWNERSHIP

Beneficial Ownership of Executive Officers and Directors

The following table sets forth certain information as of June 14, 2002 regarding the beneficial ownership of our ordinary shares by each of our directors and executive officers:

	Number of Ordinary Shares Beneficially Owned (1)	Percentage of Outstanding Ordinary Shares (2)
Arie Gonen	1,298,000(3)	8.8%
Paul T. MacKay	100,000(4,5)	*
Shlomo Baumgarten	71,167(4,6)	*
Dan Falk	--	--
Roni Ferber	13,333(4,7)	*
Stephen J. Kohn	20,000(4,8)	*
Robert J. Majteles	--	--

* Less than 1%.

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission (the ACommission≅) and generally includes voting or investment power with respect to securities. Ordinary shares relating to options currently exercisable or exercisable within 60 days of June 14, 2002 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 14,763,174 ordinary shares issued and outstanding as of June 14, 2002.

(3) Includes 48,000 ordinary shares subject to currently exercisable options granted under our stock option plan, at an exercise price of $8.75 per share. Such options expire in

October 2002.

(4) These ordinary shares are subject to currently exercisable options.

(5) Includes 100,000 ordinary shares subject to currently exercisable options granted under our stock option plan, at an exercise price of $1.05 per share. Such options expire in December 2010.

(6) Includes 71,167 ordinary shares subject to currently exercisable options granted under our stock option plan, at exercise prices between $1.05 – $10.125 per share. Such options expire between December 2003 and December 2008.

(7) Includes 9,999 ordinary shares subject to currently exercisable options granted under our stock option plan, at exercise prices between $1.08-$7.75 per share. Such options expire between December 2005 and December 2008.

(8) Includes 20,000 ordinary shares subject to currently exercisable options granted under our stock option plan, at exercise prices between $1.05-$10.125 per share. Such options expire between December 2002 and December 2008.

Stock Option Plans

Under our 1992, 1994 and 1998 Stock Option Plans, incentive stock options or ISOs, as defined in Section 422 of the United States Internal Revenue Code of 1986, as amended, may be granted to our officers and employees or to employee of any of our subsidiaries, and options which do not qualify as ISOs or non-qualified options, may be granted to our employees, officers and directors or to employees of any of our subsidiaries. An aggregate of 3,000,000 ordinary shares are reserved for issuance under the plans. Ordinary shares underlying any options which are canceled or not exercised become available for future grants. The plans will terminate in 2002, 2004 and 2008, unless previously terminated by the Board of Directors.

The plans are currently administered by our Board of Directors, which in the future may delegate such administration to a committee of directors. The Board or such committee has the authority to determine the persons to whom options will be granted, the number of ordinary shares to be covered by each option, the time or times at which options will be granted or exercised, and the other terms and provisions of the options. The exercise price of an ISO granted under the plans may not be less than 100% (110% in the case of a 10% shareholder) and the exercise price of a non-qualified option may not be less than 75% of the fair market value (as defined in the plan) of our ordinary shares on the date of the grant.

It is intended that each option granted under the plans will be exercisable in installments during the option term and shall not be transferable by the optionee other than by will or by the laws of descent and distribution. Options granted under the plans will terminate at such time (not to exceed ten years from the date of grant) and under such circumstances as the Board or Option Committee determines, generally not later than three months after a termination of employment, or one year in the event of termination by reason of the optionee's death or disability.

No options were granted under the 1994 Plan in 2001, and 35,434 ordinary shares remained available for future grant under the 1994 Plan at December 31, 2001.

Options for 1,762,794 ordinary shares having exercise prices ranging from $0.024 to $3.0 per share were granted under the 1998 Plan in 2001 and at December 31, 2001 options for 44,159 ordinary shares were available for future grant under such plan. In 2001, 135,500 new options were granted to our officers and directors.

Of the total outstanding options, 191,750 options will expire in 2002, 207,602 options will expire in 2003, 55,600 options will expire in 2004 and the remaining 1,838,022 options will expire thereafter.

A total of 19,850 ordinary shares were issued in 2001 upon exercise of options previously granted under the Plans, and no options were exercised by our officers and directors in 2001.

2001 Stock Option Plan

Our 2001 Employee Stock Option Plan, or the 2001 Plan, authorizes the grant of options to purchase up to 1,000,000 ordinary shares. Employees, officers, directors and consultants of our company and its subsidiaries are eligible to participate in the 2001 Plan. Awards under the 2001 Plan may be granted in the forms of incentive stock options as provided in Section 422 of the U.S. Internal Revenue Code of 1986, as amended, non-qualified stock options, options granted pursuant to Section 102 of the Israeli Tax Ordinance and options granted pursuant to Section 3.9 of the Israeli Tax Ordinance. The 2001 Plan has a term of ten (10) years and will terminate in 2011. No award of options may be made after such date.

The plan is currently administered by our Board of Directors, which in the future may delegate such administration to a committee of directors. Subject to the provisions of the 2001 Plan and applicable law, the Board or the Committee has the authority, to determine, among other things, to whom options may be granted, the number of ordinary shares to which an option may relate, the exercise price for each share, the vesting period of the option, and the terms, conditions and restrictions thereof; to construe and interpret the Plans, to prescribe, amend and rescind rules and regulations relating to such Plans; and to make all other determinations deemed necessary or advisable for the administration of the Plans.

