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

FORM 20-F/A

Amendment No. 1

☐ **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, 2011

OR

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

For the transition period from _____ to _____

OR

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

Date of event requiring this shell company report _____

Commission file number: 0-20892

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)

Kfar Netter Industrial Park, Kfar Netter, 40593, Israel
(Address of principal executive offices)

Dror Harel-Elkayam, CFO
Tel: +972-9-8993000; Fax: +972-9-8993001
Attunity Ltd, Kfar Netter Industrial Park, Kfar Netter, 40593, Israel
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

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**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report (December 31, 2011): **39,951,106**

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

☐Yes ☒ No

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

☐Yes ☒ No

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

☒ Yes ☐ No

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

☒ Yes ☐ No

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

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☒

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

☒ U.S. GAAP

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

☐ Other

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

☐ Item 17 ☐ Item 18

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

☐Yes ☒ No

EXPLANATORY NOTE

We are filing this Amendment No. 1 to our Annual Report on Form 20-F, or Form 20-F/A, solely to indicate conformed signatures on the report of Kost Forer Gabbay & Kasierer, a Member of Ernst & Young Global dated March 30, 2012 (page F-2). Though the report, as well as signature thereon, had been obtained, conforming the signature thereon was inadvertently omitted in our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 30, 2012, or the Original Form 20-F. Although we have re-filed the entire Original Form 20-F as amended, for clarity, the amendments are limited in scope to such correction and do not amend, update, or change any other items or disclosures contained in the Original Form 20-F. Except as described in this paragraph, we do not purport by this Form 20-F/A to update any of the information contained in the Original Form 20-F.

INTRODUCTION

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

- *"we", "us", "our", "Attunity",* or the *"Company"* are to Attunity Ltd and its subsidiaries;
- *"dollars" or "$"* are to United States dollars;
- *"NIS" or "shekel"* are to New Israeli Shekels;
- the *"Companies Law"* or the *"Israeli Companies Law"* are to the Israeli Companies Law, 5759-1999;
- the *"SEC"* are to the United States Securities and Exchange Commission;
- "*Investors Group*" are to certain investors, which included, among others, Mr. Shimon Alon, the Chairman of our board of directors and our Chief Executive Officer, Mr. Ron Zuckerman, a member of our board of directors, and Mr. Itzhak (Aki) Ratner, our former Chief Executive Officer and, until December 30, 2010, a member of our board of directors. We are not aware of any agreement which is currently in force, in writing or otherwise, among the members of the Investors Group, or any of them, with respect to the Company;
- "*Convertible Notes*" or "*Notes*" are to the convertible promissory notes we issued to the Investors Group pursuant to a Note and Warrant Purchase Agreement, dated March 22, 2004, as amended from time to time, by and between us and the Investors Group, or the Note Agreement;
- "*Plenus*" are to Plenus Technologies Ltd. and its affiliates, a venture capital lender;
- *"Plenus Loan"* are to the loan and security agreements between Attunity and Plenus, all dated as of January 31, 2007, as amended from time to time;
- "*RepliWeb*" are to RepliWeb Inc., a Delaware corporation we acquired in September 2011; and
- "*OTCBB*" are to the Over-The-Counter Bulletin Board.

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

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

On March 1, 2012, the exchange rate between the NIS and the dollar, as quoted by the Bank of Israel, was NIS 3.784 to $1.00. Unless indicated otherwise by the context, statements in this annual report that provide the dollar equivalent of NIS amounts or provide the NIS equivalent of dollar amounts are based on such exchange rate.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Except for the historical information contained in this annual report, the statements contained in this annual report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, Section 21.E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the Private Securities Litigation Reform Act of 1995, as amended, and other federal securities laws with respect to our business, financial condition and results of operations. Such forward-looking statements reflect our current view with respect to future events and financial results.

We urge you to consider that statements which use the terms "anticipate," "believe," "expect," "plan," "intend," "estimate," and similar expressions are intended to identify forward-looking statements. We remind readers that forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors and involve known and unknown risks that could cause the actual results, including revenues from agreements we signed, performance, levels of activity, our achievements, or industry results, to be materially different from any future results, performance, levels of activity, or our achievements, or industry results, expressed or implied by such forward-looking statements. Such forward-looking statements appear in Item 3.D "Risk Factors", Item 4 "Information on the Company", Item 5 "Operating and Financial Review and Prospects" and Item 10.C "Additional Information - Material Contracts" as well as elsewhere in this annual report, including but not limited to statements, if any, about our expected revenues or performance and plans for relisting our shares on a national exchange. The forward-looking statements contained in this annual report are subject to risks and uncertainties, including those discussed under Item 3.D "Risk Factors" and in our other filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

Except as required by applicable law, including the securities laws of the United States, we undertake no obligation to publicly release any update or revision to any forward-looking statements to reflect new information, future events or circumstances, or otherwise after the date hereof.

TABLE OF CONTENTS

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The following selected consolidated statements of operations data for the years ended December 31, 2011, 2010 and 2009 and the selected consolidated balance sheet data as of December 31, 2011 and 2010, which have been prepared in accordance with U.S. GAAP, are derived from our audited consolidated financial statements set forth elsewhere in this annual report. The selected consolidated statements of operations data for the years ended December 31, 2008 and 2007 and the selected consolidated balance sheet data as of December 31, 2009, 2008 and 2007, which have also been prepared in accordance with U.S. GAAP, have been derived from audited consolidated financial statements not included in this annual report.

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

On September 19, 2011, we completed the acquisition of RepliWeb, which is described elsewhere in this annual report, including in Item 5.A "Operating and Financial Review and Prospects - Operating Results" and Item 10.C "Material Contracts - Acquisition of RepliWeb." As a result of this transaction, the revenues and expenses of RepliWeb are consolidated with our results of operations starting September 19, 2011. The assets and liabilities of RepliWeb are consolidated with our balance sheet as of December 31, 2011. See Note 3 to our consolidated financial statements included in this annual report.

Balance Sheet Data:

	December 31,				
	2011	2010	2009	2008	2007
	(U.S. dollars in thousands)				
Working capital (deficiency)	$ (7,649)	$ (2,643)	$ (2,710)	$ (5,480)	$ (2,328)
Total assets	23,156	10,705	11,895	13,030	15,657
Current maturities of long term-debt, short-term convertible debt, including current maturities of long-term convertible debt	950	1,259	1,250	2,193	18
Long-term debt, less current maturities	-	1,661	2,750	2,000	2,009
Warrants and bifurcated conversion feature, and other liabilities presented at fair value	737	1,215	303	-	-
Shareholders' equity	5,188	733	2,042	2,532	6,058
Additional paid in capital	107,572	102,459	102,095	104,279	103,924

Income Statement Data:

	Year ended December 31,				
	2011	2010	2009	2008	2007
	(U.S. dollars in thousands, except per share data)				
Software License	$ 8,140	$ 4,645	$ 4,126	$ 5,373	$ 5,537
Maintenance and services	7,029	5,430	5,327	6,099	6,609
Total revenues	15,169	10,075	9,453	11,472	12,146
Cost of revenues	1,453	1,951	3,070	2,624	2,601
Research and development costs, net (1)	4,960	2,482	1,894	2,916	3,542
Selling and marketing expenses	5,851	3,831	3,469	6,341	7,988
General and administrative expenses	2,835	1,854	1,608	2,138	2,707
Restructuring and termination costs	--	--	--	--	1,111
Total operating expenses	15,099	10,118	10,041	14,019	17,949
Operating income (loss)	70	(43)	(588)	(2,547)	(5,803)
Financial expenses, net	1,284	1,388	697	1,250	1,099
Other income (expenses)	-	-	10	--	(26)
Loss before taxes on income	(1,214)	(1,431)	(1,275)	(3,797)	(6,928)
Income taxes (benefit)	(399)	74	28	60	113
Net loss	(815)	(1,505)	(1,303)	(3,857)	$ (7,041)
Basic and diluted net loss per share	$ (0.02)	$ (0.05)	$ (0.05)	$ (0.17)	$ (0.30)
Number of shares used to compute basic and diluted loss per share	34,647	31,973	28,494	23,196	23,185

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(1) Total research and development costs are offset in part by capitalization of certain computer software development costs. See Notes 2i and 6 to our consolidated financial statements included elsewhere in this annual report and the discussion under Item 5.A "Operating and Financial Review and Prospects - Operating Results - Critical Accounting Policies."

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

The following risk factors, among others, could in the future affect our actual results of operations and could cause our actual results to differ materially from those expressed in forward-looking statements made by us. These forward-looking statements are based on current expectations and we assume no obligation to update this information. Before you decide to buy, hold, or sell our ordinary shares, you should carefully consider the risks described below, in addition to the other information contained elsewhere in this annual report. The following risk factors are not the only risk factors facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. Our business, financial condition and results of operation could be seriously harmed if any of the events underlying any of these risks or uncertainties actually occurs. In that event, the price for our ordinary shares could decline, and you may lose all or part of your investment.

Risk Factors Relating to Our Business

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

Although we generated operating income of $70,000 in the fiscal year ended December 31, 2011, we incurred an operating loss in each of the preceding five fiscal years, and incurred a $815,000 net loss in the fiscal year ended December 31, 2011. There can be no assurance that we will be able to achieve or sustain profitable operations in the future. Even if we maintain profitability, we cannot assure that future net income will offset our cumulative losses, which, as of December 31, 2011, were approximately $102.8 million.

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

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

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

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

Historically, we have relied on a limited number of customers for a substantial portion of our total sales. In 2011, Microsoft accounted for 13.4% of our revenues and another strategic customer accounted for 10.7% of our revenues. There can be no assurance that such customers will continue to order our products in the same level or at all. A reduction or delay in orders from such customers, including reductions or delays due to market, economic or competitive conditions, could have a material adverse effect on our business, operating results and financial condition.

We face risks associated with the acquisition of RepliWeb.

In September 2011, we completed the acquisition of RepliWeb. In connection with this acquisition, we face risks commonly encountered with acquisitions, including disruption of our ongoing business; difficulty in integrating acquired operations and personnel; inability of our management to maximize our financial and strategic position by the successful implementation of uniform product offerings and the incorporation of uniform technology into our product offerings and control system; being subject to known or unknown contingent liabilities, including litigation, costs, tax and expenses; and inability to realize expected synergies or other anticipated benefits. We cannot assure you that we will be successful in overcoming these risks or any other problems encountered in connection with this acquisition. Our inability to successfully integrate the operations of RepliWeb and realize anticipated benefits associated with the acquisition could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

We had cash and cash equivalents of approximately $1.5 million as of December 31, 2011 and current maturities of long-term loans of approximately $0.95 million. Although we anticipate that our existing capital resources will be adequate to satisfy our working capital and capital expenditure requirements until at least March 2013, we may need to raise additional funds in the future in order to satisfy our future working capital and capital expenditure requirements. There is no assurance that we will be able to obtain additional funds on a timely basis, on acceptable terms or at all.

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

- develop new products;
- enhance our existing products;
- remain current with evolving industry standards;
- expand our sales and marketing programs;
- take advantage of future opportunities;
- respond to competitive pressures or unanticipated requirements;
- in connection with the acquisition of RepliWeb, timely pay former RepliWeb shareholders a milestone-based contingent cash payment of up to $2.0 million which is payable in April 2013; or
- successfully integrate the operations of RepliWeb.

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

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

We operate our business in various countries, and we attempt to utilize an efficient operating model to optimize our tax payments based on the laws in the countries in which we operate. This can cause disputes between us and various tax authorities in the countries in which we operate whether due to tax positions that we have taken regarding filing of various tax returns or in cases where we determined not to file tax returns. In particular, not all of the tax returns of our operations are final and may be subject to further audit and assessment by the applicable tax authorities. There can be no assurance that the applicable tax authorities will accept our tax positions. In such event, we may be required to pay additional taxes, as a result of which, our future results may be adversely affected.

Severe global economic conditions may materially adversely affect our business.

Our business and financial condition is substantially affected by global economic conditions. Starting in late 2008 and lasting through much of 2009, a steep downturn in the global economy sparked by uncertainty in credit markets and deteriorating consumer confidence, reduced technology spending by many organizations. More recently, credit and sovereign debt issues have destabilized certain European economies as well and thereby increased global macroeconomic uncertainties. Uncertainty about current global economic conditions continues to pose a risk as customers may postpone or reduce spending in response to restraints on credit. Should the economic slowdown resume and/or companies in our target markets reduce capital expenditures, it may cause our customers to reduce or postpone their technology spending significantly, which could result in reductions in sales of our products, longer sales cycles, slower adoption of new technologies and increased price competition, which would have a material adverse effect on our business, operating results and financial condition.

We are subject to risks associated with international operations.

We are based in Israel and generate a large portion of our sales outside the United States. Our sales outside of the United States accounted for approximately 29%, 40% and 38% of our total revenues for the years ended December 31, 2011, 2010 and 2009, respectively. Although we commit significant management time and financial resources to developing direct and indirect international sales and support channels, we cannot be certain that we will be able to maintain or increase international market demand for our products. To the extent that we cannot do so in a timely manner, our business, operating results and financial condition may be adversely affected.

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

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

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

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

The market for our software products is fragmented and 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. In the fields of application release automation, web deployment and enterprise file replication, we also compete with providers of open source and freeware solutions, which are substantially less expensive than our solutions. We anticipate continued growth and competition in the software products market. In the past few years, we have identified a trend of consolidation in the software industry in general, and in the real-time data integration and event capture market in particular. For example, in July 2011, Informatica Corporation acquired Wisdom Force. Consolidation and mergers in our market may result in stronger competition by larger companies that threaten our market positioning.

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

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

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

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

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

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

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

We are not aware that we have infringed any proprietary rights of third parties. It is possible, however, that third parties will claim that we have infringed upon their intellectual property rights. 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; and
- require us to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us, if at all.

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

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

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

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

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

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

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

Our products have a lengthy sales cycle.

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

A portion of our revenues is dependent on maintenance payments from customers using our legacy products.

Approximately 5.0%, 9.7% and 10.0% of our total revenues in the years ended December 31, 2011, 2010 and 2009, respectively, were derived from annual maintenance fees made by customers who use our legacy software products. In 2011, 2010 and 2009, these revenues on a consolidated basis totaled approximately $0.7 million, $1.0 million and $0.9 million, respectively. Some of these customers may replace these legacy products with more advanced products from other vendors and, as a result, discontinue use of these products, which, in turn, would result in a continued reduction in our maintenance revenues from these products which could adversely affect our operating results.

Declines in our share price or operating performance could result in a future impairment of our goodwill or long-lived assets.

In accordance with applicable accounting principles and relevant guidance published from time to time, we assess potential impairments to goodwill annually and when there is evidence that events or changes in circumstances indicate that an impairment condition may exist. We also assess potential impairments to our long-lived assets, including property and equipment and capitalized software, when there is evidence that events or changes in circumstances indicate that the carrying value may not be recoverable. If the value of our market capitalization falls below the value of our shareholders' equity, or actual results of operation materially differ from our expectations, it might require us to recognize an impairment loss of goodwill or long lived assets. Consequently, our future results could be adversely affected by changes in events and circumstances that would result in the event of such impairments.

Our operating results fluctuate significantly and are affected by seasonality.

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

- the size and timing of significant orders and their timely fulfillment;

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

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

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

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

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

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

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

Our freedom to operate our business is limited as a result of certain restrictive covenants contained in our Convertible Notes.

We are a party to the Note Agreement, pursuant to which we issued the Convertible Notes. The Convertible Notes contain a number of restrictive covenants that limit our operating flexibility, primarily limitations on the incurrence of indebtedness. Such obligations may hinder our future operations or the manner in which we operate our business, which could have a material adverse effect on our business, financial condition or results of operations.

Although our internal control over financial reporting was considered effective as of December 31, 2011, there is no assurance that our internal control over financial reporting will continue to be effective in the future, which could result in our financial statements being unreliable, government investigation or loss of investor confidence in our financial reports.

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

Risk Factors Relating to Our Ordinary Shares

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

Pursuant to the Plenus Loan, if on or before December 31, 2017, we enter into a Fundamental Transaction, which is defined to include a sale through a merger, selling all or substantially all of our assets, or a transaction in which a person or entity acquires more than 50% of our outstanding shares, then we will be required to pay Plenus an amount equal to, in general, the higher of $300,000 or 15% of the aggregate proceeds payable to our shareholders or us in connection with such Fundamental Transaction. As a result, an acquisition of our company that triggers the said payments will be more costly to a potential acquirer and these provisions, taken as a whole, may have the effect of making an acquisition of our company more difficult. In addition, these provisions could cause our ordinary shares to trade at prices below the price for which third parties might be willing to pay to gain control of us.

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

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

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

As of March 1, 2012, our directors and executive officers beneficially own approximately 22.9% of our outstanding ordinary shares. As a result, if these shareholders acted together, they could exert significant influence on the election of our directors and on decisions by our shareholders on matters submitted to shareholder vote, including mergers, consolidations and the sale of all or substantially all of our assets. This concentration of ownership of our ordinary shares could delay or prevent proxy contests, mergers, tender offers, or other purchases of our ordinary shares that might otherwise give our shareholders the opportunity to realize a premium over the then-prevailing market price for our ordinary shares. This concentration of ownership may also adversely affect our share price.

Issuance of a significant amount of additional ordinary shares on exercise or conversion of outstanding warrants and Convertible Notes and/or substantial future sales of our ordinary shares may depress our share price.

As of March 1, 2012, we had approximately 41.4 million ordinary shares issued and outstanding and approximately 11.6 million of additional ordinary shares which are issuable upon exercise of outstanding employee options, warrants, rights to subscribe for shares and upon the conversion of our Convertible Notes. The issuance of a significant amount of additional ordinary shares on account of these outstanding securities will dilute our current shareholders' holdings and may depress our share price. In addition, the lock-up period, during which former RepliWeb shareholders are restricted from selling approximately 4.0 million ordinary shares we issued to them in connection with the acquisition, will expire in June 2012. If these or other shareholders sell substantial amounts of our ordinary shares, including shares issuable upon the exercise or conversion of outstanding warrants, rights to subscribe for shares, Convertible Notes or employee options, or if the perception exists that our shareholders may sell a substantial number of our ordinary shares, we cannot foresee the impact of any potential sales on the market price of these additional ordinary shares, but it is possible that the market price of our ordinary shares would be adversely affected. Any substantial sales of our shares in the public market might also make it more difficult for us to sell equity or equity related securities in the future at a time and on terms we deem appropriate. Even if a substantial number of sales do not occur, the mere existence of this "market overhang" could have a negative impact on the market for, and the market price of, our ordinary shares.

The limited market for our shares may reduce their liquidity and make our stock price more volatile. You may have difficulty selling your shares.

In February 2008, our ordinary shares were delisted from the NASDAQ Capital Market and, since February 26, 2008, they have been quoted on the OTCBB, an electronic quotation medium regulated by the Financial Industry Regulatory Authority. Securities traded on the OTCBB typically have low trading volumes. Market fluctuations and volatility, as well as general economic, market and political conditions, could reduce our share price. As a result, there may be only a limited public market for our ordinary shares, and it may be more difficult to dispose of or to obtain accurate quotations as to the market value of our ordinary shares. In addition, unlike the NASDAQ Stock Market and the various international stock exchanges, there are no corporate governance requirements imposed on OTCBB-traded companies.

While we recently announced our plan to relist our ordinary shares on a national exchange, such as NYSE Amex or NASDAQ, execution of this plan is subject to market conditions and satisfaction of the applicable listing criteria.

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;
- changes in expectations as to our future financial performance and cash position, including financial estimates by securities analysts and investors;
- announcements of technological innovations or new products by us or our competitors;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in the status of our intellectual property rights;
- announcements by third parties of significant claims or proceedings against us; and
- future sales of our ordinary shares. In particular, the lock-up period, during which former RepliWeb shareholders are restricted from selling approximately 4.0 million ordinary shares we issued to them in connection with the acquisition, will expire in June 2012.

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

Our ordinary shares may become subject to the "penny stock" rules of the SEC which will make transactions in our ordinary shares cumbersome and may reduce the value of our shares.

The SEC has adopted Rule 3a51-1 under the Exchange Act which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. While we believe that our ordinary shares are currently exempt from the definition of penny stock, there is no assurance that they will continue to be exempt from such definition. If our ordinary shares become subject to the "penny stock" rules of the SEC, it will make transactions in our ordinary shares cumbersome and may reduce the value of our shares. This is because for any transaction involving a penny stock, unless exempt, Rule 15g-9 under the Exchange Act generally requires:

- that a broker or dealer approve a person's account for transactions in penny stocks; and
- the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- obtain financial information and investment experience objectives of the person; and
- make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the SEC relating to the penny stock market, which, in highlight form:

- sets forth the basis on which the broker or dealer made the suitability determination; and
- that the broker or dealer received a signed, written statement from the investor prior to the transaction.

Disclosure also has to be made by the broker or dealer about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our ordinary shares and cause a decline in our market value if we were to become subject to the said "penny stock" rules.

We do not intend to pay cash dividends.

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

Risk Factors Relating to Our Operations in Israel

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

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

Over the past several decades, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Since late 2000, there has also been a high level of violence between Israel and the Palestinians which has strained Israel's relationship with its Arab citizens, Arab countries and, to some extent, with other countries around the world. Terrorist attacks and hostilities within Israel as well as tensions between Israel and Iran, have also heightened these risks. Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. In addition, since early 2011, riots and popular uprisings in various countries in the Middle East have led to severe political instability in those countries. This instability may lead to deterioration of the political and trade relationships that exist between the State of Israel and these countries. In addition, this instability may affect the global economy and marketplace. Any armed conflicts or political instability in the region, including acts of terrorism or any other hostilities involving or threatening Israel, would likely negatively affect business conditions and could make it more difficult for us to conduct our operations in Israel, which could increase our costs and adversely affect our financial results.

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

Our financial results may be adversely affected by currency fluctuations.

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

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

We received royalty-bearing grants from the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor, or the Chief Scientist, for research and development programs that meet specified criteria. Since December 31, 2006, we have no further obligation to pay royalties to the Chief Scientist in respect of sales of our products. However, the terms of the Chief Scientist's grants limit our ability to transfer know-how developed under an approved research and development program outside of Israel, regardless of whether the royalties were fully paid. In addition, any non-Israeli citizen, resident or entity that, among other things, becomes a holder of 5% or more of our share capital or voting rights, is entitled to appoint one or more of our directors or our chief executive officer, serves as a director of our company or as our chief executive officer, is generally required to notify the same to the Chief Scientist and to undertake to observe the law governing the grant programs of the Chief Scientist, the principal restrictions of which are the transferability limits described above.

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

We are incorporated under the laws of the State of Israel. Service of process upon us, our Israeli subsidiaries and our directors and officers, substantially all of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, because the majority of our assets and investments, and substantially all of our directors and officers are located outside the United States, any judgment obtained in the United States against us or any of them may not be collectible within the United States.

We have been advised by our legal counsel in Israel that it may be difficult to assert U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws because Israel is not the most appropriate forum to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel addressing these matters.

Subject to specified time limitations and legal procedures, under the rules of private international law currently prevailing in Israel, Israeli courts may enforce a U.S. final judgment in a civil matter, including judgments based upon the civil liability provisions of the U.S. securities laws and including a monetary or compensatory judgment in a non-civil matter, provided that:

- the judgment is enforceable in the state in which it was given;
- adequate service of process has been effected and the defendant has had a reasonable opportunity to present his arguments and evidence;
- the judgment and its enforcement are not contrary to the law, public policy, security or sovereignty of the State of Israel;
- the judgment was not obtained by fraud and does not conflict with any other valid judgment in the same matter between the same parties; and
- an action between the same parties in the same matter is not pending in any Israeli court at the time the lawsuit is instituted in the U.S. court.

Provisions of our articles of association and of Israeli law may delay, prevent or make difficult an acquisition of us, which could prevent a change of control and therefore depress the price of our shares.

The provisions in our articles of association relating to the submission of shareholder proposals for shareholders meetings, and requiring a special majority voting in order to amend certain provisions of our articles of association relating to such proposals as well as to election and removal of directors, may have the effect of delaying or making an acquisition of our company more difficult. In addition, provisions of Israeli corporate and tax law may have the effect of delaying, preventing or making an acquisition of our company more difficult. For example, under the Companies Law, upon the request of a creditor of either party to a proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger the surviving company will be unable to satisfy the obligations of any of the parties to the merger. These provisions could cause our ordinary shares to trade at prices below the price for which third parties might be willing to pay to gain control of us. Third parties who are otherwise willing to pay a premium over prevailing market prices to gain control of us may be unable or unwilling to do so because of these provisions of Israeli law.

Free trade agreements between Israel and the United States and the European Union may be terminated or changed.

Israel has the benefit of a free trade agreement with the United States which, generally, permits tariff-free access into the United States for products produced by us in Israel. In addition, as a result of an agreement entered into by Israel with the European Union, or the EU, and countries remaining in the European Free Trade Association, or EFTA, the EU and EFTA have abolished customs duties on Israeli industrial products. There can be no assurance that these agreements will not be terminated, changed, amended or otherwise declared non-applicable to all or some of our Israeli operations, and accordingly, materially harm our businesses.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Corporate History and Details

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

Our executive headquarters are located at Kfar Netter Industrial Park, POB 3787, Kfar Netter 40593, Israel, telephone number (972) 9-899-3000. Our authorized representative and agent in the U.S. is Attunity Inc., our wholly owned subsidiary, which maintains its principal offices at 70 Blanchard Road, Burlington, Massachusetts 01803, telephone number (781) 213-5200. Our address on the Internet is http://www.attunity.com. The information on our website is not incorporated by reference into this annual report.

We are a leading provider of real-time data integration software, designed to help organizations optimize the availability, performance, use and lifetime of their information assets.

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

Recent Major Business Developments

Below is a summary of the major business developments in Attunity since January 1, 2011:

On January 24, 2011, we announced that one of the world's largest business software and hardware systems companies has renewed its OEM distribution agreement with us. With this extended agreement, originally signed in 2005, this strategic partner continues to rely on our data connectivity and CDC software as part of both its database and its integration middleware product lines, which incorporate our products to enable solutions including real-time data integration, legacy modernization and service oriented architecture.

On February 2, 2011, we announced that we entered into an extension agreement, effective as of December 31, 2010, with certain members of the Investors Group, being the holders of approximately $1.5 million (out of a total $1.8 million) of the outstanding principal amount of our Convertible Notes, whereby, among other things, the maturity date of the Convertible Notes held by such holders, will be extended and become due and payable in four equal installments of $377,334, on each of the following dates: (1) April 1, 2012; (2) June 30, 2012; (3) September 30, 2012; and (4) December 31, 2012.

On February 14, 2011, we announced that we entered into an OEM agreement with Microsoft to provide our ODBC connector in Microsoft's next version of SQL Server. The integration is designed to enable customers to exchange and process data with a wide range of data sources. This OEM agreement is in addition to a multi-million dollar OEM agreement with Microsoft to provide our CDC in Microsoft's next version of SQL Server, which we announced on December 29, 2010. On September 19, 2011, we announced our receipt of payments in the aggregate amount of $3.55 million from Microsoft pursuant to the aforementioned OEM agreements with Microsoft.

On September 19, 2011, we completed the acquisition of RepliWeb, a U.S.-based leading provider of enterprise file replication and managed file transfer technologies.

On September 27, 2011, we announced the release of Attunity Replicate, a high performance data replication software that will enable organizations to accelerate and improve the distribution and sharing of data for enhanced accessibility, while reducing associated costs to meet business intelligence and operations needs.

Between December 31, 2011 and January 31, 2012, the holders, in the aggregate, of approximately $1.2 million of principal amount of the Convertible Notes, or approximately 76% of the total outstanding principal amount of the Convertible Notes, including Shimon Alon, our Chairman and CEO, and Ron Zuckerman, a member of our Board of Directors, converted their Convertible Notes into a total of approximately 2.4 million ordinary shares pursuant to an offer we made to all holders of the Convertible Notes, or the Prepayment Offer. The Prepayment Offer expired on January 31, 2012.

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

B. BUSINESS OVERVIEW

Overview

We have been delivering software solutions to organizations around the world for over twenty years and we are now a leading provider of software for real-time data integration, helping organizations optimize the availability, performance, use and lifetime value of their information assets. Our software solutions provide the means for organizations to quickly and effectively integrate and simplify cross-system access for business information. Our software is commonly used for projects such as reporting and data warehousing, migration and modernization, application release automation, file replication and distribution.

Our products form a comprehensive suite of software infrastructure that is designed to reduce the complexity of today's information systems and enable the use of enterprise information where and when needed. Our software includes products for real-time data integration, application release automation (a process that automates the deployment and upgrade of custom applications and web content across various stages of the application and content lifecycle), and managed file transfer (a process that allows organizations to secure and automate business-to-business information exchanges over standard internet connections).

Our software offering currently consists of the following key products:

- *Attunity Replicate* - Attunity Replicate is a high performance data replication software that enables organizations to accelerate and reduce the costs of distributing, sharing and ensuring the availability of data for meeting business operations and business intelligence needs.

- *Attunity Stream*® - Attunity Stream is a CDC technology that captures only the changes made to transactional systems and transfers them to another destination database. Given the exponential growth rates of transactional data year-on-year, and the increasing demands for businesses to work with ever more timely information, streaming changed-data to applications and messaging systems has become a critical component of the modern 'real-time enterprise'.

- *Attunity Federate*™ - Attunity Federate provides Enterprise Information Integration, or EII, across numerous types of data sources. Using Attunity Federate, companies can create single views of business information (e.g., Single Customer View), making it easier for business users to access information that exists across multiple data silos without the need for any complex programming.

- *Attunity Connect*® - Attunity Connect is a suite of pre-built software that provides access, connect-ability and integration to various data sources or applications across a wide range of computing platforms, including those on mainframes, enterprises, legacy and proprietary sources, as well as Windows and UNIX. It is designed to provide seamless access to any data or application, irrespective of the underlying applications that need access.

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

- *RepliWeb Replication Manager* – RepliWeb Replication Manager is a heterogeneous file system and storage replication solution, optimized for Wide Area Network, or WAN, infrastructures. The Replication Manager provides organizations with widely distributed (global/regional/local) operations, a highly reliable and fast way to replicate, mirror, backup and/or migrate unstructured data.

- *RepliWeb Deployment Manager* – RepliWeb Deployment Manager is an application release automation and Web deployment solution for Windows (.NET & SharePoint), UNIX and Linux applications and web infrastructures. The product is used by information technology, or IT, operations, application development and content/marketing teams to manage and automate the deployment of applications and digital content across on-premises and cloud-based servers.

- *Legacy Products* - Our key legacy products include *CorVision*, an application generator tool for enterprise applications that runs on Digital VAX computers under the Open VMS (Virtual Memory System) operating system and allows developers to use either terminals or a Client/Server Windows application connected to VAX computers, and *APTuser*, a production report generator able to access data residing in different databases and file managers.

Our software solutions have been deployed at thousands of organizations worldwide in government, financial services, manufacturing, retail, pharmaceuticals and the supply chain industry.

Over the years, our products have won a number of awards for performance. Most recently, in November 2011, our Attunity SQL Server-CDC for SSIS (Microsoft SQL Server Integration Services platform) data replication software was recognized in the Best BI/Reporting product category, winning the gold medal for SQL Server Magazine's "2011 Community Choice Award" and the silver medal for the SQL Server Magazine's "2011 Editors' Best Award."

We provide our software directly and indirectly through a number of strategic and OEM and/or reseller agreements with global-class partners, such as Microsoft, IBM, Oracle and HP, as well as other software vendors and integrators.

We serve our customers via offices in North America, Europe, Israel and Asia Pacific and through a network of local partners.

The Market Opportunity and Our Solutions

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

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

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

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

Our Strategy

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

- *Extend our Product Leadership*. Our flexible, open and standards-based architecture extends integration opportunities into more business applications and enterprise computing environments, including cloud computing. Our goal is to provide the most comprehensive and reliable suite of data management and integration solutions for enterprise data centers and cloud environments that accelerate information access, improve system uptime and reduce operational overhead and complexities.

- *Expand Our Selling Capabilities*. We market and sell our products in the U.S, the U.K, Europe, Latin America, the Middle East and the Asia-Pacific regions through direct sales, OEM, reseller and distributor channels. We intend to expand our sales channels, with an increasing emphasis on OEMs and other indirect channels.

- *Enter New Markets*. To date, our revenues have been derived predominantly from licensing our software to enterprises that use it in their data centers to enable data integration, business intelligence, release automation and file replication. We believe, however, that our software is well positioned to meet the new and fast growing markets of Big Data and Cloud Computing, which represent new target markets for us. We intend to capitalize upon this opportunity by marketing our software and services to companies with real-time information and event-driven initiatives.

- *Increased Penetration of Our Existing Customer Base*. Over the years, we have licensed our different software solutions to over 2,500 customers worldwide. This large installed base affords us a unique opportunity for cross-selling our expanded product offering and future software solutions.

- *Expand and Leverage our Strategic Relationships*. We believe that a significant market opportunity exists to sell our software with the complementary products and services provided by other organizations. We plan to extend our existing strategic relationships and develop new alliances with leading global software providers, equipment manufacturers, application service providers, systems integrators and value-added resellers, in order to extend the functionality of our software and increase sales. We currently have strategic relationships with Microsoft, IBM, Oracle, HP, CenturyLink, Inc. (Savvis) and other software vendors, where our software is sold as an add-on product to their product line, or embedded within their own products. We intend to leverage the sales and marketing capabilities of our alliance partners and facilitate the wider adoption of our software.

- *Pursue Strategic Acquisitions*. In order to achieve our business objectives, we may pursue the acquisition of complementary technologies, products and/or businesses that enable us to enhance and expand our existing software products and our projected service offerings. For instance, in September 2011, we completed the acquisition of RepliWeb, a U.S.-based leading provider of enterprise file replication and managed file transfer technologies.

Products

Attunity Replicate

Attunity Replicate, first introduced in 2011, is a high performance data replication software that enables organizations to accelerate and reduce the costs of distributing, sharing and ensuring the availability of data for meeting business operations and business intelligence needs. Using Attunity Replicate, organizations can load data efficiently and quickly to operational data stores/warehouses; create copies of production databases to enable operational reporting; offload queries from operational systems to reduce load and impact; facilitate zero-downtime migrations and upgrades; and distribute data across data sources/centers. The key features of Attunity Replicate are:

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

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

Attunity Stream captures and delivers the changes made to enterprise data sources to a destination database. Using Attunity Stream, organizations can significantly improve the movement of mainframe and enterprise operational data in real-time to data warehouses and data marts; significantly improve the efficiency of Extract Transform & Load, or ETL, processes, synchronize data sources; and enable event-driven business activity monitoring and processing. Attunity Stream provides agents that non-invasively monitor and capture changes to mainframe and enterprise data sources. Changes are delivered in real-time or consumed as required using standard interfaces. The key features of Attunity Stream are:

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

Attunity Data Replication

Attunity Data Replication, including the Attunity CDC Suite for SSIS and Attunity StreamFlow, enables the transfer and synchronization of data between heterogeneous databases, making information available where and when it is needed to support common needs, including business intelligence and system upgrades and migrations. The key features of Attunity Data Replication are:

- Low impact, near real-time capture and movement of changes from many data, relational and non-relational
- Heterogeneous replication, applying data changes to many target databases
- Full replication solution including initial data load followed by continuous incremental updates
- Simple installation and fast configuration using wizard-based GUI
- Management console for monitoring and control

Attunity Federate – virtual data federation for EII

Attunity Federate provides EII across heterogeneous data sources. Using Attunity Federate, companies can create single views of business information (e.g., Single Customer View), make it easier for business users to access information in multiple data silos with virtual data models, complement data warehouses with real-time access to operational data stores, and guarantee data integrity with distributed transaction management. Attunity Federate joins heterogeneous data sources to make them available as a virtual data layer. It uses distributed query optimization and processing engines that reside natively on enterprise data servers to provide superior performance, security, and transaction management. Attunity Federate leverages Attunity Connect adapters to access any data source in the enterprise. The key features of Attunity Federate are:

- Real-time information integration across disparate data source
- A virtual metadata catalog of information sources and data models
- High performance and availability
- Robust security and access control
- Broad set of standard SQL and XML interfaces
- Distributed query optimization and processing
- Read and write capabilities, with support for transaction management
- Simple installation and fast configuration using wizard-based GUI

Attunity Connect - standard data access and legacy adapter suite

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

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

RepliWeb Managed File Transfer (MFT)

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

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

RepliWeb Replication Manager

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

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

RepliWeb Deployment Manager

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

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

Legacy Products

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.

Customer Support Services

We provide the following direct support services to our customers:

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

Training. We provide classroom and on-site training in the use of our products. The course curriculum includes product use education, 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 and system integration assistance to enable customers to use our products efficiently and effectively.

Sales and Marketing

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

We maintain direct sales operations through wholly owned subsidiaries in the United States, the United Kingdom, Hong Kong and Israel. In Japan, South Korea, Taiwan, Singapore, Germany, Spain and South and Central America we distribute our products through independent distributors. Our field force (including marketing, sales, technical pre-sales and support personnel) is comprised of 22 persons in North America, 8 persons in Europe, the Middle East and Africa and 5 persons in the Asia Pacific region.

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

Seasonality

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

Customers

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

In 2009 and 2010, all license revenues were derived from our connectivity and replication/CDC product lines. In 2011, primarily as a result of the acquisition of RepliWeb, 82% of our revenues were derived from our connectivity and replication/CDC product lines whereas most of the balance of revenues were derived from the RepliWeb Deployment Manager, RepliWeb Replication Manager and RepliWeb MFT products.

Our maintenance and support revenues are derived from maintenance and support services we provide to customers who use (1) our data connectivity solutions, such as the Attunity Connect, (2) the Corvision and APTuser products, which are legacy products, and (3) commencing September 2011, our RepliWeb file replication and managed file transfer solutions and Application Release Automation, or ARA. Maintenance and support revenues in 2011, 2010 and 2009 related to the data connectivity and replication/CDC product lines represented approximately 70%, 83% and 78%, respectively, out of the total consolidated maintenance and support revenues. For the year ended December 31, 2011, one of our OEM partners accounted for approximately 13.4 % of our revenues and another OEM partner accounted for approximately 10.7%. For the years ended December 31, 2010 and 2009, no single customer accounted for more than 10% of our revenues.

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

Competition and Pricing

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

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

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

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

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

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

Intellectual Property Rights and Software Protection

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

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

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

Government Regulations

General

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

Grants from the Office of the Chief Scientist

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

The R&D Law provides that know-how developed under an approved research and development program or rights associated with such know-how may not be transferred to third parties in Israel without the approval of the Chief Scientist. Such approval is not required for the sale or export of any products resulting from such research or development. The R&D Law, as amended, further provides that the know-how developed under an approved research and development program or rights associated with such know-how may not be transferred to any third parties outside Israel, except in certain special circumstances and subject to the Chief Scientist's prior approval. The Chief Scientist may approve the transfer of Chief Scientist-funded know-how outside Israel, generally, in the following cases: (a) the grant recipient pays to the Chief Scientist a portion of the sale price paid in consideration for such Chief Scientist-funded know-how (according to certain formulas), (b) the grant recipient receives know-how from a third party in exchange for its Chief Scientist-funded know-how, or (c) such transfer of Chief Scientist-funded know-how arises in connection with certain types of cooperation in research and development activities.

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

We have not received grants since 2000. Through 2000, we received grants from the Chief Scientist aggregating $2.4 million for certain of our research and development projects. Through 2006, royalties paid to the Chief Scientist totaled $2.2 million. The difference of $0.2 million is related to grants received in connection with a product that is no longer being sold. Since 2006, we have not had any liability to pay royalties the Chief Scientist.

C. ORGANIZATIONAL STRUCTURE

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

Subsidiary Name	Country of Incorporation	Ownership Percentage
Attunity Inc.	United States	100%
Attunity (UK) Limited	United Kingdom	100%
Attunity (France) S.A	France	100%
Attunity Pty Limited	Australia	100%
Attunity (Hong Kong) Ltd.	Hong-Kong	100%
Attunity Israel (1992) Ltd.	Israel	100%
Attunity Software Services (1991) Ltd.	Israel	98.8%
RepliWeb Inc.	United States	100%
RepliWeb (UK) Limited	United Kingdom	100%
RepliWeb Ltd.	Israel	100%

D. PROPERTY, PLANTS AND EQUIPMENT

Israel. Our executive, marketing and sales offices as well as research and development facilities are located in Kfar Netter Industrial Park, Kfar Netter, Israel, where we lease approximately 10,800 square feet, of which we sublease approximately 1,100 square feet to third parties. During 2011, we leased approximately 14,500 square feet, of which we subleased approximately 6,000 square feet to third parties. The premises are occupied under a lease which expires on December 31, 2013. The annual rent for the premises we occupy (i.e., excluding the spaces we sublease to third parties) was approximately $244,000, and, due to the additional office space we occupy in 2012, was increased to $268,000 in 2012.

In connection with the acquisition of RepliWeb, we also lease approximately 5,200 square feet in Petach Tikva, Israel. The premises, which are used as another research and development facility, are occupied under a lease which expires on December 31, 2013. The annual rent for these premises was approximately $147,000 in 2011, or $41,000 for the period between September 19, 2011 (the closing date of the acquisition) and December 31, 2011.

North America. We lease approximately 3,300 square feet of office space in Burlington, MA for an annual rent of approximately $71,000. In connection with the acquisition of RepliWeb, we also lease approximately 2,500 square feet of office space in Coconut Creek, FL for an annual rent of approximately $48,000, or $13,000 for the period between September 19, 2011 (the closing date of the acquisition) and December 31, 2011.

Other Locations. We currently lease one additional office space in Hong Kong. The annual rent for the premises was approximately $99,000 in 2011.

Outlook. We believe that the aforesaid offices and facilities are suitable and adequate for our operations as currently conducted and as currently foreseen. However, we are considering consolidating our Israeli facilities into one location during 2013. In the event that additional or substitute offices and facilities are required, we believe that we could obtain such offices and facilities at commercially reasonable rates.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

A. OPERATING RESULTS

Overview

We were founded in 1988 and became a public company in 1992. We have been delivering software solutions to organizations around the world for over twenty years and we are now a leading provider of software for real-time data integration, helping organizations optimize the availability, performance, use and lifetime value of their information assets. Our software solutions provide the means for organizations to quickly and effectively integrate and simplify cross-system access for business information. Our software is commonly used for projects such as reporting and data warehousing, migration and modernization, application release automation, file replication and distribution.

Our products form a comprehensive suite of software infrastructure that is designed to reduce the complexity of today's information systems and enable the use of enterprise information where and when needed. Our software includes products for real-time data integration, application release automation, and managed file transfer.

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

Executive Summary

Financial Highlights

In 2011, our total revenues were approximately $15.2 million, compared to $10.1 million in 2010. This overall 51% increase is composed of (1) a 75% increase in license revenues, from $4.6 million in 2010 to $8.1 million in 2011, and (2) a 29% increase in maintenance and service revenues, from $5.4 million in 2010 to $7.0 million in 2011. This growth was primarily due to:

- an increase in revenues from our OEM channels and in our direct sales in the United States, partially offset by a decrease in our direct sales in Europe and the Far East;
- the acquisition of RepliWeb in September 2011. RepliWeb, whose operating results are consolidated with our results of operations commencing with September 19, 2011, contributed approximately $2.8 million in total revenues in 2011, of which $1.4 million was in license revenues and the balance in maintenance revenues; and
- the launch and market acceptance of our replication products as well as an increase in the average size of our deals.

Our operating results improved to $70,000 of operating income in 2011 compared to an operating loss of $43,000 in 2010.

In 2011, we incurred a net loss of $0.8 million, compared to a net loss of $1.5 million in 2010. The decrease in our net loss related mainly to the increase in revenues, which was offset by an increase in operating expenses (both derived organically and from the acquisition of RepiWeb), and by a tax benefit resulting from a deferred tax asset of approximately $0.6 million recognized as a result of the acquisition of RepliWeb.

We had cash and cash equivalents of approximately $1.5 million as of December 31, 2011 compared to $0.9 million as of December 31, 2010. This increase in our cash position is mainly attributable to cash provided from operations of approximately $4.2 million, which was partially offset by repayment of outstanding loans in the aggregate amount of approximately $1.3 million and net cash paid in connection with the acquisition of RepliWeb in the aggregate amount of $2.4 million.

In addition, our total outstanding debt was reduced from $2.9 million at December 31, 2010 to only $0.9 million at December 31, 2011, partially as a result of the conversion of approximately $0.7 million of principal amount of our Convertible Notes, or approximately 47% of the total outstanding principal amount of the Convertible Notes, into ordinary shares on December 31, 2011. As of March 1, 2012, following the conversion of additional Notes in the principal amount of approximately $0.5 million during January 2012 and a last payment to one of the Convertible Notes holders, the outstanding debt has been reduced to $0.3 million.

Our shareholders' equity increased to $5.2 million as of December 31, 2011 compared to $733,000 as of December 31, 2010.

Acquisition of RepliWeb

On September 19, 2011, we completed the acquisition of RepliWeb, a U.S.-based leading provider of enterprise file replication and managed file transfer technologies, for a total consideration composed of:

- $3.3 million in cash payable at closing;
- approximately 4.0 million ordinary shares issued at closing. These ordinary shares are subject to a "lock-up" period ending on June 30, 2012, during which period they may not be sold or otherwise disposed, except to affiliates;
- $4.0 million in cash payable within 10 business days following the closing. It should be noted that RepliWeb was acquired with all of its cash and cash equivalents of approximately $4.0 million (following deduction of transaction expenses); and
- a milestone-based contingent cash payment of up to $2.0 million payable in April 2013.

Of the above total consideration, approximately 3.4% was payable to certain employees of RepliWeb, allocated pro-rata from the aforesaid cash, shares and earn-out components of the consideration. This resulted in an amount of $386,000 recorded as an expense in our statement of operations.

The acquisition was financed from our own working capital resources, including a $3.5 million payment from Microsoft that was received during September 2011, and $4 million in cash held by RepliWeb which we received upon the closing of the acquisition. In order to bridge a cash flow timing issue, we received a short-term loan in the principal amount of $3.0 million from an Israeli bank, which was fully repaid in September 2011.

The acquisition is designed to allow us to target new addressable markets, develop opportunities with existing and new OEM channel partners, as well as benefit from RepliWeb’s large customer base. Through the integration of RepliWeb’s enterprise file replication and managed file transfer technologies with our established data integration and replication platforms, we were able to broaden our enterprise replication capabilities and enhance our cloud environment capabilities. We also plan to deliver optimized solutions for high-performance data and content replication, synchronization and distribution across cloud environments and enterprise data centers once the new organization is fully-integrated.

As a result of this transaction, the revenues and expenses of RepliWeb are consolidated with our results of operations commencing September 19, 2011, whereas the assets and liabilities of RepliWeb are consolidated with our balance sheet as of December 31, 2011.

2012 Outlook

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

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

In 2012, we intend to continue to invest in developing new products and enhancing existing products, to support continued growth in our sales and enhancement of market acceptance for our offerings. In particular, we intend continue to introduce and market several of our new software solutions launched in late-2011, including Attunity Replicate. Furthermore, during the first half of 2012 we plan to introduce new solutions for cloud computing that uniquely address the critical need of transferring data and files across data centers and cloud environments, based on the integration of RepliWeb's and Attunity's technologies.

We may face certain challenges during 2012. Our ability to continue our growth and achieve profitability depends, in part, on the global economy and the growth rates and changes in technology trends in industries in which we operate as well as the market acceptance of our solutions. As such, our results may be adversely affected if there is a further economic slowdown, a decrease in the overall market's IT spending, a reduction in the capital expenditures by companies in our target markets or a failure of our new products to achieve market recognition.

As a result of an unpredictable business environment and long sales cycles, we find it difficult to provide a reasonable estimate as to our own sales and profitability trends in 2011. We do, however, expect our revenues to continue to increase primarily because 2012 will be the first full year in which RepliWeb's results of operations are fully consolidated with ours.

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

Critical Accounting Policies

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

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

Revenue Recognition. We generate revenues mainly from license fees and sub-license fees for the right to use our software products, maintenance, support, consulting and training services. We sell our products primarily through our direct sales force to customers and indirectly through distributors, OEMs and VARs. Both the customers and the distributors or resellers are considered end users. We are also entitled to royalties from some distributors and VARs upon the sublicensing of the software to end users. We account for software sales in accordance with Accounting Standards Codification, or ASC, 985-605, "Software Revenue Recognition".

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

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

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

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

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

Our determination of fair value of each element in multiple-element arrangements is based on VSOE. We align our assessment of VSOE for each undelivered element to the price charged when the same element is sold separately. We have analyzed all of the elements included in our multiple-element arrangements and determined that we have established VSOE to allocate revenue to the maintenance and support, consulting and training ("professional") services components of our license arrangements. We sell our professional services separately, and accordingly we have established VSOE for professional services based on our hourly or daily rates. VSOE for maintenance and support is determined based upon the price charged when the same element is sold separately. Accordingly, assuming all other revenue recognition criteria are met, we recognize revenue from licenses upon delivery using the residual method.

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

Revenues from royalties are recognized according to quarterly royalty reports received from certain customers. Royalties are received from customers who embedded our products in their own products and where we are entitled to a percentage of the customer's revenue from the combined product.

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

Services revenues are recognized as the services are performed.

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

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

We estimate the fair value of employee stock options using a Black-Scholes-Merton valuation model. The fair value of an award is affected by our share price on the date of grant as well as other assumptions, including the estimated volatility of our share price over the expected term of the awards, and the estimated period of time that we expect employees to hold their stock options. The risk-free interest rate assumption is based upon United States treasury interest rates appropriate for the expected life of the awards. We use the historical volatility of our ordinary shares in order to estimate future share price trends. In order to determine the estimated period of time that we expect employees to hold their stock options, we use the "simplified method" as adequate historical experience is not available to provide a reasonable estimate. The simplified method will continue to apply until enough historical experience is available to provide a reasonable estimate of the expected term. Our expected dividend rate is zero since we do not currently pay cash dividends on our common stock and do not anticipate doing so in the foreseeable future.

Liabilities Presented at Fair Value. Some of our warrants (namely, the warrants issued to Plenus and the warrants issued in 2006 as part of a private placement) and the conversion feature of our Convertible Notes are classified as liabilities in accordance with ASC 815-40, "Contracts in Entity's Own Equity". Accordingly, these warrants and the conversion feature of the Convertible Notes are required to be marked to market at each reporting date. We estimate the fair value of these warrants and the conversion feature using a Black-Scholes-Merton valuation model. The fair value of the warrant and the conversion feature are affected by our share price on the date of issuance as well as other assumptions, including the estimated volatility of our share price over the term of these securities. The risk-free interest rate assumption is based upon United States treasury interest rates appropriate for the term of the securities. We use the historical volatility of our ordinary shares in order to estimate future share price trends. Our expected dividend rate is zero since we do not currently pay cash dividends on our ordinary shares and do not anticipate doing so in the foreseeable future.

As more fully described in Item 5.B "Plenus Loan – 2011 Amendment" below, in September 2011 we entered into an amendment to the Plenus Loan regarding Plenus' right to receive payment upon a fundamental transaction involving Attunity, or the Plenus Right. In accordance with ASC 815-40, it was considered as a derivative and recorded as a liability on our balance sheet and is marked to market at each reporting period. We determined the fair value of this derivative taking into account data provided by third-party valuating specialist who assisted us in estimating the probability of occurrence of events triggering the exercisability of such right and used the Cox, Ross and Rubinstein's Binomial Model for options valuation, where we used certain assumptions, such as the estimated volatility of our share price over the term of the Plenus right, and a risk-free interest rate assumption that is based upon United States treasury interest rates appropriate for the expected term of the Plenus Right. We use the historical volatility of our ordinary shares in order to estimate future share price trends. *See also notes 2t and 8 to our consolidated financial statements included elsewhere in this annual report.*

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

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

We also assess our ability to utilize tax attributes, including those in the form of carry forwards for which the benefits have already been reflected in the financial statements. We do not record valuation allowances for deferred tax assets that we believe are more likely than not to be realized in future periods. While we believe the resulting tax balances as of December 31, 2011 and 2010 are appropriately accounted for, the ultimate outcome of such matters could result in favorable or unfavorable adjustments to our consolidated financial statements and such adjustments could be material. *See Note 13 to our consolidated financial statements included elsewhere in this annual report for further information regarding income taxes.*

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

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

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

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

Goodwill and Intangible Assets. Goodwill is measured as the excess of the cost of acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. We review goodwill for impairment annually on December 31st and whenever events or changes in circumstances indicate its carrying value may not be recoverable in accordance with ASC 350 "Intangibles – Goodwill and other". Goodwill impairment is deemed to exist if the carrying value of a reporting unit exceeds its fair value. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we would record an impairment loss equal to the difference.

We operate in one operating segment, and this segment comprises our only reporting unit. In calculating the fair value of the reporting unit, we used our market equity capitalization. If the carrying value of a reporting unit exceeds its fair value, we then calculate the goodwill's implied fair value by performing a hypothetical allocation of the reporting unit's fair value to the underlying assets and liabilities, with the residual being the implied fair value of goodwill. This allocation process involves using significant estimates; include estimates of future cash flows, future short-term and long-term growth rates, weighted average cost of capital and assumptions about the future deployment of the long-lived assets of the reporting unit. Other factors we consider are the brand awareness and the market position of the reporting unit and assumptions about the period of time we will continue to use the brand in our product portfolio. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for our goodwill.

Our most recent annual impairment test, performed on December 31, 2011, did not result in any impairment charges. We will continue to monitor our market capitalization and expectations of future cash flows and will perform impairment testing if and when deemed necessary. The change in the carrying amount of goodwill for the year ended December 31, 2011 is mainly due to the acquisition of RepliWeb in September 2011.

Results of Operations

The following discussion of our results of operations for the years ended December 31, 2011, 2010 and 2009, including the following table, which presents selected financial information data in dollars and as a percentage of total revenues, is based upon our statements of operations contained in our financial statements for those periods, and the related notes, included in this annual report.

	Year Ended December 31, (U.S. dollars in thousands)					
	2011		2010		2009	
Revenues:	100%	$ 15,169	100%	$ 10,075	100%	9,453
Software licenses	54%	8,140	46%	4,645	44%	4,126
Maintenance and services	46%	7,029	54%	5,430	56%	5,327
Cost of software licenses	4%	563	11%	1,119	25%	2,348
Cost of maintenance and services	6%	890	8%	832	8%	722
Research and development, net	33%	4,960	25%	2,482	20%	1,894
Selling and marketing	39%	5,581	38%	3,831	37%	3,469
General and administrative	19%	2,835	18%	1,854	17%	1,608
Total operating expenses	99%	15,099	100%	10,118	106%	10,041
Operating loss	*	70	*	(43)	*	(588)
Financial and other expenses, net	8%	1,284	14%	1,388	7%	687
Income taxes (benefit)	(3)%	(399)	0%	74	0%	28
Net Loss	5%	$ 815	15%	$ 1,505	15%	1,303

* Less than 1%

Comparison of 2011, 2010 and 2009

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

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

	2011		**2010**		**2009**	
Israel	$ 948	6.3%	$ 857	8.5%	$ 637	6.7%
United States	10,729	70.7%	6,051	60.1%	5,872	62.1%
Europe	2,191	14.4%	1,693	16.8%	1,319	14.0%
Far East	869	5.8%	968	9.6%	963	10.2%
Other	432	2.8%	506	5.0%	662	7.0%
Total	$ 15,169	100%	$ 10,075	100%	$ 9,453	100%

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

	2011		2010		2009		% Change 2011 vs. 2010	% Change 2010 vs. 2009
Software licenses	$ 8,140	54%	$ 4,645	46.1%	4,126	43.6%	75%	13%
Maintenance and services	7,029	46%	5,430	53.9%	5,327	56.4%	29%	2%
Total	$ 15,169	100%	$ 10,075	100%	9,453	100%	51%	7%

In 2011, our total revenues were approximately $15.2 million, compared to $10.1 million in 2010. This overall 51% increase is composed of (1) a 75% increase in license revenues, from $4.6 million in 2010 to $8.1 million in 2011, and (2) a 29% increase in maintenance and service revenues, from $5.4 million in 2010 to $7.0 million in 2011. This growth in total revenues was primarily due to:

- the acquisition of RepliWeb in September 2011. RepliWeb, whose operating results are consolidated with our results of operations commencing with September 19, 2011, contributed approximately $2.8 million to our total revenues in 2011, of which $1.4 million was in license revenues and the balance in maintenance and service revenues;
- an increase in revenues from our OEM channels and in our direct sales in the United States, partially offset by a decrease in our direct sales in Europe and the Far East as described in the table above; and
- the launch and market acceptance of our replication products as well as an increase in the average size of our deals.

The 75% growth in license revenues was primarily due to the aforesaid factors. The $1.6 million increase in maintenance and service revenues in 2011 compared to 2010, reflecting a 29% growth, was primarily due to the acquisition of RepliWeb that contributed approximately $1.4 million to our maintenance and service revenues in 2011.

Total revenues increased by approximately 7% to $10.1 million in 2010 from $9.5 million in 2009. This increase was primarily attributable to the 13% increase in license revenues and a 2.0% increase in maintenance and services revenues. The increase in license revenues was mainly associated with an increase of sales through OEMs in the United States and through our direct sales in Europe.

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

The following table sets forth a breakdown of our cost of revenues between license and services for the periods indicated:

	2011	2010	2009	% Change 2011 vs. 2010	% Change 2010 vs. 2009
Cost of software licenses	$ 563	$ 1,119	$ 2,348	(49.7)%	(52.3)%
Cost of maintenance and services	890	832	722	6.9%	15.0%
Total	$ 1,453	$ 1,951	3,070	(25.5)%	(36.4)%

Our cost of revenues decreased to approximately $1.5 million in 2011 from approximately $2.0 million in 2010. This decrease is due to the decrease in the cost of software licenses, which is mainly due to the decrease in amortization of capitalized software from $1.1 million in 2010 to $0.3 million in 2011, partially offset by increase in amortization of intangibles of approximately $0.2 million associated with the acquisition of RepliWeb in September 2011 and by an increase of royalties paid to a third party of approximately $0.1 million. In this respect, we expect that amortization of the intangible assets associated with the acquisition of RepliWeb will be approximately $1.0 million for 2012. Cost of maintenance and services remained at substantially the same level as in 2010 despite the 29% increase in maintenance and services revenues. In this respect, we expect that such costs will increase in 2012 due to amortization of the acquired core technology of RepliWeb and the consolidation of its operating results, including cost of maintenance and services, for the full year of 2012.

Our cost of revenues decreased to approximately $2.0 million in 2010 from $3.1 million in 2009. This decrease was mainly due to the decrease in amortization of capitalized software from $2.3 million in 2009 to $1.1 million in 2010. The decrease was attributable mainly to amortization period of certain products and developments that ended during 2009 and 2010.

Operating Expenses. The following table sets forth a breakdown of our operating expenses for the periods indicated:

	2011	2010	2009	% Change 2011 vs. 2010	% Change 2010 vs. 2009
Research and development, net	$ 4,960	$ 2,482	$ 1,894	99.8%	31.0%
Selling and marketing	5,851	3,831	3,469	52.7%	10.4%
General and administrative	2,835	1,854	1,608	52.9%	15.2%
Total	13,646	$ 8,167	$ 6,971	67.1%	17.2%

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

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

Total R&D costs, before amortization of capitalized software costs, increased by 9% from $2.3 million in 2009 to $2.5 million in 2010. The increase was attributable mainly to the reinstatement of certain employment benefits in 2010 which were suspended during 2009 as a part of cost reduction plan, and the depreciation of the dollar against the NIS. The capitalization of software developments costs decreased from $0.4 million in 2009 to $0 in 2010 because R&D expenses did not meet the criteria for capitalization in accordance to accounting guidance.

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

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

Selling and marketing expenses increased by approximately 10% to $3.8 million in 2010 from $3.5 million in 2009. This increase was primarily due to the recruitment of sale and marketing personnel.

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

General and administrative expenses increased by 52.9% to $2.8 million in 2011 from $1.9 million in 2010. The increase is primarily attributable to the costs, including transaction expenses, associated with the acquisition of RepliWeb of approximately $0.5 million, general and administrative expenses associated with RepliWeb's own operations for the period commencing September 19, 2011, and an increase in legal and travel expenses due to an increase in sales and expansion of corporate activities.

General and administrative expenses increased by 15% to $1.9 million in 2010 from $1.6 million in 2009. The increase was primarily attributable to the aforesaid reinstatement of certain employment benefits for 2010, an increase in legal and travel expenses due to an increase in sales and corporate activities, and the depreciation in the dollar value against the NIS.

Operating Loss. Based on the foregoing, our operating income improved from $43,000 operating loss in 2010 to $70,000 operating profit in 2011. Operating loss decreased by 93% to $43,000 in 2010 from $0.6 million in 2009.

Financial Expenses, Net. In 2011, we had net financial expenses of $1.3 million compared to $1.4 million in 2010. This decrease is attributed mainly to a decrease in the revaluation of liabilities presented at fair value (which increased by approximately $0.7 million in 2010 compared to an increase of only $0.6 million in 2011) partially offset by financial expenses associated with the acquisition of RepliWeb of approximately $0.1 million.

Specifically, in 2011, of a total of $1.3 million of net financial expenses, approximately $0.6 million are attributed to the increase in the valuation of certain outstanding warrants and the conversion features of the Convertible Notes as well as the Plenus Right, compared to approximately $0.7 million in 2010. In general, for as long as these securities contain antidilution and price protection features, any future change in our share price will lead to recognition of financial income (in the event of decrease of our share price) or financial expense (in the event of increase of our share price) in accordance with ASC 815-40, which could have an impact on our results of operations. During 2011, we were able to secure waivers from the price protection provisions from the holders of most of these securities, which waivers partially mitigated the aforesaid impact of fluctuations in our share price over our financial income or expense starting with the first quarter of 2011. *See also notes 2t and 15 to our consolidated financial statements included elsewhere in this annual report*.

We accounted for the conversion of the Convertible Notes as of December 31, 2011 based on the Prepayment Offer (as described in Item 5.B – "Convertible Notes" below) as an inducement to convert in accordance with ASC 470-20-40-16. Accordingly, as of December 31, 2011, we recognized an inducement expense of $0.2 million, representing the fair value of the excess shares issued.

In 2010, we had net financial expenses of $1.4 million compared to net financial expenses of $0.7 million in 2009. This increase was attributable mainly to the increase in the valuation of warrants and conversion features of convertible debt, in the amount of $1.0 million in 2010 compared to $255,000 in 2009. The valuation was increased as a result of the appreciation of our share price as of December 31, 2010 compared to December 31, 2009.

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

Income taxes for 2010 were $74,000 compared to $28,000 in 2009, mainly derived from taxes withheld on export sales and business tax in a foreign location. The increase was attributable mainly to an increase in export sales subject to tax withholding

Impact of Currency Fluctuations and of Inflation

In 2010 and 2011, foreign currency fluctuations and the rate of inflation in Israel did not have a material impact on our financial results. *For additional details, see Item 11 "Qualitative and Quantitative Disclosures about Market Risk" below.*

Impact of Recently Issued Accounting Standards

In June 2011, the Financial Accounting Standards Board ("FASB") issued a guidance that changed the requirement for presenting "Comprehensive Income" in the consolidated financial statements. The guidance requires an entity to present the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate, but consecutive, statements. According to the guidance, the currently available option to disclose the components of other comprehensive income within the statement of stockholders' equity will no longer be available. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. The adoption of the standard will have no impact on our financial position or results of operations, but will result in a change in the presentation of the basic consolidated financial statements. We are still evaluating whether to present other comprehensive income in a single continuous statement of comprehensive income or in two separate but consecutive statements.

In September 2011, the FASB also amended the guidance on the annual testing of goodwill for impairment. The amended guidance will allow companies to assess qualitative factors to determine if it is more likely than not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on our financial statements.

B. LIQUIDITY AND CAPITAL RESOURCES

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

Principal Financing Activities

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

Convertible Notes. Between December 2010 through February 2011, we entered into an extension agreement, or the Third Extension Agreement, with certain holders of the Convertible Notes in the aggregate principal amount of approximately $1.5 million (out of $1.8 million that were outstanding at the time), such that, among other things, the maturity date of the Notes was extended and the aggregate outstanding principal amount will become due and payable in four equal installments of $377,334 on each of the following dates: (1) April 1, 2012; (2) June 30, 2012; (3) September 30, 2012; and (4) December 31, 2012. As part of the Third Extension Agreement, the annual interest rate was changed from a fixed annual rate of 9.0% to a fixed annual rate of 11%. The holders of Convertible Notes in the principal amount of approximately $0.3 million, who did not enter into the Third Extension Agreement, received payments in accordance with the previous terms and schedule of the Notes, such that they were fully paid in February 2012.

As a result of the acquisition of RepliWeb and in accordance with the antidilution provisions of the Convertible Notes, the conversion price of the Convertible Notes was adjusted in September 2011 to $0.62 per share (from $1.25).

Between December 31, 2011 and January 31, 2012, the holders, in the aggregate, of approximately $1.2 million of principal amount of the Convertible Notes, or approximately 76% of the total outstanding principal amount of the Notes, including Shimon Alon, our Chairman and CEO, and Ron Zuckerman, a member of our Board of Directors, converted their Convertible Notes into a total of approximately 2.4 million ordinary shares pursuant to an offer we made to all holders of the Convertible Notes, or the Prepayment Offer, the key terms of which were as follows:

- the conversion ratio of that portion of the Notes being converted was increased, reflecting a reduction of the conversion price of the Notes from $0.62 to $0.50 per share;
- each Note holder was entitled to payment, in cash or in additional ordinary shares (based on the new conversion ratio), of the interest payment due in 2012 (in a total amount of approximately $0.1 million for all Notes) plus accrued and unpaid interest for 2011 (in a total amount of approximately $0.2 million for all Notes); and
- the Prepayment Offer expired on January 31, 2012.

As of March 1, 2012, as a result of the conversion of a substantial portion of the Convertible Notes described above, the outstanding principal amount of the Convertible Notes was reduced to approximately $0.3 million, which is scheduled to be paid in full (in installments) through December 31, 2012. *For additional details, see Item 10.C "Material Contracts –Convertible Notes."*

Bridge Loan. In September 2011, in connection with the acquisition of RepliWeb, we secured a short-term loan in the principal amount of $3.0 million from an Israeli bank, or the Bridge Loan. The Bridge Loan, which was initially repayable in January 2012, bore interest at an annual rate of LIBOR plus 6%. To secure the Bridge Loan, Mr. Shimon Alon, our Chairman and CEO, provided the bank with a personal guarantee and deposited $1.2 million with the bank, or the Personal Guarantee. The Bridge Loan (together with interest payments of approximately $35,000) was fully repaid during September 2011.

Plenus Loan – 2011 Amendment. In September 2011, in connection with the acquisition of RepliWeb, we and Plenus also entered into an amendment to the Plenus Loan, whereby, among other things, (1) Plenus provided its consent to the Bridge Loan, (2) the period during which Plenus is entitled to compensation (in general, 15% of the proceeds payable in a Fundamental Transaction) upon consummation of a Fundamental Transaction was extended until December 31, 2017, (3) during such extended period, Plenus may elect to receive $300,000 in cash in lieu of such compensation, and (4) Plenus' right to compensation (in general, 15% of the Company's consolidated revenues in 2012) in the event that our consolidated revenues in 2012 exceed $18 million was canceled. *For additional details, see Item 10.C "Additional Information – Material Contracts – Plenus Loan."*

Working Capital and Cash Flows

As of December 31, 2011, we had $1.8 million in cash, cash equivalents and restricted cash, compared to $1.1 million in cash, cash equivalents and restricted cash as of December 31, 2010.

As of December 31, 2011, the outstanding principal amount under (1) the Plenus Loan was $0.1 million (which was fully repaid in early January 2012); and (2) the Convertible Notes was $0.8 million, such that our outstanding debt as of December 31, 2011 was $0.95 million. As of March 1, 2012, following the conversion of additional Notes during January 2012 and a last payment to one of the Convertible Notes holders, the outstanding debt has been reduced to $0.3 million.

As of December 31, 2011, we had a deficit of $7.9 million in working capital, compared to a deficit of $2.6 million as of December 31, 2010.

Net cash provided by operating activities was $4.2 million in 2011, compared to $0.5 million in 2010. The increase is primarily because of payments in the aggregate amount of $3.85 million we received from Microsoft during 2011.

Net cash used in investing activities was $2.7 million in 2011, compared to $58,000 million in 2010. The increase is mainly attributable to the acquisition of RepliWeb.

Net cash used in financing activities was $1.0 million in both 2011 and 2010.

As of December 31, 2011, our principal commitments consisted of long-term liability for the contingent payment obligation due to RepliWeb former shareholders in the amount of $2.0 million (presented in the consolidated financial statements at present value of approximately $1.7 million), short term debt resulting from the outstanding Convertible Notes in the principle amount of $0.8 million (which as of March 1, 2012, following the partial conversion of the Notes, was reduced to $0.3 million) and the Plenus Loan in the principle amount of $0.1 million (which was fully repaid in January 2012), as well as obligations outstanding under operating leases. *See also Item 5.F "Tabular Disclosure of Contractual Obligations."*

Principal Capital Expenditure and Divestitures

During 2011, our capital expenditures totaled approximately $161,000 (compared to $58,000 during 2010 and $19,000 during 2009), most of which was used for the purchase of computers and license of software. Other than future capital expenditures of the types and consistent with the amounts described above, we have no significant capital expenditures in progress. We did not effect any principal divestitures in the past three years.

Outlook

In the past several years, we performed several restructuring and financing activities in order to improve our financial condition. These activities, which included the aforesaid Prepayment Offer, resulted in (1) a decrease of our operating expenses from approximately $18.0 million in 2007 to approximately $15.1 million in 2011 (including the operating expenses of RepliWeb commencing on September 19,2011), while our revenues increased from approximately $12.1 million in 2007 to $15.2 million in 2011, and (2) reduction of our outstanding debt from approximately $4.0 million in 2007 to $0.95 million in 2011 (and to $0.3 million as of March 1, 2012), leading to an improvement in our cash balance. In light of the aforesaid, as well as other factors, including our ability to generate cash, we anticipate that our existing capital resources will be adequate to satisfy our working capital and capital expenditure requirements until at least March 2013. *See also Item 5.F "Tabular Disclosure of Contractual Obligations."*

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

The software industry is characterized by rapid product 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, 2011, we employed 66 persons in research and development.

We have committed substantial financial resources to our research and development efforts. During 2011, 2010 and 2009, our research and development expenditures before capitalization were $5.0 million, $2.5 million and $2.3 million, respectively. We capitalized computer software development costs of $0, $0 and $0.4 million in the years ended December 31, 2011, 2010 and 2009, respectively.

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

D. TREND INFORMATION

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

E. OFF-BALANCE SHEET ARRANGEMENTS

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

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations and commercial commitments, as of December 31, 2011:

Contractual Obligations	Payments due by Period (U.S. dollars in thousands)				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 Years
Long-term convertible debt obligations (*)	$ 835	$ 835	$ -	- -	--
Long-term debt obligations	83	83	-	- -	- -
Severance pay obligation	783				
Operating lease obligations	1,025	773	252	--	--
RepliWeb contingent payment (**)	1,669	--	1,669	--	--
Total (***)	$ 4,359	$ 1,691	$ 1,921	--	--

(*) During January 2012 approximately $0.5 million of the Notes were converted into shares. The balance following the conversion is approximately $0.3 million.

(**) Represents the present value of a contingent payment of $2.0 million payable in April 2013 to former RepliWeb shareholders.

(***) Excludes $222,000 for an accrual for uncertain income tax position under ASC 740 "Income Taxes," which is paid upon settlement because we are unable to reasonably estimate the ultimate amount or timing of settlement. See Note 2j of our consolidated financial statements included elsewhere in this annual report.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

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

Name	Age	Director Since	Position with the Company
Shimon Alon	62	2004	Chairman of the Board of Directors and Chief Executive Officer
Dror Harel-Elkayam	44	- -	Chief Financial Officer and Secretary
Erez Zeevi	46	- -	Vice President, Research and Development and Worldwide Support
Dov Biran	59	2003	Director
Dan Falk (1)	67	2002	Director
Tali Alush-Aben (1)	47	2008	Outside Director
Ron Zuckerman	54	2004	Director
Gil Weiser (1)	70	2010	Outside Director

(1) Member of the Audit Committee.

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

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

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

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

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

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

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

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

Additional Information

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

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

Messrs. Alon, Biran, Falk and Zuckerman will serve as directors until our 2012 annual general meeting of shareholders. Ms. Alush-Aben was elected as an outside director in December 2011 for a three-year term, until our 2014 annual general meeting of shareholders. Mr. Weiser was elected as an outside director in December 2010 for a three-year term, until our 2013 annual general meeting of shareholders.

In light of the relatively small size of our Board of Directors and the scope of our operations, our Board of Directors determined to cease having separate compensation and nomination committees, effective February 2011, and has assumed the functions and responsibilities of such committees until otherwise determined.

B. COMPENSATION

General

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

	Salaries, fees, commissions and bonuses	Pension, retirement and similar benefits
2010 - All directors and executive officers as a group, consisting of 8 persons for the year ended December 31, 2010	$ 629,000	$ 76,000
2011 - All directors and executive officers as a group, consisting of 8 persons for the year ended December 31, 2011	$ 828,000	$ 104,000

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

During 2011, an aggregate sum of approximately $104,000 ($76,000 in 2010) was set aside by us to provide pension, retirement and severance benefits to directors and executive officers.

In accordance with the approval of our shareholders, non-employee directors who are not outside directors receive an annual fee of $9,000 and an attendance fee of $300 per meeting attended. Our non-employee outside directors receive, effective July 2008, an annual fee of $9,000 (equivalent to approximately NIS 32,000) and an attendance fee of NIS 1,674 (equivalent to approximately $470) per meeting attended, both linked to the Israeli Consumer Price Index, or CPI.

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

- a grant of options under our stock option plans to purchase 80,000 ordinary shares, which vest in three equal installments over three years;
- the exercise price of all options will be equal to the fair market value of the ordinary shares on the date of the grant (i.e., the closing price of our shares on the date of the annual general meeting of shareholders in which such director is elected or reelected); and
- the portion of outstanding options scheduled to vest during any year in which the director's service with us is terminated or expires will accelerate and become fully vested and exercisable for a period of 180 days thereafter, unless termination was due to the director's resignation or for one of the causes set forth in the Companies Law.

Other than the foregoing fees, reimbursement for expenses and the award of stock options, we do not compensate our directors for serving on our board of directors. See Item 6.E "Directors, Senior Management and Employee – Share Ownership – Stock Option Plans – Grants in 2010."

Our Chief Executive Officer

Mr. Shimon Alon began serving as a director of our company on July 1, 2004. We entered into an employment agreement with Mr. Alon, under which he agreed to serve as our Chief Executive Officer effective June 1, 2008. Pursuant to the employment agreement, Mr. Alon has agreed to devote his full working time and best efforts to our business and affairs, and to the performance of his duties under the agreement as long as he is employed by us. Pursuant to his employment agreement (as last modified in December 2011), we provide Mr. Alon the following payments and benefits:

- A gross monthly salary (denominated in NIS) of the NIS equivalent of $26,427 during the term of his employment;
- A company car and all related expenses, except related taxes;
- Company contributions for the benefit of Mr. Alon to (1) our Managers Insurance Policy in the amount of 18.33% of Mr. Alon's gross salary (a portion of which is for severance pay, to which Mr. Alon would be entitled), and (2) our Education Fund ("Keren Hishtalmut") in the amount of 7.5% of Mr. Alon's gross salary;
- Options to purchase 960,000 ordinary shares at an exercise price equal to $0.30 per share. In December 2009, we granted Mr. Alon options to purchase 250,000 additional ordinary shares, at an exercise price equal to $0.25 per share. In December 2010, we granted Mr. Alon additional options to purchase 100,000 ordinary shares, at an exercise price equal to $0.70 per share. In December 2011, we granted Mr. Alon additional options to purchase 200,000 ordinary shares, at an exercise price equal to $0.71 per share. All such options are subject to the terms of our 2003 Israeli Stock Option Plan and vest as follows: (1) the initial grant of 960,000 options - one third of the options vest at the end of each of the three years following the commencement of Mr. Alon's employment (all of which are currently vested); and (2) with respect to the additional grants, one third of the options vest one year after the grant date, with the balance vesting in eight equal quarterly installments. Vesting of the options will accelerate upon certain change of control events. All options expire six years after the date of grant;

- An annual bonus (denominated in NIS) that will not exceed the NIS equivalent of $158,562 gross, which shall be paid on a quarterly basis, subject to Mr. Alon achieving certain milestones that will be set by our Audit Committee and Board of Directors;

- Up to 22 days paid vacation per year;

- 10 days recreation payment a year in an amount normally paid by our company; and

- In the event of termination of Mr. Alon's employment for any reason (other than (1) by the company under circumstances that he is not entitled to severance pay under Israeli law, (2) by resignation at any time without the required prior notice, or (3) by resignation within 36 months of his employment with our company, regardless of prior notice), Mr. Alon will be entitled to an adjustment period of 12 months following the end of the prior notice period under the agreement (or from the date that he actually ceased to provide services should we choose to waive the prior notice period). During the adjustment period, Mr. Alon will be entitled to all rights to which he is entitled under his employment agreement and he will be entitled to exercise any vested options; however,his options will cease to vest. The employee-employer relationship will not terminate until the end of the adjustment period. Mr. Alon will be entitled to reimbursement of all expenses in connection with his employment.

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

Mr. Alon's employment agreement (as amended) was approved by our Audit Committee, our Board of Directors and our shareholders. In February 2009, Mr. Alon agreed to reduce his annual base salary by 10% and waive certain associated social benefits until further notice by him. In 2010, we resumed the payment of all such social benefits. In February 2011, Mr. Alon agreed to a 4% reduction in his annual base salary (in lieu of the previous 10% reduction). Starting November 2011, we resumed the payment of his full salary and social benefits in accordance with his employment agreement.

C. BOARD PRACTICES

Introduction

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

Election of Directors; Board Meetings

Pursuant to our articles of association, all of our directors are elected at annual meetings of our shareholders. Except for our outside directors (as described below), our directors hold office until the next annual meeting of shareholders following the annual meeting at which they were appointed, which is required to be held at least once during every calendar year and not more than fifteen months after the last preceding meeting. Except for our outside directors (as described below), directors may be removed earlier from office by resolution passed at a general meeting of our shareholders and our board of directors may temporarily fill vacancies in the board until the next annual meeting of shareholders.

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

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

Outside Directors

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

To qualify as an outside director, an individual (or the individual's relative, partner, employer or any entity under the individual's control) may not have, and may not have had at any time during the previous two years, any "affiliation" (i) with the company, the company's controlling shareholder or its relative, or another entity affiliated with the company or its controlling shareholder, or (ii) in a company without a controlling shareholder (or a shareholder that owns more than 25% of its voting power), such as Attunity, with any person who, at the time of appointment, is the chairman, the chief executive officer, the chief financial officer or a 5% shareholder of the company. The term affiliation includes:

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

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

In addition, pursuant to the Companies Law, (1) an outside director must have either "accounting and financial expertise" or "professional qualifications" (as such terms are defined in regulations promulgated under the Companies Law) and (2) at least one of the outside directors must have "accounting and financial expertise." Our outside directors are Mr. Gil Weiser and Ms. Tali Alush-Aben. We have determined that Mr. Weiser has the requisite "accounting and financial expertise" and that Ms. Alush-Aben has the requisite "professional qualifications."

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

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

The initial term of an outside director is three years and he or she may be reelected for up to two additional three-year terms. Reelection of an outside director may be effected through one of the following mechanisms: (1) the board of directors proposed the reelection of the nominee and the election was approved by the shareholders by the majority required to appoint outside directors for their initial term as described above; or (2) a shareholder holding 1% or more of the voting rights proposed the reelection of the nominee, and the reelection is approved by a majority of the votes cast by the shareholders of the company, excluding the votes of controlling shareholders and those who have a personal interest in the matter as a result of their relations with the controlling shareholders; provided that the aggregate votes cast in favor of the reelection by such non-excluded shareholders constitute more than 2% of the voting rights in the company.

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

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

Independent Directors

While we are no longer subject to the NASDAQ Listing Rules, which require that a majority of our board of directors qualify as independent directors within the meaning of such rules, our board of directors has determined that all of our directors, except for Mr. Alon, our Chairman of the Board of Directors and Chief Executive Officer, would qualify as "independent directors" within the meaning of the NASDAQ Listing Rule 5605(a)(2).

Committees of the Board of Directors

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

Our audit committee, which was established in accordance with Section 114 of the Israeli Companies Law and Section 3(a)(58)(A) of the Securities Exchange Act of 1934, assists our board of directors in overseeing the accounting and financial reporting processes of our company and audits of our financial statements, including the integrity of our financial statements; compliance with legal and regulatory requirements; our independent public accountants' appointment, qualifications and independence; the performance of our internal audit function and independent public accountants; finding any defects in the business management of our company for which purpose the audit committee may consult with our independent auditors and internal auditor and proposing to the board of directors ways to correct such defects; approving related-party transactions; and such other duties as may be directed by our board of directors or required by applicable law. In addition, our audit committee functions as our Qualified Legal Compliance Committee, or the QLCC. In its capacity as the QLCC, the audit committee is also responsible for investigating reports made by attorneys appearing and practicing before the SEC in representing us of perceived material violations of U.S. federal or state securities laws, breaches of fiduciary duty or similar violations by us or any of our agents.

Under the Companies Law, our audit committee must be comprised of at least three directors, include all of the outside directors, a majority of its members must satisfy the independence standards under the Companies Law, and the chairman thereof is required to be an outside director. Our audit committee is currently composed of Mr. Weiser, the chairman of our audit committee, Ms. Alush-Aben and Mr. Falk, all of whom satisfy the respective "independence" requirements of the Israeli law and SEC rules for audit committee members.

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

Internal Audit

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

Directors' Service Contracts

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

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

Fiduciary Duties of Office Holders

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

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

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

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

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

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

Approval of Related Party Transactions Under Israeli Law

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

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

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

- the office holder's relatives. Relatives are defined to include the spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of these people; or
- any corporation in which the office holder or his or her relatives holds 5% or more of the shares or voting rights, serves as a director or general manager or has the right to appoint at least one director or the general manager.

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

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

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

Under the Companies Law, once an office holder complies with the above disclosure requirement, the board of directors may approve a transaction between the company and an office holder, or a third party in which an office holder has a personal interest, unless the articles of association provide otherwise and provided that the transaction is not detrimental to the company's interest. If the transaction is an extraordinary transaction, first the audit committee and then the board of directors, in that order, must approve the transaction. Under specific circumstances, shareholder approval may also be required. A director who has a personal interest in an extraordinary transaction, which is considered at a meeting of the board of directors or the audit committee, may not be present at this meeting or vote on this matter, unless a majority of the board of directors or the audit committee, as the case may be, has a personal interest. If a majority of the board of directors has a personal interest, then shareholder approval is generally also required.

Under the Israeli Companies Law, all arrangements as to compensation of office holders require approval of the audit committee and board of directors, and compensation of office holders who are directors must be also approved, subject to certain exceptions, by the shareholders, in that order.

Exculpation, Indemnification and Insurance of Directors and Officers

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

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

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

Indemnification of Office Holders. As permitted by the Companies Law, our articles of association provide that we may indemnify any of our office holders for an act performed in his or her capacity as an office holder, retroactively (after the liability has been incurred) or in advance against the following:

- a financial liability incurred by, or imposed on, him or her in favor of another person by any judgment, including a settlement or an arbitration award approved by a court; provided that our undertaking to indemnify with respect to such events on a prospective basis is limited to events that our board of directors believes are foreseeable in light of our actual operations at the time of providing the undertaking and to a sum or standard that our board of directors determines to be reasonable under the circumstances, and further provided that such events and amount or criteria are set forth in the undertaking to indemnify;
- reasonable litigation expenses, including attorney's fees, incurred by the office holder as a result of an investigation or proceeding instituted against him by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against him and either (A) concluded without the imposition of any financial liability in lieu of criminal proceedings or (B) concluded with the imposition of a financial liability in lieu of criminal proceedings with respect to a criminal offense that does not require proof of criminal intent or in connection with a financial sanction;

- reasonable litigation expenses, including attorneys' fees, incurred by the office holder or charged to him or her by a court, resulting from the following: proceedings we institute against him or her or instituted on our behalf or by another person; a criminal indictment from which he or she was acquitted; or a criminal indictment in which he or she was convicted for a criminal offense that does not require proof of intent;

- expenses he or she incurs as a result of administrative proceedings that may be instituted against him or her under Israeli securities laws, if applicable, and payments made to injured persons under specific circumstances thereunder; and

- any other matter in respect of which it is permitted or will be permitted under applicable law to indemnify an office holder in the Company.

Limitations on Exculpation, Insurance and Indemnification. The Companies Law provides that a company may not indemnify an office holder nor exculpate an office holder nor enter into an insurance contract which would provide coverage for any monetary liability incurred as a result of any of the following:

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

- a breach by the office holder of his or her duty of care if the breach was committed intentionally or recklessly, unless it was committed only negligently;

- any act or omission committed with the intent to derive an illegal personal benefit; or

- any fine levied against the office holder.

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

We have undertaken to indemnify our office holders to the fullest extent permitted by law by providing them with a Letter of Indemnification, the form of which was approved by our shareholders. We also currently maintain directors and officers liability insurance with a per claim and aggregate coverage limit of $10 million, including legal costs incurred.

D. EMPLOYEES

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

	As at December 31,		
	2011	2010	2009
Numbers of employees by geographic location			
United States	27	11	12
Israel	79	28	25
Europe	5	3	3
Other	7	7	12
Total workforce	**118**	**49**	**52**
Numbers of employees by category of activity			
Research and development	66	19	19
Sales and marketing	29	17	19
Product and customer support	14	7	8
Management and administrative	9	6	6
Total workforce	**118**	**49**	**52**

The overall increase in our workforce, from 49 employees in 2010 to 118 employees in 2011, is primarily due to the acquisition of RepliWeb in September 2011, which, immediately prior to the acquisition, employed 56 employees.

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

Our employees are not represented by labor unions. Nevertheless, with respect to our employees in Israel, who constitute a majority of our workforce, certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (including the Industrialists' Association) 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, 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 certain circumstances, including the retirement or death of an employee or the termination of employment of an employee without due cause. Israeli employers and employees are required to pay predetermined amounts to the National Insurance Institute, which is substantially similar to the United States Social Security Administration. In 2011, payments to the National Insurance Institute amounted to approximately 17.9**%** of wages (up to a maximum amount), of which approximately two thirds was contributed by employees with the balance contributed by the employer.

E. SHARE OWNERSHIP

Beneficial Ownership of Executive Officers and Directors

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

Stock Option Plans

2001 and 2003 Option Plans

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

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

Both plans are administered by our Board of Directors. Subject to the 2001 Plan, the 2003 Plan and applicable law, the Board of Directors has the authority to make all determinations deemed necessary or advisable for the administration of such plans, including to whom options may be granted, the time and the extent to which the options may be exercised, the exercise price of shares covered by each option, the type of options and how to interpret such plans.

In September 2004, our shareholders approved amendments to the 2001 Plan and the 2003 Plan, such that shares reserved for issuance under these plans will be allocated between the two plans as determined by our Board of Directors from time to time. In addition, all ordinary shares previously reserved under our 1994 Stock Option Plan and 1998 Stock Option Plan, both of which are no longer in force, were rolled-over to the 2003 Plan to be used for the grant of options thereunder.

To date, a total of 7,800,000 ordinary shares are reserved for issuance under the 2001 Plan and 2003 Plan. Any options which are canceled or forfeited before expiration become available for future grants. As of March 1, 2012, 151,006 ordinary shares remain available for grant of options under these plans.

Grants in 2011

In 2011, we granted options exercisable into 2,203,500 ordinary shares under the 2001 Plan and the 2003 Plan. Out of the total number of options granted in 2011, our directors and executive officers were granted options exercisable into 640,000 ordinary shares, at exercise prices ranging from $0.71 to $0.76 per share. Such options will expire in 2017.

Total Outstanding Options

The following table sets forth, as of December 31, 2011, the number of options outstanding under our 2001 and 2003 Plans and their respective exercise prices and expiration dates:

Number of Outstanding Options	**Range of exercise price**	**Weighted average remaining contractual life (in years)**
240,000	$0.08	3.00
830,834	$0.12-$0.14	3.12
1,210,000	$0.25-$0.30	2.43
815,749	$0.37-$0.38	4.08
828,250	$0.49-$0.58	1.93
1,002,500	$0.65-$0.69	5.72
1,341,000	$0.70-$0.76	5.46
40,000	$1.32	0.99
280,000	$1.92-$2.19	2.25
140,000	$2.42-$2.46	2.70
Total: 6,728,333(*)		3.76

(*) Out of which 3,904,437 options are vested and exercisable into ordinary shares as of December 31, 2011.

Change of Control Arrangements

The Board of Directors, as administrator of our share option plans, has the authority to provide for accelerated vesting of the ordinary shares subject to outstanding options held by the option holders in connection with certain changes in control of the Company or the subsequent termination of employment following the change in control event. All of our executive officers (including our Chief Executive Officer, as described in Item 6.B above under “Our Chief Executive Officer Compensation”) as well as additional key employees have been granted such benefits upon a change of control.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information, to our knowledge, as of March 1, 2012 regarding the beneficial ownership by (i) all shareholders who own beneficially more than 5% of our ordinary shares and (ii) by each of our directors and executive officers:

	Number of Ordinary Shares Beneficially Owned (1)	Percentage of Outstanding Ordinary Shares (2)
Shimon Alon	6,067,654(3)	13.86%
Ron Zuckerman	3,213,580(4)(5)	7.64%
Dov Biran	100,000(6)	*
Dror Harel-Elkayam	*	*
Erez Zeevi	*	*
Dan Falk	*	*
Gil Weiser	*	*
Tali Alush-Aben	*	*
Directors and Officers as a group (consisting of 8 persons)	10,143,696(7)	23.54%

* Less than 1%

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

(2) The percentages shown are based on 41,375,711 shares issued and outstanding as of March 1, 2012.

(3) Mr. Alon is the Chairman of our Board and our Chief Executive Officer. Includes (i) 3,677,249 ordinary shares; (ii) 110,400 ordinary shares issuable upon exercise of Warrants issued in September 2006, exercisable at an exercise price of $0.12 per ordinary share; (iii) 1,001,191 ordinary shares issuable upon exercise of Warrants issued in May 2009, exercisable at an exercise price of $0.12 per ordinary share; (iv) Note Warrants (defined below) to purchase up to 78,814 ordinary shares at exercise prices of $0.12 per ordinary share; and (v) 1,200,000 ordinary shares issuable upon exercise of stock options at exercise prices ranging from $0.30 to $2.42 per ordinary share. These options expire between December 28, 2012 and December 22, 2017.

(4) Mr. Zuckerman is a member of our Board. Includes (i) 2,507,700 ordinary shares; (ii) 110,400 ordinary shares issuable upon exercise of Warrants issued in September 2006, exercisable at an exercise price of $0.12 per ordinary share; (iii) 416,666 ordinary shares issuable upon exercise of Warrants issued in May 2009, exercisable at an exercise price of $0.12 per ordinary share; (iv) Note Warrants to purchase up to 78,814 ordinary shares at exercise prices of $0.12 per ordinary share; and (v) 100,000 ordinary shares issuable upon exercise of stock options at exercise prices ranging from $0.08 to $2.42 per ordinary share. These options expire between December 28, 2012 and December 22, 2017. See also footnote 5 below.

(5) Based on an Amendment No. 9 to a Schedule 13D filed by Mr. Zuckerman with the SEC on March 13, 2012 (the "Schedule 13D"), Bonale Foundation, a trust for the benefit of persons related to Mr. Zuckerman, beneficially owns 1,682,899 ordinary shares, which represent approximately 4.01% of our outstanding ordinary shares. Such figure includes (i) 1,121,933 ordinary shares and (ii) 560,966 ordinary shares issuable upon exercise of Warrants issued in May 2009, exercisable at an exercise price of $0.12 per ordinary share, or, together, the Bonale Shares. According to the Schedule 13D, Mr. Zuckerman does not direct the management of Bonale Foundation, its investment or voting decisions and disclaims beneficial ownership of the Bonale Shares.

(6) Mr. Biran is a member of our Board. Includes 100,000 ordinary shares issuable upon exercise of stock options at exercise prices ranging from $0.08 to $2.42 per ordinary share. These options expire between December 28, 2012 and December 22, 2017.

(7) Includes (i) 6,195,579 ordinary shares; (ii) 220,800 ordinary shares issuable upon exercise of Warrants issued in September 2006, exercisable at an exercise price of $0.12 per ordinary share; (iii) 1,417,857 ordinary shares issuable upon exercise of Warrants issued in May 2009, exercisable at an exercise price of $0.12 per ordinary share; (iv) Note Warrants to purchase up to 157,628 ordinary shares at exercise prices of $0.12 per ordinary share; and (v) 2,151,832 ordinary shares issuable upon exercise of stock options at an exercise price ranging from $0.08 to $2.46 per ordinary share. These options expire between December 28, 2012 and December 22, 2017.