The Board or such committee has the authority to determine the persons to whom options will be granted, the number of ordinary shares to be covered by each option, the time or times at which options will be granted or exercised, and the other terms and provisions of the options. The exercise price of an ISO granted under the plans may not be less than 100% (110% in the case of a 10% shareholder) and the exercise price of a non-qualified option may not be less than 100% of the fair market value (as defined in the plan) of our ordinary shares on the date of the grant.

As of June 14, 2002, options to purchase 17,000 ordinary shares had been granted under the 2001 Plan, at an exercise price of $1.15 per share.

As of June 14, 2002, our executive officers and directors as a group, consisting of 9 persons, held options to purchase 601,499 ordinary shares, at an average exercise price of $2.99 per share.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table sets forth certain information as of June 14, 2002 regarding the beneficial ownership by all shareholders known to us to own beneficially more than 5% of our ordinary shares:

	Number of Ordinary Shares Beneficially Owned (1)	Percentage of Outstanding Ordinary Shares (2)
Arie Gonen	1,298,000	8.8%
Dov Biran	863,720 (3)	5.8
Special Situations Fund III, L.P.*	4,154,112(4)(5)	24.7
Special Situations Private Equity Fund, L.P.*	1,846,000(6)(7)	11.8
Special Situations Technology Fund, L.P.*	923,000(8)(9)	6.1
Special Situations Cayman Fund, L. P.*	769,200(10)(11)	5.1
Total	9,854,032	52.8%

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(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Ordinary shares relating to options currently exercisable or exercisable within 60 days of June 14, 2002 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 14,763,174 shares issued and outstanding as of June 14, 2002.

(3) Includes 230,000 ordinary shares subject to the agreement dated June 20, 2001 between us and the former shareholders of Bridges for Islands.

(4) Includes 1,557,792 ordinary shares currently issuable upon exercise of Series A Warrants exercisable at $1.75 per share.

(5) Includes 519,264 ordinary shares currently issuable upon exercise of Series B Warrants exercisable at $2.25 per share.

(6) Includes 692,250 ordinary shares currently issuable upon exercise of Series A Warrants exercisable at $1.75 per share.

(7) Includes 230,750 ordinary shares currently issuable upon exercise of Series B Warrants exercisable at $2.25 per share.

(8) Includes 346,125 ordinary shares currently issuable upon exercise of Series A Warrants exercisable at $1.75 per share.

(9) Includes 115,375 ordinary shares currently issuable upon exercise of Series B Warrants exercisable at $2.25 per share.

(10) Includes 288,450 ordinary shares currently issuable upon exercise of Series A Warrants exercisable at $1.75 per share.

(11) Includes 96,150 ordinary shares currently issuable upon exercise of Series B Warrants exercisable at $2.25 per share.

* MGP Advisors Limited is the general partner of Special Situations Fund III, L.P. AWM Investment Company, Inc. is the general partner of MGP Advisors Limited and the general partner of and investment adviser to Special Situations Cayman Fund, L.P. SST Advisers, L.L.C. is the general partner of and investment adviser to Special Situations Technology Fund, L.P. MG Advisers, L.L.C. is the general partner of and investment adviser to Special Situations Private Equity Fund, L.P. Austin W. Marxe and David M. Greenhouse are the principal owners of MGP Advisers Limited, AWM Investment Company, Inc., SST Advisers, L.L.C. and MG Advisers, L.L.C. and are principally responsible for the selection, acquisition and disposition of the portfolio securities by each investment adviser on behalf of its fund.

At June 14, 2002, there were 64 holders of record and approximately 1,358 beneficial holders of our ordinary shares, of which 44 record holders holding approximately 29% of our ordinary shares had registered addresses in the United States.

B. RELATED PARTY TRANSACTIONS

In February 2000, we acquired Bridges for Islands Ltd., an Israeli corporation which was then developing Attunity BPI™, a business process integration solution, in consideration of $18 million, of which $4 million was paid in cash and the remaining balance by the issuance of 875,000 ordinary shares of our company. We entered into a share price protection guarantee with the shareholders of Bridges for Islands, based on an issuance price of $16 per share, for a one-year period. In June 2001 we entered into an agreement with Bridges for Islands Ltd., Dr. Dov Biran, at that time our chief technology officer and a director, Dr. Dov Biran Holdings Ltd., a company controlled by Dr. Dov Biran, and Poalim Capital Markets and Investments Ltd., which provides that, instead of the price protection, we will issue or transfer, or cause third parties to transfer, an additional 350,000 ordinary shares to the former shareholders of Bridges for Islands. The shareholders of Medatech Information Technology Ltd., and VisOpt B.V. transferred 300,000 of these 350,000 ordinary shares to the former shareholders of Bridges for Islands and we issued 50,000 ordinary shares to these shareholders. On November 28, 2001, we filed an F-3 Registration Statement with respect to these shares with the SEC for which we will

seek effectiveness upon the filing of this Annual Report on Form 20-F. As additional consideration to the former shareholders of Bridges for Islands, we agreed that in the event of a merger, consolidation or other business combination in which we are not the surviving entity, or in an acquisition of all or substantially all of our outstanding share capital or assets, that they will receive $11,962,400 for their 1,097,650 ordinary shares. We agreed to provide these shareholders with either cash or additional ordinary shares of our company in order to insure that they will receive $11,962,400 for their 1,097,650 ordinary shares.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See the consolidated financial statements, including the notes thereto, and the exhibits listed in Item 19 hereof and incorporated herein by this reference.