Fully Diluted Share Capital

The following table sets forth, as of March 1, 2012, the number of our outstanding ordinary shares and the number of ordinary shares underlying outstanding securities that are convertible or exercisable into our ordinary shares:

Type of Security	Brief Description	Number of Ordinary Shares
Ordinary Shares	Issued and outstanding Ordinary shares, NIS 0.10 par value	41,375,711
Convertible Notes	Convertible Promissory Notes issued in May 2004 to purchase ordinary shares at a current conversion price of $0.62 per share. All of the Convertible Notes are scheduled to be fully repaid on December 31, 2012.	494,622
Note Rights	Rights issued to holders of Convertible Notes in May 2009 as an adjustment pursuant to the terms of the Convertible Notes, exercisable until the full repayment of the Convertible Notes, scheduled to December 31, 2012, to purchase ordinary shares at a purchase price of $0.12 per share.	157,628
Note Warrants	For each two ordinary shares purchased by exercising the Note Right, the exercising holder is entitled to a three-year warrant, to purchase one share at an exercise price of $0.12 per share. (1)	349,521(1)
2006 Warrants	Warrants issued in September 2006, exercisable until the later of (i) December 31, 2013 and (ii) date on which the principal amount under the Convertible Note issued to the holder, and any interest accrued and outstanding thereon, shall have been fully repaid to the holder, to purchase one share at an exercise price of $0.12 per share.	441,600
2009 Warrants	Warrants issued in May 2009, exercisable until May 2012, to purchase one share at an exercise price of $0.12 per share. (2)	3,283,802 (2)
Stock Options	Stock options granted to directors, employees and consultants, exercisable, subject to vesting and other conditions with various expiration dates, at exercise prices ranging from $0.08 to $2.46 per share.	7,449,333
Total		**53,552,217**

(1) Includes 157,628 and 113,080 ordinary shares underlying warrants that expire on December 30, 2014, and on January 30, 2015, respectively.

(2) With respect to 2,174,721 ordinary shares underlying the 2009 Warrants, the expiration date is the later of (i) December 31, 2013 and (ii) date on which the principal amount under the Convertible Note issued to the holder, and any interest accrued and outstanding thereon, shall have been fully repaid to the holder.

Significant Changes in the Ownership of Major Shareholders

In May 2009, we completed a rights offering. Part of the subscribers in the rights offering were Shimon Alon, our Chairman and CEO, and Ron Zuckerman, one of our directors, who purchased, in the aggregate, 1,169,049 ordinary shares at $0.12 per share for total consideration of $140,286 and received, accordingly, warrants to purchase 584,524 ordinary shares at an exercise price of $0.12 per share. As a result of the rights offering, the outstanding principal amount of a bridge loan provided by Shimon Alon and Bonale Foundation, an affiliate of Ron Zuckerman, was automatically converted into an aggregate of 2,788,599 of our ordinary shares and warrants to purchase an aggregate of 1,394,299 ordinary shares. In addition, these subscribers or their affiliates, as holders of the Convertible Notes, became entitled to an adjustment as a result of the rights offering, and received rights, or the Note Rights, exercisable until the maturity date of the Notes, to acquire up to an aggregate of 315,256 ordinary shares at a purchase price of $0.12 per share (and, for each two ordinary shares so purchased, a warrant to purchase one share at an exercise price of $0.12 per share, or up to an aggregate of 157,628 ordinary shares, or the Note Warrants).

In September 2011, as a result of the acquisition of RepliWeb, and in accordance with the anti dilution provisions of the Notes, the conversion price of the Notes was adjusted to $0.62 per share (rather than $1.25 per share), such that the Notes owned by Messrs. Alon and Zuckerman became convertible into an aggregate of 1,187,098 ordinary shares (rather than 736,000 ordinary shares).

On December 31, 2011, Messrs. Alon and Zuckerman agreed to immediately convert all of their Notes into ordinary shares pursuant to the terms of the Prepayment Offer described in Item 5.B "Liquidity and Capital Resources - Principal Financing Activities". In connection therewith, they also exercised the Note Rights to acquire an aggregate of 315,256 additional ordinary shares at $0.12 per share (and, consequently, received Note Warrants to purchase an aggregate of up to 157,628 ordinary shares).

Accordingly, the following table sets forth the beneficial ownership of Mr. Alon and Mr. Zuckerman on April 1, 2009, before the completion of the rights offering, and as of March 1, 2012:

	Beneficial Ownership (pre-rights offering)*	**Beneficial Ownership (current)****
Shimon Alon	6.45%	13.86%
Ron Zuckerman	5.18%	7.64%

* The percentages shown are based on 23,196,236 shares issued and outstanding as of April 1, 2009.

** The percentages shown are based on 41,375,711 shares issued and outstanding as of March 1, 2012.

Major Shareholders Voting Rights

Our major shareholders do not have different voting rights.

Record Holders

Based on a review of the information provided to us by our transfer agent, as of March 1, 2012, there were 112 holders of record of our ordinary shares, of which 27 record holders, holding approximately 2.5% of our ordinary shares, had registered addresses in the United States. These numbers are not representative of the number of beneficial holders of our shares nor is it representative of where such beneficial holders reside since many of these ordinary shares were held of record by brokers or other nominees (including one U.S. nominee company, CEDE & Co., which held approximately 64% of our outstanding ordinary shares as of said date).

B. RELATED PARTY TRANSACTIONS

Compensation to Chief Executive Officer

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

Convertible Notes

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

Personal Guarantee

See Item 5.B "Liquidity and Capital Resources - Principal Financing Activities – Bridge Loan."

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Financial Statements

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

Export Sales

In the year ended December 31, 2011 the amount of our export sales (i.e., sales outside Israel) was approximately $14.2 million, which represents 93.75% of our total sales.

Legal Proceedings

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

Dividend Distribution Policy

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

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

B. SIGNIFICANT CHANGES

Except as otherwise disclosed in this annual report, no significant change has occurred since December 31, 2011.

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 Global Market (through August 15, 2007), on the NASDAQ Capital Market (through February 22, 2008), and, starting February 26, 2008, on the OTCBB:

Year	High	Low
2007	$ 1.52	$ 0.36
2008	$ 0.60	$ 0.08
2009	$ 0.35	$ 0.09
2010	$ 0.73	$ 0.26
2011	$ 0.89	$ 0.39

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 OTCBB:

	High	Low
2010		
First Quarter	$ 0.50	$ 0.26
Second Quarter	$ 0.55	$ 0.36
Third Quarter	$ 0.39	$ 0.29
Fourth Quarter	$ 0.73	$ 0.32
2011		
First Quarter	$ 0.89	$ 0.56
Second Quarter	$ 0.70	$ 0.44
Third Quarter	$ 0.70	$ 0.39
Fourth Quarter	$ 0.78	$ 0.48

Monthly Stock Information

The following table sets forth, for each of the most recent last six months, the range of high ask and low bid prices of our ordinary shares on the OTCBB:

Month	High	Low
September 2011	$ 0.69	$ 0.53
October 2011	$ 0.70	$ 0.55
November 2011	$ 0.78	$ 0.63
December 2011	$ 0.76	$ 0.48
January 2012	$ 0.85	$ 0.59
February 2012	$ 1.00	$ 0.76
March 2012 (through March 29, 2012)	$ 0.93	$ 0.77

On March 29, 2012, the last reported sale price of our ordinary shares on the OTCBB was $0.88 per share.

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

Our ordinary shares were traded on the NASDAQ Global Market from our initial public offering on December 17, 1992 through August 15, 2007 and on the NASDAQ Capital Market from August 15, 2007 to February 22, 2008. Effective February 26, 2008, our ordinary shares are quoted on the OTCBB under the symbol ATTUF.

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSE OF THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Set out below is a description of certain provisions of our Memorandum of Association and Articles of Association, and of the Israeli Companies Law (as currently in effect) related to such provisions, unless otherwise specified. This description is only a summary and does not purport to be complete and is qualified by reference to the full text of the Memorandum and Articles, which are incorporated by reference as exhibits to this "annual report, and to Israeli law.

Purposes and Objects of the Company

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

The Powers of the Directors

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

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

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

Rights Attached to Shares

Our authorized share capital consists of 130,000,000 ordinary shares of a nominal value of NIS 0.1 each. The shares do not entitle their holders to preemptive rights.

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

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

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

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

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

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

Changing Rights Attached to Shares

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

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

Shareholders Meetings

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

The Companies Law generally allows shareholders to submit a proposal for inclusion on the agenda of a general meeting of a company's shareholders and also request a company to convene a special meeting of shareholders upon request in accordance with the Companies Law. Our articles of association contain procedural guidelines and disclosure items with respect to the submission of shareholder proposals for shareholders meetings.

In accordance with our articles of association, unless a longer period for notice is prescribed by the Israeli Companies Law, at least ten (10) days and not more than sixty (60) days notice of any general meeting of shareholders shall be given. Under the Companies Law, shareholder meetings generally require prior notice of not less than 21 days or, with respect to certain matters, such as election of directors and affiliated party transactions, not less than 35 days.

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

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

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

Limitations on the Rights to Own Securities in Our Company

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

Duties of Shareholders

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

Approval of Certain Transactions. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and the engagement of a controlling shareholder as an office holder or employee, generally require the approval of the audit committee, the board of directors and the shareholders, in that order. The shareholder approval must include at least a majority of the shares of non-interested shareholders voted on the matter. However, the transaction can be approved by shareholders without this special approval if the total shares of non-interested shareholders that voted against the transaction do not represent more than 2% of the voting rights in the company. In addition, any such extraordinary transaction whose term is longer than three years may require further shareholder approval every three years, unless, where permissible under the Companies Law, the audit committee approves that a longer term is reasonable under the circumstances.

General Duties of Shareholders. In addition, under the Companies Law, each shareholder has a duty to act in good faith toward the company and other shareholders and to refrain from abusing his or her power in the company, such as in shareholder votes. In addition, specified shareholders have a duty of fairness toward the company. These shareholders include any controlling shareholder, any shareholder who knows that it possesses the power to determine the outcome of a shareholder vote and any shareholder who, pursuant to the provisions of the articles of association, has the power to appoint or prevent the appointment of an office holder or any other power with respect to the company. However, the Companies Law does not define the substance of this duty of fairness.

Provisions Restricting Change in Control of Our Company

Except for (1) establishing advance notice and procedural guidelines and disclosure items with respect to the submission of shareholder proposals for shareholders meetings, and (2) requiring a special majority voting in order to amend certain provisions of our articles of association relating to shareholder proposals and election and removal of directors, there are no specific provisions of our memorandum or articles of association that would have an effect of delaying, deferring or preventing a change in control of Attunity or that would operate only with respect to a merger, acquisition or corporate restructuring involving us (or any of our subsidiaries). However, as described below, certain provisions of the Companies Law may have such effect.

The Companies Law includes provisions that allow a merger transaction and requires that each company that is a party to the merger have the transaction approved by its board of directors and a vote of the majority of its shares. For purposes of the shareholder vote of each party, unless a court rules otherwise, the merger will not be deemed approved if shares representing a majority of the voting power present at the shareholders meeting and which are not held by the other party to the merger (or by any person who holds 25% or more of the voting power or the right to appoint 25% or more of the directors of the other party) vote against the merger. Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, a merger may not be completed unless at least (1) 50 days have passed from the time that the requisite proposals for approval of the merger were filed with the Israeli Registrar of Companies by each merging company and (2) 30 days have passed since the merger was approved by the shareholders of each merging company.

The Companies Law also provides that an acquisition of shares in a public company must be made by means of a "special" tender offer if as a result of the acquisition (1) the purchaser would become a 25% or greater shareholder of the company, unless there is already another 25% or greater shareholder of the company or (2) the purchaser would become a 45% or greater shareholder of the company, unless there is already a 45% or greater shareholder of the company. These requirements do not apply if, in general, the acquisition (1) was made in a private placement that received shareholder approval, (2) was from a 25% or greater shareholder of the company which resulted in the acquirer becoming a 25% or greater shareholder of the company, or (3) was from a 45% or greater shareholder of the company which resulted in the acquirer becoming a 45% or greater shareholder of the company. A "special" tender offer must be extended to all shareholders, but the offeror is not required to purchase more than 5% of the company's outstanding shares, regardless of how many shares are tendered by shareholders. In general, the tender offer may be consummated only if (1) at least 5% of the company's outstanding shares will be acquired by the offeror and (2) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

If, as a result of an acquisition of shares, the acquirer will hold more than 90% of a company's outstanding shares, the acquisition must be made by means of a tender offer for all of the outstanding shares. In general, if less than 5% of the outstanding shares are not tendered in the tender offer and more than half of the offerees who have no personal interest in the offer tendered their shares, all the shares that the acquirer offered to purchase will be transferred to it. Shareholders may request appraisal rights in connection with a full tender offer for a period of six months following the consummation of the tender offer, but the acquirer is entitled to stipulate that tendering shareholders will forfeit such appraisal rights.

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

Disclosure of Shareholders Ownership

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

Changes in Our Capital

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

C. MATERIAL CONTRACTS

Acquisition of RepliWeb

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

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

- $3.3 million in cash payable at closing;
- $2.5 million paid in our ordinary shares based on a $0.62 per share price, such that we issued, at the closing, approximately 4.0 million ordinary shares. These ordinary shares are subject to a "lock-up" period ending on June 30, 2012, during which period they may not be sold or otherwise disposed, except to affiliates;
- $4.0 million in cash payable within 10 business days following the closing; It should be noted that RepliWeb was acquired with all of its cash and cash equivalents of approximately $4.0 million (following deduction of transaction expenses); and
- a milestone-based contingent cash payment of up to $2.0 million payable in April 2013.

The acquisition was financed from our own working capital resources, including a $3.5 million payment from Microsoft that was received during September 2011, and $4 million in cash held by RepliWeb which we received upon the closing of the acquisition. In order to bridge a cash flow timing issue, we received a short-term loan in the principal amount of $3.0 million from an Israeli bank, which was fully repaid in September 2011.

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

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

Microsoft OEM Agreement (CDC)

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

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

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

Convertible Notes

In January, 2009, we entered into an Extension Agreement with the Investors Group which holds outstanding Convertible Notes in the aggregate face amount of $2 million, whereby the maturity date of the Convertible Notes will be extended by 18 months from May 2009 until November 4, 2010. In consideration of extending the repayment date, the holders of the Convertible Notes will receive the following:

- the interest rate of the Convertible Notes will be increased from an annual rate of five percent (5%) to a floating annual rate of the LIBOR rate plus five percent (5%);
- we will not be able to obtain new loans which are ranked senior to, or parri passu with, the Convertible Notes; and
- the warrants held by the Investors Group and another person, exercisable into a total of 600,000 ordinary shares, will be amended so that (1) the expiration date will be extended by 18 months from October 9, 2009 to April 9, 2011 and (2) the price adjustment mechanism, will be amended so that any financing of more than $100,000 (instead of $1.5 million) will trigger such price protection adjustment.

The Extension Agreement was approved by our shareholders on December 31, 2008 and the agreement became effective on May 12, 2009.

In March 2010, we entered into the Second Extension Agreement, whereby the maturity date was extended from November 4, 2010, such that the aggregate principal amount will become due and payable in six equal installments of $333,333, or the Installments, on each of the following dates: (1) November 4, 2010; (2) February 4, 2011; (3) May 4, 2011; (4) August 4, 2011; (5) November 4, 2011; and (6) February 4, 2012. In consideration, the holders of the Convertible Notes will receive the following:

- the interest rate of the Convertible Notes will be increased from an annual rate of LIBOR plus (5% to a fixed annual rate of 9%, payable in cash together with the applicable Installment;
- the warrants held by the Investors Group and another person, exercisable into a total of 600,000 ordinary shares, will be further amended so that the expiration date will be extended from April 9, 2011 to the later of (1) February 9, 2012 , and (2) the date on which the principal amount under the Convertible Note issued to the holder, and any interest accrued and outstanding thereon, shall have been fully repaid to the holder;
- the definition of what constitutes an "event of default" would include (1) a failure by us to pay, when due, indebtedness of more than $100,000 and (2) the declaration of an event of default under our outstanding $2 million loan from Plenus; and
- other than with respect to Shimon Alon, our Chairman and CEO, Ron Zuckerman and Aki Ratner, that waived their entitlement to the following, the holders of Convertible Notes will also be entitled to the following:
    - if we fail to timely pay any Installment (including interest), and the same is not remedied within ten (10) days, we will be required to issue warrants to the holders (1) at an exercise price equal to the average closing price of our ordinary shares in the 14 trading days following the relevant due date, but not less than $0.12 per share, and (2) that are exercisable into a number of ordinary shares equal to 100% of the unpaid balance of the Installment divided by the applicable exercise price. The aforesaid delay in the payment of 10 days or more shall not be considered an event of default; provided that we issue these warrants within 45 days following the relevant due date; and
    - in addition, if we fail to timely pay such Installment (including interest), and the same is not remedied within 90 days from the date it is due, then will be required to issue warrants to the holders (1) at an exercise price equal to the average closing price of our ordinary shares in the 14 trading days following the aforesaid 90th day, but not less than $0.12 per share and (2) that are exercisable into a number of ordinary shares equal to (A) 60% of the unpaid balance of the principal amount less the installment (that triggered the issuance above) divided by the applicable exercise price. The aforesaid delay in the payment of more than 90 days will, however, be considered an event of default.

The principal terms of the Second Extension Agreement were approved by our shareholders on December 31, 2009.

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

- the interest rate of the Convertible Notes was increased from a fixed annual rate of 9%, payable in cash together with the applicable Installment, to a fixed annual rate of 11%;

- the 2006 Warrants held by the holders of the Convertible Notes and another person, exercisable into a total of 600,000 ordinary shares, were amended so that the expiration date was extended from (A) the later of (1) February 4, 2012 and (2) date on which the principal amount under the Convertible Note issued to the holder, and any interest accrued and outstanding thereon, shall have been fully repaid to the holder to (B) the later of (1) December 31, 2013 and (2) date on which the principal amount under the Convertible Note issued to the holder, and any interest accrued and outstanding thereon, shall have been fully repaid to the holder; and

- the 2009 Warrants held by the Lenders (including Bonale Foundation, a trust for the benefit of persons related to Mr. Zuckerman), exercisable into a total of 2,222,721 ordinary shares were amended so that the expiration date was extended from May 11, 2012 to the later of (1) December 31, 2013 and (2) date on which the principal amount under the Convertible Note issued to the holder, and any interest accrued and outstanding thereon, shall have been fully repaid to the holder.

The principal terms of the Third Extension Agreement were approved by our shareholders on December 30, 2010 and the agreement became effective as of December 31, 2010.

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

Plenus Loan

Background. In June 2004, we entered into an agreement with Plenus, a venture capital lender, whereby Plenus undertook to make available to us a revolving credit facility in the aggregate amount of $3.0 million. As part of such agreement, we issued to Plenus warrants, exercisable until June 2, 2009 (but see extension below), which are exercisable into 250,909 of our shares, at an exercise price of $1.75 per share (subsequently adjusted to $0.12). We did not utilize the credit line and, in May 2006, we entered into a new Loan Agreement with Plenus, whereby we borrowed $2.0 million from Plenus (which was repaid in full in January 2007). As part of such agreement, we issued additional warrants to Plenus, exercisable until March 27, 2011 (but see extension below), which are exercisable into 192,000 of our shares, at an exercise price of $0.12 per share.

The 2007 Loan. On January 31, 2007, we entered into a the Plenus Loan, whereby Plenus provided us a $2 million loan, and, upon future achievement of a certain milestone (related to our achievement of revenues targets), which was not met, was to lend us an additional $1 million. The outstanding loan amount is due and payable in twelve equal monthly installments each commencing on the first day of the 25th month following January 31, 2007. The Plenus Loan accrues interest at a floating annual rate of the LIBOR rate published on the first day of each calendar quarter for three months plus 4.25%, and such interest will be paid on a quarterly basis.

In addition, we issued to Plenus warrants, exercisable until January 30, 2012, to purchase up to 439,883 ordinary shares at an exercise price per share of $1.364, (subsequently adjusted to $0.12), subject to adjustments. On April 23, 2007, we filed a registration statement to register for re-sale the ordinary shares underlying these warrants under the Securities Act of 1933. The registration statement was declared effective on May 2, 2007.

In order to secure our obligations under the Loan Agreement and the warrants, we pledged and granted to Plenus a first priority fixed charge on all of our intellectual property, and a first priority floating charge on all of its assets (the agreements relating to such charges, being referred to as the "Security Agreements"). The Security Agreements contain certain limitations on, among other things, our ability to materially change our business, incur certain additional liabilities and pay dividends, without the consent of Plenus.

As part of the Loan Agreement, we also agreed to extend the exercise period of the warrants previously issued to Plenus, as described above, such that the exercise period will lapse on January 30, 2012. All of these warrants were exercised.

2009 Extension. On March 30, 2009, we entered into an amendment to the Loan Agreement, or the Extension Agreement, such that, among others things, our repayment of the outstanding loan amount will commence in February 2010 rather than in March 2009 and be fully repaid by February 2012 rather than March 2010.

The other key provisions of the Extension Agreement are as follows:

- The repayment of the principal amount of the loan will be made by twenty four (24) equal monthly payments rather than twelve.
- The interest payable on the Plenus loan was changed, as of the date of the amendment, to a fixed annual rate of 9% on the loan amount rather than LIBOR plus 4.25%. Any amount owed to Plenus which is not paid when due will bear an additional interest of 5% per annum, compounded daily.
- According to the Extension Agreement, if, during the period between March 19, 2009 and March 18, 2014, we enter into a Fundamental Transaction, which is defined to include a sale through a merger, selling all or substantially all of our assets, or a transaction in which a person or entity acquires more than 50% of our outstanding shares, then, without derogating from the obligation to repay the outstanding loan, simultaneously with the closing of such Fundamental Transaction, an additional amount shall be paid to Plenus in an amount equal to the higher of (1) 15% of the outstanding loan amount, and (2) 15% of the aggregate proceeds payable to shareholders or us in connection with such Fundamental Transaction. In the event of a sale of our assets, where the proceeds are paid to us, the term "aggregate proceeds" is calculated by subtracting debts and liabilities which have not been assumed by the purchaser and adding amounts related to the level of our shareholders' loans outstanding prior to the closing of the Fundamental Transaction.
- In addition, for a period of 14 days commencing on the date on which we provide Plenus with our audited financial statements for the year ended December 31, 2012, and provided that the consolidated revenues for 2012 are equal to, or exceed, $18 million, Plenus will be entitled, at its sole discretion and in lieu of the payment upon a Fundamental Transaction described above, to receive an amount equal to the higher of (1) 15% of such revenues and (2) $1.5 million.
- If we fail to timely comply with any of our material obligations under our agreements with Plenus for a period of more than 30 days from the date such obligation becomes due, or if any payment to Plenus is postponed to such time as mutually agreed, the 15% payable upon a Fundamental Transaction shall be increased with immediate effect to 17%.

Under the Extension Agreement, we also made amendments to the fixed and floating charges provided in connection with the loan from Plenus. Also, certain of our subsidiaries provided guarantees for payment of the loan and certain of our subsidiaries provided additional security interests to secure payment of the loan.

2011 Amendment. In September 2011, in connection with the acquisition of RepliWeb, we and Plenus entered into a further amendment to the Plenus Loan. *See Item 5.B "Liquidity and Capital Resources - Principal Financing Activities."*

In early January 2012, the Plenus Loan was fully repaid in accordance with its terms.

D. EXCHANGE CONTROLS

Israeli law and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our ordinary shares. In May 1998, a new "general permit" was issued under the Israeli Currency Control Law, 1978, which removed most of the restrictions that previously existed under such law, and enabled Israeli citizens may freely invest outside of Israel and freely convert Israeli currency into non-Israeli currencies. However, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

Non-residents of Israel who purchase our ordinary shares will be able to convert dividends, if any, thereon, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, into freely repatriable dollars, at the exchange rate prevailing at the time of conversion, provided that the Israeli income tax has been withheld (or paid) with respect to such amounts or an exemption has been obtained.

E. TAXATION

Israeli Tax Considerations

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

General Corporate Tax Structure

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

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

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

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

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

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

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

Tax Benefits and Government Support for Research and Development

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

Israeli Transfer Pricing Regulations

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

Capital Gains Tax

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

Provisions of Israeli tax law may treat a sale of securities listed on a stock exchange differently than the sale of other securities. In the past, the Israeli Tax Authority has indicated that it does not recognize the OTCBB as a "stock exchange" for purposes of the Tax Ordinance. However, it is our understanding that the current position of the Israeli Tax Authority is to view securities quoted on the OTCBB as listed on a "stock exchange" where such securities were previously delisted from a "stock exchange" (such as the NASDAQ Global Market), such as our ordinary shares.

Israeli Residents

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

The tax basis of our shares acquired by individuals prior to January 1, 2003 will generally be determined in accordance with the average closing share price in the three trading days preceding January 1, 2003. However, a request may be made to the tax authorities to consider the actual adjusted cost of the shares as the tax basis if it is higher than such average price.

Non-Israeli Residents

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

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

In addition, pursuant to the Convention between the Government of the United States of America and the Government of Israel with respect to Taxes on Income, as amended, the sale, exchange or disposition of ordinary shares by a person who qualifies as a resident of the United States within the meaning of the U.S.- Israel Tax Treaty and who is entitled to claim the benefits afforded to such person by the U.S.-Israel Tax Treaty generally will not be subject to the Israeli capital gains tax unless such Treaty U.S. Resident holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding such sale, exchange or disposition, subject to particular conditions, or the capital gains from such sale, exchange or disposition can be allocated to a permanent establishment in Israel. In such case, the Treaty U.S. Resident would be subject to Israeli tax, to the extent applicable; however, under the U.S.-Israel Tax Treaty, such Treaty U.S. Resident would be permitted to claim a credit for such taxes against the U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel Tax Treaty does not relate to U.S. state or local taxes.

Taxation of Non-Residents on Dividend Distributions

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. Such sources of income include passive income such as dividends, royalties and interest, as well as non-passive income from services rendered in Israel. On distributions of dividends other than bonus shares or stock dividends, income tax will generally apply at the rate of 25%, or 30% for a shareholder that is considered a Significant Shareholder at any time during the 12-month period preceding such distribution, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence.

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

United States Federal Income Tax Consequences

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

U.S. Federal Income Taxation

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

This summary is for general information purposes only and does not purport to be a comprehensive description of all of the U.S. federal income tax considerations that may be relevant to a decision to purchase our ordinary shares. This summary generally considers only U.S. Holders that will own our ordinary shares as capital assets. Except to the limited extent discussed below, this summary does not consider the U.S. federal tax consequences to a person that is not a U.S. Holder, not does it describe the rules applicable to determine a taxpayer's status as a U.S. Holder. This summary is based on the provisions of the Internal Revenue Code of 1986, as amended, or the Code, final, temporary and proposed U.S. Treasury regulations promulgated thereunder, administrative and judicial interpretations thereof, and the U.S./Israel Income Tax Treaty, all as in effect as of the date hereof and all of which are subject to change, possibly on a retroactive basis, and all of which are open to differing interpretations. Attunity will not seek a ruling from the U.S. Internal Revenue Service, or the IRS, with regard to the U.S. federal income tax treatment of an investment in our ordinary shares by U.S. Holders and, therefore, can provide no assurances that the IRS will agree with the conclusions set forth below.

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

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

Distributions on Ordinary Shares

We do not intend to pay dividends in the foreseeable future. In the event that we do pay dividends, and subject to the discussion under the heading "Passive Foreign Investment Companies" below, a U.S. Holder will be required to include in gross income as ordinary income the amount of any distribution paid on ordinary shares (including the amount of any Israeli tax withheld on the date of the distribution), to the extent that such distribution does not exceed our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. The amount of a distribution which exceeds our earnings and profits will be treated first as a non-taxable return of capital, reducing the U.S. Holder's tax basis for the ordinary shares to the extent thereof, and then capital gain. Corporate holders generally will not be allowed a deduction for dividends received. In general, preferential tax rates not exceeding 15% for "qualified dividend income" and long-term capital gains are applicable for U.S. Holders that are individuals, estates or trusts (these preferential rates are scheduled to expire for taxable years beginning after December 31, 2012, after which time dividends are scheduled to be taxed at ordinary income rates and long-term capital gains are scheduled to be taxed at rates not exceeding 20%). For this purpose, "qualified dividend income" means, *inter alia*, dividends received from a "qualified foreign corporation." A "qualified foreign corporation" is a corporation that is entitled to the benefits of a comprehensive tax treaty with the United States which includes an exchange of information program. The IRS has stated that the Israel/U.S. Tax Treaty satisfies this requirement and we believe we are eligible for the benefits of that treaty.

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

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

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

Disposition of Shares

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

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

Medicare Contribution Tax

For taxable years beginning after December 31, 2012, U.S. Holders who are individuals, estates or trusts will generally be required to pay a new 3.8% Medicare tax on their net investment income (including dividends on and gains from the sale or other disposition of our ordinary shares), or in the case of estates and trusts on their net investment income that is not distributed. In each case, the 3.8% Medicare tax applies only to the extent the U.S. Holder's total adjusted income exceeds applicable thresholds.

Passive Foreign Investment Companies

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

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

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

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

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

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

A U.S. Holder of PFIC shares which are traded on qualifying public markets can elect to mark the shares to market annually, recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the PFIC shares and the U.S. Holder's adjusted tax basis in the PFIC shares. Losses are allowed only to the extent of net mark-to-market gain previously included income by the U.S. Holder under the election for prior taxable years. We do not believe that our ordinary shares currently qualify as "marketable" for this purpose because the OTC Bulletin Board, on which our ordinary shares are currently traded, is likely not a "qualified exchange" under current Treasury regulations.

We believe that we were not a PFIC for any of our 2007 through 2011 taxable years. The tests for determining PFIC status, however, are applied annually, and it is difficult to make accurate projections of future income and assets which are relevant to this determination. Accordingly, there can be no assurance that we are not or will not become a PFIC. U.S. Holders who hold ordinary shares during a period when we are a PFIC will be subject to the foregoing rules, even if we cease to be a PFIC, subject to specified exceptions for U.S. Holders who made a QEF or mark-to-market election. U.S. Holders are strongly urged to consult their tax advisors about the PFIC rules, including tax return filing requirements and the eligibility, manner, and consequences to them of making a QEF or mark-to-market election with respect to our ordinary shares in the event that we qualify as a PFIC.

Information Reporting and Withholding

A U.S. Holder may be subject to backup withholding (currently at a rate of 28%, but scheduled to increase to 31% for taxable years beginning after December 31, 2012) with respect to cash dividends and proceed from a disposition of ordinary shares. In general, back-up withholding will apply only if a U.S. Holder fails to comply with specified identification procedures. Backup withholding will not apply with respect to payments made to designated exempt recipients, such as corporations and tax-exempt organizations. Backup withholding is not an additional tax and may be claimed as a credit against the U.S. federal income tax liability of a U.S. Holder, provided that the required information is timely furnished to the IRS.

Under the Hiring Incentives to Restore Employment Act of 2010 (the "HIRE Act"), some payments made to "foreign financial institutions" in respect of accounts of U.S. stockholders at such financial institutions may be subject to withholding at a rate of 30%. IRS guidance indicates that final regulations will be issued that will provide that such withholding will only apply to distributions paid on or after January 1, 2014, and to other "withholdable payments" (including payments of gross proceeds from a sale or other disposition of our ordinary shares) made on or after January 1, 2015. U.S. Holders should consult their tax advisors regarding the effect, if any, of the HIRE Act on their ownership and disposition of our ordinary shares. See "—Non-U.S. Holders of Ordinary Shares."

Non-U.S. Holders of Ordinary Shares

Except as provided below, an individual, corporation, estate or trust that is not a U.S. Holder generally will not be subject to U.S. federal income or withholding tax on the payment of dividends on, and the proceeds from the disposition of, our ordinary shares.

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

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

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

The HIRE Act may impose withholding taxes on some types of payments made to "foreign financial institutions" and some other non-U.S. entities. Under the HIRE Act, the failure to comply with additional certification, information reporting and other specified requirements could result in withholding tax being imposed on payments of dividends and sales proceeds to U.S. Holders that own ordinary shares through foreign accounts or foreign intermediaries and specified non-U.S. Holders. The HIRE Act imposes a 30% withholding tax on dividends on, and gross proceeds from the sale or other disposition of, ordinary shares paid from the United States to a foreign financial institution or to a foreign nonfinancial entity, unless (1) the foreign financial institution undertakes specified diligence and reporting obligations or (2) the foreign nonfinancial entity either certifies it does not have any substantial U.S. owners or furnishes identifying information regarding each substantial U.S. owner. In addition, if the payee is a foreign financial institution, it generally must enter into an agreement with the U.S. Treasury that requires, among other things, that it undertake to identify accounts held by specified U.S. persons or U.S.-owned foreign entities, annually report certain information about such accounts, and withhold 30% on payments to other specified account holders. IRS guidance indicates that final regulations will be issued that will provide that such withholding will only apply to distributions paid on or after January 1, 2014, and to other "withholdable payments" (including payments of gross proceeds from a sale or other disposition of our ordinary shares) made on or after January 1, 2015. You should consult your tax advisor regarding the HIRE Act.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

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

As a foreign private issuer, we are exempt from certain provisions of the Exchange Act. Accordingly, our proxy solicitations are not subject to the disclosure and procedural requirements of Regulation 14A under the Exchange Act and transactions in our equity securities by our officers and directors are exempt from reporting and the "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act.

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

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

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

The documents concerning our company which are referred to in this annual report may also be inspected at our offices located at Kfar Netter Industrial Park, Kfar Netter, 40593, Israel.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

General

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

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our cash and cash equivalents. Our cash and cash equivalents are held substantially in New Israeli Shekels and in U.S. dollars. We place our cash and cash equivalents with major financial banks. For purposes of specific risk analysis, we use a sensitivity analysis to determine the impact that market risk exposure may have on the financial income derived from our cash and cash equivalents. The potential loss to us over one year that would result from a hypothetical change of 10% in the LIBOR rate would be immaterial, as we do not have borrowings linked to the LIBOR rate.

Foreign Currency Exchange Risk

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

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

	Year Ended December 31,				
	2007	2008	2009	2010	2011
New Israeli Shekel (NIS)	9.9%	1.2%	0.7%	6.4%	7.7%
Euro	11.7%	(5.3)%	3.5%	7.4%	4.2%
British Pound	2.2%	(27.2)%	10.9%	4.4%	7.3%
Israeli Consumer Price Index	3.7%	3.8%	3.9%	2.7%	2.2%

Our earnings are predominantly affected by fluctuations in the value of the U.S. dollar as compared to the NIS. A revaluation of the NIS in relation to the dollar, as was the case in 2007 through 2011, has the effect of increasing the dollar amount of any of our expenses or liabilities which are payable in NIS (unless such expenses or payables are linked to the dollar). For example, an increase of 10% in the value of the NIS relative to the U.S. dollar in 2011 (in contrast to the 7.7% decrease that actually occurred in 2011) would have resulted in a decrease in the U.S. dollar reporting value of our operating loss of approximately $0.7 million for that year. Such revaluation also has the effect of increasing the dollar value of any asset, which consists of NIS or receivables payable in NIS (unless such receivables are linked to the dollar). Conversely, any decrease in the value of the NIS in relation to the dollar, has the effect of decreasing the dollar value of any unlinked NIS assets and the dollar amounts of any unlinked NIS liabilities and expenses.

We have engaged in a currency hedging transaction intended to reduce the effect of fluctuations in currency exchange rates on our results of operations and we may enter into similar transactions in the future. As of December 31, 2011, we had outstanding currency options in the total amount of approximately $0.6 million. These transactions expire until September 2012. We cannot guarantee that such measures will effectively protect us from adverse effects due to the impact of change in currency exchange rates.

In 2010 and 2011, foreign currency fluctuations and the rate of inflation in Israel did not have a material impact on our financial results.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

ITEMS 12A, 12B AND 12C

Not applicable.

ITEM 12D

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

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

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

None.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, including our chief executive officer, or CEO, and our chief financial officer, or CFO, is responsible for establishing and maintaining our disclosure controls and procedures (within the meaning of Rule 13a-15(e) of the Exchange Act). These controls and procedures were designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information was accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. We evaluated these disclosure controls and procedures under the supervision of our CEO and CFO as of December 31, 2011. Based upon that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures are effective.

Management's Annual Report on Internal Control Over Financial Reporting

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

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011 based on the framework for Internal Control-Integrated Framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on such evaluation, our management, including the CEO and CFO, has concluded that our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended) as of December 31, 2011 is effective.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Dan Falk, who serves on our audit committee, meets the definition of an audit committee financial expert, as that term is defined in Item 16A of Form 20-F. Mr. Falk qualified as an "independent director" using the NASDAQ Stock Market definition of independence, in NASDAQ Listing Rule 5605(a)(2).

ITEM 16B. CODE OF ETHICS

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

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fees Paid to Independent Public Accountants

In the annual meeting held on December 22, 2011 our shareholders re-appointed Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global, or Ernst & Young, to serve as our independent registered public accounting firm until the next annual meeting.

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

	Year Ended December 31,			
	2010		2011	
Services Rendered	Fees (in US$)	Percentages	Fees (in US$)	Percentages
Audit (1)	106,179	97%	148,108	49%
Audit-related (2)	- -	- -	- -	- -
Tax (3)	3,340	3%	28,378	7%
Other (4)	- -	- -	48,024	44%
Total	109,519	100%	224,510	100%

(1) Audit fees consist of fees for professional services rendered by our principal accountant for the audit of our consolidated annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements.

(2) Audit-related fees relate to assurance and associated services that are performed by the independent accountant, including: attest services that are not required by statute or regulation; accounting consultation; and consultation concerning financial accounting and reporting standards.

(3) Tax fees relate to services performed by the tax division of Ernst & Young for tax compliance, planning and advice, including a transfer pricing study.

(4) Other fees relate to tax due diligence and tax planning services associated with RepliWeb acquisition.

Pre-Approval Policies and Procedures

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

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

Not applicable.

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

None.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Not applicable.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

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

ITEM 18. FINANCIAL STATEMENTS

Consolidated Financial Statements.

ITEM 19. EXHIBITS

Exhibit	Description
1.1	Memorandum of Association of the Registrant, as amended and restated ¶ (1)
1.2	Amended and Restated Articles of Association of the Registrant (2), as amended on December 22, 2011 (3)
2.1	Specimen of Ordinary Share Certificate (4)
4.3	2001 Stock Option Plan, as amended (5)
4.4	2003 Israeli Stock Option Plan, as amended (6)
4.5	Note and Warrant Purchase Agreement dated March 22, 2004 among the Registrant and the purchasers listed on Exhibit A thereto; Form of Warrant issued in connection therewith; Form of Convertible Promissory Note issued in connection therewith; and Registration Rights Agreement dated May 4, 2004, among the Registrant and the purchasers signatory thereto (7), as amended by Extension Agreement, dated as of January 7, 2009 (8), by Extension Agreement, dated as of March 23, 2010 (9), by Extension Agreement, dated as of March 23, 2010 (10), and Form of Prepayment Offer *

4.6	Loan Agreement dated January 31, 2007 among the Registrant and Plenus Technologies Ltd.; Form of First and Second Warrants to purchase Ordinary Shares issued by the Registrant to Plenus; Floating Charge Agreement dated January 31, 2007 among the Registrant, Plenus and its affiliates; and Fixed Charge Agreement dated January 31, 2007 among the Registrant, Plenus and its affiliates (11), as amended by Amendment to the Loan Agreement and Charge Agreements, dated March 30, 2009 (12), and by Amendment No. 2 to the Loan Agreement and Charge Agreements, dated September 4, 2011*****
4.7	Form of Indemnification Letter (13)
4.8	Change Data Capture OEM Agreement, dated as of December 14, 2010, by and between Attunity Inc. and Microsoft Corporation (14)
4.9	Agreement and Plan of Merger, dated as of September 7, 2011, by and among the Registrant, Attunity Inc., RepliWeb Inc. and the other signatories thereto *
4.10	Summary – Directors Compensation*
8	List of Subsidiaries of the Registrant*
12.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended*
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended*
13.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350**
13.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350**
15.1	Consent of Kost Forer Gabbay & Kasierer, a Member of Ernst & Young Global*
101	The following financial information from the Registrant's Annual Report on Form 20-F for the year ended December 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Changes in Shareholders' Equity; (iv) Consolidated Statements of Cash Flows; and (v) Notes to Consolidated Financial Statements, tagged as blocks of text. Users of this data are advised, in accordance with Rule 406T of Regulation S-T promulgated by the SEC, that this Interactive Data File is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.**

_____

(1) Filed as Exhibit 1.1 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2010, and incorporated herein by reference.
(2) Filed as Exhibit 1.2 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2010, and incorporated herein by reference.
(3) Filed as Annex A to the Registrant's Proxy Statement filed on Report of Foreign Private Issuer on Form 6-K submitted to the SEC on November 14, 2011, and incorporated herein by reference.
(4) Filed as Exhibit 4.3 to the Registrant's Registration Statement on Form S-8, filed with the SEC on January 25, 2005, and incorporated herein by reference.

(5) Filed as Exhibit 4.3 to the Registrant's Registration Statement on Form S-8, filed with the SEC on January 26, 2005, and incorporated herein by reference. The 2001 Stock Option Plan was amended in the annual general meetings of the Registrant's shareholders in December 2005 and December 2006, as reflected in Item 3 of the Registrant's Proxy Statement filed on Report of Foreign Private Issuer on Form 6-K submitted to the SEC on November 29, 2005, and in Item 2 of the Registrant's Proxy Statement filed on Report of Foreign Private Issuer on Form 6-K submitted to the SEC on November 22, 2006, which are incorporated herein by reference.

(6) Filed as Exhibit 4.4 to the Registrant's Registration Statement on Form S-8, filed with the SEC on January 26, 2005, and incorporated herein by reference. The 2003 Israeli Stock Option Plan was amended in the annual general meetings of the Registrant's shareholders in December 2005 and December 2006, as reflected in Item 3 of the Registrant's Proxy Statement filed on Report of Foreign Private Issuer on Form 6-K submitted to the SEC on November 29, 2005, and in Item 2 of the Registrant's Proxy Statement filed on Report of Foreign Private Issuer on Form 6-K submitted to the SEC on November 22, 2006, which are incorporated herein by reference.

(7) Filed as Items 3, 4, 5 and 6, respectively, to the Registrant's Report of Foreign Private Issuer on Form 6-K submitted to the SEC on March 25, 2004, and incorporated herein by reference.

(8) Filed as Exhibit 4.5 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2008, and incorporated herein by reference.

(9) Filed as Exhibit 4.5 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2009, and incorporated herein by reference.

(10) Exhibit 99.2 to the Registrant's Registrant's Report of Foreign Private Issuer on Form 6-K submitted to the SEC on February 2, 2011, and incorporated herein by reference.

(11) Filed as Exhibits 4.1, 4.2, 4.3, 4.4 and 4.5, respectively, to the Registrant's Report of Foreign Private Issuer on Form 6-K submitted to the SEC on February 6, 2007, and incorporated herein by reference.

(12) Filed as Exhibit 4.6 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2008, and incorporated herein by reference.

(13) Filed as Annex B to the Registrant's Proxy Statement filed on Report of Foreign Private Issuer on Form 6-K submitted to the SEC on November 14, 2011, and incorporated herein by reference.

(14) Filed as Exhibit 4.10 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2010, and incorporated herein by reference.

¶ Translated from Hebrew

* Filed herewith.

** Furnished herewith.

ATTUNITY LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2011

U.S. DOLLARS IN THOUSANDS

INDEX

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

ATTUNITY LTD.

We have audited the accompanying consolidated balance sheets of Attunity Ltd. (the "Company") and its subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

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

Tel-Aviv, Israel
March 30, 2012

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2011	**2010**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,484	$ 872
Restricted cash	362	224
Trade receivables (net of allowance for doubtful accounts of $ 15 at December 31, 2011 and December 31, 2010)	1,988	1,201
Other accounts receivable and prepaid expenses	158	190
Total current assets	3,992	2,487
LONG-TERM ASSETS:		
Severance pay fund	2,684	1,323
Property and equipment, net	380	205
Intangible assets, net	2,854	496
Goodwill	13,011	6,133
Other assets	235	61
Total long-term assets	19,164	8,218
Total assets	$ 23,156	$ 10,705

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

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2011	**2010**
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term convertible debt	$ 835	$ 245
Current maturities of long-term debt	115	1,014
Trade payables	452	220
Deferred revenues	5,733	2,048
Employees and payroll accruals	2,151	844
Bifurcated conversion feature presented at fair value	227	-
Accrued expenses and other current liabilities	2,128	759
Total current liabilities	11,641	5,130
LONG-TERM LIABILITIES:		
Contingent payment obligation	1,669	-
Deferred tax liability, net	515	-
Convertible debt	-	1,571
Other long-term liabilities	166	90
Liabilities presented at fair value	510	1,215
Accrued severance pay	3,467	1,966
Total long-term liabilities	6,327	4,842
COMMITMENTS AND CONTINGENT LIABILITIES		
SHAREHOLDERS' EQUITY:		
Share capital - Ordinary shares of NIS 0.1 par value - Authorized: 130,000,000 shares at December 31, 2011 and 2010; Issued and outstanding: 39,951,106 shares at December 31, 2011 and 32,269,695 shares at December 31, 2010	1,146	939
Additional paid-in capital	107,572	102,459
Accumulated other comprehensive loss	(690)	(640)
Accumulated deficit	(102,840)	(102,025)
Total shareholders' equity	5,188	733
Total liabilities and shareholders' equity	$ 23,156	$ 10,705

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2011	**2010**	**2009**
Revenues:			
Software licenses	$ 8,140	$ 4,645	$ 4,126
Maintenance and services	7,029	5,430	5,327
Total revenues	15,169	10,075	9,453
Operating costs and expenses:			
Cost of software licenses	563	1,119	2,348
Cost of maintenance and services	890	832	722
Research and development, net	4,960	2,482	1,894
Selling and marketing	5,851	3,831	3,469
General and administrative	2,835	1,854	1,608
Total operating costs and expenses	15,099	10,118	10,041
Operating income (loss)	70	(43)	(588)
Financial expenses, net	1,284	1,388	697
Other income	-	-	(10)
Loss before taxes on income	(1,214)	(1,431)	(1,275)
Taxes on income (benefit)	(399)	74	28
Net loss	$ (815)	$ (1,505)	$ (1,303)
Basic and diluted net loss per share	$ (0.02)	$ (0.05)	$ (0.05)
Weighted average number of shares used in computing basic and diluted net loss per share	34,647	31,973	28,494

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

	Ordinary shares		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total comprehensive loss	Total shareholders' Equity
	Number	Amount					
Balance as of January 1, 2009	23,196,236	$ 720	$ 104,279	$ (455)	$ (102,012)		$ 2,532
Cumulative effect as a result of adoption of new accounting guidance related to certain equity-linked financial instruments (amendment to ASC 815-40) (see Note 2t)	-	-	(3,117)	-	2,795		(322)
Issuance of shares (rights offering), net	4,982,358	119	411	-	-		530
Conversion of short-term loan into shares	3,276,396	79	314	-	-		393
Exercise of warrants	116,160	2	12	-	-		14
Stock-based compensation	-	-	196	-	-		196
Other comprehensive loss:							
Foreign currency translation adjustments	-	-	-	2	-	$ 2	2
Net loss	-	-	-	-	(1,303)	(1,303)	(1,303)
Total comprehensive loss						$ (1,301)	
Balance as of December 31, 2009	31,571,150	920	102,095	(453)	(100,520)		2,042
Change in terms of equity-classified warrants in connection with loan extinguishment	-	-	53	-	-		53
Exercise of warrants and options	698,545	19	88	-	-		107
Stock-based compensation	-	-	223	-	-		223
Other comprehensive loss:							
Foreign currency translation adjustments	-	-	-	(187)	-	$ (187)	(187)
Net loss	-	-	-	-	(1,505)	(1,505)	(1,505)
Total comprehensive loss						$ (1,692)	
Balance as of December 31, 2010	32,269,695	$ 939	$ 102,459	$ (640)	$ (102,025)		$ 733

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

	Ordinary shares		Additional paid-in Capital	Accumulated other comprehensive loss	Accumulated deficit	Total comprehensive loss	Total shareholders' Equity
	Number	Amount					
Balance as of December 31, 2010	32,269,695	$ 939	$ 102,459	$ (640)	$ (102,025)		$ 733
Classification of warrants to equity	-	-	860	-	-		860
Exercise of warrants and options	1,861,897	51	198	-	-		249
Stock-based compensation	-	-	359	-	-		359
Issuance of shares to RepliWeb's employees in connection with the acquisition	137,482	4	84				88
Issuance of shares related to RepliWeb acquisition	3,894,776	105	2,428	-	-		2,533
Conversion of Convertible Debt	1,472,000	39	1,105	-	-		1,144
Exercise of rights related to Convertible Debt	315,256	8	30				38
Fair value of guarantee associated with short term loan	-	-	49	-	-		49
Other comprehensive loss:							
Foreign currency translation adjustments	-	-	-	(50)	-	$ (50)	(50)
Net loss	-	-	-	-	(815)	(815)	(815)
Total comprehensive loss						$ (2,557)	
Balance as of December 31, 2011	39,951,106	$ 1,146	$ 107,572	$ (690)	$ (102,840)		$ (5,188)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2011	**2010**	**2009**
Cash flows from operating activities:			
Net loss	$ (815)	$ (1,505)	$ (1,303)
Adjustments required to reconcile net loss to net cash provided by operating activities:			
Depreciation	123	94	149
Expenses related to RepliWeb's employees in connection with the acquisition	139	-	-
Stock-based compensation	359	223	196
Amortization of deferred charges	-	-	25
Amortization of debt discount	-	-	126
Amortization of intangible assets	843	1,119	2,348
Fair value of guarantee associated with short term loan	49	-	-
Accretion of contingent payment obligation	75	-	-
Convertible debt inducement expense	202	-	-
Increase in accrued severance pay, net	40	193	25
Increase in trade receivables, net	(453)	(435)	(255)
Decrease (increase) in other accounts receivable and prepaid expenses	537	(45)	79
Decrease (increase) in long-term prepaid expenses	(174)	25	20
Increase (decrease) in trade payables	(370)	17	(186)
Increase (decrease) in deferred revenues	2,228	19	(327)
Increase (decrease) in employees and payroll accruals	785	28	(265)
Increase (decrease) in accrued expenses and other liabilities	882	(226)	(77)
Revaluation of restricted cash	(16)	(16)	(2)
Changes in liabilities presented at fair value	589	965	253
Change in deferred taxes, net	(774)	-	-
Net cash provided by operating activities	4,249	456	806
Cash flows from investing activities:			
Purchase of property and equipment	(161)	(58)	(19)
Increase in restricted cash	(100)	-	-
Capitalization of software development costs	-	-	(378)
Cash paid in connection with the acquisition ,net of acquired cash	(2,424)	-	-
Net cash used in investing activities	(2,685)	(58)	(397)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2011	**2010**	**2009**
Cash flows from financing activities:			
Receipt of short term bridge loan to finance the acquisition	3,000	-	-
Repayment of bridge loan	(3,000)	-	-
Proceeds from exercise of employee stock options, warrants and rights related to convertible debt	287	107	14
Receipt of long-term debt	57	26	-
Proceeds from issuance of shares (rights offering)	-	-	530
Repayment of long-term debt	(1,046)	(922)	(30
Repayment of convertible debt	(245)	(184)	-
Net cash (used in) provided by financing activities	(947)	(973)	514
Foreign currency translation adjustments on cash and cash equivalents	(5)	19	25
Increase (decrease) in cash and cash equivalents	612	(556)	948
Cash and cash equivalents at the beginning of the year	872	1,428	480
Cash and cash equivalents at the end of the year	$ 1,484	$ 872	$ 1,428
Supplemental disclosure of cash flow activities:			
Cash paid during the year for:			
Interest	$ 63	$ 484	$ 153
Income taxes,	$ 202	$ 74	$ -
Supplemental disclosure of non-cash investing and financing activities:			
Conversion of short-term loan into shares	$ -	$ -	$ 393
Issuance of shares related to the acquisition of RepliWeb	$ 2,533	$ -	$ -
Conversion of convertible debt	$ 1,144	$ -	$ -

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

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

NOTE 1:- GENERAL

a. Attunity Ltd. (the "Company" or "Attunity") and its subsidiaries develop, market and support real-time data integration software. Using Attunity's software, organizations are able to connect, transfer, join, stream and distribute to and from a variety of data sources and files in real-time. In addition, the Company provides maintenance, consulting, and other related services for its products.

b. On September 19, 2011, the Company completed the acquisition of 100% of the shares of RepliWeb Inc. ("RepliWeb"), a U.S.-based leading provider of enterprise file replication and managed file transfer technologies (see Note 3).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

a. Use of estimates:

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Thus, the functional and reporting currency of those companies is the dollar. Accordingly, monetary amounts denominated in a currency other than the functional currency are re-measured into the functional currency in accordance with ASC 830, "Foreign Currency Matters," while all transaction gains and losses of the re-measured monetary balance sheet items are reflected in the statements of operations as financial income or expenses, as appropriate.

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

c. Principles of consolidation:

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

d. Cash equivalents:

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

e. Restricted cash:

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

f. Property and equipment:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's long-lived assets are reviewed for impairment in accordance with ASC 360-10-35, "Property, Plant, and Equipment- Subsequent Measurement," whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset (or an asset group) to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. In 2011, 2010 and 2009, no impairment losses were identified.

As required by ASC 820, "Fair Value Measurements", the Company would apply assumptions that marketplace participants would consider in determining the fair value of long-lived assets (or asset groups).

g. Goodwill and other intangible assets:

Goodwill and certain other purchased intangible assets have been recorded as a result of business acquisitions. Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill is not amortized, but rather is subject to an annual impairment test at the reporting unit level. The Company performs an annual impairment test during the fourth quarter of each fiscal year, or more frequently if impairment indicators are present. The Company operates in one operating segment and this segment comprises its only reporting unit.

ASC 350, "Intangibles - Goodwill and Other", prescribes a two-phase process for impairment testing of goodwill. The first phase screens for impairment, while the second phase (if necessary) measures impairment. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. The Company compares its market capitalization to its carrying amount, including goodwill. A significant decrease in its stock price could indicate a material impairment of goodwill which, after further analysis, could result in a material charge to operations. If goodwill is considered impaired, the impairment loss to be recognized is measured by the amount by which the carrying amount of the goodwill exceeds the implied fair value of that goodwill. In 2011, 2010 and 2009, no impairment losses were identified.

The intangible assets of the Company are considered to have an indefinite useful life and are amortized over their estimated useful lives of 5 years. Intangible assets consist of core technology and acquired customer relationships both of which are amortized over their estimated useful lives in proportion to the economic benefits realized. This accounting policy results in accelerated amortization of such assets as compared to the straight-line method.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

According to ASC 360 "*Property, Plant and Equipment*", the carrying amount of these assets to be held and used is reviewed whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of each asset (or asset group) to the future undiscounted cash flows the asset (or asset group) is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. During 2009, 2010 and 2011, no impairment losses were identified.

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

h. Business Combinations:

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

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

i. Research and development costs:

Research and development costs incurred in the process of software development before establishment of technological feasibility are charged to expenses as incurred. Costs incurred subsequent to the establishment of technological feasibility are capitalized according to the principles set forth in ASC 985-20, "Costs of Software to Be Sold, Leased, or Marketed". During 2009, $378 research and development costs were capitalized and during 2010 and 2011 no research and development costs were capitalized.

Based on the Company's product development process, technological feasibility is established upon completion of a detailed program design or working model, depending on the product line.

Capitalized software costs are amortized on a product by product basis. Amortization equals the greater of the amount computed using the: (1) ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues from sales of the product, or (2) the straight-line method over the estimated economic life of the product.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

At each balance sheet date, the unamortized capitalized costs of the software products are compared to the net realizable value of the product. If the unamortized capitalized costs exceed the net realizable value of that product, such excess is written off. The net realizable value is calculated as the estimated future gross revenues from the product reduced by the estimated future costs of completing and disposing of that product, including the costs of performing maintenance and customer support required to satisfy the Company's responsibility set forth at the time of sale. Management estimated the economic life of its product to be three years. In 2011, 2010 and 2009, no impairment losses were identified.

j. Income taxes:

The Company accounts for income taxes and uncertain tax positions in accordance with ASC 740, "Income Taxes". ASC 740 prescribes the use of the liability method, whereby deferred tax asset and liability account balances are determined based on temporary differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to amounts more likely than not to be realized (see Note13).

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

ASC 740 contains a two-step approach to recognizing and measuring a liability for uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company accrues interest and penalties related to unrecognized tax benefits in its taxes on income.

k. Advertising expenses:

Advertising expenses are expensed as incurred. Advertising expenses for the years ended December 31, 2011, 2010 and 2009 amounted to $ 69, $ 47 and $ 46, respectively.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Revenue recognition:

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

The Company accounts for software sales in accordance with ASC 985-605, "Software Revenue Recognition".

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

As required by ASC 985-605, the Company determines the value of the software component of its multiple-element arrangements using the residual method when vendor specific objective evidence ("VSOE") of fair value exists for all the undelivered elements of the support and maintenance agreements or services included. VSOE is based on the price charged when an element is sold separately or renewed. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

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

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

Revenues from royalties are recognized according to quarterly royalty reports received from certain OEM's. Royalties are received from customers who embedded the Company's products in their own products and the Company is entitled to a percentage of the OEM's revenue from the combined product.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Service revenues are recognized as the services are performed.

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

m. Cost of Revenues:

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

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

n. Concentrations of credit risks:

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

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

The Company's trade receivables are mainly derived from sales to customers located primarily in the United States, the Far East, Europe and Israel. The Company performs ongoing credit evaluations of its customers and, through December 31, 2011, has not experienced any material losses. An allowance for doubtful accounts is determined with respect to those amounts that the Company has determined to be doubtful of collection. There were no bad debt expenses or write offs recorded for the years ended December 31, 2011, 2010 and 2009.

o. Accounting for stock-based compensation:

The Company accounts for stock-based compensation in accordance with ASC 718, "Compensation - Stock Compensation". ASC 718 is applicable for stock-based awards exchanged for employee services and in certain circumstances for nonemployee directors. Pursuant to ASC 718, stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The Company selected the Black-Scholes option pricing model as the most appropriate fair value method for its stock-options awards.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

The fair value for options granted in 2011, 2010 and 2009 is estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2011	2010	2009
Dividend yield	0%	0%	0%
Expected volatility	129%	127%	115%
Risk-free interest	1.03%	1.84%	3.05%
Expected life (in years)	4	4	4

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

p. Derivatives and hedging:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

During 2011, the Company entered into forward and option contracts to hedge against the risk of overall changes in future cash flow from payments of payroll and related expenses denominated in Israeli Shekels. These contracts did not meet the requirement for cash flow hedge accounting and as such gains/losses are recognized in "financial income, net". As of December 31, 2011, the Company had outstanding forward contracts in the notional amount of $ 173 and outstanding cylinder contracts in the amount of $ 1,581. The Company measured the fair value of the contracts in accordance with ASC 820 and is classified as level 2. Net losses recognized in "financial income, net" during 2011 were $ 125.

q. Basic and diluted net loss per share:

Basic and diluted loss per Ordinary share are presented in conformity with ASC 260 "Earnings Per Share", for all years presented. Basic loss per Ordinary share is computed by dividing the net loss for each reporting period by the weighted average number of Ordinary shares outstanding during the period. Diluted loss per Ordinary share is computed by dividing the net loss for each reporting period by the weighted average number of Ordinary shares outstanding during the period plus any additional Ordinary shares that would have been outstanding if potentially dilutive securities had been exercised during the period, calculated under the treasury stock method.

As of December 31, 2011, 2010 and 2009 all outstanding options and warrants were excluded from computation of diluted loss per share since they were anti-dilutive.

r. Severance pay:

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

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

Severance pay expense for the years ended December 31, 2011, 2010 and 2009 amounted to $ 296, $ 185 and $ 175, respectively.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Fair value of financial instruments:

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

The Company accounts for certain liabilities at fair value under ASC 820, "Fair Value Measurements and Disclosures". ASC 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date ("exit price"). When determining the fair value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and consider assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1- Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2- Include other inputs that are directly or indirectly observable in the marketplace.

Level 3- Unobservable inputs which are supported by little or no market activity.

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

t. Liabilities presented at fair value:

Effective January 2009, the Company adopted the amendment to ASC 815-40, "Contracts in Entity's Own Equity". As a result of the adoption, some of the Company's warrants that included anti-dilution price protection, were reclassified from shareholders' equity to liability and are marked to market at each reporting date. In addition, the conversion embedded feature of the convertible debt was bifurcated and accounted as a derivative under ASC 815 and is marked to market at each reporting date.

The cumulative effect of this pronouncement resulted in a decrease to accumulated deficit on January 1, 2009 of $ 2,795, consisting of (i) $ 1,284 due to previously granted warrants, (ii) $ 636 due to bifurcation of conversion embedded feature of the convertible debt, and (iii) $ 875 as a result of cancellation of previously recognized beneficial conversion feature related to the convertible debt.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The cumulative effect of this pronouncement resulted in a decrease to additional paid-in capital on January 1, 2009 of $ 3,117, consisting of (i) $ 1,304 due to previously granted warrants, (ii) $ 730 due to bifurcation of a conversion embedded feature of the convertible debt, and (iii) $ 1,083 as a result of cancellation of a previously recognized beneficial conversion feature related to the convertible debt

u. Comprehensive income:

The Company accounts for comprehensive income in accordance with ASC 220, "Comprehensive Income". This statement establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders. The Company determined that its only item of other comprehensive income relates to foreign currency translation adjustment.

v. Impact of recently issued accounting standards:

In June 2011, the Financial Accounting Standards Board ("FASB") issued guidance changed the requirement for presenting "Comprehensive Income" in the consolidated financial statements. The update requires an entity to present the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. According to the guidance, the currently available option to disclose the components of other comprehensive income within the statement of stockholders' equity will no longer be available. The update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. The adoption of the standard will have no impact on the Company's financial position or results of operations, but will result in a change in the presentation of the basic consolidated financial statements. The Company is still evaluating whether to present other comprehensive income in a single continuous statement of comprehensive income or in two separate but consecutive statements

In September 2011, the FASB also amended the guidance on the annual testing of goodwill for impairment. The amended guidance will allow companies to assess qualitative factors to determine if it is more likely than not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

NOTE 3:- ACQUISITION

On September 19, 2011, the Company completed the acquisition of 100% of the shares of RepliWeb through the Company's wholly owned subsidiary, Attunity Inc. The financial results of RepliWeb are included in the consolidated financial statements from the date of completion of the acquisition ("Closing Date"). The total consideration is composed as follows:

- $ 3,300 in cash;
- $ 4,000 in cash acquired from RepliWeb
- 4,032,258 ordinary shares of the Company issued at closing for total value of $2,621.
- A milestone-based contingent cash payment of up to $2,000 payable in April 2013. In connection with this contingent payment consideration, the Company recorded at the Closing Date, an estimated liability of $1,594; and
- Out of the above mentioned total consideration, approximately 3.4% was to be paid to certain employees of RepliWeb, allocated pro-rata from the aforesaid cash, shares and contingent payment components. This resulted in an amount of $386 recorded as compensation expense in the statement of operations.

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

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

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

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

NOTE 3:- ACQUISITION (Cont.)

Purchase price allocation:

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

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

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

		Fair value
Core technology (1)	$	2,166
Customer relationships (2)		1,035
Total intangible assets	$	3,201

(1) Core technology represents a combination of RepliWeb processes and trade secrets related to the design and development of its products. This proprietary know-how can be leveraged to develop new technology and improve the Company products and is amortized over 5 years using the accelerated method.

(2) Customer relationships represent the underlying relationships and agreements with RepliWeb's installed customer base and are amortized over 5 years using the accelerated method.

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

NOTE 3:- ACQUISITION (Cont.)

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

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

NOTE 4:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2011	2010
Prepaid expenses	$ 93	$ 80
Government authorities	37	42
Other	28	68
	$ 158	$ 190

NOTE 5:- PROPERTY AND EQUIPMENT, NET

	December 31,	
	2011	2010
Cost:		
Computers and peripheral equipment	$ 2,998	$ 2,283
Office furniture and equipment	420	327
Leasehold improvements	393	358
	3,811	2,968
Accumulated depreciation	3,431	2,763
Property and equipment, net	$ 380	$ 205

As for charges on the Company's property and equipment, see Note 10b.

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

NOTE 6:- GOODWILL AND OTHER INTANGIBLE ASSETS, NET

a. Goodwill:

Changes in goodwill as of December 31, 2010 and 2011 are as follows:

	December 31, 2011	December 31, 2010
Goodwill, beginning of year	$ 6,133	$ 6,313
Revaluation (foreign currency exchange differences)	(63)	(180)
Acquisition of RepliWeb	6,941	-
Goodwill, end of year	$ 13,011	$ 6,133

b. Other intangible assets, net

Net other intangible assets consisted of the following:

	December 31, 2011	December 31, 2010
Original amount:		
Software development costs	$ 22,272	$ 22,272
Core Technology	2,166	-
Customers relationship	1,035	-
	25,473	22,272
Accumulated amortization:		
Software development costs	22,112	21,776
Core Technology	220	-
Customers relationship	287	-
	22,619	21,776
Other Intangible assets ,net:		
Software development costs	160	496
Core Technology	1,946	-
Customers relationship	748	-
	$ 2,854	$ 496

The estimated future amortization expense of other intangible assets as of December 31, 2011 is as follows:

December 31	
2012	$ 985
2013	746
2014	617
2015	362
2016	144
	$ 2,854

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

NOTE 7:- ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31,	
	2011	2010
Government authorities	$ 76	$ 27
Accrued expenses	1,046	671
Uncertain tax position liability	222	-
Tax liabilities	630	-
Others	154	61
	$ 2,128	$ 759

NOTE 8:- OTHER LONG-TERM LIABILITIES

		December 31,	
		2011	2010
a.	Long-term loan and current maturities (see b)	$ 83	$ 1,083
	Long term payable	166	-
	Capital lease obligations, linked to the Israeli Consumer Price Index and bearing interest of 5%	32	21
		281	1,104
	Less - current maturities	115	1,014
		$ 166	$ 90

b. On January 31, 2007, the Company entered into a Loan Agreement (the "Agreement"), with Plenus Technologies Ltd ("Plenus" or the "Lender"), whereby the lender provided a $ 2,000 loan. In connection with the Agreement, the Company issued to the Lender non-forfeitable warrants, exercisable until January 30, 2012, to purchase up to 439,883 Ordinary shares at an exercise price of $ 1.364 per share, subject to price adjustments.

On March 30, 2009, the Company and Plenus amended the Agreement. Under the amendment, (the "New Agreement") the Company was to repay the loan amount in 24 equal monthly installments starting February 2010 and the loan would accrue interest at an annual fixed rate of 9%. The amendment became effective upon the completion of a rights offering conducted by the Company, on May 12, 2009 (refer to Note 12b for further details). As part of the New Agreement, the exercise period of warrants previously issued as part of a credit line agreement, exercisable to purchase up to 442,909 Ordinary Shares, was extended such that the exercise period will also lapse on January 30, 2012.

See also Note 10a for charges related to the loan.

NOTE 8:- OTHER LONG-TERM LIABILITIES (Cont.)

In addition, the New Agreement provided that if, during the period between March 19, 2009 and March 18, 2014, the Company enters into a transaction or series of related transactions (a "Fundamental Transaction") which entails (i) the acquisition of the Company by means of a merger or other form of corporate reorganization in which 50% or more of the outstanding shares is exchanged for securities or other consideration issued or paid by the acquiring entity or, a transaction or a series of transactions in which a person or entity acquires more than 50% of the outstanding shares, (ii) the sale of all or substantially all of the assets of the Company; then an additional amount shall be paid to the Lender (the "Additional Payment"): in the cases of merger or acquisition ,an amount equal to the higher of (A) 15% of the outstanding Loan Amount, and (B) 15% of the aggregate proceeds payable in connection with such Fundamental Transaction to the shareholders. In the case of the sale of substantially all of the Company's assets, an amount equal to the higher of (A) 15% of the outstanding Loan Amount, and (B) 15% of the aggregate proceeds payable to the Company in connection with such Fundamental Transaction; the "aggregate proceeds" shall be calculated while subtracting any amount of debts, liabilities and obligations which have accrued prior to the closing of such Fundamental Transaction and have not been assumed by the purchaser in such Fundamental Transaction.

Alternatively, for a period of fourteen (14) days commencing on the date on which the Company provides the Lender with a copy of the Company's audited financial statements for the year ending December 31, 2012, provided that the consolidated revenues are equal to, or exceed, $ 18,000, the Lender will be entitled, at its sole discretion and in lieu of the Additional Payment, to receive an amount equal to the higher of (i) 15% of such revenues, and (ii) $ 1,500.

According to ASC 815, the above mentioned was considered an embedded derivative which should be bifurcated and marked to market at each reporting date. The fair value of this embedded derivative was insignificant through September 2011 (date of modification).

The Company accounted for the change in terms under the New Agreement in accordance with ASC 470-50-40, and determined it was a non-substantive modification.

In connection with the acquisition of RepliWeb, in September 2011, the Company and Plenus entered into another amendment to the Agreement, such that the period during which Plenus is entitled to compensation of 15% of the proceeds payable in a Fundamental Transaction upon consummation of a Fundamental Transaction was extended until December 31, 2017. During such extended period, Plenus may elect to receive $300 in cash in lieu of such compensation. Under this amendment, Plenus' right to compensation in the event that consolidated revenues in 2012 exceed $18 million was revoked.

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

NOTE 8:- OTHER LONG-TERM LIABILITIES (Cont.)

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

NOTE 9:- CONVERTIBLE DEBT

	December 31,	
	2011	2010
Convertible debt	$ 835	$ 1,816
Less - current maturities	835	245
	$ -	$ 1,571

In April 2004, the Company issued to a group of investors convertible notes (the "Promissory Notes") in the face amount of $ 2,000 bearing interest at 5% per annum, and warrants to purchase 480,000 Ordinary shares at an initial price per share of $ 1.75 (subject to adjustments). The principal of the debt is repayable at the end of five years and the interest is payable semiannually. The debt was convertible into Ordinary shares at a conversion price of $ 1.75 per share (subject to adjustments). The warrants expired on May 4, 2007 without being exercised.

Issuance expenses in respect of the convertible debt in the amount of $ 247 were deferred and recorded as "deferred charges". These deferred charges were amortized over the period from the date of issuance to the stated original redemption date of the debt and were fully amortized by December 31, 2009.

In accordance with ASC 470-20, "Debt with Conversion and Other Options", the Company allocated the total proceeds between the convertible debt and the warrants (which are recorded in additional paid-in-capital) based on the relative fair values of the instruments at the time of issuance. The aforementioned allocation resulted in a discount on the convertible debt.

NOTE 9:- CONVERTIBLE DEBT (Cont.)

In addition, under the guidelines of the ASC, the Company recognized and measured the embedded beneficial conversion feature in the convertible debt, by allocating a portion of the proceeds equal to the intrinsic value of the feature to additional paid-in-capital. The intrinsic value of the feature was calculated on the commitment date using the effective conversion price which had resulted subsequent to the allocation of the proceeds between the detachable warrants and the convertible debt. This intrinsic value was limited to the portion of the proceeds allocated to the convertible debt, which was fully amortized by December 31, 2009.

The aforementioned accounting treatment resulted in a total debt discount equal to the full face amount of the debt ($ 2,000). The discount was amortized over a five-year period from the date of issuance until the stated redemption date of the debt.

In September 2006, following a private placement conducted by the Company, the conversion price of the notes and exercise price of warrants was adjusted to $ 1.25 per share. As a result, the number of shares that would be received upon conversion of the notes increased by 457,143 shares to 1,600,000 shares.

The aforementioned accounting treatment resulted in an incremental debt discount of $ 730. The discount was amortized over a 2.25 year period from the date of the adjustment until the stated redemption date of the debt, which was fully amortized by December 31, 2009.

Effective January 1, 2009, the Company adopted an accounting pronouncement which requires issuers to bifurcate the conversion embedded feature of the convertible debt and marked to market at each reporting date. See Note 2t.

In January 2009, the Company entered into an agreement with the holders of the Promissory Notes (the "Extension Agreement"), whereby the maturity date of the Promissory Notes was extended by 18 months from May 4, 2009 to November 4, 2010. In consideration of extending the repayment date, the holders of the Promissory Notes received the following:

1. The interest rate of the Promissory Notes was increased from an annual rate of five percent (5%) to a floating annual rate of the LIBOR rate plus five percent (5%);

2. The Company will not be able to obtain new loans which are ranked senior to, or parri passu with, the Promissory Notes; and

3. Warrants held by the holders of the Promissory Notes and another person, exercisable into a total of 600,000 Ordinary shares, were amended so that (1) the expiration date was extended by 18 months from October 9, 2009 to April 9, 2011 (this date was further extended in March 2010 – see below) and (2) the price adjustment mechanism was amended so that any financing of more than $ 100 (instead of $ 1,500) will trigger such price protection adjustment.

NOTE 9:- CONVERTIBLE DEBT (Cont.)

Under the Promissory Note terms, failure to pay interest when due constitutes an event of default and accordingly entitles the lenders to the right to declare the unpaid principal balance together with the interest accrued, immediately due. The Company subsequently entered into the Second Extension Agreement (see below) with the lenders, and paid the outstanding accrued interest.

In March 2010, the Company entered into another extension agreement (the "Second Extension Agreement") with the holders of the Promissory Note, whereby the maturity date was extended from November 4, 2010, such that the aggregate principal amount was to become due and payable in six equal quarterly installments of $ 333 starting on November 4, 2010. In consideration, the holders received the following:

1. The interest rate of the Promissory Note was increased from an annual rate of LIBOR plus five percent (5%) to a fix rate of nine percent (9%), payable in cash together with the applicable installment;

2. Warrants held by the holders of the Promissory Note and another person, exercisable into a total of 600,000 Ordinary shares, were amended so that the expiration date was extended from April 9, 2011 to the later of (1) February 9, 2012, and (2) the date on which the principal amount under the Promissory Note issued to the holders, and any interest accrued and outstanding thereon, will have been fully repaid to the holders;

3. The definition of what constitutes an "event of default" would include (1) a failure by the Company to pay, when due, indebtedness of more than $ 100 and (2) the declaration of an event of default by Plenus; and

4. Other than with respect to holders, who were directors at the time and who waived their entitlement to the following, the holders of the Promissory Note will also be entitled to the following:

    a) If the Company fails to timely pay any installment (including interest), and the same is not remedied within ten (10) days, the Company will be required to issue additional warrants to the holders (1) at an exercise price equal to the average closing price of our Ordinary shares in the 14 trading days following the relevant due date, but not less than $ 0.12 per share, and (2) that are exercisable into a number of Ordinary shares equal to 100% of the unpaid balance of the installment divided by the applicable exercise price. The aforesaid delay in the payment of 10 days or more shall not be considered an event of default provided that these warrants are issued within 45 days following the relevant due date; and

NOTE 9:- CONVERTIBLE DEBT (Cont.)

b) If the Company fails to timely pay such installment (including interest), and the same is not remedied within 90 days from the date it is due, then the Company will be required to issue warrants to the holders (1) at an exercise price equal to the average closing price of its Ordinary shares in the 14 trading days following the aforesaid 90th day, but not less than $ 0.12 per share and (2) that are exercisable into a number of Ordinary shares equal to 60% of the unpaid balance of the principal amount less the installment (that triggered the issuance above) divided by the applicable exercise price. A delay in payment of more than 90 days will be considered an event of default.

The Company accounted for the First and Second Extension Agreement in accordance with ASC 470-50-40 "Debt Modification and Extinguishment" as a non-substantial modification.

Between December 2010 through February 2, 2011, the Company entered into a third extension agreement (the "Third Extension Agreement") with certain holders of the Promissory Notes representing 82% of the outstanding balance (out of which holders representing 56% of the balance signed the extension as of December 31, 2010), whereby the maturity date was further extended, such that the aggregate principal amount will become due and payable in four equal installments of $ 377 on each of the following dates: (1) April 1, 2012; (2) June 30, 2012; (3) September 30, 2012; and (4) December 31, 2012. In consideration, the holders of the Promissory Notes received the following:

1. The interest rate was increased from a fixed annual rate of nine percent (9%), to a fixed annual rate of eleven percent (11%) payable in cash together with the applicable installment;

2. Warrants held by the holders of the Promissory Notes and another person , exercisable into a total of 489,600 Ordinary shares, were amended so that that the expiration date was extended from (A) the later of (1) February 4, 2012 and (2) date on which the principal amount under the convertible note issued to the holder, and any interest accrued and outstanding thereon, shall have been fully repaid to the holder to (B) the later of (1) December 31, 2013 and (2) date on which the principal amount under the Promissory Notes issued to the holder, and any interest accrued and outstanding, shall have been fully repaid to the holder; and

3. Warrants held by the Lenders, exercisable into a total of 2,222,721 Ordinary shares were amended so that the expiration date was extended from May 11, 2012 to the later of (1) December 31, 2013 and (2) date on which the principal amount under the Promissory Notes and any interest accrued and outstanding, shall have been fully repaid to the holder.

NOTE 9:- CONVERTIBLE DEBT (Cont.)

The Company accounted for the Third Extension Agreement in accordance with ASC 470-50-40 as a substantial modification because the present value of modified cash flows under the Third Extension Agreement resulted in a change greater than 10% in the present value based on the liabilities' original interest rate. Consequently, the Company recorded additional expenses related to the modification of the terms of the convertible debt and warrants of $ 274, which is included within financial expenses (out of which $ 53 were recorded against additional-paid in capital with respect to change in terms of equity classified warrants).

In September 2011, in accordance with the terms of the Promissory Notes, as a result of the issuance of shares as part of the acquisition of RepliWeb, the conversion price was adjusted to $0.62 per share (rather than $1.25 per share), such that the Promissory Notes became convertible into an aggregate of 2,632,258 ordinary shares (rather than 1,305,600 ordinary shares).

On December 31, 2011, two holders converted all of their Promissory Notes into ordinary shares pursuant to the terms of the following offer (the "Prepayment Offer"), which expired on January 31, 2012:

- The conversion ratio of the Promissory Notes being converted was increased, reflecting a reduction of the conversion price from $0.62 to $0.50 per share; and
- Each holder was entitled to payment, in cash or in additional ordinary shares (based on the new conversion ratio), of the interest payment due in 2012 plus accrued and unpaid interest for 2011 (in a total amount of approximately $100 and $200 for all Notes, respectively).

The two holders above converted an outstanding amount of $736. The outstanding associated bifurcated conversion feature of $206 was accordingly allocated to equity. In accordance with ASC 470-20-40-16, the Company recognized inducement expense of $ 202 against additional paid-in-capital, related to the conversion based on the above offer.

The two holders have also exercised their rights (See note 12b) to acquire an aggregate of 315,256 additional ordinary shares at $0.12 per share.

NOTE 10:- CHARGES (ASSETS PLEDGED)

a. In order to secure the Company's obligations and performance pursuant to the New Agreement with Plenus described in Note 8b, the Company recorded a first priority fixed charge in favor of the lender on all of its intellectual property, and a first priority floating charge in favor of the lender on all of its rights, title and interest in all its assets. The Security Agreements contain certain limitations, among other things, on the Company's ability to materially change its business, incur certain additional liabilities and pay dividends, without the consent of the lenders. The aforesaid pledges expired upon full repayment of the loan in January 2012.

b. As collateral for certain liabilities of the Company to banks and others, fixed charges have been recorded on certain property and equipment of the Company.

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

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Lease commitments:

The Company leases its operating facilities under non-cancelable operating lease agreements, which expire on various dates, the latest of which is in June 2014. In addition, the Company leases computers and peripheral equipment as well as motor vehicles under non-cancelable operating leases. Future minimum commitments under these leases as of December 31, 2011, are as follows:

Year ended December 31,	Operating leases
2012	$ 773
2013	178
2014	74
	$ 1,025

b. Rent expenses under operating leases for the years ended December 31, 2011, 2010 and 2009 were (net of sublease income in the amount of $125, $75 and $75, respectively) $ 636, $ 445 and $ 407, respectively.

The Company has an outstanding bank guarantee in the amount of $ 126 to its Israeli office lessors to cover the last 3 months of rent and a bank guarantee in the amount of $5 to a vendor.

NOTE 12:- SHAREHOLDERS' EQUITY

a. The Company's Ordinary shares are traded on the OTCBB (Over The Counter Bulletin Bourd).

The Ordinary shares confer upon the holders the right to receive notice to participate and vote in general meetings of the Company, and the right to receive dividends, if declared.

b. On May 12, 2009, the Company completed a rights offering raising cash proceeds of $ 600 (excluding offering expenses and the conversion of the Loan noted below). The Company issued to the subscribing shareholders and the Lenders a total of 8,258,754 Ordinary shares and three-year warrants exercisable into 4,129,376 shares, at an exercise price of $ 0.12 per share.

In addition, upon closing of the rights offering, a convertible bridge loan in the amount of $393 received in 2008 was converted to equity on the same terms of the rights offering.

NOTE 12:- SHAREHOLDERS' EQUITY (cont')

As a result of the rights offering, the holders of the Promissory Notes became entitled, in accordance with the original terms of the Promissory Notes, to receive rights, exercisable until the maturity of the debt, to acquire up to an aggregate of 856,672 Ordinary shares at a purchase price of $ 0.12 per share, and for each two Ordinary shares so purchased, warrants to purchase up to 428,336 Ordinary shares at an exercise price of $ 0.12 per share.

c. Stock Option Plans:

Under the Company's 2001 and 2003 Stock Option Plans (the "Plans"), the Company has granted options to purchase Ordinary shares to employees, directors and officers as an incentive to attract and retain qualified personnel. The exercise price of options granted under the Plans may not be less than 100% (110% in the case of a 10% shareholder) of the fair market value of the Company's Ordinary shares on the date of grant for incentive stock options and 75% of the fair market for non-qualified options. Under the terms of these Plans, options generally become exercisable ratably over three years of employment, commencing with the date of grant or with the date of hire (for new employees at their first grant). The options generally expire no later than 6 years from the date of the grant, and are non-transferable, except under the laws of succession.

Under the Plans, 7,200,000 Ordinary shares of the Company were reserved for issuance (in January 2012, the Company reserved additional 600,000 ordinary shares). Any options that are canceled or forfeited before expiration become available for future grants. As of December 31, 2011, there are 234,673 options available for future grants.

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

	Year ended December 31, 2011		
	Number of options	Weighted average exercise price	Aggregate intrinsic value
	In thousands		In thousands
Outstanding at beginning of year	4,756	0.50	$ 1,600
Granted	2,204	0.70	31
Exercised	(145)	0.27	39
Canceled or forfeited	(87)	0.96	11
Outstanding at end of year	6,728	0.57	$ 647
Vested and expected to vest at end of year	6,502	0.56	$ 645
Exercisable at end of year	3,904	0.52	$ 617

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

The total intrinsic value of options exercised during the years ended December 31, 2011, 2010 and 2009, was $ 39, $ 24 and 0, respectively.

As of December 31, 2011, there was $ 1,175 of total unrecognized compensation cost related to non-vested share-based compensation that are expected to be recognized over a period of up to three years.

The options outstanding as of December 31, 2011, have been separated into ranges of exercise price as follows:

	Outstanding			Exercisable		
Exercise price	Number outstanding (in thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable (in thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price
$			$			$
0.08	240	3.00	0.08	240	3.0	0.08
0.12-0.14	831	3.12	0.14	757	3.1	0.14
0.25-0.3	1,210	2.43	0.29	1,106	2.3	0.29
0.37-0.38	816	4.08	0.37	474	4.1	0.37
0.49-0.58	828	1.93	0.53	814	1.9	0.53
0.65-0.69	1,003	5.72	0.65	-	-	-
0.7-0.76	1,341	5.46	0.73	54	5.0	0.70
1.32	40	0.99	1.32	40	1.0	1.32
1.92-2.19	280	2.25	1.96	280	2.2	1.96
2.42-2.46	140	2.7	2.45	140	2.7	2.45
	6,728	3.76	0.57	3,926	2.66	0.52

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

	Year ended December 31,					
	2011		2010		2009	
	Weighted average fair value	Weighted average exercise price	Weighted average fair value	Weighted average exercise price	Weighted average fair value	Weighted average exercise price
Equals market price at date of grant	$ 0.58	$ 0.72	$ 0.36	$ 0.42	$ 0.13	$ 0.17
Less than market price at date of grant	$ 0.61	$ 0.65	-	-	-	-
More than market price at date of grant	$ 0.47	$ 0.69	-	-	-	-

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

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

Upon exercise of options by employees, the Company has a policy of issuing registered shares for all options exercised.

d. Warrants:

The Company's outstanding warrants and rights as of December 31, 2011 are as follows:

Issuance date	Outstanding	Exercise price	Exercisable through
June 2004 (1)	71,090	$ 0.12	January 30, 2012 (*)
May 2006 (1)	54,400	$ 0.12	January 30, 2012 (*)
September 2006 (2)	441,600	$ 0.12	December 31,2013
May 2009(3)	2,174,721	$ 0.12	December 31,2013
May 2009 (4)	383,790	$ 0.12	December 31,2013 (**)
May 2009 (5)	191,893	$ 0.12	Three years from exercise date of the rights (**)
May 2009 (5)	157,628	$ 0.12	December 30,2014
May 2009 (3)	1,251,831	$ 0.12	May 11,2012
	4,726,952		

All outstanding warrants are excisable.

(1) Issued to the lender as part of the credit line agreement (see Note 8b).
(2) Issued in connection with the private investment carried out in September 2006.
(3) Issued to shareholders who participated in the rights offering and to Lenders (see Note 12b).
(4) Rights issued to Lenders in connection with the rights offering (see Note 12b).
(5) Warrants to Lenders in connection with exercising the rights issued in the rights offering (see Note 12b)

(*) The aggregate of 125,490 warrants were net-exercised in January 2012 into 104,280 shares.
(**) 113,080 warrants were exercised in January 2012.

During 2011, certain holders of warrants, exercisable into 379,200 ordinary shares waived the price protection adjustment mechanism embedded in the warrants. Plenus also waived the price protection adjustment mechanism embedded in warrants exercisable into 882,792 ordinary shares. As a result, these warrants were no longer classified as a liability, and accordingly were no longer marked to market. The fair value of the warrants as of that date of $860 was classified into equity.

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

NOTE 13:- INCOME TAXES

a. Accounting for uncertainty in income taxes:

As of December 31, 2011 and for the years ended December 31, 2009 and 2010, the Company did not have any unrecognized tax benefits and no interest or penalties related to unrecognized tax benefits had been accrued

	December 31, 2011
Beginning balance	$ -
Liability assumed in connection with the acquisition of RepliWeb	193
Additions for prior years tax position	(2)
Additions for current year tax position	31
Ending balance	$ 222

As of December 31, 2011, the entire amount of the unrecognized tax benefits could affect the Company's income tax provision and the effective tax rate.

During the year ended December 31, 2011, the Company recorded $ 4 for interest expense related to uncertain tax positions. As of December 31, 2011, the Company had accrued interest liability related to uncertain tax positions in the amounts of $32, which is included within accrued expenses and other liabilities on the balance sheet.

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

b. Israeli taxation:

Taxable income of the Israeli companies is subject to the Israeli corporate tax at the rate as follows: 2009 – 26%, 2010 - 25%, 2011 - 24%. On December 5, 2011 the "Knesset" (Israeli Parliament) passed a law for changing the tax burden (the Law), which cancel, among others, the graduate reduction in the rates of the Israeli corporate tax. In addition the Israeli corporate tax will be increase to 25% starting in 2012. In accordance, the real capital gains tax increase to 25%.

c. Income taxes of non-Israeli subsidiaries:

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

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

NOTE 13:- INCOME TAXES (Cont.)

d. Tax reports filed by the Israeli entities through the year ended December 31, 2005 are considered final. The U.S tax returns of Attunity Inc remain subject to examination by the U.S tax authorities for the tax years beginning in January 1, 2007 and for RepliWeb Inc. January 1, 2005.

e. Tax loss carry-forwards:

Net operating loss carry-forwards as of December 31, 2011 are as follows:

Israel	$ 45,095
United States *)	$ 1,898
UK	$ 2,440
Hong Kong	$ 2,277
Other	$ 708
	$ 52,418

Net operating losses in Israel, the UK and Hong Kong may be carried forward indefinitely. Net operating losses in the U.S. may be carried forward through periods which will expire in the years 2012-2030.

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

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

NOTE 13:- INCOME TAXES (Cont.)

f. Deferred taxes:

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

	December 31,	
	2011	2010
Net operating loss carry forwards	$ 13,158	$ 14,282
Temporary differences	1,226	934
Total deferred tax asset before valuation allowance	14,384	15,216
Less - valuation allowance	(13,813)	(15,216)
Deferred tax asset	571	-
Intangible assets	(1,078)	-
Deferred tax liability	(1,078)	-
Deferred tax liability, net	$ (507)	$ -
Domestic:	-	-
Foreign:		
Current deferred tax asset, net	8	-
Non-current deferred tax liability	(515)	-
	(507)	-
	$ (507)	-

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

g. Reconciliation of the tax expenses to the actual tax expenses:

The main reconciling items of the statutory tax rate of the Company (2009 - 26%, 2010 - 25%, 2011 – 24%) to the effective tax rate are valuation allowances provided for deferred tax assets (in all reported periods). Tax expenses mainly represent business taxes in certain foreign locations.

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

NOTE 13:- INCOME TAXES (Cont.)

h. Loss before taxes on income (benefit):

	Year ended December 31,		
	2011	2010	2009
Domestic	$ 789	$ (1,634)	$ (1,511)
Foreign	424	203	236
	$ 1,213	$ (1,431)	$ (1,275)

Income taxes are comprised as follows:

	Year ended December 31,		
	2011	2010	2009
Deferred tax benefit	$ (774)	$ -	$ -
Current taxes	375	74	28
	(399)	74	28
Domestic	218	23	15
Foreign	(617)	51	13
	(399)	74	28
Domestic taxes:			
Current	218	23	15
Deferred	-	-	-
	218	23	15
Foreign taxes - US:			
Current	157	51	13
Deferred	(774)	-	-
Total foreign taxes	(617)	51	13
Taxes on income	$ (399)	$ 74	$ 28

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

NOTE 14:- ENTITY-WIDE DISCLOSURES

Revenues by geographical areas were as follows:

	Year ended December 31,		
	2011	2010	2009
Israel	$ 948	$ 857	$ 637
United States	10,729	6,051	5,872
Europe	2,191	1,693	1,319
Far East	869	968	963
Other	432	506	662
	$ 15,169	$ 10,075	$ 9,453

In 2011, 2010 and 2009, 82%, 90% and 90% of license revenues were derived from the connectivity and replication/ change data capture products respectively. For the year ended December 31, 2011, one of our OEM partners accounted for approximately 13.4 % of our revenues and another OEM partner accounted for approximately 10.7%. For the years ended December 31, 2010 and 2009, no single customer accounted for more than 10% of our revenues.

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

NOTE 15:- SELECTED STATEMENTS OF OPERATIONS DATA

a. Research and development costs, net:

	Year ended December 31,		
	2011	2010	2009
Total costs	$ 4,960	$ 2,482	$ 2,272
Capitalized software development costs	-	-	(378)
	$ 4,960	$ 2,482	$ 1,894

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

NOTE 15:- SELECTED STATEMENTS OF OPERATIONS DATA (Cont.)

b. Financial income (expenses), net

	Year ended December 31,		
	2011	2010	2009
Financial (income):			
Interest	$ (9)	$ (3)	$ (1)
Exchange rate differences , net	-	-	(33)
	(9)	(3)	(34)
Financial expenses:			
Interest	286	293	327
Amortization of debt discount		-	126
Amortization of deferred expenses (issuance expenses and credit line costs)		-	25
Exchange rate differences, net	92	132	-
Revaluation of liabilities presented at fair value.	589	692	253
Expenses related to modification of convertible debt and change in terms of warrants	-	273	-
Convertible Debt inducement expenses	202	-	-
Fair value of guarantee associated with short term loan	49	-	-
Accretion of contingent payment obligation	75	-	-
	1,293	1,392	731
	$ 1,284	$ 1,389	$ 697

NOTE 16: SUBSEQUENT EVENTS.

In January 2012, the holders, in the aggregate, of approximately $ 500 of principal amount of the Promissory Notes, converted their Promissory Notes into a total of 0.9 million ordinary shares pursuant to the Prepayment Offer (see also Note 9). As a result, as of that date, the fair value of the bifurcated conversion feature will be classified into equity and no longer be marked to market.

SIGNATURES

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

ATTUNITY LTD

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

Dated: March 30, 2012

EXHIBIT 4.5

[Form of Prepayment Offer]

December [__], 2011

To: [NAME OF HOLDER]

Re: Proposed Prepayment of Convertible Promissory Notes

Dear [___]:

Reference is made to the Convertible Promissory Note (as amended and extended from time to time, the "**Note**") issued to you ("**you**") pursuant to that certain Note and Warrant Purchase Agreement by and among Attunity Ltd. (the "**Company**" or "**we**"), you and the other signatories thereto (the "**Holders**"), dated March 22, 2004, as amended and extended from time to time (together with the ancillary documents thereto, the "**Note Purchase Agreement**"; capitalized terms not otherwise defined herein shall have the meaning assigned to them in the Note).

According to our records, you are the holder of a Note in the principal amount of [$____] which (i) is convertible into [_____] ordinary shares of the Company based on a Conversion Price of $0.62 per share, (ii) entitle you to interest payment accrued through December 31, 2011 in the aggregate amount of [$____] (the "**2011 Interest**"), which is payable on April 1, 2012, (iii) based on the current schedule of payments of principal and interest, would entitle you to interest payment accrued during 2012 in the aggregate amount of [$____] (the "**2012 Interest**"), and (iv) carries, until repayment of the Note, [____] adjustment rights to purchase [____] ordinary shares at a purchase price of $0.12 per share (the "**Note Rights**") (and, for each two ordinary shares purchased by exercising a Note Right, the exercising holder is entitled to a three-year warrant, to purchase one share at an exercise price of $0.12 per share (the "**Note Warrants**")). Further to our discussion, below are our proposed terms and condition for prepayment and conversion of all or part of your Note.

By executing and delivering a fully and duly completed copy of the Election Notice enclosed herewith as Exhibit A to the attention of the undersigned via email (dror.elkayam@attunity.com) or fax (972-9-8993011) by no later than **Tuesday, January 31, 2012 at 5:00 p.m. (Israel time)**, you hereby agree to the following:

1. All or part of your Note, as you will indicate in your Election Notice (the percentage out of the principal amount of the Note that you wish to convert is referred to herein as your "**Election Rate**"), will be converted, within seven (7) business days following our receipt of the Election Notice, into a number of newly issued ordinary shares of the Company that is 24% greater than the number of ordinary shares to which you are currently entitled (the "**New Conversion Rate**"). *For example*, if you hold a Note in the principal amount of $50,000, you will be entitled to 100,000 ordinary shares upon full conversion of the Note (i.e., an Election Rate of 100%) which is 24% greater than the 80,645 ordinary shares to which you are currently entitled upon full conversion.