Legal Proceedings

We are not party to any material legal proceedings and are not aware of any pending or threatened litigation that would have a material adverse effect on our business or us.

Dividend Distribution

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. Under Israeli law, the declaration of any final dividends also requires shareholder approval, which may reduce but not increase such dividends from the amount recommended by the Board of Directors. In the event cash dividends are declared, such dividends will be paid in NIS.

B. SIGNIFICANT CHANGES

Since the date of the annual consolidated financial statements included in this annual report, no significant change has occurred.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Annual Stock Information

The following table sets forth, for each of the years indicated, the range of high ask and low bid prices of our ordinary shares on the Nasdaq National Market:

	High	Low
1997	$ 37.375	$ 7.75
1998	15.375	6.125
1999	16.375	6.75
2000	37.50	3.3125
2001	5.50	0.75

Quarterly Stock 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 of our ordinary shares on the Nasdaq National Market:

	High	Low
2000		
First Quarter	$37.50	$13.625
Second Quarter	21.00	8.3125
Third Quarter	17.75	10.875
Fourth Quarter	12.00	3.3125
2001		
First Quarter	$5.50	$1.125
Second Quarter	2.60	0.825
Third Quarter	2.80	0.96
Fourth Quarter	2.15	1.05

Monthly Stock Information

The following table sets forth, for each month in the last six months of 2001, the range of high ask and low bid prices of our ordinary shares on the Nasdaq National Market:

	High	Low
July	$2.95	$1.95
August	2.54	1.70
September	1.98	0.96
October	2.15	1.05
November	1.89	1.21
December	1.89	1.40

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

Our ordinary shares have traded on the Nasdaq National Market since our initial public offering on December 17, 1992. On October 27, 2000, our name was changed to Attunity Ltd and our Nasdaq symbol changed to 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

Purposes and Objects of the Company

We are a public company registered under the Israel Companies Law as Attunity Ltd, registration number 25-003801-9. Our objects and purposes, as provided by Article 5A of our articles of association, are to carry on any lawful activity.

The Powers of the Directors

Under the provisions of the Israel Companies Law and our articles of association, a

director 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 cannot vote compensation to themselves or any members of their body without the approval of our audit committee and our shareholders at a general meeting. See "Item 6B. Directors, Senior Management and Employees – Compensation."

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 30,000,000 ordinary shares of a nominal value of NIS 0.1 each. All outstanding ordinary shares are validly issued, fully paid and non-assessable.

Ordinary shares. The rights attached to the ordinary shares are as follows:

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 not 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. The 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. See "Item 8A. Financial Information – Consolidated and Other Financial Information – Dividend Distribution." If after one year a dividend has been declared and it is still unclaimed, the 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 or linkage differentials 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.

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 one-third (33%) of the 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. At the reconvened meeting, the required quorum consists of any two members present in person or by proxy.

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.

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 6A. Directors, Senior Management and Employees – Election of Directors.”

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 “Item 10B. 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 of association and the 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 6A. Directors and Senior Management – 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.

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.

Annual and Extraordinary 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. Unless a longer period for notice is prescribed by the Companies Law, at least ten (10) days and not more than sixty (60) days notice of any general meeting of shareholders shall be given. An extraordinary meeting may be convened by the board of directors, as it decides or upon a demand of any two directors or 25% of the directors, whichever is lower, or of one or more shareholders holding in the aggregate at least 5% of the shares and 1% of the voting rights, or one or more shareholders holding in the aggregate at least 5% of the voting rights in the company. An extraordinary meeting must be held not more than thirty-five days from the publication date of the

announcement of the meeting. See "Item 10B. Rights Attached to Shares-Voting Rights."

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.

Provisions Restricting Change in Control of Our Company

The Companies Law requires that mergers between Israeli companies be approved by the board of directors and general meeting of shareholders of both parties to the transaction. The approval of the board of directors of both companies is subject to such boards' confirmations that there is no reasonable doubt that after the merger the surviving company will be able to fulfill its obligations towards its creditors. Each company must notify its creditors about the contemplated merger. The approval of a merger by the general meetings of shareholders of the companies is also subject to additional approval requirements as specified in the Companies Law and regulations promulgated thereunder. See also "Item 6A. Directors, Senior Management and Employees – Directors and Senior Management – Approval of Related Party Transactions Under Israeli Law."

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 are subject to the approval of the shareholders by a majority of the votes of shareholders present by person or by proxy and voting in the shareholders meeting.

C. MATERIAL CONTRACTS

In February 2000, we acquired Bridges for Islands Ltd., an Israeli corporation which was then developing Attunity BPI™, a business process integration solution, in consideration of $18 million, of which we paid $4 million in cash and the balance by the issuance of 875,000 our ordinary shares. As part of the agreement, we provided the shareholders of Bridges for Islands with a share price protection guarantee, based on an issuance price of $16 per share, for a one-year period. This agreement was amended in June 2001 to provide that, instead of the price protection, we will issue, or transfer, or cause third parties to transfer, an additional 350,000 ordinary shares to the former shareholders of Bridges for Islands. The shareholders of Medatech Information Technology Ltd., and VisOpt B.V. transferred 300,000 of these 350,000 ordinary shares to the former shareholders of Bridges for Islands and we issued the shareholders an additional 50,000 ordinary shares. On November 28, 2001, we filed an F-3 Registration Statement with respect to these shares with the SEC for which we will seek effectiveness upon the filing of this Annual Report on Form 20-F. As additional consideration to the former shareholders of Bridges for Islands, we agreed that in the event of a merger, consolidation or

other business combination in which we are not the surviving entity, or in an acquisition of all or substantially all of our outstanding share capital or assets that they will receive $11,962,400 for their 1,097,650 ordinary shares. We agreed to provide these shareholders with either cash or additional ordinary shares of our company in order to insure that they will receive $11,962,400 for their 1,097, 650 ordinary shares.

In March 2000, we acquired all of the shares of Medatech Information Technology Ltd., or Medatech, a provider of software system integration services, for $1.3 million and 19.9% of the outstanding shares of VisOpt B.V, or VisOpt, a Netherlands company, a provider of ERP system integration services for $6.5 million. The aggregate purchase price of $7.8 million was paid by the issuance of 50,000 ordinary shares to the shareholders of Medatech and 250,000 ordinary shares to the shareholders of VisOpt. We provided a share price protection guarantee to the Medatech and VisOpt shareholders based on an assumed issuance price of $26 per share for a one-year period. Due to the consequences of this price protection mechanism, which were unforeseen by the parties at the time the agreements were entered into, we reached an agreement in principle in February 2001 to rescind these transactions as of the date of signature of the agreements and to reverse any actions performed in accordance with these transactions, without liability or claims to any party. Final agreements to this effect were signed on May 28, 2001. The aforesaid 300,000 ordinary shares have been transferred to the former shareholders of Bridges for Islands.

D. EXCHANGE CONTROLS

The Israeli Currency Control Law, 1978 allows foreign currency transactions and transactions between Israeli and non-Israeli residents, to be regulated by the Controller of Foreign Exchange at the Bank of Israel, through "general" and "special" permits. In May 1998, a "general permit" was issued pursuant to which substantially all transactions in foreign currency are permitted. Because exchange rates between the NIS and the U.S. dollar fluctuate continuously, U.S. shareholders will be subject to any such currency fluctuation during the period from when such dividend is declared through the date payment is made in U.S. dollars.

Neither our memorandum of association, 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 that are in a state of war with Israel.

E. TAXATION

General Corporate Tax Structure

Israeli companies are subject to “Company Tax” at the rate of 36% of taxable income. However, the effective tax rate payable by a company that derives income from an approved enterprise (as further discussed below) may be considerably less. Subject to relevant tax treaties, dividends or interest received by an Israeli corporation from foreign subsidiaries are generally subject to tax regardless of its status as an Approved Enterprise.

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

The Law for the Encouragement of Capital Investments, 1959, as amended, commonly referred to as the Investment Law, provides that a proposed capital investment in eligible facilities may, upon application to the Investment Center of the Ministry of Industry and Trade of the State of Israel, be designated as an approved enterprise. Each certificate of approval for an approved enterprise relates to a specific investment program delineated both by its financial scope, including its capital sources, and by its physical characteristics, *e.g.*, the equipment to be purchased and utilized pursuant to the program. An approved enterprise is entitled to benefits including Israeli Government cash grants and tax benefits in specified development areas. The tax benefits derived from any such certificate of approval relate only to taxable income attributable to the specific approved enterprise. If a company has more than one approval or only a portion of its capital investments is approved, its effective tax rate is the result of a weighted average of the applicable rates.

Taxable income of a company derived from an approved enterprise is subject to Company Tax at the maximum rate of 25% (rather than 36%) for the benefit period. This period is ordinarily seven years (or ten years if the company qualifies as a foreign investors' company as described below) commencing with the year in which the approved enterprise first generates taxable income, and is limited to twelve years from commencement of production or 14 years from the date of approval, whichever is earlier. The Investment Law also provides that a company that has an approved enterprise within Israel will be eligible for a reduced tax rate for the remainder of the benefit period and is entitled to claim accelerated depreciation on buildings, machinery and equipment used by the approved enterprise.

A company owning an approved enterprise may elect to forego entitlement to the grants otherwise available under the Investment Law and in lieu thereof participate in an alternative package of benefits. Under the alternative package of benefits, a company's undistributed income derived from an approved enterprise will be exempt from company tax for a period of between two and ten years from the first year of taxable income, depending on the geographic location of the approved enterprise within Israel, and such company will be eligible for a reduced tax rate for the remainder, if any, of the otherwise applicable benefits period.

A company that has an approved enterprise program is eligible for further tax benefits if it qualifies as a foreign investors' company. A foreign investors' company is essentially a company more than 25% of whose share capital and combined share and loan capital is owned by non-Israeli residents. A company which qualifies as a foreign investors' company and has an approved enterprise program is eligible for tax benefits for a ten year benefit period. The Company Tax rate applicable to distributed income earned in the benefit period and to non exempt income (distributed or not) earned in the benefit period is as follows:

For a company with foreign investment of ...	The Company Tax rate is
over 25% but less than 49%	25%
49% or more but less than 74%	20%
74% or more but less than 90%	15%

90% or more	10%

In addition, the dividend recipient is taxed at the reduced rate applicable to dividends from approved enterprises (15%), if the dividend is distributed during the tax benefit period or within 12 years thereafter, yet, no time limit is applicable to dividends from a foreign investors. The company must withhold this tax at source, regardless of whether the dividend is converted into foreign currency.