2. You will be entitled, as you select in your Election Notice, to either: (i) receive payment in cash equal to the 2011 Interest payable on its original payment date, i.e., April 1, 2012 (subject to adjustment pursuant to Section 4, the "**2011 Interest Payment**"), **or** (ii) be issued, within seven (7) business days following our receipt of the Election Notice, ordinary shares of the Company in a number equal to the 2011 Interest Payment divided by the New Conversion Rate.

3. You will also be entitled, as you select in your Election Notice, to either: (i) receive payment in cash equal to your Election Rate multiplied by the 2012 Interest (subject to adjustment pursuant to Section 4, the "**2012 Interest Payment**") on April 1, 2012**, or** (ii) be issued, within seven (7) business days following our receipt of the Election Notice, ordinary shares of the Company in a number equal to the 2012 Interest Payment divided by the New Conversion Rate.

4. In accordance with the terms of the Note Rights, a portion of the Note Rights equal to your Election Ratio will expire upon conversion of the Note in accordance with Section 1 above. Accordingly, **unless you instruct us otherwise in the Election Notice**: (i) you will be deemed to exercise a portion of the Note Rights equal to your Election Ratio (the exercise price for such portion of the Note Rights is referred to herein as your "**Exercise Price**"), (ii) we will deduct the Exercise Price from the 2012 Interest Payment and, if necessary, 2011 Interest Payment, and (iii) you will receive additional ordinary shares and will be issued Note Warrants in accordance with such deemed exercise of the Note Rights equal to your Election Ratio.

5. Upon issuance of the ordinary shares and, if applicable, payment of the aforesaid amount(s), the Note shall be deemed fully repaid with respect to the Election Rate you selected and, if you indicated you wish to convert all the principal amount of the Note (i.e., an Election Rate of 100%), the Note shall be deemed fully repaid and you will have no claims with respect thereto whatsoever. We believe that the issuance of additional ordinary shares based on the New Conversion Rate adequately compensates you (and penalizes us for that matter) for the prepayment of the Note.

6. All payments we make or deemed to make to you hereunder shall be subject to applicable withholding taxes.

7. Kindly note that (i) other holders of Notes are being offered the same prepayment option as herein, and (ii) Shimon Alon, Chairman and CEO of the Company, and the holder of Note in the principal amount of $368,000, has already elected to fully convert the Note into ordinary shares.

8. The Company hereby represents and warrants to you as of the date hereof as follows: (a) the Company is a corporation duly formed and validly existing under the laws of the State of Israel, with full corporate power and authority to enter into and perform its obligations under this letter; (b) the Company has full power and authority to consummate the transactions contemplated hereunder; (c) the consummation of the transactions contemplated hereunder and the performance of this letter by the Company will not violate the provisions of the current Memorandum and Articles of Association of the Company, or any applicable law; (d) the execution and performance of this letter by the Company has been duly authorized by all necessary corporate actions and has been duly executed and delivered by the Company; and (e) this letter is valid and binding upon the Company and enforceable in accordance with its terms, subject to (1) laws of general application relating to bankruptcy, insolvency and the relief of debtors, and (2) rules of law governing specific performance, injunctive relief and other equitable remedies.

9. By executing the Election Notice, you will be deemed to represent and warrant to the Company as follows: (a) you have the full power and authority to execute this letter and to consummate the transactions contemplated hereby and it has been duly executed by you, and constitutes your valid and binding obligation, enforceable against you in accordance with its respective terms, subject to (i) laws of general application relating to bankruptcy, insolvency and the relief of debtors, and (ii) rules of law governing specific performance, injunctive relief and other equitable remedies; (b) if a corporation, you are duly organized and properly registered in the jurisdiction of your organization and the execution, delivery and performance of this letter will not violate any provision of your corporate documents; (c) you have knowledge and experience in financial and business matters, are capable of evaluating the merits and risks of the transactions evidenced by this letter and can bear the economic consequences of such investment for an indefinite period of time; (d) you are an "accredited investor" as defined in Regulation D promulgated under the Securities Act; (e) you are purchasing the securities under this letter only for investment, for your own account, and without any present intention to sell or distribute such securities; and (f) you will not sell, pledge or otherwise dispose of any of the securities issued or to be issued hereunder in violation of the Securities Act, the Securities Exchange Act of 1934, or the rules and regulations of the SEC promulgated under either of the foregoing.

10. You agree that any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not be applied in the construction or interpretation of this letter. By executing the Election Notice, you also represent that you are aware to your right to consult with your own legal counsel concerning this letter and this provision.

11. This letter shall be governed by, and construed according to, the laws of the State of Israel, without regard to the conflict of laws provisions thereof. Other than as specifically set forth herein, the Note Purchase Agreement and the Notes shall remain in full force and effect with no changes.

Sincerely yours,

Attunity Ltd.

By:_____
Name: Dror Harel-Elkayam
Title: Chief Financial Officer

EXHIBIT A
FORM OF ELECTION NOTICE

(To be Executed by the Registered Holder of Note)

Attunity Ltd.
Kfar Netter Industrial Park
Kfar Netter, 40593, Israel
Attention: Chief Financial Officer

Re: Election Notice

The undersigned is in receipt of your letter re Proposed Prepayment of Convertible Promissory Notes, dated December [__], 2011 (the "Letter"; capitalized terms not otherwise defined herein shall have the meaning assigned to them in the Letter), and has read, understood and agreed to all of its terms and conditions. In connection with the Letter, the undersigned hereby irrevocably elects, instructs and direct you as follows:

1. To convert _____% [*please complete percentage*] (the percentage elected being the "Election Rate") of the outstanding principal amount of the Note into ordinary shares of the Company according to the terms and conditions of the Letter.

2. In accordance with Section 2 of the Letter, to receive the 2011 Interest Payment in (*please check the appropriate box*):

   ☐ cash ☐ ordinary shares of the Company

3. In accordance with Section 3 of the Letter, to receive the 2012 Interest Payment in (*please check the appropriate box*):

   ☐ cash ☐ ordinary shares of the Company

4. In accordance with Section 4 of the Letter, if you wish your Note Rights to expire (rather than the Company deducting the Exercise Price), please check the following box:

   ☐ I understand and wish my Note Rights to expire per Section 4 of the Letter

5. The certificates for ordinary shares issuable to the undersigned should be delievered to the following address:

   _____

   _____

Signature _____

[Name]

Exhibit 4.6

AMENDMENT NO. 2 TO LOAN AGREEMENT AND CHARGE AGREEMENTS

This Amendment No. 2 (this "**Amendment"**) to the Loan Agreement and Plenus Charge Agreements (as defined below) is entered into as of September 4, 2011, by and among (i) **Attunity Ltd.**, a private company organized under the laws of the State of Israel and registered under No. 52-004306-8 (the "**Company**"), and (ii) **Plenus Technologies Ltd.**, an Israeli company, **Plenus II, L.P.**, a limited partnership organized under the laws of Israel, and **Plenus II (DCM), L.P.**, a limited partnership organized under the laws of Israel (collectively, "**Plenus**" or the "**Lender**").

WITNESSETH

WHEREAS, the Company and Plenus entered into (i) that certain Loan Agreement, dated as of January 31, 2007 (as amended on March 30, 2009, the "**Loan Agreement**"; all capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Loan Agreement), and (ii) a Floating Charge Agreement and a Fixed Charge Agreement, both dated as of January 31, 2007 (both as amended on March 30, 2009, the "**Plenus Charge Agreements**");

WHEREAS, the Company has advised (on a confidential basis) Plenus that the Company and/or one of its Affiliates intends to enter into a definitive agreement with respect to the acquisition of RepliWeb Inc., a Delaware corporation (the "**Acquisition**");

WHEREAS, the Company and/or one of its Affiliates intends to borrow principal amount of up to US$3,300,000 from Bank Mizrahi and/or another bank (together with interest accrued thereon and related expenses, the "**Bank Loan**") in connection with the Acquisition; and, in connection with such Bank Loan (i) the Company's CEO intends to issue a personal guarantee to secure the Bank Loan (the "**Personal Guarantee**") and (ii) the Company shall issue an undertaking to the Company's CEO (1) to cover his reasonable and documented expenses relating to the issuance of the Personal Guarantee, and (2) in case the Personal Guarantee is forfeited, in whole or in part, the Company will reimburse him for all losses caused to him and reasonable expenses associated therewith, subject to Section 1 below (the "**Company Undertaking**"); and

WHEREAS, in the framework of the March 30, 2009 amendment to the Loan Agreement and Plenus Charge Agreements ("**Amendment No. 1**"), the Company granted Plenus certain rights in relation to Fundamental Transactions that the parties wish to amend as set forth hereinbelow;

NOW THEREFORE, the parties hereto hereby agree as follows:

1. Bank Loan. Notwithstanding anything to the contrary in the Loan Agreement and/or Plenus Charge Agreements, Plenus hereby consents to the Company and/or one of its Affiliates taking the Bank Loan and issuing the Company Undertaking; *provided that* such consent shall be contingent upon (i) the Bank Loan being unsecured for so long as any amounts due to the Lender under the Loan Agreement (excluding, for the avoidance of doubt, the amounts payable to the Lender pursuant to Section 2 below (i.e., Section 3 of Amendment No. 1 as amended hereunder) (the "**Plenus Loan Obligations"**)) remain due and outstanding, and (ii) the Company's representations and undertaking that regardless of whether the Bank Loan is provided to the Company or any of its Affiliates, no more than an aggregate of $50,000 shall be paid under the Company Undertaking and no principal payment on account of the Bank Loan shall be paid, in each case, prior to the repayment of the Plenus Loan Obligations in full, and (iii) the Company's undertaking to refrain from transferring (except in the ordinary course of business consistent with past practices) any business currently conducted by it to any of its subsidiaries prior to the repayment of the Plenus Loan Obligations in full, unless such subsidiary had first created a first ranking floating charge (or the equivalent security thereof) on its assets in favor of the Lenders. For the avoidance of doubt and without derogating from the foregoing, nothing contained herein shall derogate from the Company's or its Affiliates' ability to guarantee the payment of the Bank Loan.

2. Fundamental Transaction. Section 3 of Amendment No. 1 is hereby amended and restated in its entirety, as follows:

(a) If, following September 4, 2011 but on or prior to December 31, 2017, the Company consummates a transaction or series of related transactions (a "**Fundamental Transaction**") which entails (i) the acquisition of the Company by means of merger or other form of corporate reorganization in which 50% or more of the outstanding shares of the Company prior to such transaction is exchanged for securities or other consideration issued or paid, or caused to be issued or paid, by the acquiring entity or its subsidiary, (ii) the sale of all or substantially all of the assets of the Company or any other transaction resulting in all or substantially all of the Company's assets being exchanged for assets or securities of any other entity, or (iii) a transaction or a series of transactions in which a person or entity acquires more than 50% of the outstanding and issued shares of the Company; then without derogating from the Company's obligation to repay any and all amounts due to the Lenders pursuant to the provisions of the Loan Agreement simultaneously with the closing of the Fundamental Transaction (to the extent not repaid prior to such date), an additional amount (the "**Additional Payment**") equal to 15% of the aggregate proceeds payable in connection with such Fundamental Transaction to the shareholders including any "carve out" or similar payments due to any third parties (including the Lenders and the Company shareholders) in connection with such Fundamental Transaction shall be paid to the Lenders, which (A) in the cases of clauses (i) or (iii) shall be made simultaneously with the closing of the Fundamental Transaction (or promptly following the closing of the Fundamental Transaction and subject thereto but in any event prior to or simultaneously with the payment to Company shareholders, if any); and (B) in the case of clause (ii), such amount will be paid within no more than 30 days following the closing of such Fundamental Transaction but in any event prior to or simultaneously with payments to Company shareholders, if any. Without derogating from the foregoing, the "aggregate proceeds" payable in connection with the Fundamental Transaction shall be calculated while (A) subtracting any amount of debts, liabilities and obligations which have accrued prior to the closing of such Fundamental Transaction, have not been assumed by the purchaser in such Fundamental Transaction and remain outstanding and payable following such closing, and (B) adding the excess of the amount of the shareholders' loans outstanding prior to the closing of the Fundamental Transaction over $2,393,168 plus the amount of the additional loan that has been extended to the Company pursuant to Section 2(i) prior to such date.

In addition and without derogating from the foregoing, upon each payment to the Company shareholders of any future or contingent payments payable in connection with such Fundamental Transaction, the Lenders shall be paid an amount equal to 15% of the aggregate proceeds then payable in connection with such Fundamental Transaction.

(b) At least fourteen (14) calendar days prior to closing of the Fundamental Transaction, the Company shall provide the Lenders with written notice describing the key terms of the Fundamental Transaction (the "**Company Notice**") and the Lenders undertake they will keep the details of the Fundamental Transaction included in the Company Notice confidential unless and until such details are publicly disclosed by the Company. Notwithstanding Section 3(a) above, at any time until the earlier of (i) the consummation of a Fundamental Transaction and (ii) December 31, 2017 (the "**Additional Fee Date**"), the Lenders may, by written notice to be delivered to the Company (the "**Additional Payment Notice**") no later than seven (7) calendar days following receipt of the Company Notice, elect to receive an aggregate amount of US$ 300,000 (the "**Additional Fee**"), in immediately available funds, to be transferred to the Lenders by no later than the earlier to occur of (i) 21 calendar days following delivery of the Additional Payment Notice, or (ii) the Additional Fee Date; it being clarified that in the event that the Lenders elect to receive the Additional Fee, then subject to the timely transfer of the Additional Fee to the Lenders in full, the provisions relating to the Additional Payment set forth in Section 3(a) above shall immediately and automatically expire and shall become null and void (i.e., the Additional Fee shall be in lieu of the Additional Payment).

(c) For the avoidance of doubt, the provisions of this Section 3 shall survive the termination or expiration of the Loan Agreement but, upon full payment of the Additional Payment or Additional Fee, the Company shall have no further obligation to pay any fees or other compensation under this Section 3.

3. Effectiveness. This Amendment shall come into full force and effect upon the execution by the Company of a definitive agreement with RepliWeb with respect to the Acquisition; *provided however* that if closing of the Acquisition shall have not occurred until November 1, 2011, this Amendment shall become null and void, *ab initio*.

4. Miscellaneous. Other than as specifically set forth herein, the Loan Agreement and the Plenus Charge Agreements shall remain in full force and effect with no changes.

[signature page to follow]

IN WITNESS WHEREOF, the parties have executed this Amendment No. 2 to the Loan Agreement and Plenus Charge Agreements as of the date first above written:

Attunity Ltd.

By: _____
Name; _____
Title: _____

Plenus Technologies Ltd.

By: _____
Name: _____
Title: _____

PLENUS II, LIMITED PARTNERSHIP

By: PLENUS MANAGEMENT (2004) LTD.
Its. Management Company

By: _____
Its: _____

PLENUS II (D.C.M.), LIMITED PARTNERSHIP

By: PLENUS MANAGEMENT (2004) LTD.
Its. Management Company

By: _____
Its: _____

EXHIBIT 4.9

EXECUTION COPY CONFIDENTIAL

IMPORTANT NOTE: This Agreement and Plan of Merger (the "Merger Agreement") has been included to provide investors with information regarding its terms. It is not intended to provide any other factual information about Attunity (including RepliWeb). The representations, warranties, covenants and agreements contained in the Merger Agreement were made only for purposes of such agreement and as of the specific dates therein, were solely for the benefit of the parties to such agreement, and may be subject to limitations agreed upon by the contracting parties, including being qualified by confidential disclosures exchanged between the parties in connection with the execution of the Merger Agreement. The representations and warranties have been made for the purposes of allocating contractual risk between the parties to the agreement instead of establishing those matters as facts, and may be subject to standards of materiality applicable to the contracting parties that differ from those applicable to investors. Investors are not third party beneficiaries under the Merger Agreement and should not rely on the representations, warranties, covenants and agreements or any descriptions thereof as characterizations of the actual state of facts or condition of Attunity, any other party to the Merger Agreement or any of their respective subsidiaries or affiliates. Moreover, information concerning the subject matter of the representations and warranties may change after the date of the Merger Agreement, which subsequent information may or may not be fully reflected in Attunity's public disclosures.

AGREEMENT AND PLAN OF MERGER

BY AND AMONG

ATTUNITY LTD.,

ATTUNITY INC.,

ATLAS TOPAZ ACQUISITION INC.,

REPLIWEB INC.,

THE STOCKHOLDERS OF REPLIWEB INC. LISTED IN SCHEDULE A HERETO

AND

YOSSI MORIEL AND ELAD BARON, AS STOCKHOLDER REPRESENTATIVES

DATED AS OF SEPTEMBER 7, 2011

TABLE OF CONTENTS

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER, dated as of September 7, 2011 (this "Agreement"), by and among Attunity Ltd., a company organized under the laws of the State of Israel ("Parent"), Attunity Inc., a corporation organized under the laws of the State of Massachusetts and a wholly owned subsidiary of Parent ("Buyer"), Atlas Topaz Acquisition Inc., a corporation organized under the laws of the State of Delaware and a wholly owned subsidiary of Buyer ("Merger Sub"), RepliWeb Inc., a corporation organized under the laws of the State of Delaware (the "Company"), the Stockholders of the Company listed in Schedule A of this Agreement ("Executing Stockholders") and Yossi Moriel and Elad Baron, as the Stockholder Representatives (as defined below).

W I T N E S S E T H:

WHEREAS, the respective Boards of Directors of Parent, Buyer, Merger Sub and the Company have (a) determined that the merger of Merger Sub with and into the Company, on the terms and subject to the conditions set forth in this Agreement (the "Merger"), is fair to, and in the best interests of, each such corporation and its respective stockholders, and declared that the Merger is advisable, (b) authorized and approved this Agreement, the Merger, the execution and delivery of the other agreements referred to herein, and the consummation of the transactions contemplated hereby and thereby, and (c) in the case of the Company and Merger Sub, recommended acceptance of the Merger and approval and adoption of this Agreement to its respective stockholders, in accordance with the Delaware General Corporation Law, as amended (the "DGCL");

WHEREAS, the Executing Stockholders, who hold, in the aggregate, more than the Required Votes sufficient to adopt this Agreement and approve the Merger and the other transactions contemplated hereby in accordance with the provisions of the DGCL and the Company's Organizational Documents, have delivered to Parent concurrently with the execution of this Agreement, duly executed and completed irrevocable actions by written consent, including a waiver of appraisal rights under the DGCL and conversion of all Company Preferred Stock into Company Common Stock immediately prior to the Effective Time, in the form attached hereto as Exhibit A (the "Stockholders Written Consent");

WHEREAS, pursuant to the Merger, among other things, and subject to the terms and conditions of this Agreement, (i) all issued and outstanding Company Capital Stock will be converted into the right to receive a portion of the Aggregate Merger Consideration set forth herein, (ii) each Vested Company Option, to the extent not timely exercised prior to the Closing, shall be cancelled and extinguished and shall be converted automatically, on a net-exercise basis, into the right to receive the consideration set forth herein, and (iii) all un-vested Company Options outstanding immediately prior to the Closing will be cancelled in accordance with the terms thereof;

WHEREAS, in connection with the Merger, certain Employees listed in Exhibit B-1 hereto ("Designated Employees") will be granted the right to receive a portion of the Aggregate Merger Consideration (defined below as the Aggregate Designated Employees Consideration) subject to such Designated Employees' execution and delivery, on the date hereof, of an Acknowledgment Letter, in the form attached hereto as Exhibit B-2, pursuant to which such Designated Employees will acknowledge, among other things, their non-compete and non-solicitation undertakings to the Company upon and effective as of the Closing (the "Designated Employees Acknowledgment Letters");

WHEREAS, as a condition and inducement to Parent and Buyer to enter into this Agreement and incur the obligations set forth herein, at or prior to the execution and delivery of this Agreement, the CEO of the Company has entered into an Acknowledgment Letter, in the form attached hereto as Exhibit C, pursuant to which the CEO will acknowledge, among other things, his non-compete and non-solicitation undertakings to the Company upon and effective as of the Closing (the "CEO Employee Acknowledgment Letter");

WHEREAS, the Company, on the one hand, and Parent, Buyer and Merger Sub, on the other hand, desire to make certain representations, warranties, covenants and other agreements in connection with the Merger and the other transactions contemplated hereby; and

WHEREAS, as a condition and inducement to Parent, Buyer and Merger Sub to enter into this Agreement and incur the obligations set forth herein, the Executing Stockholders desire to make certain representations, warranties, covenants (including those pertaining to indemnification obligations) and other agreements (including waiver of certain rights) in connection with the Merger and the other transactions contemplated hereby;

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth herein, and other valuable consideration, the sufficiency and receipt of which is hereby acknowledged, and intending to be legally bound hereby, Parent, Buyer, Merger Sub, the Company and the Stockholder Representatives (each, a "Party" and collectively, the "Parties"), agree as follows:

ARTICLE I

The Merger

Section 1.1 The Merger. At the Effective Time and on the terms and subject to the conditions set forth this Agreement, and in accordance with the applicable provisions of the DGCL, Merger Sub shall be merged with and into the Company, the separate corporate existence of Merger Sub shall cease and the Company shall continue as the surviving corporation of the Merger and a wholly owned subsidiary of Buyer. The Company, as the surviving corporation after the Merger, is hereinafter sometimes referred to as the "Surviving Corporation".

Section 1.2 Closing. On the terms and subject to the conditions set forth in this Agreement, the closing of the Merger (the "Closing") shall take place at 10:00 a.m., EST, on a date (the "Closing Date"), to be specified by Parent and the Company, which shall be no later than the third (3rd) Business Day after satisfaction or waiver (by the applicable Party) of all of the conditions set forth in Article V of this Agreement (other than the conditions which, by their nature, are intended to be satisfied at the Closing, but subject to the satisfaction or waiver by the applicable Party of those conditions at the Closing) at the offices of Goldfarb Seligman & Co., 98 Yigal Alon Street, Tel Aviv, Israel, or such other time, date or place as agreed to in writing by Parent and the Company; *provided that* Closing shall not occur prior to September 16, 2011. All deliveries to be made or other actions to be taken at the Closing shall be deemed to occur simultaneously, and no such delivery or action shall be deemed complete until all such deliveries and actions have been completed or the relevant Parties have agreed to waive such delivery or action.

Section 1.3 Effective Time. On the terms and subject to the conditions set forth in Article V of this Agreement, the Parties hereto shall cause a certificate of merger to be filed with the Secretary of State of the State of Delaware (the "Certificate of Merger"). The Parties hereto shall make all other filings, recordings or publications required by all applicable Legal Requirements in connection with the Merger. The Merger shall become effective upon the filing of the Certificate of Merger with the Secretary of State of the State of Delaware pursuant to the DGCL or at such later time as shall be agreed upon in writing by Parent and the Company and specified in the Certificate of Merger (the "Effective Time"), which specified time shall be a time on the Closing Date.

Section 1.4 Effect of the Merger. At the Effective Time, the effect of the Merger shall be as provided in this Agreement, the Certificate of Merger and the applicable provisions of the DGCL. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all the assets, property, rights, privileges, powers and franchises of the Company and Merger Sub shall vest in the Surviving Corporation, and all debts, Liabilities, restrictions, disabilities and duties of the Company and Merger Sub shall become the debts, Liabilities, restrictions, disabilities and duties of the Surviving Corporation.

Section 1.5 Organizational Documents. At the Effective Time, and without any further action on the part of the Company or Merger Sub, the certificate of incorporation, as amended, of the Surviving Corporation shall be amended and restated in its entirety to be identical to the certificate of incorporation of Merger Sub, as in effect immediately prior to the Effective Time, until thereafter amended in accordance with the DGCL and as provided in such certificate of incorporation; *provided, however,* that at the Effective Time, Article I of the certificate of incorporation of the Surviving Corporation shall be amended and restated in its entirety to read as follows: "The name of the corporation is RepliWeb." At the Effective Time, and without any further action on the part of the Company or Merger Sub, the bylaws of the Surviving Corporation shall be amended and restated in their entirety to be identical to the bylaws of Merger Sub, as in effect immediately prior to the Effective Time, until thereafter amended in accordance with the DGCL and as provided in such bylaws, except that references to Merger Sub's name shall be replaced by references to "RepliWeb".

Section 1.6 Directors and Officers of the Surviving Corporation. At the Effective Time, the directors of Merger Sub immediately prior to the Effective Time shall be the directors of the Surviving Corporation, each of such directors to hold office, subject to the applicable provisions of the certificate of incorporation and bylaws of the Surviving Corporation, until their respective successors are duly elected or appointed and qualified or until such directors' earlier resignation or removal. At the Effective Time, the officers of Merger Sub immediately prior to the Effective Time shall be officers of the Surviving Corporation, each of such officers to hold office, subject to the applicable provisions of the certificate of incorporation and bylaws of the Surviving Corporation, until their respective successors are duly appointed or until such directors' earlier resignation or removal. In addition, unless otherwise determined by Parent prior to the Effective Time, Parent, Buyer, the Company and the Surviving Corporation shall cause the directors and officers of Merger Sub immediately prior to the Effective Time to be the directors and officers, respectively, of each of the Company Subsidiaries immediately after the Effective Time, each to hold office as a director or officer of each such Company Subsidiary in accordance with the provisions of the laws of the respective jurisdiction of organization and the respective Organizational Documents of each such Company Subsidiary.

Section 1.7 Subsequent Actions. If, at any time after the Effective Time, the Surviving Corporation shall consider or be advised that any deeds, bills of sale, assignments, assurances or any other actions or things are necessary or desirable to vest, perfect or confirm of record or otherwise in the Surviving Corporation its right, title or interest in, to or under any of the rights, properties or assets of either of the Company or Merger Sub acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger or otherwise to carry out this Agreement, the officers and directors of Parent, Buyer, the Company and the Surviving Corporation shall be fully authorized to execute and deliver, in the name and on behalf of the Company, the Surviving Corporation or Merger Sub, all such deeds, bills of sale, assignments and assurances and to take and do, in the name and on behalf of each of such corporations or otherwise, all such other actions and things as may be necessary or desirable to vest, perfect or confirm any and all right, title and interest in, to and under such rights, properties or assets in the Surviving Corporation or otherwise to carry out this Agreement.

Section 1.8 Consideration; Effect on Capital Stock.

(a) Aggregate Merger Consideration. Upon the terms and subject to the conditions of this Agreement, the Aggregate Merger Consideration payable by Parent and Buyer, jointly and severally, in connection with the Merger shall be payable to and will consist of:

(i) The Aggregate Cash Consideration, which will be paid as follows:

(A) Three Million Three Hundred Thousand U.S. dollars ($3,300,000) (subject to adjustments set forth herein, the "Closing Cash Consideration"), payable on the Closing Date, for the benefit of the Company Stockholders, Designated Employees and Company Optionholders which shall be deposited with the Paying Agent and the 102 Trustee in accordance with the provisions of this Agreement;

(B) Four Million U.S. dollars ($4,000,000) (subject to adjustments set forth herein, the "Deferred Cash Consideration"), payable no more than ten (10) Business Days after the Closing Date, for the benefit of the Company Stockholders and Designated Employees, which shall be deposited with the Paying Agent, in accordance with the provisions of this Agreement;

(C) the Earn-Out Payment Amount, payable for the benefit of the Company Stockholders and Designated Employees in accordance with Section 1.8(b) below, which shall be deposited with the Paying Agent and, if applicable, the 102 Trustee, in accordance with the provisions of this Agreement; and

(ii) The Aggregate Share Consideration, issued for the benefit of the Company Stockholders, which shall be delivered and deposited by Parent as follows: on the Closing Date, Parent shall deliver to the Company's transfer agent (with a copy to the Company) duly executed irrevocable instructions, in a form reasonably acceptable to the Company, instructing the transfer agent to deliver, on an expedited basis, a certificate evidencing a number of Parent Ordinary Shares equal to the Aggregate Share Consideration, registered in the name of the Paying Agent and, if applicable, in the name of the 102 Trustee, in accordance with the provisions of this Agreement.

(iii) Anything in this Agreement to the contrary notwithstanding, (A) the maximum value of the Aggregate Merger Consideration will in no event exceed Eleven Million Eight Hundred Thousand U.S. dollars ($11,800,000); (B) the Aggregate Cash Consideration will in no event exceed Nine Million and Three Hundred Thousand U.S. dollars ($9,300,000); (C) the Aggregate Designated Employee Consideration will not exceed the lower of: (1) 3.38983% of the value of the Aggregate Merger Consideration, or (2) Four Hundred Thousand U.S. dollars ($400,000); and (D) the value of the Aggregate Share Consideration will in no event exceed Two Million and Five Hundred Thousand U.S. dollars ($2,500,000) (and for purposes of determining such value, the value of the Parent Ordinary Share shall be equal to the Average Price). Solely for the purposes of this subsection 1.8(a)(iii), the Aggregate Merger Consideration shall be deemed to be equal to the sum of (i) the Aggregate Cash Consideration and (ii) the Aggregate Share Consideration *multiplied by* the Average Price.

(iv) Anything in this Agreement to the contrary notwithstanding, (A) the number of (1) Company Equityholders and Designated Employees (excluding Company Equityholders and Designated Employees who confirmed in the Investor Representation Statement or in the signature pages to this Agreement that they are qualified accredited investors (as defined in the First Addendum to the ISL)) who are Israeli residents or located in Israel while presented with the Merger contemplated hereby, and (2) Company Equityholders and Designated Employees who are U.S. persons (as defined in the Securities Act) (excluding Company Equityholders and Designated Employees who confirmed in the Investor Representation Statement or in the signature pages to this Agreement that they are "accredited investors" (as defined in the Securities Act)), in each case, that will be entitled to receive the Parent Ordinary Shares, is not more than 35; (B) the Company Optionholders shall not receive Parent Ordinary Shares and their respective portion of the Aggregate Merger Consideration will be in cash pursuant to Section 1.8(l) below.

(v) Notwithstanding anything to the contrary hereunder, if the Company Cash will be less than Four Million U.S. Dollar ($4,000,000), then the Aggregate Merger Consideration shall, for all purposes hereunder, be adjusted downward, dollar-for-dollar, by an amount equal to the Company Cash Shortfall (to be applied first to the Closing Cash Consideration, then to the Deferred Cash Consideration and, lastly, to the Earn-Out Payment Amount, if any) and, consequently, the Per Share Consideration shall be adjusted downward proportionately.

(vi) Notwithstanding anything to the contrary hereunder, a portion of the Deferred Cash Consideration otherwise payable for the benefit of the Company Stockholders (and for the sake of clarity, not the Designated Employees or Company Optionholders) equal to $50,000 (the "Rep Reimbursement Amount"), shall not be paid to the Company Stockholders, but shall instead be deposited with the Paying Agent, to be used by the Stockholders Representatives for the payment of expenses incurred by him in performing his duties pursuant to this Agreement. The portion of the Deferred Cash Consideration to be contributed on behalf of each Company Stockholder hereunder to the Rep Reimbursement Amount shall be made on a pro rata basis and be based on the Proportionate Indemnification Share. All such amounts shall be deemed paid to each such Company Stockholder and deemed deposited with the Paying Agent by each such Company Stockholder. In the event that the Stockholders Representatives has not used the entire Rep Reimbursement Amount at such time as the Set-Off Period expired, any remaining amount shall be distributed by the Paying Agent to the Company Stockholders pro rata to their respective Proportionate Indemnification Share in accordance with the terms of the Paying Agent Agreement and the Final Payment Spreadsheet. If the Rep Reimbursement Amount shall be insufficient to reimburse the Stockholders Representatives' expenses in accordance with this Agreement, then upon written request of the Stockholders Representatives, each Company Stockholder shall make a payment of its respective share of such additional expenses to the Stockholder Representatives, pro rata based on Indemnifying Person's Proportionate Indemnification Share; *provided, however*, that any additional payment by each Company Stockholder shall not impact any of the obligations of each Company Stockholder to the Parent Indemnitees pursuant to Article VIII below.

(b) Earn-Out Payment Amount.

Subject to Article VIII hereof, Buyer shall pay an additional contingent payment of Two Million U.S. Dollars ($2,000,000.00) (subject to downward adjustments as provided herein, the "Earn-Out Payment Amount") if the recognized revenues, as determined in accordance with GAAP consistently applied by Parent, of (a) the Company and its wholly owned Subsidiaries together with (b) Parent (and its Affiliates), resulting from the sale or license of the Company Products, Company Intellectual Property or Technology, in each case in the calendar year 2012 (collectively, the "2012 Revenues") is at least $5,600,000 (the "Target"); provided that if the 2012 Revenues are less than the Target, then the Earn-Out Payment Amount shall be equal to the product obtained by the fraction the numerator of which is equal to the 2012 Revenues and the denominator is $8,000,000 multiplied by $2,000,000. *By way of illustration of the foregoing,* if the 2012 Revenues are equal to (x) $5,600,000 or higher, then the Earn-Out Payment Amount shall be $2,000,000 and (y) $5,000,000, then the Earn-Out Payment Amount shall be $1,250,000. The procedures for the calculation and payment of the Earn-Out Payment Amount shall be as follows:

(i) For the purpose of calculating the 2012 Revenues, the 2012 Revenues will also include the revenues of Parent, or any of its Affiliates, resulting from the sale or license of any bundle of the Company Products, Company Intellectual Property or Technology, with Parent's (or any of Parent's Affiliates) products or Intellectual Property or Technology (and in such a case, the price of the combined product will be used for calculating the revenues generated from such a sale or license).

(ii) It is hereby agreed that if, following the Closing but prior to December 31, 2012, Parent (or its Affiliates) implements a change in the business of the Company (or any of the Company's Israeli Subsidiaries) that is reasonably likely to have a material adverse affect on the 2012 Revenues, then, unless (i) Parent obtained the Stockholder Representatives' prior written consent to such a change, or (ii) such a change is required under any applicable Legal Requirement, the Earn-Out Payment Amount shall be fixed at Two Million U.S. dollars ($2,000,0000) (i.e., regardless of the amount of 2012 Revenues).

(iii) On or before March 31, 2013, Parent shall send the Stockholder Representatives a statement specifying the 2012 Revenues and the calculation of the Earn-Out Payment Amount, if any (the "Earnout Statement").

(iv) The Stockholder Representatives may object, no later than fifteen (15) Business Days following receipt of the Earnout Statement to the Earnout Statement by delivering a written notice, executed by the Stockholders Rpresentatives, to that effect to Buyer (the "Earnout Objection Notice"). If the Stockholder Representatives do not timely deliver such Earnout Objection Notice, then the Earnout Statement shall be deemed final and binding for all intents and purposes and Buyer shall deposit the Earn-Out Payment Amount, if any, within two (2) Business Days thereafter, with the Paying Agent for payment to the Company Stockholders and Designated Employees in accordance with Section 1.8(f).

(v) However, if the Stockholder Representatives timely deliver such Earnout Objection Notice, then, notwithstanding Section 9.12 hereof, the dispute regarding such amount shall be resolved in the manner set forth in Schedule B hereto.

(c) Conversion of Company Capital Stock. At the Effective Time and as a result of the Merger: (i) each one share of the issued, outstanding and fully paid Company Capital Stock shall, by virtue of the Merger and without any action on the part of the Parties or the holder thereof, be cancelled, extinguished and shall be converted automatically into the right to receive, upon the terms and subject to the conditions set forth in this Agreement, the Per Share Consideration with respect to such share of Company Capital Stock, and payable as provided in this Agreement; and (ii) each certificate representing any of the Company Capital Stock, each non certificated Company Capital Stock registered in the Company's shareholders register and the registration of any holder of a Company Capital Stock in the Company's shareholders register, shall thereafter only represent the right to receive, with respect to each share of Company Capital Stock, upon surrender of such certificate(s) (or affidavit of loss in lieu thereof) in accordance with this Agreement and subject to the other terms of this Agreement, the Per Share Consideration, subject to withholding and without any interest thereon. The Per Share Consideration that is payable in cash (i.e., the so called Per CS Cash Consideration) shall be rounded to the nearest cent and computed after aggregating cash amounts for all shares of Company Capital Stock held by such Company Stockholder immediately prior to the Effective Time.

(d) Payment Spreadsheets; Waiver of Claims.

(i) Attached hereto as Exhibit D-1, is a spreadsheet, certified by the CEO and CFO of the Company (the "Preliminary Payment Spreadsheet") showing (i) the Company Cash, Company Indebtedness and Company Transaction Expenses, if any; (ii) for each holder of Company Securities, as of the date thereof: (A) the name, the street address, email address, and residency of such holder, telephone number, Israeli identification numbers (if available), bank information (the respective bank name and number, the branch name, number and address, swift number and account number), (B) the number and class of shares of Company Capital Stock held, (C) the Company Stock Options held, if any, together with details thereon (vesting, type of Company Stock Option, exercise price, etc.), and (D) a calculation of the portion of the Aggregate Merger Consideration (including the number of Parent Ordinary Shares each Company Stockholder will be entitled to receive out of the Aggregate Share Consideration, and the portion of the Aggregate Cash Consideration each Company Equityholder will be entitled to receive in each of the Closing Cash Consideration, the Deferred Cash Consideration and Earn-Out Payment Amount (assuming full payment)) payable to such Company Stockholder or Company Optionholder, as applicable, pursuant to this Agreement and relative portion of the Rep Reimbursement Amount, where applicable; (iii) for each Designated Employee: (A) the name, the street address, email address, and residency of such holder, telephone number, Israeli identification numbers (if available), bank information (the respective bank name and number, the branch name, number and address, swift number and account number), and (B) a calculation of the portion of the Aggregate Merger Consideration (including the number of Parent Ordinary Shares each Designated Employee will be entitled to receive out of the Aggregate Share Consideration, and the portion of the Aggregate Cash Consideration each Designated Employee will be entitled to receive in each of the Closing Cash Consideration, the Deferred Cash Consideration and Earn-Out Payment Amount (assuming full payment)) payable to such Designated Employee, as applicable; and (iv) for each Employee receiving payment hereunder, such additional details reasonably required by Parent or the Paying Agent so as to properly compute any applicable withholding Taxes for payroll deductions, if and to the extent applicable. In the event that following the date hereof and prior to the Closing Date, the Company will be of the opinion that the information set forth in the Preliminary Payment Spreadsheet (other than figures of the Closing Cash, the Company Indebtedness and Company Transaction Expenses) is incomplete or inaccurate (e.g., as a result of the exercise of Vested Company Stock Options into Company Capital Stock), then no later than two (2) Business Days prior to the Closing Date, the Company shall deliver to Parent a spreadsheet (the "Final Payment Spreadsheet"), which will be attached hereto as Exhibit D-2, showing all information required to be stated in the Preliminary Payment Spreadsheet, updated to the Closing Date and certified by the CEO and CFO of the Company. In the event the Company will not timely amend the information set forth in the Preliminary Payment Spreadsheet, such spreadsheet shall be deemed to be the Final Payment Spreadsheet (subject to Section 1.8(e) below).

(ii) Neither Parent, nor Buyer, or any of their respective Representatives shall be responsible for the determination of the Aggregate Merger Consideration allocation. The Aggregate Merger Consideration allocation will be presented in the Final Payment Spreadsheet, which will be deemed a Specified Representation of the Company. The Company also represents that the information and calculations set forth in the Final Payment Spreadsheet shall be made in accordance with the terms and conditions of this Agreement, the Company's Organizational Documents, and other relevant existing contractual arrangements among the Company, the holders of Company Capital Stock, Company Optionholders and Designated Employees. In no event shall Parent or Buyer be required to make any payments pursuant to this Agreement unless and until the Final Payment Spreadsheet has been duly executed and delivered by the Company. Parent and Buyer shall be entitled to rely entirely upon the Final Payment Spreadsheet in connection with making the payments pursuant to this Agreement and neither the Stockholders Representatives nor any Company Equityholder or Designated Employee shall be entitled to make any claim in respect of the allocation of the payments made by Parent or Buyer to or for the benefit of any of them to the extent that the payments are made in a manner consistent with the Final Payment Spreadsheet and this Agreement.

(iii) Without derogating from Section 5.3 hereof, if between the date of this Agreement and the Closing Date, the number of outstanding Company Capital Stock is changed into a different number of shares or into a different class, by reason of any share dividend, subdivision, reclassification, recapitalization, split-up, combination, exchange of shares, or the like, the amounts payable to the Company Equityholders set out in this Agreement will be correspondingly adjusted to reflect such change, such that the Aggregate Merger Consideration shall not be increased or reduced as a result of any such action.

(iv) **Effective for all purposes as of the date hereof, each Executing Stockholder acknowledges and agrees on behalf of itself and each of its agents, trustees, beneficiaries, directors, officers, affiliates, subsidiaries, estate, successors and assigns (each, a "Releasing Party") that each hereby releases and forever discharges the Company, each other Company Equityholder, Parent, Buyer (each a "Beneficiary") and each of such Beneficiary's respective subsidiaries, Affiliates, directors, officers, employees, Representatives, agents, members, stockholders, successors, predecessors and assigns (each, a "Released Party" and collectively, the "Released Parties") from any and all Equityholder Claims such Releasing Party may have or assert it has against any of the Released Parties, from the beginning of time through the time of the Closing and following the Closing, in each case whether known or unknown, or whether or not the facts that could give rise to or support an Equityholder Claim are known or should have been known. In this Agreement an "Equityholder Claim" shall mean: (i) any claim or right to receive any Company Equitysecurities, other than the Company Equitysecurities set forth opposite his, her or its name in the Preliminary Payment Spreadsheet; (ii) any claim or right to receive any portion of the Aggregate Merger Consideration, other than as specifically set forth in the Final Payment Spreadsheet and applicable to such Executing Stockholder; or (iii) any claim with respect to the authority to enter into the transactions and the enforceability of the transactions contemplated hereby**.

(v) Each Executing Stockholder hereby confirms, acknowledges, represents and warrants that he, she or it: (A) (i) is the holder of the number of Company Equitysecurities set forth opposite his, her or its name in the Preliminary Payment Spreadsheet; (ii) other than the number and class of Company Capital Stock or Company Options set forth opposite his, her or its name in the Preliminary Payment Spreadsheet, it is not entitled to any additional Company Equitysecurities, including, shares of Capital Stock, Company Options, warrants or any other convertible security, or right to acquire shares, options or warrants of or any other convertible security into Company Capital Stock; (iii) waives any right to receive any additional Company Equitysecurities (as a result of any anti-dilution rights, preemptive rights, conversion rights (of any of the Company Capital Stock which are outstanding as of the date hereof or any Company Equitysecurities he, she or it may have been entitled to receive as a result of the conversion of any convertible loan agreement or any other convertible instrument that was issued by the Company), rights of first offer, co-sale and no-sale rights, any other participation, first refusal or similar rights, any adjustment of the conversion price of any Company Preferred Stock whatsoever) or otherwise); (iv) fully, finally, irrevocably and forever waives any right to receive any preference amount with respect to any Company Preferred Stock; and (B) (i) examined the Preliminary Payment Spreadsheet and is entitled only to the distribution set forth in such a spreadsheet (subject to any changes contemplated in this Agreement and which will be reflected in the Final Payment Spreadsheet); (ii) waives any right to receive consideration other than as set forth in the Final Payment Spreadsheet (including, without limitation, for any interest payments, in consideration of any preference amount (which was waived hereunder), the method of calculation of any of the values set forth in this Agreement or the method of determination of the Proportionate Indemnifying Portion, or any other rights of any nature under the Company's Certificate of Incorporation, or any other Stockholders Agreement, which the Executing Stockholders and/or its successors and assignees ever had, now have or hereafter can, shall or may have, at any time, due to actions or events that occurred prior to Closing which do not conform or are not consistent with the terms of this Agreement and the consideration attributed to such Executing Stockholder in the Final Payment Spreadsheet); (C) hereby terminates and waives any rights, powers and privileges such Executing Stockholder has or may have pursuant to any Stockholders Agreement (which for purposes of this Agreement will be defined as any investors rights agreement, registration rights agreement or shareholders agreement entered into by such Executing Stockholders with respect to the Company, including the Company Series A Agreements) or any right to make a claim or demand for any discrepancy between any Stockholders Agreement, share purchase agreement or convertible loan agreement such Executing Stockholder and the provisions of this Agreement and his, her or its entitlement pursuant to such agreements; (D) for as long as this Agreement has not been terminated, agrees not to sell, transfer, assign or convert any of its Company Equitysecurities, or subject such Company Equitysecurities to any Liens, except pursuant to a bona fide transfer request of Company Equitysecurities provided to the Company prior to the date hereof; and (E) has not heretofore assigned or transferred, or purported to have assigned or transferred, to any corporation (or any other legal entity) or person whatsoever, any claim, debt, liability, demand, obligation, cost, expense, action or cause of action herein released.

(vi) Each Executing Stockholder, on behalf of each Releasing Party, further covenants and agrees that such Releasing Party has not heretofore sold, transferred, hypothecated, conveyed or assigned, and shall not hereafter sue any Released Party upon, any Equityholder Claim released under this Section 1.8(d), and that each Releasing Party shall indemnify and hold harmless the Released Parties against any loss or liability on account of any actions brought by such Releasing Party or such Releasing Party's assigns or prosecuted on behalf of such Releasing Party and relating to any Equityholder Claim released under this Section 1.8(d).

(vii) Notwithstanding anything in this Section 1.8(d), the foregoing releases and covenants of any Executing Stockholder shall not apply to any claims (a) relating to Parent's or Buyer's failure to pay to such Executing Stockholder any portion of the Aggregate Cash Consideration, to issue the Aggregate Share Consideration or make any other payments in accordance with this Agreement; (b) relating to Parent's or Buyer's failure to perform any of its obligations, undertakings or covenants set forth in this Agreement or any of the other transactional agreements; (c) relating to any employment payment, including salary, bonuses, accrued vacation, any other employee compensation and/or benefits, and unreimbursed expenses to such Executing Stockholder, (d) relating to or arising from any commercial relationship such Executing Stockholder may have with any of the Released Parties; and (e) for indemnity by officers, employees and directors of the Company in their capacity as such.

(viii) Anything to the contrary notwithstanding: (i) the foregoing release is conditioned upon the consummation of the Merger and shall become null and void, and shall have no effect whatsoever, without any action on the part of any person or entity, upon termination of this Agreement in accordance with its terms; and (ii) should any provision of this release be found, held, declared, determined, or deemed by any court of competent jurisdiction to be void, illegal, invalid or unenforceable under any applicable statute or controlling law, the legality, validity, and enforceability of the remaining provisions will not be affected and the illegal, invalid, or unenforceable provision will be deemed not to be a part of this Release.