Subject to applicable provisions concerning income under the alternative package of benefits, all dividends are considered to be attributable to the entire enterprise and their effective tax rate is the result of a weighted average of the various applicable tax rates. We currently intend to reinvest any income derived from our approved enterprise programs and not to distribute such income as a dividend.

The Investment Center bases its decision as to whether or not to approve an application on the criteria set forth in the Investment Law and regulations, the then prevailing policy of the Investment Center and the specific objectives and financial criteria of the applicant. Accordingly, we cannot assure you that any of our applications, if made, will be approved in the future.

Our production facilities and those of our subsidiary, Attunity Software, have been granted "Approved Enterprise≅ status under the Investment Law.

We were granted "Approved Enterprise" status under the Investment Law with respect to our production facilities and two other projects. Pursuant to the provisions of the Investment Law, we chose the Alternative Package, which, as discussed above, is the waiver of grants in return for tax-exemption. Accordingly, income derived from each Approved Enterprise is tax-exempt for a period of two to four years, commencing with the year it first earns taxable income, and subject to Company Tax at the rate of 10% to 25% for additional periods of three to eight years.

Bridges for Islands has applied for approved enterprise status, which application is pending.

The tax benefits discussed above are conditioned upon fulfillment of the requirements stipulated by the aforementioned law and the regulations promulgated thereunder, as well as the criteria set forth in the certificates of approval. In the event that we fail to comply with these conditions, the tax benefits could be canceled, in whole or in part, and we would be required to refund the amount of the canceled benefits, plus interest and certain inflation adjustments. We believe that we have been in full compliance with the aforementioned conditions through December 31, 2001.

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;
- 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 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.

Taxation Under Inflationary Conditions

The Income Tax Law (Inflationary Adjustments), 1985, generally referred to as the Inflationary Adjustments Law, represents an attempt to overcome the problems presented to a traditional tax system by an economy undergoing rapid inflation. The Inflationary Adjustments Law is highly complex. Its features which may be material to us can be summarized as follows:

There is a special tax adjustment for the preservation of equity whereby some corporate assets are classified broadly into fixed assets and non-fixed assets. Where a company's equity, as defined in such law, exceeds the depreciated cost of fixed assets, a deduction from taxable income that takes into account the effect of the applicable annual rate of inflation on such excess is allowed up to a ceiling of 70% of taxable income in any single tax year, with the unused portion permitted to be carried forward on a linked basis. If the depreciated cost of fixed assets exceeds a company's equity, then such excess multiplied by the applicable annual rate of inflation is added to taxable income.

- Subject to specific limitations, depreciation deductions on fixed assets and losses carried forward are adjusted for inflation based on the increase in the consumer price index.
- Capital gains on specific traded securities are normally exempt from tax for individuals and are taxable for companies. However, dealers in securities are subject to the regular tax rules applicable to business income in Israel.

Capital Gains Tax

Israeli law imposes a capital gains tax on the sale of capital assets. 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 consumer price index 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. The inflationary surplus accumulated from and after December 31, 1993 is exempt from any capital gains tax in Israel while the real gain is added to ordinary income, which is taxed at ordinary rates of 30% to 50% for individuals and 36% for corporations. Sales of securities of Israeli companies by both residents and non-residents of Israel (other than certain Israeli companies) that qualify as "Industrial Companies" or "Industrial Holding Companies" on recognized stock exchanges outside of Israel are presently exempt from the capital gains tax.

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. A sale, exchange or disposition of ordinary shares by a Treaty U.S. Resident who holds, directly or indirectly, shares representing 10% or more of our voting power at any time during such preceding 12-month period would be subject to such 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

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 at the rate of 25% (12.5% for dividends not generated by an approved enterprise if the non-resident is a U.S. corporation and holds over 10% of our voting power, and 15% for dividends generated by an approved enterprise) is withheld at source, 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 will be 25%. However, under the Investment Law, dividends generated by an approved enterprise are taxed at the rate of 15%.

Under an amendment to the Inflationary Adjustments Law, non-Israeli entities might be subject to Israeli taxes on the sale of traded securities in an Israeli company, subject to the provisions of any applicable double taxation treaty.

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. Expenditures not so approved are deductible over a three-year period. However, expenditures from proceeds made available to us through government grants are not deductible according to Israeli law.

Proposed Reform of Income Taxes in Israel

On February 2002, the Minister of Finance appointed a committee to review the current Israeli tax structure and to make recommendations. The committee presented its recommendations to the Minister of Finance on June 12, 2002. If implemented, the recommendations might result in the imposition of Israeli capital gains taxes at the rate of 15% to 35% on sales of securities of Israeli companies by Israeli residents. In addition, the committee has proposed that a tax be imposed on all income of Israeli residents (individuals and corporations) regardless of the territorial source of income and tax will be imposed on income of foreign corporations controlled by Israeli residents if the majority of profits or income of such foreign company originate from "passive income", including interest, dividends, royalties and rental income. We cannot predict whether such recommendations will be adopted and eventually enacted into law.

United States Federal Income Tax Consequences

The following is a summary of certain material U.S. federal income tax consequences that apply to U.S. Holders who hold ordinary shares as capital assets. This summary is based on the United States Internal Revenue Code of 1986, as amended (the “Code”), Treasury regulations promulgated thereunder, judicial and administrative interpretations thereof, and the U.S.-Israel Tax Treaty, all as in effect on the date hereof and all of which are subject to change either prospectively or retroactively. This summary does not address all tax considerations that may be relevant with respect to an investment in ordinary shares. This summary does not account for the specific circumstances of any particular investor, such as:

- broker-dealers,
- financial institutions,
- certain insurance companies,
- investors liable for alternative minimum tax,
- tax-exempt organizations,
- non-resident aliens of the U.S. or taxpayers whose functional currency is not the U.S. dollar,
- persons who hold the ordinary shares through partnerships or other pass-through entities,

- investors that actually or constructively own 10 percent or more of our voting shares, and
- investors holding ordinary shares as part of a straddle or a hedging or conversion transaction.

This summary does not address the effect of any U.S. federal taxation other than U.S. federal income taxation. In addition, this summary does not include any discussion of state, local or foreign taxation.

You are urged to consult your tax advisors regarding the foreign and United States federal, state and local tax considerations of an investment in ordinary shares.

For purposes of this summary, a U.S. Holder is:

- an individual who is a citizen or, for U.S. federal income tax purposes, a resident of the United States;
- a partnership, corporation or other entity created or organized in or under the laws of the United States or any political subdivision thereof;
- an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust that (a) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons or (b) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

Taxation of Dividends

The gross amount of any distributions received with respect to ordinary shares, including the amount of any Israeli taxes withheld therefrom, will constitute dividends for U.S. federal income tax purposes, to the extent of our current and accumulated earnings and profits as determined for U.S. federal income tax principles. You will be required to include this amount of dividends in gross income as ordinary income. Distributions in excess of our earnings and profits will be treated as a non-taxable return of capital to the extent of your tax basis in the ordinary shares and any amount in excess of your tax basis, will be treated as gain from the sale of ordinary shares. See "Disposition of Ordinary Shares" below for the discussion on the taxation of capital gains. Dividends will not qualify for the dividends-received deduction generally available to corporations under Section 243 of the Code.

Dividends that we pay in NIS, including the amount of any Israeli taxes withheld therefrom, will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day such dividends are received. A U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at an exchange rate other than the rate in effect on such day may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss. U.S. Holders should consult their own tax advisors concerning the U.S. tax consequences of acquiring, holding and disposing of NIS.

Any Israeli withholding tax imposed on such dividends will be a foreign income tax eligible for credit against a U.S. Holder's U.S. federal income tax liability, subject to certain

limitations set out in the Code (or, alternatively, for deduction against income in determining such tax liability). The limitations set out in the Code include computational rules under which foreign tax credits allowable with respect to specific classes of income cannot exceed the U.S. federal income taxes otherwise payable with respect to each such class of income. Dividends generally will be treated as foreign-source passive income or financial services income for United States foreign tax credit purposes. Foreign income taxes exceeding the credit limitation for the year of payment or accrual may be carried back for two taxable years and forward for five taxable years in order to reduce U.S. federal income taxes, subject to the credit limitation applicable in each of such years. Other restrictions on the foreign tax credit include a prohibition on the use of the credit to reduce liability for the U.S. individual and corporation alternative minimum taxes by more than 90%. A U.S. Holder will be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on the ordinary shares to the extent such U.S. Holder has not held the ordinary shares for at least 16 days of the 30-day period beginning on the date which is 15 days before the ex-dividend date or to the extent such U.S. Holder is under an obligation to make related payments with respect to substantially similar or related property. Any days during which a U.S. Holder has substantially diminished its risk of loss on the ordinary shares are not counted toward meeting the 16-day holding period required by the statute. The rules relating to the determination of the foreign tax credit are complex, and you should consult with your personal tax advisors to determine whether and to what extent you would be entitled to this credit.

Disposition of Ordinary Shares

If you sell or otherwise dispose of ordinary shares, you will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition and the adjusted tax basis in ordinary shares. Subject to the discussion below under the heading "Passive Foreign Investment Companies," such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if you have held the ordinary shares for more than one year at the time of the sale or other disposition. In general, any gain that you recognize on the sale or other disposition of ordinary shares will be U.S.-source for purposes of the foreign tax credit limitation; losses will generally be allocated against U.S. source income. Deduction of capital losses is subject to certain limitations under the Code.

In the case of a cash basis U.S. Holder who receives NIS in connection with the sale or disposition of ordinary shares, the amount realized will be based on the U.S. dollar value of the NIS received with respect to the ordinary shares as determined on the settlement date of such exchange. A U.S. Holder who receives payment in NIS and converts NIS into United States dollars at a conversion rate other than the rate in effect on the settlement date may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss.

An accrual basis U.S. Holder may elect the same treatment required of cash basis taxpayers with respect to a sale or disposition of ordinary shares, provided that the election is applied consistently from year to year. Such election may not be changed without the consent of the Internal Revenue Service (the "IRS"). In the event that an accrual basis U.S. Holder does not elect to be treated as a cash basis taxpayer (pursuant to the Treasury regulations applicable to foreign currency transactions), such U.S. Holder may have a foreign currency gain or loss for

U.S. federal income tax purposes because of differences between the U.S. dollar value of the currency received prevailing on the trade date and the settlement date. Any such currency gain or loss would be treated as ordinary income or loss and would be in addition to gain or loss, if any, recognized by such U.S. Holder on the sale or disposition of such ordinary shares.