(ix) Each Executing Stockholder hereby acknowledges that in certain jurisdictions:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

Effective for all purposes as of the date hereof, each Executing Stockholder waives and relinquishes, to the fullest extent permitted by applicable law, on behalf of Parent and Buyer any rights and benefits which such Executing Stockholder may have under such statutes or common law principle of any jurisdiction. Each Executing Stockholder acknowledges that such Executing Stockholder may hereafter discover facts in addition to or different from those which such Executing Stockholder now knows or believes to be true with respect to the subject matter of this Agreement, but it is such Executing Stockholder's intention to fully and finally and forever settle and release any and all matters, disputes and differences, known or unknown, suspected and unsuspected, which do now exist or may exist or heretofore have existed between any Executing Stockholder with respect to the subject matter of this Agreement. In furtherance of this intention, the releases herein shall be and remain in effect as full and complete general releases notwithstanding the discovery or existence of any such additional or different facts.

(e) Determination of Company Cash (and Deferred Cash Consideration).

(i) The Company represents and warrants that the (a) Preliminary Payment Spreadsheet fairly and accurately presents the Company's good faith best estimate (based on reasonable assumptions) of, and (b) Final Payment Spreadsheet (including, for purposes of this Section 1.8(e), Preliminary Payment Spreadsheet once deemed final in accordance with Section 1.8 (d) above) shall fairly and accurately present the Company Cash (and Company Cash Shortfall, if any) after giving effect to the consummation of the transactions contemplated hereby.

(ii) Parent shall, within three (3) Business Days following the Closing Date, prepare (or cause to be prepared) and deliver to the Stockholder Representatives Parent's calculation of the Company Cash ("Parent's Cash Statement"). Parent's Cash Statement shall fairly and accurately present Parent's good faith best estimate (based on reasonable assumptions) of Company Cash. In the event that the Parent's Cash Statement does not reflect a deviation from the information set forth in the Final Payment Spreadsheet, no adjustments shall be made to the Deferred Cash Consideration.

(iii) In the event that the Parent's Cash Statement does reflect a deviation from the information set forth in the Final Payment Spreadsheet, and the Stockholder Representatives do not disagree with Parent's Cash Statement (by timely delivering a Notice of Dispute as set forth below), then the Final Payment Spreadsheet will be amended and the Company Cash will be based upon the Parent Cash Statement, and the amounts payable pursuant to the Final Payment Spreadsheet will be adjusted accordingly.

(iv) In the event that the Stockholder Representatives shall disagree with any item(s) or amount(s) set forth in Parent's Cash Statement, within two (2) Business Days following the Stockholder Representatives' receipt of Parent's Cash Statement, the Stockholder Representatives may deliver a notice of such disagreement, executed by the Stockholders Representatives (a " Notice of Dispute"). The Stockholder Representatives shall be deemed to have irrevocably consented and agreed, for and on behalf of the Company Stockholders and Designated Employees, to the Parent's Cash Statement if the Stockholder Representatives shall fail to timely deliver a Notice of Dispute. In the event that the Stockholder Representatives shall timely deliver to Parent a Notice of Dispute pursuant to this Section, Parent may (in its sole and absolute discretion) either: (1) elect to negotiate any disputed item(s) and amount(s) in order to determine the Deferred Cash Consideration, or (2) refer any disputed item(s) and amount(s) for resolution in accordance with the procedures set forth in Schedule B hereto, subject to applicable changes.

(v) In the event that Parent and the Stockholder Representatives shall resolve the dispute, then (A) Parent and the Stockholder Representatives shall execute a memorandum setting forth the Company Cash, as calculated based on the resolved item(s) and amount(s); and (B) the Final Payment Spreadsheet shall be amended and the Deferred Cash Consideration shall be paid in accordance with such determination (with the Final Payment Spreadsheet being adjusted accordingly).

(vi) In the event that Parent and the Stockholder Representatives shall not resolve the dispute, then, without derogating from Parent's or Buyer's indemnification rights set forth in this Agreement, Parent and Buyer shall pay the Deferred Cash Consideration in accordance with the Final Payment Spreadsheet.

(f) Paying Agent and 102 Trustee.

(i) At or prior to Closing, Parent and Buyer shall engage Meitav Benefits Ltd., or another third person reasonably acceptable to the Company, to act as paying agent (the "Paying Agent") in connection with the Merger and enter into an agreement with the Paying Agent in a form reasonably acceptable to the Company (the "Paying Agent Agreement").

(ii) With the exception of: (A) the Deferred Cash Consideration; (B) the Designated Employees Cash Consideration; and (C) the Earn Out Payment Amount, at the Closing, the Parent and the Buyer shall: (i) deposit with the Paying Agent the Closing Cash Consideration and (ii) deliver the duly executed irrevocable instructions to the Company's transfer agent in accordance with Section 1.8(a) above.

(iii) Promptly following the Effective Time, Parent and Buyer shall cause the Paying Agent to mail to each Person who was, at the Effective Time, a holder of record of Company Capital Stock that is converted into a right to receive a portion of the Aggregate Merger Consideration as set forth in the Final Payment Spreadsheet, (y) a letter of transmittal, in customary form, which shall specify, among others, that delivery shall be effective only upon delivery of all certificate or certificates which immediately prior to the Effective Time represented outstanding Company Capital Stock (the "Certificates") to the Paying Agent, or any affidavit of lost, stolen or destruction of such Certificates, in each case with the risk of loss and title to the Certificates shall remain with the holder of the Company Capital Stock until such delivery, and (z) instructions for effecting the surrender of such Certificates in exchange for a portion of the Aggregate Merger Consideration. The form of letter of transmittal, shall also provide for the collection from the holders of Company Capital Stock of W-8's, W-9's or other customary documentation under the Code or required by the ITA to satisfy withholding obligations that may otherwise have been required thereunder, and customary representations, waivers and indemnities of the holders. Upon surrender of a Certificate to Paying Agent together with such letter of transmittal, duly executed and completed in accordance with the instructions thereto, each holder of Company Capital Stock delivering such documents shall be entitled to receive in exchange therefor: (1) its respective portion of the Aggregate Merger Consideration in accordance with the Final Payment Spreadsheet; minus (2) any applicable Tax, such payments to be made in accordance with the instructions, and delivered to the address specified in the applicable letter of transmittal. If payment is to be made to a Person other than the registered holder of the Certificate surrendered, it shall be a condition of such payment that the Certificate so surrendered shall be properly endorsed or otherwise in proper form for transfer and that the Person requesting such payment shall pay any transfer or other Taxes required by reason of the payment to a Person other than the registered holder of the Certificate surrendered or establish to the reasonable satisfaction of Parent, Buyer, the Surviving Corporation or the Paying Agent that such Tax has been paid or is not applicable. For the avoidance of doubt, it is hereby clarified that no interest will be paid or will accrue on the amount payable upon the surrender of any such Certificate.

(iv) One hundred and eighty (180) days following the Effective Time, Buyer shall be entitled (but not obligated) to cause the Paying Agent to deliver to it any funds (including any interest received with respect thereto) made available to the Paying Agent that have remained unclaimed by any holder of Certificates or agreements formerly representing Company Capital Stock outstanding on the Effective Time, and thereafter such holders shall be entitled to look only to Buyer with respect to the consideration payable upon due surrender of their Certificates.

(v) Notwithstanding the foregoing, neither the Paying Agent nor any Party hereto shall be liable to any holder of Certificates formerly representing Company Capital Stock and/or any of such holder's heirs, executors, administrators and successors, for any amount paid to a Governmental Entity pursuant to any applicable abandoned property, escheat or similar law.

(vi) Notwithstanding anything to the contrary herein, any consideration to be paid or delivered with respect to any Company Options or Company Common Stock held by the 102 Trustee shall be made directly to the 102 Trustee to be held in trust and released in accordance with the terms of the Company's agreement with the 102 Trustee, applicable Law (including, where applicable, the completion of any lock-up period required under Section 102 of the ITO) and any approval or ruling from the ITA granted to the Company or Parent in connection with the transactions contemplated by this Agreement, including the Israeli Options Tax Ruling.

(vii) Parent and Buyer will make the payments pursuant this Agreement with the assistance of the Paying Agent and the 102 Trustee. Parent and Buyer shall, jointly and severally, cause, and be responsible for, the Paying Agent to make the payment of the Aggregate Merger Consideration to the Company Equityholders in accordance with this Agreement, the Final Payment Spreadsheet and the Paying Agent Agreement.

(viii) Notwithstanding anything to the contrary herein, any consideration to be paid or delivered to any Designated Employee or holder of Company Stock Options (in their capacities as such) may be, at Parent's sole discretion, paid to such Designated Employee or holder of Company Stock Options indirectly through the Surviving Corporation and/or its Subsidiaries (rather than through the Paying Agent), and withholding of the applicable Tax, if any, shall be made through the Surviving Corporation's or applicable Subsidiary's payroll.

(g) Fractional Shares. No fractional shares of Parent Ordinary Shares will be issued pursuant to this Agreement, and any fractional share that would otherwise be due to a Person hereunder (after aggregating all fractional shares of Parent Ordinary Shares to be received by such Person) shall be rounded down to the nearest whole share.

(h) Lost, Stolen or Destroyed Certificates. If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and, if required by the Paying Agent or Parent, an agreement, in customary form, to indemnify against any claim that may be made against the Paying Agent or Parent or the Surviving Corporation with respect to such Certificate, the Paying Agent will deliver in exchange for such lost, stolen or destroyed Certificate the portion of the Aggregate Merger Consideration with respect to the Company Capital Stock formerly represented thereby.

(i) Conversion of Merger Sub Securities. As of the Effective Time, by virtue of the Merger and without any action on the part of any of the parties hereto or any holder thereof, each share of common stock of Merger Sub issued and outstanding immediately prior to the Effective Time shall be cancelled and shall automatically be converted into one validly issued, fully paid and nonassessable share of common stock of the Surviving Corporation. Each stock certificate of Merger Sub evidencing ownership of any such shares of common stock shall evidence ownership of such shares of capital stock of the Surviving Corporation.

(j) Cancellation of Certain Company Capital Stock. Notwithstanding anything herein to the contrary, at the Effective Time, all shares of Company Capital Stock that are owned by the Company as treasury stock or owned by any of its Subsidiaries shall be cancelled and extinguished without any conversion thereof and shall not be taken into account for purposes of any amounts payable to the Company Stockholders hereunder.

(k) Dissenters' Rights. "Dissenting Shares" means any shares of Company Capital Stock issued and outstanding immediately prior to the Effective Time and held by a holder who is entitled to demand and who properly demands appraisal for such shares of Company Capital Stock in accordance with Section 262 of the DGCL.

(i) Subject to clause (ii) of this Section 1.8(k), notwithstanding any provision of this Agreement to the contrary, Dissenting Shares shall not be converted as provided in Section 1.8(c), but instead such holder thereof shall be entitled only to such rights as are granted by Section 262 of the DGCL.

(ii) Notwithstanding the provisions of clause (i) of this Section 1.8(k), if any holder of shares of Company Capital Stock who demands appraisal of such holder's shares of Company Capital Stock under the DGCL effectively waives, withdraws or loses (through failure to perfect or otherwise) such holder's right to appraisal, then as of the Effective Time or the occurrence of such event, whichever later occurs, such holder's shares of Company Capital Stock shall automatically be converted into the right to receive the amounts provided in Section 1.8(f) upon surrender of the Certificates representing such Company Capital Stock pursuant to Section 1.8(f).

(iii) The Company shall give Parent and Buyer (x) prompt notice of any demands for appraisal or payment of the fair value of any shares of Company Capital Stock, withdrawals of such demands, and any other instruments served on the Company pursuant to the DGCL or the Legal Requirement of any other applicable jurisdiction or otherwise relating to the Merger, and (y) the opportunity to participate in and direct all negotiations and proceedings with respect to demands. Except with the prior written consent of Parent and Buyer, the Company shall not voluntarily make any payment with respect to any demands for appraisal or settle, or offer to settle, any such demands or agree to do any of the foregoing.

(l) Company Stock Options

No Company Stock Options (whether vested or not) shall be assumed by Parent or Merger Sub in the Merger. At the Closing, each of the Company Stock Options shall be cancelled in a manner satisfactory to Parent and Buyer and, in the case of vested Company Stock Options (including non-vested Company Stock Options being accelerated as a result of the Merger contemplated hereunder), be exchanged, on a net exercise basis, in consideration for the right to receive a cash amount as set forth in the Final Payment Spreadsheet per each vested Company Stock Option (subject to withholding Tax and without interest, the "Options Cashout Amount"). At or prior to the Closing, the Company shall take all actions under the Company Option Plans in order to effectuate this Section 1.8(l).

(m) Tax Withholding.

(i) Each of Parent, Buyer, the Surviving Corporation, the Paying Agent and the 102 Trustee, as the case may be, shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement, such amounts as they determine, in their sole and absolute discretion upon the advice of counsel or tax advisor, are required to be deducted or withheld therefrom under applicable Legal Requirements. Any withholding in respect of the Parent Ordinary Shares issued to a Company Stockholder or Designated Employee may be made out of such Person's portion of the Aggregate Cash Consideration, provided, however, that in the event that the portion of the Aggregate Cash Consideration payable to a Person at Closing is not sufficient to cover the amount required to be withheld under this Agreement with respect to such Person, then such Person shall, as a condition to the receipt of any portion of its Aggregate Merger Consideration to which it is entitled, remit to the Paying Agent, to Parent or to Buyer or the 102 Trustee such amount as demanded by them in order to satisfy such tax withholding shortfall. Any amounts so withheld shall be remitted by Parent, Buyer, the Surviving Corporation, the 102 Trustee or the Paying Agent, as the case may be, to the appropriate Governmental Entity and shall be treated for all purposes as having been paid to a Company Stockholder or other Person entitled to receive any portion of the Aggregate Merger Consideration pursuant to the terms of this Agreement in respect of whom such deduction and withholding was made. It is clarified that the transfer to a Person of its entire portion of the Closing Cash Consideration and its entire portion of its Aggregate Share Consideration shall be made at the same time, and a Person shall not be entitled to receive its portion of the Closing Cash Consideration prior to receipt of its portion of the Aggregate Share Consideration.

(ii) Notwithstanding the provisions of the preceding paragraph, with respect to any amount deducted or withheld under the ITO pursuant to the preceding paragraph, if Parent, Buyer, the Surviving Corporation or the Paying Agent are provided prior to any payment payable pursuant to this Agreement with what Parent, Buyer, the Surviving Corporation or the Paying Agent, as the case may be, determines in its reasonable discretion upon advice of counsel or tax advisor to be a valid certificate or ruling issued by the ITA regarding the deduction or withholding of Tax (including the reduction of Tax to be withheld, an exemption from withholding or any other instructions regarding the payment of withholding) (the "Israeli Tax Certificate") from any consideration payable to any payee hereunder, then the withholding (if any) of any amount under the ITO from the consideration payable to such payee hereunder, and the payment of the consideration of any portion thereof, shall be made in accordance with the provisions of such Israeli Tax Certificate.

(iii) Notwithstanding the aforementioned, with respect to Israeli Tax, the Aggregate Merger Consideration payable to each of the Company Stockholders hereunder shall be paid to and retained by the Paying Agent or the 102 Trustee if applicable, for the benefit of each such Company Stockholder for a period of 180 (one hundred and eighty) days from Closing or an earlier date required in writing by a Company Stockholder in respect of its applicable portion of the Aggregate Merger Consideration (the "Withholding Drop Date") (during which time none of Parent, Buyer, the Surviving Corporation, the 102 Trustee or the Paying Agent shall withhold any Israeli Tax on such consideration, except as provided below), and during which time each Company Stockholder may obtain an Israeli Tax Certificate, (x) exempting Parent, Buyer and the Paying Agent from the duty to withhold Israeli Taxes with respect to such Company Stockholder or (y) determining the applicable rate of Israeli Tax to be withheld from such Company Stockholder. In the event that no later than five (5) Business Days before the Withholding Drop Date, a Company Stockholder submits an Israeli Tax Certificate, in form and substance acceptable to Parent in its reasonable discretion upon advice of counsel or tax advisor, the Paying Agent shall withhold and transfer to the Israeli Tax Authority such amount of withholding due from such Company Stockholder as specified in such Israeli Tax Certificate, and shall pay to such Company Stockholder only the balance of the payment due to such Company Stockholder that is not so withheld. If any Company Stockholder (A) does not provide the Paying Agent with such Israeli Tax Certificate, no later than five (5) Business Days before the Withholding Drop Date, or (B) submits a written request with the Paying Agent to release its portion of the Aggregate Merger Consideration prior to the Withholding Drop Date and fails to submit an Israeli Tax Certificate at or before such time, then the amount to be withheld from such Company Stockholder's portion of the Aggregate Merger Consideration shall be calculated according to the applicable withholding rate as determined by Parent and Buyer in their reasonable discretion upon advice of counsel or tax advisor, which amount (the "Tax Amount") shall be delivered to the Israeli Tax Authority by the Paying Agent and, subject to the receipt from such Company Stockholder of the necessary documents pursuant to Section 1.8(f)(iii) above, the Paying Agent shall pay to such Company Stockholder the balance of the payment due to such Company Stockholder that is not so withheld.

(iv) In the case of any amounts withheld in accordance with the provisions hereof, the withholding party shall promptly provide to the Company Stockholders from which such amounts were withheld written confirmation of the amount so withheld.

(n) Transfer Taxes. All transfer, documentary, sales, use, stamp, registration and such other Taxes and fees (including any penalties and interest), if any, imposed on any Company Stockholder or other Person entitled to receive any portion of the Aggregate Merger Consideration pursuant to the terms of this Agreement shall be borne and paid by such Company Stockholder or Person.

(o) Exemption From Registration; Certificate Legends.

(i) The Parties acknowledge and agree that each Parent Ordinary Share that forms part of the Aggregate Share Consideration to be issued pursuant to Section 1.8 hereof shall constitute "restricted securities" pursuant to Rule 144 under the Securities Act of 1933, as amended (the "Securities Act") and shall bear the following legend:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE LAW, AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED OR HYPOTHECATED UNLESS THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT COVERING SUCH SECURITIES, OR THE COMPANY RECEIVES AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF THE SECURITIES ACT.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE RESTRICTIONS SET FORTH IN THE AGREEMENT AND PLAN OF MERGER DATED [●], 2011 (THE "AGREEMENT"). THE SHARES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD OR OTHERWISE TRANSFERRED EXCEPT IN COMPLIANCE WITH THE AGREEMENT, A COPY OF WHICH IS AVAILABLE AT NO COST UPON REQUEST FROM THE SECRETARY OF THE COMPANY."

(ii) The Parties further acknowledge and agree that the Company Stockholders and Designated Employees will not, during the period ending June 30, 2012 (the "Lock-Up Period"), offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any of the Parent Ordinary Shares; *provided that* (i) nothing in the foregoing shall prohibit the Company Stockholders from transferring the Parent Ordinary Shares to any Affiliate where the Company Stockholder and such Affiliate each agree to be bound by the covenants applicable to the Company Stockholder in this Agreement, and (ii) any such Affiliate shall make for the benefit of Parent the representations and warranties set forth in the Investor Representation Statement or herein in the case of an Executing Stockholder. In furtherance of the foregoing, Parent and any duly appointed transfer agent for the registration of transfer of the securities described herein are hereby authorized to decline to register any transfer of securities if such transfer would constitute a violation or breach of this Agreement.

(iii) Anything to the contrary herein notwithstanding, Parent shall not be obligated to issue any portion of the Aggregate Share Consideration to any Person unless such Person is an Executing Stockholder, a Designated Employee or has delivered to Parent prior to the Closing Date a duly completed and signed Investor Representation Statement. Except as decided otherwise by Parent at its sole and absolute discretion, the failure by such Person to provide such Investor Representation Statement will result in such Person not being issued any portion of the Aggregate Share Consideration which otherwise may have been issued to it (without affecting the allocation of the balance of the Aggregate Share Consideration according to the Final Payment Spreadsheet).

ARTICLE II

Representations and Warranties of the Company

Except as set forth in the disclosure schedule delivered by the Company to Parent concurrently with the execution of this Agreement, setting forth specific exceptions to the Company's representations and warranties set forth herein (the "Company Disclosure Schedule"; which shall be arranged in paragraphs corresponding to the numbered and lettered paragraphs contained in this Article II; it being understood that each such disclosures shall qualify (i) the corresponding paragraph in this Article II and (ii) the other paragraphs in this Article II to the extent reasonably apparent from a reading of such disclosure that it also qualifies or applies to such other paragraphs), the Company hereby represents and warrants to Parent, Buyer and Merger Sub, on the date hereof and as of the Closing Date, as follows:

Section 2.1 Organization and Standing; Subsidiaries. a) The Company and each of its Subsidiaries is a corporation or other Person duly organized, validly existing and in good standing (to the extent that the concept of good standing exists in its jurisdiction of incorporation) under the laws of its respective jurisdiction of incorporation or organization, has the requisite power and authority to own, lease, license, use and operate its assets and properties and to carry on its business as now being conducted. The Company and each of its Subsidiaries is duly qualified, licensed or admitted to do business and, in jurisdictions where such concept is recognized, is in good standing in each jurisdiction in which the nature of its business or the ownership, leasing, license, use or operation of its assets and properties makes such qualification, licensing or admission necessary, except where the failure to be so qualified, licensed or admitted would not have a Material Adverse Effect. Section 2.1(a) of the Company Disclosure Schedule sets forth each jurisdiction where the Company and each of its Subsidiaries is so qualified, licensed or admitted to do business and each other state, province or country in which the Company owns, uses, licenses or leases its assets and properties, or conducts business or has Employees or engages independent contractors and/or freelances on a full-time basis. The copies of the certificate of incorporation and bylaws or other similar organization documents of the Company and of its Subsidiaries (the "Organizational Documents") that were previously furnished or made available to Parent are true, complete and correct copies of such documents as in effect on the date of this Agreement and have not been amended since the date hereof, and neither the Company nor any of its Subsidiaries is in material violation of any provision of any of their respective Organizational Documents.

(b) Section 2.1(b) of the Company Disclosure Schedule lists all of the Company and of its Subsidiaries of the Company and, for each of the Company and such Subsidiary, the jurisdiction of its incorporation or organization. All the outstanding shares of capital stock of, or other equity interests in, each of the Company's Subsidiaries have been duly authorized and validly issued and are fully paid and non assessable, are not subject to and were not issued in violation of any preemptive rights, and are owned directly or indirectly by the Company as specified in Section 2.1(b) of the Company Disclosure Schedule, free and clear of all Liens. Except for the Company's Subsidiaries, neither the Company nor any of its Subsidiaries directly or indirectly owns any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for, any corporation, partnership, joint venture or other business association or entity. All of the Subsidiaries are active.

(c) The names of each director and officer of the Company and its Subsidiaries and his or her position with the Company and its Subsidiaries on the date hereof are listed in Section 2.1(c) of the Company Disclosure Schedule.

Section 2.2 Authority; No Conflicts. b) Each of the Company and its Subsidiaries has all requisite corporate power and authority to (i) own, lease, license and use its properties and assets and carry on its business as now being conducted and as currently proposed to be conducted; (ii) execute and deliver this Agreement and the other agreements set forth in the exhibits hereto (collectively, the "Ancillary Agreements") to be executed and delivered by the Company as contemplated hereby; and (iii) consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of this Agreement, and the Ancillary Agreements executed and delivered by the Company as contemplated hereby, and the consummation of the transactions contemplated hereby and thereby, have been duly authorized by the Company's Board of Directors, and upon the receipt of the Required Votes of the Company Stockholders, no other corporate or stockholder action on the part of the Company or its stockholders is necessary to authorize the performance of this Agreement and the Ancillary Agreements by the Company and the consummation of the transactions contemplated hereby and thereby. This Agreement and the Ancillary Agreements to be executed and delivered by the Company as contemplated hereby, when delivered in accordance with the terms hereof, assuming the due execution and delivery of this Agreement and each other Ancillary Agreements by the other parties hereto and thereto, shall have been duly executed and delivered by the Company and shall be valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, except to the extent that their enforceability may be subject to applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and to general equitable principles.

(b) The execution and delivery of this Agreement by the Company does not, the execution and delivery by the Company of the Ancillary Agreements to be executed and delivered by the Company as contemplated hereby will not, and the consummation by the Company of the transactions contemplated hereby and thereby will not, result in a violation or breach of, conflict with, constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, modification, cancellation, payment or acceleration) under, or result in the creation of any Lien on any of the properties or assets of the Company or any of its Subsidiaries under ("Conflict"): (i) any provision of the Organizational Documents of the Company or any of its Subsidiaries; (ii) any Legal Requirement applicable to the Company or any of its Subsidiaries or by which any of their respective properties or assets may be bound, subject to obtaining and making any of the approvals, consents, notices and filings referred to in Section 2.14; or (iii) any of the terms, conditions or provisions of any material Contract to which the Company or any of its Subsidiaries is a party or by which it is bound, except in the case of clause (ii) or (iii), such Conflict as would not reasonably be expected to be material.

(c) The only votes or written consents of any class or series of the Company Capital Stock necessary to adopt this Agreement and approve the Merger and the other transactions contemplated hereby and described herein, including the conversion of the Company Preferred Stock into Company Common Stock (the "Required Votes"), are the affirmative vote or written consent of a majority of the outstanding shares of the Company Common Stock and Company Preferred Stock, voting together as a single class, on an as converted basis.

(d) The Board of Directors of the Company has unanimously (i) adopted and approved this Agreement, the Ancillary Agreements and the Merger, (ii) determined that the transactions contemplated herein and therein are advisable and in the best interests of the Company Stockholders and on terms that are fair to such Company Stockholders and (iii) resolved to recommend that the Company Stockholders approve this Agreement, the Ancillary Agreements and the Merger, and none of the aforesaid actions by the Board of Directors of the Company has been amended, rescinded or modified.

Section 2.3 Capitalization. c) As of the date hereof, the authorized capital stock of the Company consists of 3,500,000 shares, of which (x) 2,500,000 shares of Company Common Stock and (y) 1,000,000 shares of Company Preferred Stock, all of which have been designated as Series A Preferred Stock.

(b) As of the date hereof and as of the Closing Date, the outstanding capital stock of the Company (on a Fully Diluted Basis) consists of: (i) 1,087,255 shares of Company Common Stock, (ii) 960,784 shares of Company Preferred Stock, and (iii) 83,956 Company Stock Options to purchase an aggregate of 83,956 shares of Company Common Stock. No shares of Company capital stock are issued or held in the treasury of the Company.

(c) All outstanding shares of capital stock or other equity securities of the Company and its Subsidiaries have been duly authorized and validly issued and are fully paid and non assessable. No shares of capital stock or other equity interests of the Company or any of its Subsidiaries are entitled to or have been issued in violation of any preemptive rights. All outstanding shares of Company Capital Stock have been issued in compliance with all applicable Legal Requirements, and were issued, transferred in accordance with any right of first refusal or similar right or limitation, including those in the Organizational Documents. There are no declared or accrued but unpaid dividends with respect to any shares of Company Capital Stock. Neither the Company nor any Subsidiary of the Company owns any shares of capital stock of the Company.

(d) The Final Payment Spreadsheet contains a complete and correct list of (x) the holders of all outstanding shares of Company Capital Stock, the number and class/series of shares of Capital Stock held by each such holder, the number of shares of Common Stock into which the outstanding shares of Company Preferred Stock are convertible and the number of the applicable stock certificates representing such shares, and (y) each outstanding Company Stock Option.

(e) Other than the Company Stock Options set forth under Final Payment Spreadsheet (and the option agreements/grants evidencing such Company Stock Options), the Company is not a party to any outstanding or authorized option, warrant, right (including any preemptive right), subscription, claim of any character, agreement, obligation, convertible or exchangeable securities, or other commitments contingent or otherwise, relating to the capital stock or other equity or voting interests in the Company or any of its Subsidiaries, pursuant to which the Company is or may become obligated to issue, deliver or sell or cause to be issued, delivered or sold, shares of capital stock of or other equity or voting interests in, the Company or any securities convertible into, exchangeable for, or evidencing the right to subscribe for or acquire, any shares of the capital stock of or other equity or voting interests in the Company. Other than the Company Stock Options, there are no outstanding or authorized stock appreciation, phantom stock, profit participation or similar rights with respect to the capital stock of, or other equity or voting interests in, the Company. The Company does not have any authorized or outstanding bonds, debentures, notes or other indebtedness the holders of which have the right to vote (or convertible into, exchangeable for, or evidencing the right to subscribe for or acquire securities having the right to vote) with the stockholders of the Company on any matter. To the Company's knowledge, there are no irrevocable proxies and no voting agreements with respect to any capital stock of, or other equity or voting interests in, the Company.

(f) The information contained in the Final Payment Spreadsheet will be complete and correct as of the Closing Date.

Section 2.4 Financial Statements; Undisclosed Liabilities. d) Attached hereto as Section 2.4(a) of the Company Disclosure Schedule are true, correct and complete copies of (i) the audited, consolidated balance sheet of the Company as at December 31, 2010 (the "Balance Sheet Date"), including the related audited statements of income, stockholders' equity and cash flows, retained earnings and changes in financial position for the fiscal years ended December 31, 2010, December 31, 2009, and December 31, 2008, together with the audit opinion thereon of Kost, Forer, Gabbay and Kasierer (a member of Ernst & Young Global) (the "CPA"), and (ii) the interim unaudited reviewed consolidated balance sheet of the Company and its Subsidiaries as at June 30, 2011 (the "Interim Balance Sheet"), and the related interim unaudited consolidated statements of income, stockholders' equity and cash flows, retained earnings and changes in financial position for the six (6) months then ended. The financial statements referred to above, including the footnotes thereto (collectively the "Financial Statements"), except as described therein, and in the case of interim Financial Statements, except for the absence of notes thereto and subject to normal year-end audit adjustments which are not expected to be material, have been prepared in accordance with GAAP consistently followed throughout the periods indicated.

(b) The Financial Statements fairly present, in all material respects, the consolidated financial condition of the Company, including the results of its operations, for the periods covered thereby (subject to normal year-end adjustments in the case of any unaudited interim financial statements and except that any unaudited interim financial statements do not contain all required footnotes).

(c) Since the Balance Sheet Date, except for Liabilities (i) specified in the Interim Balance Sheet or (ii) incurred in the ordinary course of business and consistent with past practice, neither the Company nor any of its Subsidiaries has incurred any Liabilities that would be required by GAAP to be reflected on a balance sheet of the Company or any of its Subsidiaries (including, in each case, the notes thereto). There are no off balance sheet arrangements that have or are reasonably likely to have a current or future effect on the financial condition, including results of operations and liquidity, of the Company.

(d) The Company and each of its Subsidiaries (i) make and keep accurate books and records that fairly reflect in all material respects the transactions and dispositions of assets of the Company or its Subsidiaries, as the case may be, and (ii) maintain internal accounting controls which provide reasonable assurance that transactions are recorded as necessary to permit preparation of their respective financial statements in conformity with GAAP.

(e) Section 2.4(e) of the Company Disclosure Schedule sets forth a true, complete and correct list of all Company Indebtedness as of the date of this Agreement.

(f) Section 2.4(f) of the Company Disclosure Schedules sets forth a true, complete and correct list of all accounts receivable of the Company and its Subsidiaries as of the date of this Agreement. Subject to any reserves set forth in the Interim Balance Sheet, to the Company's knowledge, all accounts receivable of the Company and its Subsidiaries represent current and valid obligations arising from bona fide transactions entered into in the ordinary course of business and the Company has no knowledge of the same not being collectible from such third parties.

(g) Section 2.4(g) of the Company Disclosure Schedules sets forth (i) the Cash and Cash Equivalents held by the Company and its Subsidiaries on the date hereof (and not as of the Closing Date), categorized by the holding entity and the type and location of the Cash and Cash Equivalents as of two (2) Business Days prior to the date of this Agreement and (ii) the Company Cash, the Company Indebtedness and Company Transaction Expenses.

(h) Section 2.4(h) of the Company Disclosure Schedules sets forth a true, complete and correct list of all accounts payable of the Company and its Subsidiaries as of the date of this Agreement.

Section 2.5 Absence of Certain Changes. Since the Balance Sheet Date, (a) there has not been any event, circumstance, development, state of facts, occurrence, change or effect which has had a Material Adverse Effect and no event, circumstance, development, state of facts, occurrence, change or effect exists or has occurred which could reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect, and (b) the Company and each Subsidiary of the Company has conducted its business in the ordinary course consistent with past practice. Without limiting the generality of the foregoing and, since the Balance Sheet Date, there has not been any (i) damage, destruction or other casualty loss with respect to any material asset or property owned, leased or otherwise used by the Company or any Subsidiary, whether or not covered by insurance; (ii) declaration, setting aside or payment of any dividend or other distribution in respect of the capital stock of the Company or any non-wholly owned Subsidiary; (iii) amendment of any term of any outstanding security of the Company or any Subsidiary; (iv) incurrence, assumption or guarantee by the Company or any such subsidiary of any Company Indebtedness; (v) creation or assumption by the Company or any such subsidiary of any Lien on any asset other than in the ordinary course of business consistent with past practices; (vi) loan, advance or capital contribution to, or investment in, any person made by the Company or any Subsidiary; (vii) transaction or commitment made, or any contract or agreement entered into, by the Company or any Subsidiary relating to its assets or business or any relinquishment by the Company or Subsidiary of any Contract or other right, in each case, other than in the ordinary course of business consistent with past practice; (viii) change by the Company or any Subsidiary in its accounting principles, practices or methods, except as required by concurrent changes in GAAP; or (ix) any increase of, or an undertaking for, any increase in the compensation payable or that could become payable by the Company or any Subsidiaries to any of their respective employees, officers or directors.

Section 2.6 Compliance with Laws. e) The Company and each of its Subsidiaries have complied in all material respects with, and are currently conducting, their operations in all material respects in accordance with applicable Legal Requirement. Neither the Company nor any of its Subsidiaries has received any written notice that any violation of such Legal Requirements is being alleged.

(b) Without derogating from the generality of the foregoing, the Company and the Company Subsidiaries (i) are in compliance in all respects with the Foreign Corrupt Practices Act (15 U.S.C. §§78dd 1 et seq.) and any other international anti bribery conventions and local anti corruption and anti bribery laws in jurisdictions in which the Company and its Subsidiaries do business, (ii) have obtained all material approvals necessary under Export Control and Import Laws, and (iii) have obtained all material approvals necessary under applicable Legal Requirements in any country in which the Company Products are now sold, provided or licensed for use, relating to development, or engagement in, encryption technology (including, data encryption, key management, password protection, or authentication), technology with military applications, or other technology whose development, commercialization or export is subject to any applicable Legal Requirements, including without limitation (A) the Israeli Control of Products and Services Declaration (Engagement in Encryption) – 1974, as amended, (B) the Israeli Control of Products and Services Order (Export of Warfare Equipment and Defense Information) – 1991, as amended, and (C) the Israeli Defense Export Control Law – 2007, as amended.

Section 2.7 Permits. The Company and each of its Subsidiaries has obtained all permits, approvals, licenses, consents, authorizations, certificates, grants, rights, exemptions, orders or other authorizations from Governmental Entities that are material for the operation of the business of the Company and/or its Subsidiaries, or that are material for the lawful ownership or operation of their respective properties and assets (collectively, the "Permits"). A list of such Permits is set forth in Section 2.7 of the Company Disclosure Schedule. The Company has delivered or made available to Parent for inspection a true and correct copy of each Permit listed in Section 2.7 of the Company Disclosure Schedule. The Company and each of its Subsidiaries are in compliance in all material respects with all such Permits and all such Permits are valid and in full force and effect and have not lapsed, been cancelled, terminated or withdrawn. No proceeding to modify, suspend, revoke, withdraw, terminate or otherwise limit any such Permit is pending, or, to the Knowledge of the Company, threatened and, to the Knowledge of the Company, there are no facts or circumstances that, either alone or in together with other facts and circumstances, could reasonably be expected to provide valid basis for any such claims. No administrative or governmental action or proceeding has been taken, or, to the Knowledge of the Company, threatened, in connection with the expiration, continuance or renewal of any such Permit.

Section 2.8 Litigation. There is no private or governmental action, suit, proceeding, inquiry, claim, charge, arbitration, investigation or any administrative or other proceeding pending before, against or by any Governmental Entity or any other Person, or, to the Knowledge of the Company, threatened, against or affecting the Company or any of its Subsidiaries, or any of their respective properties, assets or rights. Neither the Company nor any of its Subsidiaries, nor to the Knowledge of the Company, any of their respective directors or officers (in their capacities as such), is subject to any Order (i) restricting the operation of the business of the Company or its Subsidiaries, or (ii) that could prevent, enjoin, alter or delay any of the transactions contemplated by this Agreement or the Ancillary Agreements. There is no litigation that the Company or any of its Subsidiaries has pending or is currently planning to commence against any other party.

Section 2.9 Benefit Plans. f) Set forth in Section 2.9(a) of the Company Disclosure Schedule is an accurate and complete list of each U.S. and non U.S. Benefit Plan. For purposes of this Agreement, "Benefit Plans" include each employee benefit plan (within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and each equity based compensation, incentive, bonus, profit sharing, savings, deferred compensation, health, medical, dental, life insurance, disability, accident, supplemental unemployment or retirement or fringe benefit plan or program maintained by the Company or any Subsidiary thereof or to which the Company or any Subsidiary thereof (including for purposes of this Section 2.9 all employers that would be treated together with the Company or any Company Subsidiary as a single employer within the meaning of Section 414 of the Code) contributes (or has any obligation to contribute), has or could have any liability or is a party.

(b) Each Benefit Plan is in material compliance with all applicable Legal Requirements and has been administered and operated in all material respects in accordance with its terms. The Company has no knowledge of the occurrence of any non-exempt prohibited transaction, as defined in section 4975 of the Code or section 406 of ERISA, with respect to any Benefit Plan.

(c) Each Benefit Plan which is intended to be "qualified" within the meaning of Section 401(a) of the Code has received a favorable determination or opinion letter from the IRS as to such qualified status, and no event has occurred and no condition exists which could be reasonably expected to result in the revocation of the qualified status of any such plan.

(d) Each Benefit Plan and each employment agreement has been administered in good faith compliance with Section 409A of the Code to the extent applicable.

(e) No Benefit Plan has assets that include securities issued by the Company or any of its Subsidiaries.

(f) No Benefit Plan is covered by Title IV of ERISA or subject to Section 412 of the Code or Section 302 of ERISA.

(g) No Benefit Plan is a "multiple employer plan" (within the meaning of the Code or ERISA).

(h) Full payment has been timely made of all amounts which the Company and/or its Subsidiaries is required under applicable Legal Requirements or under any Benefit Plan or related agreement to have paid, and the Company and each such Subsidiary have timely deposited all amounts withheld from Employees into the appropriate trusts, funds or accounts. The Company and each such Subsidiary have made adequate provisions, in accordance with GAAP in their books and records for all Liabilities under all Benefit Plans that have accrued but have not been paid because they are not yet due under the terms of any such Benefit Plan or any related agreement or applicable Legal Requirement. No event has occurred or condition exists that would reasonably be expected to result in a material increase in the level of such amounts paid or accrued for the most recently ended fiscal year.

(i) No Benefit Plan provides for post-employment or retiree health, life insurance or other welfare benefits, except as required by COBRA.

(j) The execution of this Agreement and the consummation of the transactions contemplated hereby do not constitute a triggering event under any Benefit Plan or agreement with any current or former Employee and/or consultant of the Company or any of its Subsidiaries (a "Consultant"), which (either alone or upon the occurrence of any additional or subsequent event) will or may result in any payment, "parachute payment" (as such term is defined in Section 280G of the Code), severance, bonus, retirement or job security or similar type benefit, or increase any benefits or accelerate the payment, vesting or funding of any benefits to any Employee and/or Consultant.

(k) No Employee and/or Consultant will be entitled to any payment, benefit or right or any accelerated, vested or increased payment, benefit or right as a result of such Employee's, former Employee's or director's or Consultant's termination, in direct connection to the execution of this Agreement or the consummation of the transactions contemplated hereby. No Benefit Plan provides for the payment of change in control or similar type payments or benefits. Neither the execution of this Agreement nor the consummation of the transactions contemplated hereby will require accelerated funding by the Company or any of its Subsidiaries of any Benefit Plan or give rise to any liability of the Company or any such Subsidiary in connection with any Benefit Plan.

(l) No liability, claim, action, litigation, audit, examination, investigation or proceeding has been made, commenced or, to the Knowledge of the Company, threatened with respect to any Benefit Plan which could result in a material liability of the Company or any Affiliate thereof.

(m) Except as required to maintain the tax qualified status of any Benefit Plan intended to qualify under Section 401(a) of the Code, no condition or circumstance exists that would prevent the amendment or termination of any Benefit Plan.

(n) The Company and its Subsidiaries have classified correctly all individuals who perform services for them under all applicable Legal Requirements as common law employees, independent contractors or leased employees.

(o) The Company has delivered or made available to Parent true and complete copies of each Benefit Plan, together with all amendments thereto, and all contracts and agreements relating to each Benefit Plan, as well as the most recent annual report on Form 5500 filed with the Internal Revenue Service with respect to such Benefit Plans for which such report was required by applicable Legal Requirement.

Section 2.10 Labor Matters. a) The Company and each of its Subsidiaries are currently conducting and have conducted their operations in compliance, in all material respects, with any Legal Requirement agreement (whether written or oral, including Collective Bargaining Agreements), plan, custom and program applicable to the Company or its Subsidiaries relating to labor or employment relations and practices (including material terms and conditions of employment, wage and payment for overtime, immigration and occupational safety and health).

(b) Neither the Company nor any of its Subsidiaries is a member of any employers' organization, nor is the Company or any of its Subsidiaries a party or subject to any Collective Bargaining Agreement. No Employee is represented by any Employee Representatives or is subject to any Collective Bargaining Agreement. No extension orders, except for such extension orders that apply to all employers and employees in the Israeli market. No Collective Bargaining Agreement is currently being negotiated. Neither the Company nor any of its Subsidiaries is subject to any pending, or, to the Knowledge of the Company, threatened or anticipated demand for recognition or certification, and there are no representation or certification proceedings, petitions seeking a representation proceeding or Employee Representatives' elections with respect to the Company or any of its Subsidiaries presently pending or, to the Knowledge of the Company, threatened or anticipated to be brought or filed with the National Labor Relations Board or any other labor relations tribunal or authority.

(c) There are no pending or, to the Knowledge of the Company, threatened or anticipated and there have been no strikes, lockouts, Employee Representative organization activities (including Employee Representative organization campaigns or requests for representation), pickets, slowdowns or stoppages in respect of the business of the Company or its Subsidiaries.

(d) There are no pending or, to the Knowledge of the Company, threatened, legal actions, lawsuits, arbitrations, administrative or other proceedings, charges, complaints, investigations, inspections, audits or notices of violations brought by or on behalf of, or otherwise involving, any Employee, any Person alleged to be a an Employee, any applicant for employment, or any class of the foregoing, or any Governmental Entity, that involve the labor or employment relations and practices of the Company or any of its Subsidiaries.

(e) Neither the Company nor any of its Subsidiaries has been affected by any transaction or engaged in layoffs or employment terminations sufficient in number to trigger application of the federal Worker Adjustment and Retraining Notification Act or any similar Legal Requirement (including, but not limited to, any state Legal Requirement relating to plant closings or mass layoffs or any non-U.S. Legal Requirement dealing with collective dismissals, mass terminations, reductions in force, plant closings or mass layoffs) (collectively, "WARN") during the last six (6) years. The Company and each of its Subsidiaries is and has been in material compliance with WARN, and the Company and its Subsidiaries have not incurred any liability or obligation under WARN which remains unsatisfied.

(f) Section 2.10(f) of the Company Disclosure Schedule is a complete and accurate list of the current Employees as of the date hereof and showing with respect to each such Employee the following terms: name, position/title, location, salary, commissions (if any), company car, entitlement of vacation days and accrual, notice of termination period, any outstanding loans, and terms and classification of Company Stock Options.

(g) Without limiting any other representations and warranties contained in this Section 2.10, with respect to all Employees, including also Employees who work in Israel or are subject to Israeli Labor laws ("Israeli Employees"):

(i) the employment of each Employee is subject to termination upon up to thirty (30) days' prior written notice under the termination notice provisions included in the applicable engagement Contract with such Employee or applicable Legal Requirement;

(ii) all obligations of the Company or any of its Subsidiaries to provide statutory severance pay to all Israeli Employees are properly and fully reflected on the Financial Statements. Section 14 of the Israeli Severance Pay Law (5723-1963) does not apply to the employment of any Israeli Employee;

(iii) no Employee's employment by the Company or any of its Subsidiaries requires any special license, permit or other approval by a Governmental Entity;

(iv) there are no unwritten policies, practices or customs of the Company or any of its Subsidiaries that, by extension, could reasonably be expected to entitle any Employee to benefits in addition to what such Employee is entitled to by applicable Legal Requirement or under the terms of such Employee's engagement Contract (including unwritten customs or practices concerning bonuses and the payment of statutory severance pay when it is not required under applicable Legal Requirement);

(v) all amounts that the Company or any of its Subsidiaries is legally or contractually required either: (A) to deduct from Employees' salaries or to transfer to their Employees' pension, severance or provident, life insurance, incapacity insurance, advanced study fund (*Keren Hishtalmut*) or other similar funds; or (B) to withhold from their Employees' salaries and benefits and to pay to any Governmental Entity as required by the applicable Tax Legal Requirement, have, in each case, been duly deducted, transferred, withheld and paid, and neither the Company nor any of its Subsidiaries has any outstanding obligation to make any such deduction, transfer, withholding or payment (other than outstanding obligation with respect to routine payments, deductions or withholdings that are not yet due and which will be timely made on or prior to the due date thereof;

(vi) The Company's Israeli Subsidiary is in material compliance with all Israeli applicable labor laws relating to employment, employment practices, wages, bonuses, pension benefits and other compensation matters, terms and conditions of employment related to employment of the Israeli Employees by the Company's Israeli Subsidiary. Except as otherwise is detailed in Section 2.10(b) of the Company Disclosure Schedule above, the Company's Israeli Subsidiary is not subject to, and no Israeli Employee benefits from, any Collective Bargaining Agreement and/or arrangement and/or any extension order (*Tzavei Harchava*), other than extension orders which apply to all of the employers and employees in the Israeli market;

(vii) The Company's Israeli Subsidiary does not pay, and is not by Legal Requirement required to pay, fees or dues to the Histadrut Labor Organization and/or the Manufacturers' Association and/or any other employers' organization.

(h) No Person has any agreement with the Company or any Company Subsidiary under which that Person acts as an independent contractor or consultant, for the Company or any Company Subsidiary, whether on a full time or a part time or retainer basis or otherwise. All arrangements and agreements with the Employees are in writing and the Company has delivered or made available to Parent (i) copies of the standard forms of employment agreement entered with Employees (the "Form of Employment Agreement"); (ii) copies of all written Contract (or true and complete written summaries with respect to oral Contracts) with Employees or human resource contractors, except with respect to Employees who entered into a Form of Employment Agreement (with respect to whom, the specific terms thereof are listed in Section 2.10(f) of the Company Disclosure Schedule); and (iii) copies of written manuals and written policies relating to the employment of Employees, as may be applicable.

Section 2.11 Tax Matters.