Passive Foreign Investment Companies

For U.S. federal income tax purposes, we will be considered a passive foreign investment company ("PFIC") for any taxable year in which either (i) 75% or more of our gross income is passive income, or (ii) at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, passive income includes dividends, interest, royalties, rents, annuities and the excess of gains over losses from the disposition of assets which produce passive income. If we were determined to be a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. Holders owning ordinary shares. Accordingly, you are urged to consult your tax advisors regarding the application of such rules.

Based on our current and projected income, assets and activities, we believe that we are not currently a PFIC nor do we expect to become a PFIC in the foreseeable future. However, because the determination of whether we are a PFIC is based upon the composition of our income and assets from time to time, there can be no assurances that we will not become a PFIC for any future taxable year.

If we are treated as a PFIC for any taxable year, then, unless you elect either to treat your investment in ordinary shares as an investment in a "qualified electing fund" (a "QEF election") or to "mark-to-market" your ordinary shares, as described below,

- you would be required to allocate income recognized upon receiving certain dividends or gain recognized upon the disposition of ordinary shares ratably over the holding period for such ordinary shares,
- the amount allocated to each year during which we are considered a PFIC other than the year of the dividend payment or disposition would be subject to tax at the highest individual or corporate tax rate, as the case may be, and an interest charge would be imposed with respect to the resulting tax liability allocated to each such year,
- gain recognized upon the disposition of ordinary shares would be taxable as ordinary income, and
- you would be required to make an annual return on IRS Form 8621 regarding distributions received with respect to ordinary shares and any gain realized on your ordinary shares.

If you make either a timely QEF election or a timely mark-to-market election in respect of your ordinary shares, you would not be subject to the rules described above. If you make a timely QEF election, you would be required to include in your income for each taxable year your pro rata share of our ordinary earnings as ordinary income and your pro rata share of our net capital gain as long-term capital gain, whether or not such amounts are actually distributed to

you. You would not be eligible to make a QEF election unless we comply with certain applicable information reporting requirements.

Alternatively, if you elect to "mark-to-market" your ordinary shares, you will generally include in income any excess of the fair market value of the ordinary shares at the close of each tax year over your adjusted basis in the ordinary shares. If the fair market value of the ordinary shares had depreciated below your adjusted basis at the close of the tax year, you may generally deduct the excess of the adjusted basis of the ordinary shares over its fair market value at that time. However, such deductions generally would be limited to the net mark-to-market gains, if any, that you included in income with respect to such ordinary shares in prior years. Income recognized and deductions allowed under the mark-to-market provisions, as well as any gain or loss on the disposition of ordinary shares with respect to which the mark-to-market election is made, is treated as ordinary income or loss.

Backup Withholding and Information Reporting

Payments in respect of ordinary shares may be subject to information reporting to the U.S. Internal Revenue Service and to U.S. backup withholding tax at a rate equal to the fourth lowest income tax rate applicable to individuals (which, under current law, is 30% for 2002 and 2003, 29% for 2004 and 2005, and 28% for 2006 through 2010 and 31% thereafter) Backup withholding will not apply, however, if you (i) are a corporation or come within certain exempt categories, and demonstrate the fact when so required, or (ii) furnish a correct taxpayer identification number and make any other required certification.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a U.S. Holder's U.S. tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS.

Any U.S. holder who holds 10% or more in vote or value of our ordinary shares will be subject to certain additional United States information reporting requirements.

U.S. Gift and Estate Tax

An individual U.S. Holder of ordinary shares will be subject to U.S. gift and estate taxes with respect to ordinary shares in the same manner and to the same extent as with respect to other types of personal property.

F. DIVIDEND 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, 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 Securities and Exchange Commission.

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, 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, and we are not required to, and do not, make our Securities and Exchange Commission filings electronically, so that such filings are not available on the Securities and Exchange Commission's website. In addition, we are not required under the Exchange Act to file periodic reports and financial statements as frequently or as promptly as United States companies whose securities are registered under the Exchange Act. However, we distribute annually to our shareholders an annual report containing financial statements that have been examined and reported on, with an opinion expressed by, an independent public accounting firm, and we file reports with the Securities and Exchange Commission on Form 6-K containing unaudited financial information for the first three quarters of each fiscal year.

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 Securities and Exchange Commission public reference rooms: 450 Fifth Street, N.W., Judiciary Plaza, Room 1024, Washington, D.C. 20549; and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, IL 60661. You may obtain information on the operation of the Securities and Exchange Commission's public reference room in Washington, D.C. by calling the Securities and Exchange Commission at 1-800-SEC-0330 or by visiting the Securities and Exchange Commission's website at http://www.sec.gov. The Exchange Act file number for our Securities and Exchange Commission 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 Einstein Building, Tirat Carmel, Haifa, 39101, Israel.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

We are exposed to a variety of risks, including changes in interest rates affecting primarily the interest received on short term deposits, and foreign currency fluctuations. We do not use derivative financial instruments.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our cash and cash equivalents. Our cash and cash equivalents are held in U.S. dollars and bear annual interest

of 1.5% to 2.3%, which is based upon the London Inter Bank Offered Rate (LIBOR). We place our cash and cash equivalents with major financial banks. For purposes of specific risk analysis, we use sensitivity analysis to determine the impact that market risk exposure may have on the financial income derived from our cash and cash equivalents. The potential loss to us over one year that would result from a hypothetical change of 10% in the LIBOR rate would be approximately $20,000.