(a) The Company and each of its Subsidiaries is in compliance with all applicable Legal Requirements related to Taxes. The Company and each of its Subsidiaries has timely filed (or will timely file) or caused (or will cause) to be filed all material returns, statements, forms and reports (including, elections, declarations, disclosures, schedules, estimates and informational tax returns) for Taxes (each, a "Return") that are required to be filed by, or with respect to, the Company and each of its Subsidiaries on or prior to the Closing Date (taking into account any applicable extension of time within which to file). The Returns are (or will be) in all material respects true, correct and complete, have accurately reflected (or will accurately reflect) all liability for Taxes of the Company and each of its Subsidiaries for the periods covered thereby.

(b) All Taxes and Tax Liabilities of the Company and each of its Subsidiaries that are due and payable with respect to Tax periods ending on or before the Closing Date have been (or will be) timely paid or reserved for in the Financial Statements by the Company or its applicable Subsidiary on or prior to the Closing Date.

(c) Neither the Company nor any of its Subsidiaries is currently or has been during the last seven (7) years the subject of an audit or other examination relating to the payment of Taxes of the Company or its Subsidiaries by the Tax authorities of any nation, state or locality nor has the Company or any of its Subsidiaries received during the last seven (7) years any written notices from any Taxing authority that such an audit or examination is pending.

(d) Neither the Company nor any of its Subsidiaries (i) has entered into an agreement or waiver extending any statute of limitations relating to the payment or collection of Taxes of the Company or its Subsidiaries that has not expired or (ii) is presently contesting any Tax liability of the Company or its Subsidiaries before any Governmental Entity.

(e) Neither the Company nor any of its Subsidiaries has been included in any "consolidated", "unitary" or "combined" Return provided for under the Legal Requirement of the U.S., any non U.S. jurisdiction or any state or locality with respect to Taxes for any taxable period for which the statute of limitations has not expired.

(f) All Taxes that the Company or its Subsidiaries are (or were) required by Legal Requirement to withhold or collect in connection with amounts paid or owing to any current or former Employee, creditor, stockholder, member or other Person have been duly withheld or collected, and have been timely paid over to the proper authorities to the extent due and payable.

(g) No written claim has ever been made by any Taxing authority in a jurisdiction where the Company or any of its Subsidiaries does not file Returns that the Company or any of its Subsidiaries is or may be subject to taxation by that jurisdiction.

(h) The Company was not a "United States real property holding corporation" within the meaning of Section 897(c)(2) of the Code at any time during the five (5) year period ending on the Closing Date.

(i) There are no Tax sharing, allocation, indemnification or similar Contracts in effect as between the Company or any Subsidiary thereof and any other party (including the Company and any Subsidiary thereof) under which Parent, the Company or any of its Subsidiaries could be liable for any Taxes or other claims of any other party.

(j) The Company has delivered or made available to Parent true and complete copies, including all amendments thereto, of each of the Returns for income Taxes filed by or on behalf of the Company and each of its Subsidiaries since January 1, 2008.

(k) Neither the Company nor any of its Subsidiaries will be required to include any material item of income in, or exclude any material item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any of the following that occurred or exists on or prior to the Closing Date: (A) a "closing agreement" as described in Section 7121 of the Code (or any corresponding or similar provision of state, local or non U.S. income Tax Legal Requirement); (B) an installment sale or open transaction; (C) a prepaid amount; (D) an intercompany item under Treasury Regulation Section 1.1502 13 or an excess loss account under Treasury Regulation Section 1.1502 -19; (E) a change in the accounting method of the Company or any of its Subsidiaries pursuant to Section 481 of the Code or any similar provision of the Code or the corresponding Tax Legal Requirements of any nation, state or locality or (F) installment sale or open transaction disposition made on or prior to the Closing Date.

(l) During the five (5) year period ending on the date of this Agreement, neither the Company nor any of its Subsidiaries was a distributing corporation or a controlled corporation in a transaction intended to be governed by Section 355 of the Code.

(m) No indebtedness of the Company consists of "corporate acquisition indebtedness" within the meaning of Section 279 of the Code.

(n) Neither the Company nor any of its Subsidiaries has engaged in a "reportable transaction" within the meaning of Treasury Regulations Section 1.6011 4(b).

(o) None of the Company Stock Options are subject to Section 409A of the Code.

(p) There has not been any substantial omission or a substantial understatement of United States federal income Tax within the meaning of Section 6501(e) or Section 6662 of the Code, respectively.

(q) Neither the Company nor any of its Subsidiaries has made or filed an election under Section 108 of the Code.

(r) Neither the Company nor any of its Subsidiaries has any liabilities for unpaid Taxes which have not been accrued or reserved on the Financial Statements in accordance with GAAP, whether asserted or unasserted, contingent or otherwise, and neither the Company nor any of its Subsidiaries has incurred any liability for Taxes since the Balance Sheet Date other than in the ordinary course of business.

(s) Each of the Company and its Subsidiaries is and has at all times been resident for Tax purposes in its country of incorporation or formation and is not and has not at any time been a resident in any other country for any income Tax purpose (including any arrangement for the avoidance of double taxation). Neither the Company nor any of its Subsidiaries is or was subject to net income Tax in any jurisdiction other than its place of incorporation or formation by virtue of having a branch, permanent establishment, place of control and management or other place of business or by virtue of having a source of income in that jurisdiction.

(t) The Company has provided to Parent all material documentation relating to, and each of the Company and its Subsidiaries is in material compliance with all terms and conditions of, any Tax exemption, Tax incentive, Tax holiday or other Tax reduction agreement or order, including the "Approved Enterprise" or "Benefited Enterprise" status of the Company's Israeli Subsidiary for purposes of Israeli Tax law (a "Tax Incentive"), of a territorial or non-U.S. government with respect to the Company or any of its Subsidiaries. The Company and its Subsidiaries have been in material compliance with all terms related to the Tax Incentives. The consummation of the transactions contemplated by this Agreement will not have any adverse effect on the continued validity and effectiveness of any such Tax Incentives, excluding any adverse effect resulting from Parent's Israeli tax residence.

(u) Neither the Company nor any of its Subsidiaries has requested or received a ruling from any Tax authority or signed a closing or other agreement with any Tax authority (except for the election of the capital gain tax route under Section 102 of the ITO).

(v) All records which the Company and its Subsidiaries are required under applicable Legal Requirements to keep for Tax purposes have been duly kept (in accordance with all applicable statutory requirements) and are available for inspection at the premises of the Company or any of its Subsidiaries.

(w) None of the Company, the Company's Israeli Subsidiary or any of the Company Stockholders (with respect to the Company Capital Stock held by them) is subject to restrictions or limitations pursuant to Part E2 of the ITO or pursuant to any Tax ruling made in connection with the provisions of Part E2.

(x) Any related party transaction subject to Section 85A of the ITO conducted between the Company and the Company's Israeli Subsidiary have been conducted on an arm's-length basis in accordance with Section 85A of the ITO, and the Company's Israeli Subsidiary has filed all required Israeli tax forms 1385 with the ITA.

(y) The Company's Israeli Subsidiary has not been refunded or has not deducted any value added tax that was not so entitled to be refunded or deducted.

(z) Neither the Company nor the Company's Israeli Subsidiary has undertaken any transaction which will require special reporting in accordance with Section 131(g) of the ITO and the Israeli Income Tax Regulations (Tax Planning Requiring Reporting), 2006 regarding aggressive tax planning.

(aa) For purposes of this Section 2.11, any reference to either the Company or any Subsidiary shall be deemed to include the Company, such Subsidiary, any entity that was a subsidiary of the Company or such Subsidiary and any entity that merged or was liquidated into the Company or such Subsidiary.

Section 2.12 Intellectual Property.

(a) No Infringement. The operation of the business of the Company and each Company Subsidiary did not and does not infringe, misappropriate or otherwise violate, and, when conducted by Parent and/or Surviving Corporation following the Closing in the same manner in which it was conducted prior to Closing, will not infringe, misappropriate or otherwise violate any Intellectual Property Rights (other than patents) of any Person and to the Knowledge of the Company, the operation of the business of the Company and each Company Subsidiary did not and does not infringe, misappropriate or otherwise violate, and, when conducted by Parent and/or Surviving Corporation following the Closing in the same manner in which it was conducted prior to Closing, will not infringe, misappropriate or otherwise violate any patents of any third party.

(b) Notice. Neither the Company nor any Company Subsidiary has received any written notice, claim or demand from, nor is it aware of, any Person (i) challenging the scope, ownership, validity or enforceability of any Company Intellectual Property or (ii) claiming that the Company, any Company Subsidiary, any Company Product or Company Intellectual Property infringes, misappropriates or otherwise violates any Intellectual Property Rights of any Person (nor does the Company have Knowledge of any basis therefore).

(c) No Third Party Infringers. To the Knowledge of the Company, no Person is infringing, misappropriating or otherwise violating any Company Intellectual Property. Neither the Company nor any Company Subsidiary has asserted or threatened any claim against any Person alleging any infringement, misappropriation or violation of any Company Intellectual Property.

(d) No Order. There are no Orders that do or may restrict the rights of the Company or any Company Subsidiary to use, transfer, license or enforce any Company Intellectual Property owned by the Company or a Company Subsidiary or, to the Knowledge of the Company, any Intellectual Property or Intellectual Property Rights licensed to the Company or any Company Subsidiary; or to the Knowledge of the Company, which grant any third party any right in or to any Company Intellectual Property.

(e) Transaction. Neither this Agreement nor the transactions contemplated by this Agreement, whether by operation of law or otherwise, will result in: (i) Parent, any of its Affiliates or the Surviving Corporation granting to any third party any incremental right to or with respect to, or non-assertion under, any Intellectual Property Rights owned by, or licensed to, any of them, (ii) Parent, any of its Affiliates or the Surviving Corporation, being bound by, or subject to, any incremental non-compete or other incremental restriction on the operation or scope of their respective businesses, (iii) Parent, any of its Affiliates or the Surviving Corporation being obligated to pay any incremental royalties or other fees, or offer any incremental discounts, to any third party or (iv) the Company or the Surviving Corporation being required under a Contract to procure or attempt to procure from Parent or any of its Affiliates a license grant to or covenant not to assert in favor of any Person; provided, however, that the foregoing representation shall not apply or relate to any Contracts to which Parent is a party or to which Parent or its assets or properties are bound other than by reason of this Agreement and the consummation of the Merger. As used in this Section, an "incremental" right, non-compete, restriction, royalty or discount refers to a right, non-compete, restriction, royalty or discount, as applicable, in excess, whether in terms of contractual term, contractual rate or scope, of those that would have been required to be offered or granted by the Company or its Subsidiaries, as applicable, had the parties to this Agreement not entered into this Agreement or consummated the transactions contemplated hereby.

(f) Development and Assignment of Company Intellectual Property. The Company and each Company Subsidiary have taken commercially reasonable steps to obtain, maintain and protect the ownership of, or rights in, as applicable, all Company Intellectual Property. Without limiting the foregoing, the Company and each Company Subsidiary have, and have enforced, a policy requiring each Employee to execute a valid and binding written agreement Intellectual Property assignment and confidentiality agreement in the form delivered to Parent prior to the date of this Agreement (a "Company Assignment and Confidentiality Agreement"). All current or former Employees contracted by, or on behalf of, the Company or any Company Subsidiary that have created any Intellectual Property for the Company or any Company Subsidiary have executed a Company Assignment and Confidentiality Agreement, and, to the Knowledge of the Company, no party to any such agreement is in breach thereof. To the extent the Company or any Company Subsidiary has acquired ownership of any Intellectual Property or Intellectual Property Rights from any Person not subject to a Company Assignment and Confidentiality Agreement, the Company or Company Subsidiary, as applicable, has obtained a written assignment instrument sufficient to irrevocably transfer all rights in such Intellectual Property or Intellectual Property Rights (including the right to seek past and future damages with respect to such Intellectual Property or Intellectual Property Rights) to the Company or Company Subsidiary and, to the extent reasonably required or appropriate to protect the Company's or Company Subsidiary's ownership rights in and to such Intellectual Property and Intellectual Property Rights in accordance with all applicable laws, the Company or Company Subsidiary has recorded each such assignment of Intellectual Property or Intellectual Property Rights with the relevant Governmental Entity, including, to the extent applicable, the United States Patent and Trademark Office ("PTO"), or its equivalents in all relevant non-U.S. jurisdictions.

(g) Standards Bodies and Similar Entities. Neither the Company nor any Company Subsidiary is obligated to license or otherwise make available any Company Intellectual Property in connection with the activities of or any participation in any forum, consortium, standards body or similar entity. Neither the Company nor any Company Subsidiary has made any submission or contribution to, and is not subject to any license or other Contract with, any forum, consortium, standards body or similar entity for a determination of essentiality to or inclusion in an industry standard that would obligate the Company or any Company Subsidiary to grant licenses or other rights with respect to any Company Intellectual Property.

(h) Governmental Entities and Institutions. No Company Intellectual Property or Company Product is subject to any order, action, settlement, or "march in" right or similar right of any Governmental Entity that restricts, or that could reasonably be expected to restrict, in any manner the use, transfer or licensing of any Company Intellectual Property by the Company or any Company Subsidiary or that may affect the validity, use or enforceability of such Company Intellectual Property or any Company Product. No Company Intellectual Property or Company Product is subject to any restriction, constraint, control, supervision or limitation as a result of (i) the receipt or use by the Company or any Company Subsidiary or any of its respective current or former directors, employees, independent contractors and consultants of any funding, facilities, personnel or support from any Governmental Entity, including the OCS, the Investment Center, any foundation, including but not limited to the BIRD Foundation, or any public or private university, college, or other educational institution or research center in the development of any Company Intellectual Property or Company Product (collectively, "Grants"), or (ii) the involvement in, contribution to, or creation or development of any Company Intellectual Property or Company Product by any current or former director, officer, or independent contractor of the Company or any Company Subsidiary who performed services for or held any position with any Governmental Entity, foundation or any public or private university, college, or other educational institution or research center.

(i) Open Source and Copyleft Materials. Section 2.12(i) of the Company Disclosure Schedule provides an accurate and complete list of all Open Source Software used in any Company Product, including in development or testing thereof, which describes the Company Product in which such Open Source Software was or is used, and the applicable license governing the use of such Open Source Software. All use and distribution of Company Products and any Open Source Software by the Company or any Company Subsidiary is in material compliance with all Open Source Software licenses applicable thereto, including all copyright notice and attribution requirements. Neither the Company nor any Company Subsidiary has used Open Source Software in a manner that (i) causes or requires any Company Products or any other Company Intellectual Property to be subject to any of the obligations or attributes of Copyleft Licenses; or (ii) causes or requires any Trade Secret of the Company or any Company Subsidiary to become publicly disclosed.

(j) Source Code and Other Technology. Section 2.12(j) of the Company Disclosure Schedule identifies each Contract pursuant to which the Company has deposited, or is or may be required to deposit, with an escrow agent or any other Person, any source code or other Technology that is Company Intellectual Property. No event has occurred, and no circumstance or condition exists, that (with or without notice or lapse of time, or both) will, or would reasonably be expected to, result in the disclosure or delivery by the Company, any Company Subsidiary or any Person acting on their behalf to any Person of any source code or other Technology that is Company Intellectual Property under any Contract, and no such source code or other Technology has been disclosed, delivered or licensed to a third party.

(k) Software. The Software included in any Company Products or in the operation of the business of the Company or the Company's Subsidiaries is free of: (i) any material defects and (ii) any disabling codes or instructions and any "back door," "time bomb," "Trojan horse," "worm," "drop dead device," "virus" or other software routines or hardware components that permit unauthorized access or the unauthorized disruption, impairment, disablement or erasure of such Software or related Company Products or Company Intellectual Property (or all parts thereof) or data.

(l) Proprietary Information and Trade Secrets. The Company and each Company Subsidiary have taken reasonable steps consistent with industry standard practices to safeguard and maintain the secrecy and confidentiality of their Trade Secrets, and any Trade Secrets of third parties provided thereto, according to the laws of the applicable jurisdictions where such Trade Secrets are developed, practiced or disclosed. Neither the Company nor any Company Subsidiary is in material breach of any written, binding confidentiality obligations or undertakings to safeguard and maintain the secrecy and confidentiality of any Trade Secrets of third parties provided thereto.

(m) Privacy. There has been no unauthorized access to, unauthorized disclosure of, or other misuse of any personally identifiable information collected by the Company and the Company and the Company Subsidiaries have at all times complied in all material respects with applicable Legal Requirements relating to privacy and data retention.

(n) Company Intellectual Property. Section 2.12(n) of the Company Disclosure Schedule separately sets forth with respect to each item of owned Company Registered Intellectual Property, if any: (i) for each patent and patent application, the patent number or application serial number for each jurisdiction in which filed, date issued and filed, and present status thereof; (ii) for each registered trademark, trade name, service mark or service name or application for registration of any of the foregoing, the application serial number or registration number, by country, province and state, and the class of goods covered, the nature of the goods or services, as well as a list of all common law trademarks, trade names, trade dress, service marks and service names used by the Company or any Company Subsidiary, including a list of applicable jurisdictions; (iii) for any URL or domain name, the registration date, any renewal date and name of registry; and (iv) for each copyright registration or application, the number and date of such registration or application by country, province and state, as well as a list of all material copyrights for which a copyright application has not been filed. The Company or a Company Subsidiary exclusively owns all right, title, and interest (including the right to enforce), free and clear of all Liens, in and to all Company Registered Intellectual Property specified in Section 2.12(n) of the Company Disclosure Schedule or any other Company Intellectual Property that the Company or a Company Subsidiary purports to own, and with respect to Company Registered Intellectual Property, is listed in the records of the appropriate United States, state or non-U.S. authority as the sole owner for each item thereof.

(o) Rights to Use Intellectual Property. The Company and the Company Subsidiaries own, or to Company's Knowledge have a valid and enforceable right or license to use, all Intellectual Property used in the conduct of the Company's and the Company Subsidiaries' business as presently conducted.

(p) Validity and Enforceability. (i) The Company Intellectual Property is subsisting, in full force and effect, and to its Knowledge is valid and enforceable, (ii) no Company Registered Intellectual Property has expired (other than in accordance with applicable statutory terms) or been cancelled or abandoned, and (iii) all necessary registration, maintenance and renewal fees currently due have been paid, and all necessary documents, recordations and certificates have been filed, for the purposes of maintaining the Company Registered Intellectual Property, and (v) each of the patents and patent applications within the Company Registered Intellectual Property has been prosecuted in compliance with all applicable rules, policies, and procedures of the PTO or applicable non-U.S. patent agencies, and, to the Knowledge of the Company, there is no information that would preclude the Company from having title to such patent applications and to the patents that have issued or that may issue therefrom. Section 2.12(p) of the Company Disclosure Schedule sets forth all actions that must be taken by the Company or any Company Subsidiary within ninety (90) days from the date hereof, including the payment of any registration, maintenance, renewal fees, annuity fees and taxes or the filing of any documents, applications or certificates for the purpose of maintaining, perfecting or preserving or renewing any Company Registered Intellectual Property.

(q) Sufficiency. The Company and each Company Subsidiary own or have valid licenses to (and immediately following the Closing will own and will be validly licensed on identical terms and conditions) Intellectual Property Rights and rights to use Intellectual Property sufficient to conduct the business of the Company and each Company Subsidiary as presently conducted and as presently proposed to be conducted.

(r) Products. The Company Products conform in all material respects with all applicable contractual commitments, the Company's or any Company Subsidiary's, as the case may be, written product specifications and with all regulations, certification standards and other requirements of any applicable Governmental Entity and do not contain any material defects or errors. There are no warranty claims against the Company or any Company Subsidiary which may result in any material expenditure by the Company or any Company Subsidiary and, to the Company's Knowledge, there is no basis for the same. There is not under consideration by the Company, nor has there been, any Company Product recall or post sale warning of a material nature concerning any Company Product.

Section 2.13 Material Contracts. b) Section 2.13(a) of the Company Disclosure Schedule sets forth an accurate and complete list (arranged in paragraphs corresponding to the numbered paragraphs contained in this Section 2.13(a)) of the following Contracts (each such Contract required to be set forth, a "Material Contract") to which the Company or any of its Subsidiaries is a party:

(i) all customer Contracts, including, without limitation, all license, development, maintenance, support and professional services Contracts, that (i) provides for the payment to the Company or any Company Subsidiary of $50,000 or more following the date of this Agreement, or (ii) that deviates from the customary form of the Company EULA or customary Maintenance Agreement;

(ii) all Contracts under which the Company or any Company Subsidiary is obligated to provide any maintenance, support or professional services with respect to any Company Products that are no longer marketed by the Company or any Company Subsidiary;

(iii) all Contracts with suppliers and service providers of the Company or any Company Subsidiary that involve the performance of services for, or delivery of goods or materials to, the Company or any Company Subsidiary under which the Company or any Company Subsidiary is obligated to make payments of more than $50,000 following the date of this Agreement, excluding Contracts with any employees and independent contractors engaged on a full-time basis;

(iv) all Contracts involving a loan (other than accounts receivable owing from trade debtors in the ordinary course of business) or advance to (other than travel and entertainment advances to the Employees extended in the ordinary course of business), or investment in, any Person or any Contract relating to the making of any such loan, advance or investment;

(v) all Contracts involving Company Indebtedness or granting or evidencing a Lien on any property or asset of the Company or any of its Subsidiaries;

(vi) all Contracts under which any Person (other than the Company) has directly or indirectly guaranteed Company Indebtedness;

(vii) all Contracts with any Governmental Entity;

(viii) all Contracts involving the lease of real property ("Lease Agreements");

(ix) all Contracts for the lease of any machinery, equipment, motor vehicles, office furniture, fixtures or other personal property involving the payment of more than $15,000 over the term of the Contract;

(x) all financial advisory or any other similar type Contract and all Contracts with investment or commercial banks;

(xi) all Contracts (A) limiting or purporting to limit the ability of the Company or any of its Subsidiaries to engage in any line of business or to compete with any Person or in any geographical area, (B) granting or purporting to grant any exclusive rights to any Person or limiting in any respect the right of the Company or any Company Subsidiary to make use of any Company Intellectual Property, including any "covenant not to sue" clauses, (C) containing any exclusive licensing obligations, (D) containing any future royalty payments, or (E) containing any "most favored nation" or "most favored customer" terms;

(xii) other than employment Contracts, all Contracts between the Company and any of its Subsidiaries on the one hand and any stockholder, officer, director, Affiliate of the Company, any Company Subsidiary or any family member thereof on the other hand;

(xiii) all Contracts (including letters of intent) relating to or involving the disposition or acquisition of assets, properties, capital stock or other equity interests of any other Person, or any merger, consolidation or similar business combination transaction, whether or not enforceable, but excluding the purchase of assets in the ordinary course of business for less than $25,000;

(xiv) all Contracts involving any joint venture, partnership, strategic alliance, shareholders' agreement or joint development;

(xv) all Contracts with distributors or representatives of the Company or any Company Subsidiary that have generated or expected to generate annual revenues in excess of $50,000 (excluding Contracts with Employees and independent contractors engaged on a full time basis, in sales on behalf of the Company or any Subsidiary);

(xvi) all Contracts involving any resolution or settlement of any actual or threatened litigation or arbitration in the past two (2) years;

(xvii) all Collective Bargaining Agreements;

(xviii) all Contracts to which the Company or any Company Subsidiary is a party or by which it is bound and under which the Company or any Company Subsidiary is granted or provided any rights, or permitted any uses, of Intellectual Property or Intellectual Property Rights by a third party, other than: (i) Contracts for licenses to Shrink-Wrapped Code that are not royalty bearing; and (ii) Open Source Licenses or CopyLeft Software licenses.

(xix) all Contracts (i) containing a grant by the Company or any of its Subsidiaries to a Person of any right relating to or under the Company Intellectual Property or any grant to the Company or any of its Subsidiaries of any right relating to or under the Intellectual Property or Intellectual Property Rights of any Person involving anticipated annual gross revenue or expense in excess of $20,000, other than agreements with customers for the sale and/or licensing of Products entered into in the ordinary course of business (including Contracts for "off-the-shelf" software) and (ii) regarding development of Intellectual Property or Technology for the Company or its Subsidiaries in excess of $5,000; and

(xx) All Contracts containing any provisions which are triggered by, and all Contracts entitling any Person to any right of notice, novation, waiver, authorization, consent or approval, as the case may be, in connection with, a change-in-control of the Company or any Company Subsidiary or the consummation of the transactions contemplated by this Agreement. For the purpose of this subsection, "Change-in-Control" shall not include any notice, novation, waiver, authorization, consent or approval, as the case may be, required solely in the event of assignment of the applicable Contract to a third party unless the provision includes assignment by "operation of law" or similar wording.

(b) No Breach. The Company and each of its Subsidiaries is in compliance with their respective material obligations under each Contract to which any of them is party or by which any of them is bound. Each Material Contract set forth in Section 2.13(a) of the Company Disclosure Schedule (or required to be set forth in Section 2.13(a) of the Company Disclosure Schedule) is valid and binding and in full force and effect and has not been terminated or been repudiated. There exists no event, occurrence, condition or act which, with the giving of notice, the lapse of time or the happening of any other event or condition, would be reasonably expected to become a material default or event of default under the terms of any Contract (whether or not a Material Contract) to which any of the Company or its Subsidiaries is party or by which it is bound. To the Knowledge of the Company there are no facts or circumstances indicating that any of the Material Contracts will be totally or partially terminated or suspended prior to its expiration by its terms. To the Knowledge of the Company, all of the material covenants to be performed by any other party to any Contract to which any of the Company or its Subsidiaries is party or by which it is bound have been performed in all material respects. The Company has delivered or made available to Parent true and complete copies, including all amendments, of each Material Contract set forth in Section 2.13 of the Company Disclosure Schedule (or required to be set forth in Section 2.13 of the Company Disclosure Schedule).

Section 2.14 Governmental Consents and Approvals. Except for the filing and recordation of the Certificate of Merger and the related certificate of incorporation of the Surviving Corporation in accordance with the requirements of the DGCL, no notice to, filing with, and no permit, authorization, consent or approval of, any Governmental Entity or any third party is necessary for the consummation by the Company of the transactions contemplated by this Agreement, including as necessary in order to avoid any violation of any Legal Requirements or any third party.

Section 2.15 Environmental Matters. The Company and each Company Subsidiary are in material compliance with all Legal Requirements relating to the environment or occupational health and safety and no material expenditures are or will be required in order to comply with any such existing Legal Requirement.

Section 2.16 Leased Real Property. Section 2.16 of the Company Disclosure Schedule sets forth a complete list of the real property leased by the Company and each Company Subsidiary (the "Company Leases"). Each Lease Agreement relating to each Company Lease is valid, binding and enforceable in accordance with its terms and the Company and/or any of its Subsidiaries, as the case may be, has a valid and binding leasehold interest in the real property for the full term of the Company Lease (including renewal periods). True and correct copies of the Lease Agreements with all amendment thereto have been made available to Parent. There are no disputes, oral agreements, or forbearance programs in effect as to the Company Leases and, other than the Lease Agreements, there are no other Contracts between the Company or any of its Subsidiaries and any other Person or by and among any other Persons, claiming an interest in the interest of the Company or any of its Subsidiaries in the real property subject to the Company Leases or otherwise relating to the use and occupancy of the real property subject to the Company Leases. There are no existing material defaults by the Company or any of its Subsidiaries under any Lease Agreement, and, to the Knowledge of the Company, no event has occurred that (with the giving of notice, lapse of time or both) would constitute a material default by the Company or any of its Subsidiaries under any Lease Agreement and the Company is unaware of any material default by the other parties to the Company Leases. Neither the Company nor any of its Subsidiaries has assigned, transferred, conveyed, mortgaged, deeded in trust, or encumbered any interest in the leasehold or any of its rights under any Company Lease, and the leasehold estate created by each such lease is free and clear of all Liens. Neither the Company nor any of its Subsidiaries owns any real property.

Section 2.17 Interested Party Transactions. No stockholder, officer or director of the Company or any of its Subsidiaries owns or holds, directly or indirectly, any interest in (except holdings solely for passive investment purposes of securities of publicly held and traded entities constituting less than one percent (1%) of the equity of any such entity), or is an officer, director, Employee or consultant of any Person that is a competitor, lessor, customer or supplier of the Company or any of its Subsidiaries. No officer, director or stockholder of the Company or any of its Subsidiaries (a) owns or holds, directly or indirectly, in whole or in part, any Company Intellectual Property, or (b) has any interest in any property, real or personal, tangible or intangible, used in or pertaining to the business of the Company or any of its Subsidiaries. No stockholder, officer, Employee or director of the Company or the Subsidiary is indebted to the Company or its Subsidiaries, nor is the Company or its Subsidiaries indebted (or committed to make loans or extend or guarantee credit) to any of them.

Section 2.18 Suppliers and Customers. Section 2.18 of the Company Disclosure Schedule sets forth an accurate and complete list of (i) the five (5) largest customers (including OEMs and resellers) of the Company and its Subsidiaries, taken as a whole, by revenues (the "Key Customers") for the year ended December 31, 2010 and (ii) the five (5) largest suppliers by expenditures (the "Key Suppliers") for the year ended December 31, 2010. None of the Key Suppliers and Key Customers has indicated to the Company or any of its Subsidiaries any intent to discontinue or alter in a manner adverse to the Company or any of its Subsidiaries the terms of such Key Supplier or Key Customer's relationship with the Company or any of its Subsidiaries or make any claim that would be reasonably expected to give rise to a material breach by the Company or its Subsidiaries of their obligations to such Key Supplier or Key Customer.

Section 2.19 Accounts, Powers of Attorney. Set forth in Section 2.19 of the Company Disclosure Schedule is an accurate and complete list showing (a) the name and address of all banks, trust companies, securities brokers and other financial institutions in which the Company or any of its Subsidiaries has an account or safe deposit box, or maintains a banking, custodial, trading or other similar relationship, whether or not such accounts are held in the name of the Company, and lists the number of any such account or any such box and the names of all Persons authorized to draw thereon or to have access thereto, (b) the names of all Persons, if any, holding powers of attorney from the Company or any of its Subsidiaries.

Section 2.20 Insurance. Section 2.20. of the Company Disclosure Schedule contains a complete list of the policies and Contracts of insurance maintained by the Company and each of its Subsidiaries. All such policies and bonds are in full force and effect, all premiums due and payable to date under all such policies and bonds have been paid and the Company and each of its Subsidiaries are otherwise in compliance in all material respects with the terms of such policies and bonds. There is no claim pending under any such policies and Contracts as to which coverage has been questioned, denied or disputed by the insurance carriers of such policies or Contracts. Neither the Company nor any of its Subsidiaries has received any written notice of cancellation or non renewal of any such policies or Contracts from any of its insurance carriers or agents, nor to the Knowledge of the Company, is the termination of any such policies or Contracts threatened.

Section 2.21 Tangible Assets; Title to Property. The Company or one of its Subsidiaries has good and valid title or, in the case of leased assets, a valid leasehold interest, free and clear of all Liens, except for Permitted Liens, to all of their respective tangible property and assets. The property and equipment of the Company and its Subsidiaries that are used in the operations of the business of the Company and its Subsidiaries are in good operating condition and repair, subject to normal wear and tear, are adequate for the uses to which they are being put and have been maintained and serviced in accordance with prudent practice and in material compliance with all applicable Legal Requirements. The tangible property and assets owned or leased by the Company and its Subsidiaries, together with all leased real property of the Company and its Subsidiaries, are sufficient for the operation of the business of the Company and its Subsidiaries as currently conducted.

Section 2.22 Minute Books. The minute books of the Company and each of its Subsidiaries contain an accurate summary in all material respects of all resolutions adopted at any meetings of directors, committees and stockholders and all actions by written consent.

Section 2.23 Broker's or Finder's Fees; Transaction Expenses. c) Neither the Company nor any Company Subsidiary has incurred, nor will it incur, directly or indirectly, any liability for brokerage or finders' fees or agents' commissions or investment bankers' fees or any similar charges in connection with this Agreement or any transaction contemplated hereby.

(b) Section 2.23(b) of the Company Disclosure sets forth the Company Transaction Expenses due and payable from the date hereof through and following the Closing, presented on an aggregate basis by category.

Section 2.24 State Takeover Statutes. No "fair price" or "control share acquisition" or other similar U.S. federal, state or local antitakeover statutes, laws or regulations, including Section 203 of Delaware Law, is applicable to the Company with respect to the Merger, including the execution, delivery or performance of this Agreement and the consummation of the Merger and the other transactions contemplated hereby.

Section 2.25 Full Disclosure. None of the representations or warranties made by the Company herein or any certificate furnished by the Company pursuant to this Agreement (as qualified and modified by the Company Disclosure Schedule), when all such documents are read together in their entirety, contains or will contain at the Closing Date any untrue statement of a material fact, or omits or will omit at the Closing Date to state any material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which made, not misleading.

ARTICLE III

Representations and Warranties of the Executing Stockholders

Without derogating from any other representations and warranties set forth in this Agreement, and except as set forth in the Executing Stockholder's respective signature page hereto (unless the same is a confirmation of a specific matter), each of the Executing Stockholders, severally and not jointly, represents and warrants, to and for the benefit of Parent and Buyer, as follows:

Section 3.1 Ownership of Company Capital Stock. Such Executing Stockholder is the sole record and beneficial owner of the Company Capital Stock designated as being owned by such Executing Stockholder opposite such Executing Stockholder's name in the Preliminary Payment Spreadsheet. Except as provided under the Company Organizational Documents and any applicable stockholder agreement or similar agreement made available to the Parent, such Company Capital Stock owned by such Executing Stockholder are not subject to any Liens or to a right of first refusal of any kind, and such Executing Stockholder has not granted any rights to purchase such Company Capital Stock or Company Options to any other Person. Such Executing Stockholder has the sole right to transfer such Company Capital Stock to Parent and Buyer. Such Company Capital Stock constitutes all of the Company Capital Stock owned, beneficially or of record, by such Executing Stockholder, and such Executing Stockholder has no other options, warrants or other rights to acquire Company Capital Stock other than those set forth in Section 2.3 of the Company Disclosure Schedule.

Section 3.2 Absence of Claims by the Executing Stockholders. Such Executing Stockholder (in his capacity as such) does not have any claim against the Company whether present or future, contingent or unconditional, fixed or variable under any Contract or on any other basis whatsoever, whether in equity or at law.

Section 3.3 Litigation. There is no claim of any nature pending, or to the Knowledge of such Executing Stockholder, threatened, against such Executing Stockholder, arising out of or relating to (a) such Executing Stockholder's beneficial ownership of Company Capital Stock or rights to acquire Company Capital Stock, (b) such Executing Stockholder's capacity as a holder of Company Capital Stock, (c) the transactions contemplated by this Agreement, (d) any contribution of assets (tangible and intangible) by such Executing Stockholder (or any of its Affiliates) to the Company (or any of its Affiliates), or (e) any other agreement between such Executing Stockholder (or any of its Affiliates) and the Company (or any of its Affiliates), nor to the Knowledge of such Executing Stockholder, is there any reasonable basis therefor. There is no investigation or other proceeding pending or, to the Knowledge of such Executing Stockholder, threatened, against such Executing Stockholder arising out of or relating to the matters noted in clauses (a) through (e) of the preceding sentence by or before any Governmental Entity, nor to the Knowledge of such Executing Stockholder, is there any reasonable basis therefor. There is no action, suit, claim or proceeding pending or, to the Knowledge of such Executing Stockholder, threatened, against such Executing Stockholder with respect to which such Executing Stockholder has a contractual right or a right pursuant to applicable law to indemnification from the Company related to facts and circumstances existing prior to the Effective Time, nor are there any facts or circumstances that would give rise to such an action, suit, claim or proceeding.

Section 3.4 Authority. Such Executing Stockholder has capacity to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement have been duly authorized by such Executing Stockholder, and no further action is required on the part of such Executing Stockholder to authorize the Agreement. This Agreement has been duly executed and delivered by such Executing Stockholder, and assuming the due authorization, execution and delivery by the other parties hereto and thereto, constitute the valid and binding obligations of such Executing Stockholder, enforceable against each such party in accordance with their respective terms.

Section 3.5 No Conflict. The execution and delivery by such Executing Stockholder of this Agreement and the consummation of the transactions hereby and thereby will not conflict with (a) any contract to which such Executing Stockholder or any of its properties or assets is subject, or (b) any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to such Executing Stockholder or its properties or assets.

Section 3.6 The Transactions. Such Executing Stockholder has reviewed and understands the terms and conditions of this Agreement including:

(i) the waiver and indemnification provisions set forth herein; that the Aggregate Merger Consideration payable herein is subject to the offset of funds related to indemnity obligations, and such offset provisions are fair and reasonable to the Company and the Company's Stockholders.

(ii) that all of the Company Preferred Stock shall be converted into the Company Common Stock (at the conversion rate contemplated in the Certificate of Incorporation of the Company (being 1:1), immediately prior to the Closing Date, and to the extent such Executing Stockholder, as of the date of this Agreement, is a holder of Company Preferred Stock, also understands the effect of the conversion on the allocation of the Aggregate Merger Consideration between the Company Stockholders;

(iii) that, as contemplated in the Merger Agreement, the Stockholder Representatives being appointed and authorized as true and lawful attorney-in-fact and agents to act in the name, place and stead of the Executing Stockholder in accordance with this Agreement;

(iv) that (A) any and all rights, including, without limitation, rights of first refusal, preemptive rights, drag-along rights, registration rights and information rights, if any, under the Company Series A Agreements, be, and they hereby are, waived, such waiver to be effective at the Closing, and (B) the Company Series A Agreements are hereby terminated and shall be of no further force and effect, effective at the Closing;

(v) that any and all rights that it has to the appoint any director or observer to the Board of Directors of the Company or any of its subsidiaries will terminate as of the Closing;

(vi) that the Executing Stockholder hereby waives any and all notice that is, was or may be required by the DGCL, the Certificate of Incorporation of the Company and the Bylaws of the Company or otherwise, including without limitation in any agreement between the undersigned and the Company in connection with such Executing Stockholder approval of the Merger, the Merger Agreement, the Ancillary Agreements or the transactions contemplated hereby or thereby;

Section 3.7 Securities Laws.

(a) Such Executing Stockholder is aware of Parent's business affairs and financial condition and has acquired sufficient information about Parent to reach an informed and knowledgeable decision to acquire the Consideration Shares. Such Executing Stockholder is acquiring the Consideration Shares for such Executing Stockholder's own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act.

(b) Such Executing Stockholder is (i) an Accredited Investor (as defined in Schedule C below) (a "Regulation D Investor"), and/or (ii) not a U.S. Person (as defined in Schedule C below) (a "Regulation S Investor"). If such Executing Stockholder is a Regulation D Investor, such Executing Stockholder also represents that: (x) it can afford to bear the economic risk of holding the Consideration Shares for an indefinite period and can afford to suffer the complete loss of such Executing Stockholder's investment in the Consideration Shares; (y) its knowledge and experience in financial and business matters is such that such Executing Stockholder is capable of evaluating the risks of the investment in the Consideration Shares; and (z) only to the extent that such Executing Stockholders is not an individual, it has not been organized for the purpose of acquiring the Consideration Shares. If such Executing Stockholder is a Regulation S Investor, such Executing Stockholder also represents that: (1) it is not a U.S. Person, (2) only to the extent that such Executing Stockholders is not an individual, it was not organized under the laws of any United States jurisdiction, and was not formed for the purpose of investing in securities not registered under the Securities Act, (3) the Regulation S Investor received all communications relating to the issuance of the Consideration Shares, and executed all documents relating thereto, outside the United States and, on the date hereof, is outside the United States, (4) the Executing Stockholder is not acquiring the Consideration Shares for the account or benefit of any U.S. Person, and (5) it will not offer or sell any of the Consideration Shares in the United States, to or for the account or benefit of a U.S. Person other than in accordance with Regulation S or pursuant to an effective registration statement under the Securities Act or any available exemption therefrom and, in any case, in accordance with applicable state securities laws.

(c) By executing this Agreement, each Executing Stockholder, other than those Executing Stockholders indicating and confirming the same in their respective signature page of this Agreement, hereby confirms that such Executing Stockholder is: (1) currently located outside of the U.S; and (2) not a U.S. Person.

(d) By executing this Agreement, each of the Executing Stockholders indicating and confirming the same in their respective signature pages of this Agreement: with respect to himself or itself, represents and warrants that he or it are not an Israeli resident nor has received the offer to purchase the Consideration Shares while in Israel.

(e) Such Executing Stockholder understands that the Consideration Shares have not been registered under the Securities Act and the Consideration Shares are being issued in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of its investment intent as expressed herein. Moreover, such Executing Stockholder understands that Parent is under no obligation to register the Consideration Shares with the Securities and Exchange Commission in the United States other than as required by this Agreement.

(f) Such Executing Stockholder understands that the Consideration Shares are “restricted securities” under the United States federal securities laws and may be resold without registration under the Securities Act only in very limited circumstances. In this regard, each Executing Stockholder is aware of the provisions of Rule 144, promulgated under the Securities Act, which in substance, permit limited public resale of “restricted securities” acquired, directly or indirectly from the issuer thereof (or from an affiliate of such issuer), in a non public offering subject to the satisfaction of certain conditions.

(g) Such Executing Stockholder has received and reviewed information about Parent and has had an opportunity to discuss Parent’s business, management and financial affairs with its management.

(h) Such Executing Stockholder understands and agrees that the Consideration Shares cannot be offered, resold or otherwise transferred except pursuant to (i) an effective registration statement under the Securities Act covering such offer, sale or transfer and such offer, sale or transfer is made in accordance with such registration statement, or (ii) an available exemption from registration, in which case such Executing Stockholder shall furnish Parent with (A) a written statement of the circumstances surrounding the proposed sale or transfer and (B) if reasonably requested by Parent, an opinion of counsel, in form and substance reasonably satisfactory to Parent, that such sale or transfer will not require registration under the Securities Act. Such Executing Stockholder hereby covenants and agrees that he, she or it will not offer, sell or otherwise transfer such Consideration Shares except in compliance with this Section 3.7(h) and with Applicable Law. In order to prevent any transfer from taking place in violation of this Agreement or Applicable Law, each Executing Stockholder hereby agrees that Parent may cause a stop transfer order to be placed with its transfer agent with respect to the Consideration Shares. Parent will not be required to transfer on its books any Consideration Shares that have been sold or transferred in violation of any provision of this Agreement or Applicable Law.

(i) By executing this Agreement, each of the Executing Stockholders indicating and confirming the same in their respective signature page of this Agreement, with respect to himself or itself, represents and warrants that he or it(i) is an “Israeli Qualified Investor” (as defined in Schedule C below), and (ii) is familiar with the consequences of being an "Israeli Qualified Investor" within the scope of the First Addendum to the ISL.

(j) If the Executing Stockholder is neither a "U.S. Person" nor an Israeli resident, he or it hereby further represent that he/it has satisfied him/itself as to the full observance of the laws of his/its jurisdiction in connection with any invitation to subscribe for the Consideration Shares, including the legal requirements within his/its jurisdiction for the purchase of the Consideration Shares, if any, that may be relevant to the purchase, holding, redemption, sale or transfer of the Consideration Shares. Such subscription for, and continued beneficial ownership of the Consideration Shares, will not violate any applicable securities or other laws of his/its jurisdiction.

Section 3.8 Intellectual Property**.**

(a) Such Executing Stockholder does not have any ownership interest in Company Intellectual Property and Company Technology or has any Liens against Company Intellectual Property. Such Executing Stockholder has not transferred ownership of, or granted any exclusive rights to, any Intellectual Property Rights that are or were Company Intellectual Property. No Intellectual Property Rights or Company Technology is jointly owned by the Company, on the one hand, with the Executing Stockholder, on the other hand. In the event that an Executing Stockholder participated in the research or development of any of the Company Intellectual Property, all amounts payable by the Company or its Subsidiaries to such Executing Stockholder for the research, development, conception or reduction to practice of any Company Technology or Company Intellectual Property have been paid in full, and each Executing Stockholder has expressly and irrevocably waived the right to receive royalties or compensation in addition to the compensation previously paid, in connection with “Service Inventions” under section 134 of the Israeli Patent Law 1967 or any other similar provision under any applicable Legal Requirement.

(b) Neither the Company Products, nor the past, current or reasonably contemplated future conduct or operations of the business of the Company has, is or will, infringe or misappropriate the Intellectual Property Rights of the Executing Stockholder, or has, is or will, violate any right of the Executing Stockholder (including any right to privacy or publicity). The Executing Stockholder has not asserted any claim against the Company or any other Executing Stockholder, and such Executing Stockholder has given Company or any other Executing Stockholder notice alleging that any Company Products or the operation or conduct of the business of the Company infringes or misappropriates the Intellectual Property Rights of such Executing Stockholder, violates the rights of such Executing Stockholder (including any right to privacy or publicity).

(c) There are no disputes regarding the scope of any assignment of Intellectual Property Rights to the Company by the Executing Stockholder, or performance under such assignment agreement, including with respect to any payments to be made or received by the Company thereunder.

(d) With respect to any Executing Stockholder who contributed to, the creation or development of any material Company Intellectual Property, such Executing Stockholder has not performed services for the government, a university, college or other educational institution, research center, or organization whose primary purpose is to create or foster the creation of Open Source Material during a period of time during which such Executing Stockholder was also performing services for the Company, including the Israeli Office of the Chief Scientist of the Ministry of Industry, Trade and Labor of the State of Israel.

Section 3.9 Disclosure. The representations and warranties made by each Executing Stockholder in this Agreement or in any certificate or consent delivered pursuant hereto are the exclusive representations and warranties made by such Executing Stockholder in connection with the Merger and the transactions contemplated hereby. Each Executing Stockholder hereby disclaims any other express or implied representations or warranties with respect to the Company or any of its Subsidiaries or any of their respective assets or liabilities.

ARTICLE IV

Representations and Warranties of Parent, Buyer and Merger Sub

Except as set forth in the disclosure schedule delivered by Parent to the Company immediately prior to the execution of this Agreement, setting forth specific exceptions to Parent's, Buyer's and Merger Sub's representations and warranties set forth herein (the "Parent Disclosure Schedule"; which shall be arranged in paragraphs corresponding to the numbered and lettered paragraphs contained in this Article IV; it being understood that each such disclosures shall qualify (i) the corresponding paragraph in this Article IV and (ii) the other paragraphs in this Article IV to the extent reasonably apparent from a reading of such disclosure that it also qualifies or applies to such other paragraphs), Parent, Buyer and Merger Sub hereby represent and warrant to the Company, on the date hereof and as of the Closing Date, as follows:

Section 4.1 Organization and Standing. Parent is a corporation duly organized and validly existing under the laws of the State of Israel and has all requisite power and authority to own, lease, license, use and operate its assets and properties and to carry on its business as now being conducted as currently proposed to be conducted. Buyer is a company duly organized, validly existing and in good standing under the laws of the State of Massachusetts. Merger Sub is a company duly organized, validly existing and in good standing under the laws of the State of Delaware.