Foreign Currency Exchange Risk

We have operations in several countries in connection with the sale of our products. A substantial portion of our sales and expenditures are denominated in U.S. dollars. We have mitigated, and expect to continue to mitigate a portion of our foreign currency exposure through salaries (which in 2001 represented 59.7% of our total expenses, before in process research and development, impairment of assets and discontinued operations), marketing and support operations in which all costs are local currency based. As a result, our results of operations and cash flows can be affected by fluctuations in foreign currency exchange rates (primarily the Euro).

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

Not applicable.

ITEM 15. Reserved.

ITEM 16. Reserved.

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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Consolidated Statements of Cash Flows F-7

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ITEM 19. EXHIBITS

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Exhibit	Description
3.1	Memorandum of Association of the Registrant (1)
3.2	Articles of Association of the Registrant, as Amended (2)
4.1	Specimen of Ordinary Share Certificate (3)
10.1	Share Purchase Agreement among the Registrant, VisOpt B.V., Moyo B.V. and Natram B.V. dated as of July 21, 2000 (4)
10.2	Share Purchase Agreement between the Registrant and Bridges for Islands Ltd. dated March 27, 2000 (5)
10.3	Share Purchase Agreement among the Registrant, MedaTech Information Technology Ltd., Natram Management Ltd., Moyo Management Ltd. and Alon Harel, dated as of July 14, 2000 (6)
10.4	Annulment Agreement among the Registrant, VisOpt B.V., Moyo B.V. and Natram B.V. dated as of May 28, 2001 (2)
10.5	Annulment Agreement among the Registrant, MedaTech Information Technology Ltd., Natram Management Ltd., Moyo Management Ltd. and Alon Harel, dated as of May 28, 2001 (2)
10.6	Amendment to Share Purchase Agreement among the Registrant, Bridges for Islands Ltd., Dov Biran, Dr. Dov Biran Holdings Ltd. and Poalim Capital Markets and Investments Ltd., dated as of June 20, 2001 (2)
10.7	1992 Employee Stock Option Plan
10.8	1994 Employee Stock Option Plan
10.9	1998 Employee Stock Option Plan
23.1	Consent of Kost, Forer & Gabbay, Certified Public Accountants (Israel)

(1) Filed as Exhibit 3.1 to the Registrant's Registration Statement on Form F-1, registration number

33-54020, and incorporated herein by reference.

(2) Filed as an exhibit to the registrant's annual report on Form 20-F for the year ended December 31, 2000.

(3) Filed as Exhibit 4.1 to the Registrant's Registration Statement on Form F-1 registration number 33-54020, and incorporated herein by reference.

(4) Filed as Exhibit 10.4 to the Registrant's Registration Statement on Form F-3 registration number 333-12450, and incorporated herein by reference.

(5) Filed as Exhibit 10.5 to the Registrant's Registration Statement on Form F-3 registration number 333-11972, and incorporated herein by reference.

(6) Filed as Exhibit 10.5 to the Registrant's Registration Statement on Form F-3 registration number 333-12450, and incorporated herein by reference.

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
(REGISTRANT)

BY: /s/Arie Gonen ______________
Arie Gonen, Chairman of the Board

BY: /s/ Shlomo Baumgarten ________________
Shlomo Baumgarten, Vice President-Finance,
Chief Financial Officer and Secretary

Dated: June 21, 2002

ATTUNITY LTD AND SUBSIDIARIES

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EXHIBIT INDEX

Exhibit No.	Description of Exhibit	Page No.
3.1	Memorandum of Association of the Registrant (1)	
3.2	Articles of Association of the Registrant, as Amended (2)	
4.1	Specimen of Ordinary Share Certificate (3)	
10.1	Share Purchase Agreement among the Registrant, VisOpt B.V., Moyo B.V. and Natram B.V. dated as of July 21, 2000 (4)	
10.2	Share Purchase Agreement between the Registrant and Bridges for Islands Ltd. dated March 27, 2000 (5)	
10.3	Share Purchase Agreement among the Registrant, MedaTech Information Technology Ltd., Natram Management Ltd., Moyo Management Ltd. and Alan Harel, dated as of July 14, 2000 (6)	
10.4	Annulment Agreement among the Registrant, VisOpt B.V., Moyo B.V. and Natram B.V. dated as of May 28, 2001 (2)	
10.5	Annulment Agreement among the Registrant, MedaTech Information Technology Ltd., Natram Management Ltd., Moyo Management Ltd. and Alan Harel, dated as of May 28, 2001 (2)	
10.6	Amendment to Share Purchase Agreement among the Registrant, Bridges for Islands Ltd., Dov Biran, Dr. Dov Biran Holdings Ltd. and Poalim Capital Markets and Investments Ltd., dated as of June 20, 2001 (2)	
10.7	1992 Employee Stock Option Plan (1)	
10.8	1994 Employee Stock Option Plan	
10.9	1998 Employee Stock Option Plan	
23.1	Consent of Kost, Forer & Gabbay, Certified Public Accountants (Israel)	

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(1) Filed as an exhibit to the Registrant's Registration Statement on Form F-1, registration number 33-54020, and incorporated herein by reference.

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