Section 4.2 Authority; No Conflicts. d) Each of Parent, Buyer and Merger Sub has all requisite corporate power and authority to execute and deliver this Agreement and the Ancillary Agreements to be executed and delivered by them as contemplated hereby and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of this Agreement, and the Ancillary Agreements executed and delivered by Parent, Buyer and Merger Sub as contemplated hereby, and the consummation of the transactions contemplated hereby and thereby, have been duly authorized by (1) the Board of Directors of each of Parent, Buyer and Merger Sub and (2) Buyer, in its capacity as the sole stockholder of Merger Sub, and no other corporate or stockholder action on the part of Parent, Buyer or Merger Sub or their respective stockholders is necessary to authorize the execution, delivery and performance of this Agreement and the Ancillary Agreements by either Parent, Buyer or Merger Sub and the consummation of the transactions contemplated hereby and thereby. This Agreement and the Ancillary Agreements to be executed and delivered by Parent, Buyer and Merger Sub as contemplated hereby, when delivered in accordance with the terms hereof, assuming the due execution and delivery of this Agreement and each other Ancillary Agreements by the other parties hereto and thereto, shall have been duly executed and delivered by each of Parent, Buyer and Merger Sub and shall be valid and binding obligations of Parent, Buyer and Merger Sub, enforceable against each of them in accordance with their terms, except to the extent that their enforceability may be subject to applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and to general equitable principles.

(b) The execution and delivery of this Agreement and of the Ancillary Agreements to be executed and delivered by Parent, Buyer and Merger Sub as contemplated hereby will not, and the consummation by Parent, Buyer and Merger Sub of the transactions contemplated hereby and thereby will not result in a violation or breach of, conflict with, constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation, payment or acceleration) under, or result in the creation of any Lien on any of the properties or assets of Parent under: (i) any provision of the organizational documents of Parent, Buyer and/or Merger Sub; (ii) subject to obtaining and making any of the required approvals, consents, notices and filings, any Legal Requirement applicable to Parent and/or Merger Sub or by which any of its respective properties or assets may be bound; (iii) any of the terms, conditions or provisions of any Contract to which Parent, Buyer and/or Merger Sub is a party or by which it is bound; except, in all cases, as would not reasonably be expected to prevent the consummation of the Merger.

Section 4.3 Consents and Approvals. Except for the filing and recordation of the Certificate of Merger and the related certificate of incorporation of the Surviving Corporation in accordance with the requirements of the DGCL, no notice to, filing with, and no permit, authorization, consent or approval of, any Governmental Entity or any private third party is necessary for the consummation by Parent, Buyer and/or Merger Sub of the transactions contemplated by this Agreement.

Section 4.4 SEC Filings.

(a) Parent has timely filed with or otherwise furnished to the SEC all forms, reports, schedules, statements and other documents required to be filed or furnished by it under the Exchange Act since January 1, 2010 together with all certifications required pursuant to the Sarbanes-Oxley Act (these documents, as supplemented or amended since the time of filing, and together with all information incorporated by reference therein and schedules and exhibits thereto, the "Parent SEC Documents"). Parent has delivered or made available to the Company (including through the SEC EDGAR system) accurate and complete copies of the Parent SEC Documents and of all comment letters received by Parent from the Staff of the SEC in connection therewith since January 1, 2010 and all responses to such comment letters by or on behalf of Parent. No Subsidiary of Parent is required to file with or furnish to the SEC any forms, reports, schedules, statements or other documents.

(b) As of their respective filing dates, the Parent SEC Documents and all Parent SEC Documents filed after the date hereof but before the Closing complied (or, if filed after the date hereof and before the Closing, will) comply in all material respects with the requirements of the Securities Act and the Exchange Act and the rules and regulations of the SEC thereunder, as the case may be, and none of the Parent SEC Documents contained or will contain any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading, except to the extent such Parent SEC Documents have been corrected, updated or superseded by a document subsequently filed with or furnished to the SEC. The financial statements of Parent, including the notes thereto, included in the Parent SEC Documents (the "Parent Financial Statements") comply as to form in all material respects with the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with GAAP consistently applied (except as may be indicated in the notes thereto or, in the case of unaudited financial statements, as permitted by the Exchange Act) and present fairly, in all material respects, the consolidated financial position of Parent and its consolidated subsidiaries at the dates thereof and the consolidated results of its operations, changes in shareholders' equity and cash flows for the periods then ended (subject, in the case of unaudited financial statements, to normal year-end adjustments). There has been no change in Parent's accounting policies except as described in the notes to the Parent Financial Statements or required by applicable Legal Requirements. Except as reflected or reserved against in the Parent Financial Statements, Parent has no material liabilities, except liabilities and obligations (i) incurred in the ordinary course of business, (ii) are not material to the Company and its Subsidiaries, taken as a whole, or (iii) that would not be required to be reflected or reserved against the balance sheet of Parent prepared in accordance with GAAP.

Section 4.5 Financing. Parent currently has access to, and will have prior to, from and after the Effective Time, sufficient resources to make payment of the Aggregate Merger Consideration and any other amounts payable hereunder.

Section 4.6 Issuance of Parent Ordinary Shares. The authorized capital of Parent consists of 130,000,000 Ordinary Shares. As of August 18, 2011, there were 33,240, 197 Parent Ordinary Shares outstanding. As of August 18, 2011, there were outstanding options, warrants and convertible securities to purchase an aggregate of 12,540,232 Ordinary Shares. As of August 18, 2011, Parent has reserved 689,000 Ordinary Shares for future issuance under its equity incentive plans. The Parent Ordinary Shares to be issued pursuant to this Agreement have been duly authorized, and when issued, will be validly issued, fully paid and nonassessable and not subject to any Liens (subject to this Agreement, Parent's organizational requirements and applicable Legal Requirements).

Section 4.7 Broker's or Finder's Fees. None of Parent, Buyer or Merger Sub has incurred, nor will it incur, directly or indirectly, any liability for brokerage or finders' fees or agents' commissions or investment bankers' fees or any similar charges in connection with this Agreement or any transaction contemplated hereby.

ARTICLE V

Covenants

Section 5.1 Access to Information. During the period commencing on the date hereof and ending on the earlier of the date of termination of this Agreement or the Effective Time (such earlier date, the "Expiration Date"), the Company shall afford Parent, Buyer and their respective Representatives during normal working hours upon reasonable prior notice reasonable access to the properties, books and records of the Company and its Subsidiaries and, during such period, the Company shall furnish as soon as practical to Parent and Buyer all true, correct and complete financial and operating data and other information concerning the Company's and its Subsidiaries' businesses, properties and personnel as Parent and Buyer may reasonably request.

Section 5.2 Confidentiality. The parties hereto agree that the terms of that certain Mutual Non-Disclosure Agreement between Parent and the Company, dated March 2, 2011 (the "Confidentiality Agreement"), shall continue in full force and effect, and apply to any exchange of Confidential Information (as defined in the Confidentiality Agreement) hereunder; it being understood that notwithstanding anything to the contrary in the Confidentiality Agreement, neither Party shall disclose the existence of this Agreement and/or any of the terms and conditions of this Agreement and the transactions contemplated hereby unless such disclosure is required by applicable Legal Requirement or otherwise permitted in accordance with Section 5.7 hereof.

Section 5.3 Conduct of the Business of the Company Pending the Closing Date.

(a) The Company agrees that during the period commencing on the date hereof and ending on the Expiration Date, the Company shall, and shall cause each of its Subsidiaries to, conduct its respective operations only in the ordinary course of business consistent with past practice and to use their commercially reasonable efforts to preserve intact their respective business organizations, keep available the services of their Employees and maintain satisfactory relationships with licensors, suppliers, distributors, clients and others having business relationships with them.

(b) In furtherance and not in limitation of Section 5.3(a), the Company agrees that during the period commencing on the date hereof and ending on the Expiration Date, the Company shall not, and shall cause each of its Subsidiaries not to, effect any of the following except (i) as specifically contemplated by this Agreement, or (ii) with the prior written consent of Parent (which shall not be unreasonably withheld):

(i) amend or restate any of its Organizational Documents or form any Subsidiary;

(ii) authorize for issuance, issue, sell or deliver (A) any capital stock of, or other equity or voting interest in, the Company or any of its Subsidiaries, other than issuance of shares of Capital Stock of the Company upon exercise of Company Stock Options outstanding on the date hereof in accordance with the existing terms of such outstanding Company Stock Options, or (B) any securities convertible into, exchangeable for, or evidencing the right to subscribe for or acquire any (1) shares of capital stock of, or other equity or voting interest in, the Company or any of its Subsidiaries, (2) securities convertible into, exchangeable for, or evidencing the right to subscribe for or acquire, any shares of the capital stock of, or other equity or voting interest in, the Company or any of its Subsidiaries including rights, warrants or options, or (3) phantom stock or similar equity based payment option;

(iii) declare, pay or set aside any dividend or make any distribution (whether in cash, stock or other property) with respect to, or split, combine, redeem, reclassify, purchase or otherwise acquire directly, or indirectly, any shares of capital stock of, or other equity or voting interest in, the Company or any of its Subsidiaries, or make any other change in the capital structure of the Company or any of its Subsidiaries;

(iv) establish, adopt, enter into, fund or accelerate payment under, amend or terminate any Benefit Plan;

(v) establish, adopt, enter into, fund or accelerate payment under, amend or terminate any agreement, or arrangement for the benefit of any directors, officers or Employees; other than in the ordinary course of business and consistent with past practice in respect of Employees who are not officers or Designated Employees;

(vi) (A) hire any new Employee or terminate the employment of any Employee, except in the ordinary course of business consistent with past practice; (B) hire any new Employee for a position which replaces any officer or Designated Employee; or (C) terminate the employment of any officer or Designated Employee;

(vii) pay or enter into any agreement, or otherwise promise, to pay any bonus, retention or special remuneration to any current or former Employee or increase the compensation payable (including wages, salaries, bonuses, benefits or any other remuneration) or to become payable to any current or former Employee, but other than as required under Contracts existing as of the date hereof;

(viii) accelerate, amend or change the period of exercisability or vesting of any Company Stock Option (except as required under Contracts existing as of the date hereof or unless determined within the scope of this Agreement or the Merger) or authorize any cash payment in exchange for a Company Stock Option or other equity award of the Company;

(ix) enter into, materially amend, become subject to, violate, terminate or otherwise modify or waive any of the material terms of any Material Contract or any Company Leases, except for entering into Contracts for the sale of the Company Products in the ordinary course of business, consistent with past practice with a value per contract that does not exceed $50,000;

(x) mortgage, pledge or encumber any assets or otherwise permit any of its properties or assets to be subject to any Lien;

(xi) (i) dispose of, license or transfer to any Person any rights to Company Intellectual Property other than pursuant to non exclusive licenses of binary code in connection with the sale of the Company Products in the ordinary course of business, consistent with past licensing practice, (ii) abandon, permit to lapse or otherwise dispose of any Company Intellectual Property, or (iii) make any material change in any Company Intellectual Property;

(xii) sell, transfer, lease, license or otherwise dispose of any material assets or properties, except for the sale of Company Products in the ordinary course and consistent with past practice;

(xiii) acquire any business, line of business or Person by merger or consolidation, purchase of substantial assets or equity interests, or by any other manner, in a single transaction or a series of related transactions, or enter into any Contract, letter of intent or similar arrangement (whether or not enforceable) with respect to the foregoing;

(xiv) enter into or amend any agreements pursuant to which any other Person is granted exclusive rights of any type or scope with respect to any Company Products;

(xv) make any capital expenditure or commitment therefor or enter into any operating lease in excess of $10,000 individually and $20,000 in the aggregate or otherwise deviate from the Company's short-term budget/forecast attached in Section 5.3(xv) to the Company Disclosure Schedule;

(xvi) (A) take any action reasonably likely to (i) accelerate the payment of customer accounts receivables (including shortening payment terms, providing incentives for early payment or otherwise) or (ii) delay the payment on accounts payable to suppliers, vendors or others beyond due dates; (B) make any changes to the cash management policies of the Company or any of its Subsidiaries, or (C) vary any inventory purchasing practices in any material respect from past practices;

(xvii) terminate or waive any right of the Company or any Company Subsidiary of material value;

(xviii) except as required by GAAP, make any change in any method of accounting or auditing method, principle, policy, procedure or practice;

(xix) make any material Tax election or settle and/or compromise any material Tax liability; prepare any Returns in an inappropriate manner; incur any material liability for Taxes, other than in the ordinary course of business, or file an amended Return or a claim for refund of Taxes with respect to the income, operations or property of the Company or its Subsidiaries, other than in the ordinary course of business;

(xx) incur, repay, assume, guarantee or modify any Company Indebtedness;

(xxi) make any loans, advances or capital contributions to, or investments in, any other Person other than loans, advances or capital contributions by the Company or any of its Subsidiaries to any direct or indirect wholly owned Subsidiary of the Company;

(xxii) initiate or settle any litigation;

(xxiii) agree to take (i) any of the actions described in Sections 5.3(b)(i) through (xxii) above, or (ii) any other action that would prevent the Company from performing, or cause the Company not to perform, any of its covenants and agreements under this Agreement or under any of Ancillary Agreements.

Section 5.4 Exclusive Dealing. e) Without derogating from the Company's other obligations hereunder, during the period commencing on the date hereof and continuing until the Expiration Date, the Company shall continue to comply with its undertakings under Section 8 of the Parent LOI (except that the term "Expiration Date" in the Parent LOI shall have the meaning set forth herein).

(b) The Company acknowledges that this Section 5.4 was a significant inducement for Parent and Buyer to enter into this Agreement.

Section 5.5 Commercially Reasonable Efforts; Consents. Subject to the terms and conditions contained in this Agreement, the Parties shall cooperate and use their respective commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other Parties in doing, all things necessary, proper or advisable in order to consummate and make effective, in the most expeditious manner practicable, the Merger and the other transactions contemplated by this Agreement, including the following: (i) the taking of all commercially reasonable acts necessary to cause the conditions precedent set forth in Article V to be satisfied, (ii) the obtaining of all necessary actions, waivers, consents, approvals, orders and authorizations from Governmental Entities and from any other third parties as are necessary for consummation of the transactions contemplated by this Agreement, (iii) the defending of any suits, claims, actions, investigations or proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the transactions contemplated hereby, and (iv) the execution or delivery of any additional instruments reasonably necessary to consummate the transactions contemplated by, and to fully carry out the purposes of, this Agreement, but subject in all cases to the compliance by the Parties with their respective covenants under this Agreement. Such consents, waivers and approvals hereof shall be in a form reasonably acceptable to Parent.

Section 5.6 Stockholders Written Consent; Notice to Stockholders. If reasonably requested by Parent, the Company shall prepare a confidential information statement in form and substance acceptable to Parent relating to this Agreement, the Merger and the transactions contemplated hereby (the "Information Statement"), which (i) other than with respect to information specifically provided by Parent for inclusion in the Information Statement (which information each of Parent and Buyer covenants shall not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements or facts contained therein not misleading), shall not contain any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading, (ii) shall comply with applicable Legal Requirements, and (iii) shall include the unanimous recommendation of the Board of Directors of the Company in favor of this Agreement and the Merger and the conclusion of the Board of Directors of the Company that the transactions contemplated hereby are advisable and in the best interests of the Company Stockholders. As soon as practicable after the date hereof, and in no case later than the fifth (5th) Business Day after the date hereof, the Company shall deliver (in any manner permitted by applicable Legal Requirements) the Information Statement (and notice of receipt of the Required Votes, together with the notice of dissenters' rights required pursuant to the DGCL) to each Company Stockholder who has not executed and delivered to Parent heretofore an executed copy of the Stockholders Written Consent. Thereafter, subject to Section 1.8(k), the Company shall deliver by any manner permitted by the DGCL any subsequent notice required to be delivered with respect to Dissenting Shares pursuant to the DGCL. The Company shall promptly advise Parent and Buyer, and Parent and Buyer shall promptly advise the Company, in writing, if at any time prior to the Effective Time either of them, as applicable, shall obtain knowledge of any fact that might make it necessary or appropriate to amend or supplement the Information Statement in order to make the statements contained or incorporated by reference therein not misleading or to comply with applicable Legal Requirement.

Section 5.7 Public Announcements. Neither Party shall issue any press release or otherwise make any public statement with respect to the transactions contemplated by this Agreement, unless required under applicable Legal Requirements, in which case, the disclosing party shall consult with the other Parties prior thereto. Notwithstanding the foregoing, Parent shall issue a press release (following consultation with the Company) announcing the execution of this Agreement on, or promptly following, the date hereof and, thereafter, may make, from time to time, any public disclosure with respect to the transactions contemplated by this Agreement and of the financial statements of the Company as and to the extent Parent deems, following consultation with its legal advisors, required or advisable under applicable Legal Requirements.

Section 5.8 Notification of Certain Matters. The Company shall promptly notify Parent, and with respect to items (a), (c) and (d) below, Parent and Buyer shall promptly notify the Company, of (a) any actions, suits, claims or proceedings in connection with the transactions contemplated by this Agreement commenced or, to the Knowledge of the Company or Parent, as applicable, threatened, against the Company or any of its Subsidiaries, Parent or Buyer, as the case may be, (b) the occurrence or non occurrence of any fact or event which would be reasonably likely to cause any condition set forth in Article V not to be satisfied, (c) the occurrence or existence of any fact, circumstance or event which could result in any representation or warranty made by the Company or Parent, as applicable, in this Agreement or in any schedule, exhibit or certificate or delivered herewith, to be untrue or inaccurate, (d) any notice or other communication from any Person alleging that the consent of such Person is or may be required in connection with the transactions contemplated by this Agreement, or (e) the occurrence of any event, circumstance, development, state of facts, occurrence, change or effect which has had a Material Adverse Effect or the occurrence or non occurrence of any event, circumstance, development, state of facts, occurrence, change or effect which would reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect.

Section 5.9 Termination or Amendment of 401(k) Plan. If reasonably required by Parent in writing, the Company shall, effective as of at least one (1) day prior to the Closing Date, have terminated or amended the Company 401(k) Plan or any other plan that is intended to meet the requirements of Section 401(k) of the Code, and which is sponsored, or contributed to, by the Company (collectively, the "401(k) Plan") and no further contributions shall be made to the 401(k) Plan. The Company shall provide to Parent (i) if required to effect such termination or amendment, executed resolutions by the Company Board authorizing the termination or amendment, and (ii) an executed amendment to the 401(k) Plan, which in Parent's reasonable judgment is sufficient to assure compliance with all applicable requirements of the Code and regulations thereunder, including such that the tax qualified status of the 401(k) Plan will be maintained at the time of termination.

Section 5.10 Resignation of Officers and Directors. Except as otherwise instructed in writing by Parent, the Company shall cause any so requested officer and member of the boards of directors of itself and of its Subsidiaries to tender his/her resignation from such position (for the avoidance of doubt, not resignation from a position as an employee) effective immediately prior to the Closing Date and in the event any such individual does not tender his/her resignation, the Company shall take such actions necessary to remove such individuals from such positions.

Section 5.11 FIRPTA Certificate. At Parent's request, the Company shall, on or prior to the Closing Date, provide Buyer with a properly executed Foreign Investment and Real Property Tax Act of 1980 notification letter (the "FIRPTA Certificate"), in a form reasonably acceptable to Parent, which states that shares of capital stock of the Company do not constitute "United States real property interests" under Section 897(c) of the Code, for purposes of satisfying Buyer's obligations under Treasury Regulation Section 1.1445 -2(c)(3). In addition, simultaneously with delivery of such FIRPTA Certificate, the Company shall have provided to Buyer, as agent for the Company, a signed notice to the IRS in accordance with the requirements of Treasury Regulation Section 1.897 -2(h)(2) and in the customary form along with written authorization for Buyer to deliver such notice form to the IRS on behalf of the Company upon the Closing of the Merger, in a form reasonably acceptable to Parent.

Section 5.12 SEC Compliant Financial Statements. The Company shall cooperate with Parent and take all reasonable action in order to prepare and provide to Parent, prior to the Closing Date such financial information (including pro forma financial statements if required), as required by Parent to comply with Parent's applicable SEC regulations, including the delivery of such representations from the Company's independent accountants as may be reasonably requested by Parent or its accountants.

Section 5.13 Israeli Options Tax Ruling. As soon as reasonably practicable after the date hereof, the Company shall cause its Israeli counsel and/or Israeli consultants in full coordination with Parent and its Israeli counsel, to prepare and file with the ITA an application for a ruling in relation to the Company Capital Stock subject to the provisions of Section 102 of the ITO and in relation to Company Stock Options held by Israeli tax residents confirming that: (A) the payment of the Aggregate Merger Consideration for Company Capital Stock which remain subject to the statutory minimum trust period under such Section 102 of the ITO and the exchange of Vested Company Stock Options for the Option Cashout Amount under Section 1.8 above will not constitute a violation of the requirements of Section 102 of the ITO; (B) Parent, Buyer and anyone acting on their behalf, including the Paying Agent, shall be exempt from withholding tax in relation to any payments or consideration, including transfer of the Aggregate Merger Consideration (if applicable) and Option Cashout Amount transferred to the 102 Trustee; (C) the tax event in relation to the Aggregate Share Consideration payable to holders of 102 Shares, if any, shall be delayed until the sale of the shares and that such sale shall be subject to Section 102 of the ITO and the capital gains route; and (D) that the tax event in relation to the Earn-Out Payment Amount shall be delayed until the actual payment, if at all or partial, of the Earn-Out Payment Amount is made, and any other issue determined by the Company and Parent to be advisable under the circumstances (the "Israeli Options Tax Ruling"). For the sake of clarity, obtaining the Israeli Options Tax Ruling is not a condition to Closing of either Party. The parties will cause their respective Israeli counsel, advisors and accountants to cooperate and provide all information required with respect to the Company's preparation and filing of such application and in the preparation of any written or oral submissions that may be necessary, proper or advisable to obtain the Israeli Options Tax Ruling.

Section 5.14 Retention Plan. Promptly following the Closing Date, Parent intends to deploy a long-term retention plan for the management and key employees of the Company that will be based on the grant of stock options exercisable into Parent Ordinary Shares; it being understood that the timing, terms and scope thereof shall be in Parent's sole discretion.

Section 5.15 D&O Tail.

Prior to the Closing, the Company shall obtain and fully pay for "tail" insurance policies with a claims period of at least seven years from the Closing Date from an insurance carrier with the same or better credit rating as the Company's current insurance carrier with respect to directors' and officers' liability insurance in an amount and scope at least as favorable as the Company's existing policies with respect to matters existing or occurring at or prior to the Closing Date (the expenses of such tail insurance shall not exceed $35,000 and be referred to herein as the "D&O Insurance Expenses").

ARTICLE VI

Conditions Precedent

Section 6.1 Conditions to the Obligations of Each Party. The respective obligations of the Company, on one hand, and Parent and Buyer, on the other hand, to consummate the transactions contemplated hereby are subject to the satisfaction or waiver in writing by the Company and Parent, at or before the Closing Date, of the following condition:

(a) No Prohibitions. No Legal Requirement issued, enacted, entered, promulgated or enforced by any Government Entity (and with respect to court or administrative orders, whether temporary, preliminary or permanent) restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement or had the effect or making the Merger illegal or otherwise prevent its occurrence, be in effect.

Section 6.2 Conditions to the Obligations of Parent, Buyer and Merger Sub. The obligations of Parent, Buyer and Merger Sub to consummate the transactions contemplated hereby are subject to the satisfaction on or prior to the Closing Date of the following further conditions, any of which may be waived in writing by Parent:

(a) Performance. Each of the agreements and covenants of the Company to be performed prior to the Closing pursuant to this Agreement shall have been duly performed in all material respects.

(b) Representations and Warranties. (i) Each of the representations and warranties of the Company contained in Sections 2.1, 2.2, 2.3, 2.8, 2.11(a), 2.12(a) and 2.23 of this Agreement, and each of the representations and warranties of the Executing Stockholders set forth in Article III of this Agreement, shall have been true and correct as of the date hereof and shall be true and correct in all respects as of the Closing Date with the same force and effect as if made at and as of such time (other than those representations and warranties made as of a specified date, which such representations and warranties shall be true and correct in all respects as of such specified date), and (ii) each of the other representations and warranties of the Company contained in this Agreement and each other Ancillary Agreement to which it is a party shall have been true and correct as of the date hereof and shall be true and correct in all material respects (except for those heretofore qualified by any materiality standard, in which case, no duplicate standard of materiality shall be applied) as of the Closing Date with the same force and effect as if made at and as of such time (other than those representations and warranties made as of a specified date, which such representations and warranties shall be true and correct in all material respects as of such specified date).

(c) No Material Adverse Effect. Since the date hereof there shall not have occurred any event, circumstance, development, state of facts, occurrence, change or effect that has had or would reasonably be expected to have a Material Adverse Effect.

(d) No Litigation Threatened. No suit, action or proceedings shall be pending or shall have been instituted or threatened against any of the Parties before a court or other Governmental Entity challenging or seeking to restrain or prohibit the consummation of the Merger or to otherwise materially delay or invalidate any of the transactions contemplated hereby.

(e) Closing Certificate. Parent shall have received a certificate of the Company executed by the CEO and CFO of the Company, in substantially the form of Exhibit E attached hereto (the "Closing Certificate"), certifying, among others, fulfillment of certain of the conditions set forth in this Section 6.2 and the Final Payment Spreadsheet to be enclosed thereto.

(f) Third Party Consents. The Company shall have obtained, and Parent shall have been furnished with, the consents, waivers or approvals set forth on Section 6.2(f) of the Company Disclosure Schedule, each of which shall be in full force and effect as of the Closing Date and in form and substance reasonably satisfactory to Parent.

(g) Consenting Stockholders. Company Stockholders representing ninety five percent (95%) or more of the voting power in the Company shall have executed the Stockholders Written Consent and such consent shall be in full force and effect and shall not have been rescinded.

(h) Company Capital Stock and Options. Immediately prior to the Effective Time, (i) all Company Preferred Stock shall have been duly converted into Company Common Stock in accordance with the Company's Organizational Documents, and (ii) all Company Stock Options shall have been duly terminated or canceled in accordance with the Company Option Plans.

(i) Designated Employees. All Designated Employees have executed and delivered to Parent the Designated Employees Acknowledgment Letter and none of such Designated Employees shall have given any notice or other indication that they will not continue to be willing to be so employed following the Closing.

(j) Termination of Certain Agreements. The Company shall have delivered to Parent evidence in a form reasonably satisfactory to Parent that the following agreements shall have been terminated as of the Effective Time: the Company Series A Agreements.

(k) Signatory Rights etc. The Company and its Subsidiaries shall have taken all actions reasonably requested by Parent and Buyer, including the adoption of appropriate resolutions as set forth in Schedule 6.2(k) of the Company Disclosure Schedule.

(l) Company Israeli and U.S. Stockholders. The number of (1) Company Equityholders and Designated Employees (excluding Company Equityholders and Designated Employees who confirmed in the Investor Representation Statement or in the signature pages to this Agreement that they are qualified accredited investors (as defined in Schedule C below)) who are Israeli residents or located in Israel while presented with the Merger contemplated hereby, and (2) Company Equityholders and Designated Employees who are U.S. persons (as defined in Schedule C below) (excluding Company Equityholders and Designated Employees who confirmed in the Investor Representation Statement or in the signature pages to this Agreement that they are "accredited investors" (as defined in Schedule C below)), in each case, that will be entitled to receive the Parent Ordinary Shares, is not more than 35.

Section 6.3 Conditions to the Obligations of the Company. The obligations of the Company to consummate the transactions contemplated hereby are subject to the satisfaction or waiver by the Company, on or prior to the Closing Date, of the following further conditions:

(a) Performance. Each of the respective agreements and covenants of Parent, Buyer and Merger Sub to be performed prior to the Closing pursuant to this Agreement shall have been duly performed in all material respects.

(b) Representations and Warranties. Each of the representations and warranties of Parent, Buyer and Merger Sub contained in this Agreement and each other Ancillary Agreement to which any of them is a party shall have been true and correct as of the date hereof and shall be true and correct in all material respects (except for those heretofore qualified by any materiality standard, in which case, no duplicate standard of materiality shall be applied) as of the Closing Date with the same force and effect as if made at and as of such time (other than those representations and warranties made as of a specified date, which such representations and warranties shall be true and correct in all material respects as of such specified date).

(c) Closing Certificate. At the Closing, Parent shall deliver or cause to be delivered to the Company a certificate signed by an authorized officer of Parent, dated as of the Closing Date, confirming the matters set forth in Sections 6.3(a) through 6.3(b).

ARTICLE VII

Termination

Section 7.1 Termination. This Agreement may be terminated and the transactions contemplated hereby may be abandoned, at any time prior to the Closing, whether before or after approval and adoption of this Agreement by the Company Stockholders:

(a) by mutual written consent of the Company and Parent;

(b) by either the Company or Parent, if:

(i) any Governmental Entity shall have issued, enacted, entered, promulgated or enforced any Legal Requirement or Order, permanently enjoining or prohibiting the transactions contemplated by this Agreement; or

(ii) the Merger shall not have occurred by October 1, 2011 (the "End Date"); provided, that a Party may not terminate this Agreement pursuant to this Section 7.1(b)(ii) if such Party's action or failure to act has been a principal cause of or resulted in the failure of the Merger to occur on or before the End Date and such action or failure to act constitutes breach of this Agreement.

(c) by Parent, if the Company shall breach any representation, warranty, obligation or agreement hereunder, such that the conditions set forth in Section 6.2 would not be satisfied as of the time of such breach or as of the time such representation or warranty shall have become untrue, and such breach shall not have been cured, or by its nature cannot be cured, within ten (10) days of receipt by the Company of written notice of such breach; provided that Parent has not breached any of its representations, warranties, obligations or agreements hereunder, such that the conditions set forth in Section 6.3 would not be satisfied as of the time of the Company's breach or as of the time such representations or warranty of the Company shall have become untrue;

(d) by the Company, if Parent or Merger Sub shall breach any representation, warranty, obligation or agreement hereunder, such that the conditions set forth in Section 6.3 would not be satisfied as of the time of such breach or as of the time such representation or warranty shall have become untrue, and such breach shall not have been cured, or by its nature cannot be cured, within ten (10) days following receipt by Parent of written notice of such breach; provided that the Company has not breached any of its representations, warranties, obligations or agreements hereunder, such that the conditions set forth in Section 6.2 would not be satisfied as of the time of Parent's breach or as of the time such representations or warranty of Parent shall have become untrue;

(e) by Parent if any action taken, or any Legal Requirement enacted, promulgated or issued or deemed applicable to the Merger, by any Governmental Entity, which would: (i) prohibit Parent's ownership or operation of all or any portion of the business of the Company or (ii) compel Parent to dispose of or hold separate all or any portion of the assets and properties of the Company, or limit its operation of the Company's business, as a result of the Merger.

Section 7.2 Effect of Termination. Any termination of this Agreement under Section 7.1 above will be effective immediately upon written notice of the terminating Party to the other Parties hereto specifying the provision of this Agreement on which such termination is based. In the event of the termination, this Agreement shall become void and have no effect and there shall be no liability hereunder on the part of either Party, except that (i) Section 5.2 (Confidentiality); Section 7.1 (Termination), this Section 7.2, and Article IX shall survive any termination of this Agreement, and (ii) nothing in this Section 7.2 shall relieve any Party of liability for any willful breach of this Agreement.

ARTICLE VIII

Set-Off; Survival; Indemnification

Section 8.1 Set-Off.

The Parent Indemnitees (as defined below) shall be entitled to set-off or recoup any amounts due to them pursuant to and in accordance with this Article VIII against any the portion of the Earn-Out Payment Amount, if any, paid or payable by Buyer or Parent to the Company Stockholders pursuant to this Agreement. Subject to the terms of this Article VIII, the right of set-off against the Earn-Out Payment Amount will be the sole monetary remedy of Parent, Buyer or any Parent Indemnitee will have pursuant to the terms of this Agreement and the transactions contemplated hereby.

Section 8.2 Survival of Representations, Warranties and Covenants. f) The representations and warranties of the Parties contained in this Agreement or in any instrument, certificate or writing delivered pursuant to this Agreement or any other agreement contemplated hereby shall survive the Closing until March 31, 2013 at 5:00 p.m., EST ("Set-off Period"); *provided that* the Specified Representations shall survive the Closing until 5:00 p.m., EST, on the date that is thirty (30) days after the expiration of the statutes of limitations (including extensions thereof) applicable to the matters referenced therein. Covenants shall survive indefinitely, unless provided otherwise by their respective terms.

(b) The survival periods set forth above were carefully negotiated and agreed upon by the Parties, with a clear intent that neither Parent, nor Buyer, any Parent Indemnitees or any of the Executing Stockholders shall be entitled to bring any claim with respect to this Agreement, the Merger and the transactions contemplated hereby against any of the Company Stockholders or any portion of the Earn Out Payment Amount, following the expiration of the applicable survival period. All representations and warranties made by Company, any Executing Stockholder, Parent or Buyer, as the case may be, shall terminate and expire as of the end of the applicable surviving period, and the Parent's, Buyer' or any Parent's Indemnitees, as well as any Company Stockholder Indemnitees, as the case may be, right to bring a claim, and any liability of the respective Party with respect to such representations and warranties shall thereupon cease. For clarification purposes, in no case shall the termination of the covenants or of the representations and warranties as provided in clause (a) above affect any claim for indemnification if written notice of such claim in accordance with this Article VIII is delivered to the applicable indemnifying party prior to such termination.

(c) The representations, warranties and covenants contained in this Agreement or in any certificate or other writing delivered in connection with this Agreement shall in no event be affected by any investigation, inquiry or examination made for or on behalf of any Party, or the knowledge of any Party's Representatives or the acceptance by any Party of any certificate or other writing delivered hereunder.

Section 8.3 Indemnification. g) Subject to the other provisions of this Article VIII, the Indemnifying Persons shall, severally and not jointly, based on such Indemnifying Person's Proportionate Indemnification Share of each Loss covered by this Section 8.3, indemnify and hold harmless Parent and each of its Subsidiaries (including, following the Effective Time, the Surviving Corporation) and their respective officers, directors, Affiliates, agents, employees, Representatives, successors and permitted assigns (the "Parent Indemnitees") from and against any damages, losses, Liabilities, actions, costs, Taxes, deficiencies, assessments, judgments, awards, claim of any kind, interest, penalties, fines or expenses (including, without limitation, reasonable attorneys', consultants and experts' fees and expenses and all amounts paid in investigation, defense or settlement of any of the foregoing), arising out of any claims by or on behalf of any party to this Agreement or any third party claims asserted (collectively, "Losses"), actually suffered, incurred or paid, in connection with or arising out of (i) any inaccuracy in or breach of any of the Company's or Company Stockholder's representations, warranties, covenants or agreements in this Agreement or in any instrument, certificate or writing delivered pursuant to this Agreement or any Ancillary Agreement (other than with respect to inaccuracies of any Specified Representations); (ii) any inaccuracy in or breach of any of the Specified Representations; (iii) any claim by (A) a Company Stockholder, Company Optionholder, or any Company Equityholder, or former stockholder, optionholder of the Company or of any of its subsidiaries or any former Company Equityholder, or by (B) any other Person or entity, seeking to assert, or based upon, ownership or rights to ownership of any shares of the Company Capital Stock or of any of its Subsidiaries or that he, she or it is entitled to any consideration pursuant to this Agreement and any transaction contemplated hereby, including any portion of the Aggregate Merger Consideration, that is not listed in the Final Payment Spreadsheet; (iv) any amounts paid to holders of Dissenting Shares in excess of the amounts payable to the Company Stockholders under Section 1.8; or (v) any inaccuracy contained in the Final Payment Spreadsheet including any Company Cash Shortfall amount.

(b) Subject to the other provisions of this Article VIII, Parent and Buyer shall, severally and jointly, indemnify and hold harmless the Company Stockholders and their respective officers, directors, Affiliates, agents, employees, Representatives, successors and permitted assigns (the "Stockholder Indemnitees") from and against any Losses actually suffered, incurred or paid, in connection with or arising out of any inaccuracy in or breach of any of the Parent, Buyer or Merger Sub's representations, warranties, covenants or agreements in this Agreement or in any instrument, certificate or writing delivered pursuant to this Agreement.

(c) For purposes of this Article VIII, in determining the amount of any Loss attributable to a breach of any representation, warranty or covenant of the Company, any qualifications in the representations, warranties and covenants with respect to a "Material Adverse Effect," "materiality," "material," "in all material respects," or similar terms shall be disregarded.

(d) The Company Stockholders acknowledge and agree that, if the Surviving Corporation suffers, incurs or otherwise becomes subject to any Losses as a result of or in connection with any inaccuracy in or breach of any representation, warranty, covenant or obligation, then (without limiting any of the rights of the Surviving Corporation as an Indemnitee), Parent and Buyer shall also be deemed, by virtue of its ownership of the stock of the Surviving Corporation, to have incurred such Losses as a result of and in connection with such inaccuracy or breach.

(e) Anything to the contrary notwithstanding, neither the Company Equityholder nor the Parent or Buyer, shall have any liability for any loss of profits or anticipated savings; loss of goodwill or injury to reputation; the loss of business opportunity; punitive damages that are attributable to any act or omission of any Party; or any other indirect, consequential, incidental or special loss or damage (collectively: "Consequential Damages") and the definition of Loss shall not include Consequential Damages. For clarification purposes, the parties agree that in the event of a third party claim which is subject to indemnification pursuant to this Article VIII in which a Party will be obligated to pay Consequential Damages to such a third party, such amounts paid in such third party claim or any Consequential Damages incurred by a Party as a result of the third party claim will be deemed as Loss for purpose of this Agreement and the Parties may seek indemnity for such Loss pursuant to this Article VIII.

(f) Any amounts payable pursuant to the indemnification obligations hereunder shall be paid without duplication, and in no event shall any party be indemnified under different provisions of this Agreement for the same Loss. The amount of any Loss with respect to which any party may be entitled to indemnification under this Agreement shall be net of the amount of any insurance proceeds or contributions from third parties actually recovered by such party in connection with such Loss; provided, however, that notwithstanding the foregoing, no party shall have any obligation or duty to seek to recover any such insurance proceeds or contributions from third parties.

(g) In the event of a breach by any Executing Stockholder of any of his, her or its respective representations and warranties (set forth in Article III of this Agreement) (the "Breaching Stockholder"): (i) Parent Indemnitees shall only be entitled to present a demand, bring a claim, or be entitled to any remedy against the Breaching Stockholder, and none of the other Company Equityholder will be liable for such a breach; (ii) in the event a Parent Indemnitees brings a claim against such a Breaching Shreholder, such a claim shall be limited to such Breaching Stockholder's Proportionate Indemnification Share (e.g. the Parent Indemnitee will only be entitled to set off such Breaching Stockholders portion of Earn Out Payment Amount); and (iii) each Breaching Stockholder will indemnify and reimburse the Company Equitholders and any of their respective directors, officers, controlling persons, damage or loss incurred by such Company Equityholder or any such director, officer, or controlling person in connection with any loss, claim, damage, liability or action, as incurred by them as a result of such a breach).

(h) In case of an intentional misrepresentation or fraud or an inaccuracy in or breaches of any of the Specified Representations which is not specifically related to a breach by any Executing Stockholder of any of his, her or its representations and warranties (set forth in Article III of this Agreement) and for which Parent Indemnitees will be entitled to seek indemnification beyond the Earn Out Payment Amount, the Company Stockholders' liability pursuant to this Agreement and this Article VIII will be several and not joint, and will only be based on the Indemnifying Person's Proportionate Indemnification Share and in no event exceed the amounts actually received by the Company Stockholder pursuant to the terms of this Agreement.

Section 8.4 Limitations on Indemnification. h) From and after the Closing, the right to obtain indemnification from the Earn-Out Payment Amount pursuant to the indemnification provisions of Section 8.3 shall be the Parent Indemnitees' sole source for recoupment of all Losses, except with respect to indemnification for the matters set forth in Sections 8.3 (a)(ii) through 8.3(a)(v) (collectively, the "Specified Claims"), for which Parent Indemnitees shall, first have the right to obtain indemnification from the Earn-Out Payment Amount pursuant to the indemnification provisions of Section 8.3, and second, bring a claim against any Company Stockholders all in accordance to Section 8.3 above.

(b) The maximum liability for Losses hereunder of (i) all Indemnifying Persons shall not exceed the Aggregate Merger Consideration (and for purposes of determining such value, the value of the Parent Ordinary Share shall be equal to the Average Price), (ii) each Indemnifying Person shall not exceed its Proportionate Indemnification Share, and (ii) of Parent and Buyer shall not exceed $1,000,000 (it being understood that such limitation does not derogate from the right of Stockholder Indemnitees to seek full payment of any portion of the Aggregate Merger Consideration not paid to them in breach of the Parent and/or Buyer obligations hereunder).

(c) Parent Indemnitees shall not be entitled to any indemnification for any indemnification obligations of the Indemnifying Persons pursuant to Section 8.3(a)(i) or (a)(ii) unless and until the aggregate amount of Losses equals or exceeds $350,000 (the "Basket"), in which case the Parent Indemnitees shall shall only be entitled to the amount of Losses that exceeds $200,000. Stockholders Indemnitees shall not be entitled to any indemnification for any indemnification obligations of Parent and Buyer hereunder unless and until the aggregate amount of Losses equals or exceeds the Basket, in which case the Stockholders Indemnitees shall be entitled to the entire amount of such Losses and not just the amount of Losses that exceed the Basket.

(d) Notwithstanding anything to the contrary in this Section 8.4, the limitations set forth in (i) this Section 8.4, shall not apply with respect to any claim for indemnification arising out of or relating to commission of fraud or intentional misrepresentation by a Company Stockholder, (ii) in Section 8.2, shall not apply with respect to any claim for indemnification arising out of or relating to commission of fraud or intentional misrepresentation by a Company Stockholder or the Company, and (iii) this Section 8.4(c) shall not apply with respect to any claim for indemnification arising out of or relating to (A) any inaccuracy in or breach of the representations made in Section 2.4(g) or (B) any inaccuracy in the Final Payment Spreadsheet.

Section 8.5 Indemnification Procedure. i) Any Parent Indemnitee or Stockholder Indemnitee who believes it may be entitled to indemnification pursuant to Section 8.3 (an "Indemnified Party"; provided that in case of Stockholder Indemnitee, it may act only through the Stockholder Representatives and in such case any reference in this Section 8.5 and in Section 8.8 to Indemnified Party shall be deemed to refer to the Stockholder Representatives) may make an indemnification claim by delivering a claim certificate to the Stockholder Representatives (in case of Parent Indemnitees) or to Parent (in case of Stockholder Indemnitees) (in each case, a "Claim Certificate"), which Claim Certificate shall: (i) state the Losses indemnifiable hereunder; (ii) to the extent reasonably capable of estimation, a good faith estimate of the amount of Losses such Indemnified Party claims to have so incurred or suffered or reasonably believes in good faith it may incur or suffer and the Indemnified Party may update such estimate from such to time by written notice; and (iii) specify in reasonable detail (based upon the information then possessed by the Indemnified Party) the nature of the claim for which indemnification is being sought. The sole and exclusive remedy for any defective Claim Certificate shall be a demand for cure of such defect and delivery of a conforming Claim Certificate.

(b) In the event that Parent and Buyer or the Stockholder Representatives, as the case may be, shall object to the indemnification of an Indemnified Party in respect of any claim or claims specified in any Claim Certificate, they shall, within 14 days after receipt by the Indemnifying Party of such Claim Certificate, deliver a notice to such effect, specifying in reasonable detail the basis for such objection, and shall, within the twenty (20) day period beginning on the date of receipt by the Indemnified Party of such objection, attempt in good faith to agree upon the rights of the respective parties with respect to each of such claims. If they shall succeed in reaching agreement on their respective rights with respect to any of such claims, Parent, Buyer and the Stockholder Representatives shall promptly prepare and sign a memorandum setting forth such agreement. Should they be unable to agree as to any particular item or items or amount or amounts within such time period, then the Indemnified Party shall be permitted to submit such dispute to the courts set forth in Section 9.12. Claims for Losses specified in any Claim Certificate to which there is no objection in writing by the applicable Party within 14 days of receipt of such Claim Certificate shall be deemed final and binding.

(c) In any instance when the Earn-Out Payment Amount, if any, is insufficient to satisfy the obligations under this Article VIII or if the Earn-Out Payment Amount, if any, has already been distributed to the Company Stockholders, then the Indemnifying Persons shall pay to Parent and Buyer in cash an amount equal to the unpaid balance of such Losses (subject to the limitations set forth in Section 8.4 above).

Section 8.6 Third Party Claims. j) If a claim by a third party (a "Third Party Claim") is made against any Indemnified Party, and if such party intends to seek indemnity with respect thereto under this Article VIII, such Indemnified Party shall promptly notify the Stockholder Representatives or Parent and Buyer, as applicable, of such Third Party Claim (the "Third Party Claim Notice"); provided, that the failure to so notify shall not relieve the indemnifying party of its obligations hereunder, except to the extent that it is actually and materially prejudiced thereby. The notice of Third Party Claim shall include, based on the information then available to the Indemnified Party, a summary in reasonable detail of the basis for the Third Party Claim.

(b) The Stockholder Representatives (on behalf of the Indemnifying Persons) or Parent and Buyer, as the case may be, shall, at their sole expense, be entitled to assume and control the defense of such Third Party Claim if it notifies in writing the same to the Indemnified Party within 10 days from receipt of the Third Party Claim Notice, provided that together with such written notice of assumption of defense the applicable party irrevocably agrees that any and all Losses incurred by Parent Indemnitees or Stockholder Indemnitees in connection with such Third Party Claim shall be recoverable. If the applicable Party assumes such defense then the Indemnified Party shall have the right to participate in the defense and, at its sole expense, to employ counsel reasonably acceptable to the indemnifying party, separate from the counsel employed by the indemnifying party. If there is a Third Party Claim that, if adversely determined, would give rise to a right of recovery for Losses hereunder, then any amounts incurred by the Indemnified Party in defense of such Third Party Claim, regardless of the outcome of such claim, shall be deemed Losses hereunder. The indemnifying party (which, in the case of the Indemnifying Persons, the Stockholder Representatives on their behalf) shall not admit any liability with respect to, or settle, compromise or discharge any Third Party Claim without the Indemnified Party's prior written consent (which consent shall not be unreasonably withheld or delayed).

(c) Notwithstanding the foregoing, the Stockholder Representatives shall not be entitled to assume the defense of any Third Party Claim which involves a claim (i) that, in the reasonable judgment of Parent, could result in Losses not arising out of Specified Claims, or in Losses in excess of the Earnout Payment Amount, (ii) relating to, or otherwise in connection with Company Intellectual Property or allegation of infringement of third party Intellectual Property Rights, or (iii) involving or in the reasonable judgment of Parent could involve criminal liability or in which injunction or other equitable relief is sought against any Parent Indemnitee (each of (i) to (iii), an "Excluded Third Party Claim"). In each such case, the Stockholder Representatives may not elect to retain the defense of such Third Party Claim (or, if such Third Party Claim was previously assumed by the Stockholder Representatives, the Stockholder Representatives shall immediately relinquish control thereof to the Parent Indemnitees), and the Parent Indemnitees will be entitled to be indemnified by the Indemnifying Parties for their Losses incurred in such defense (including, without limitation, reasonable attorneys fees), subject to the limitations set forth in this Article VIII.

(d) In the case where a Party shall assume the defense of a Third Party Claim, it will keep the indemnifying person (in the case of the Indemnifying Persons, the Stockholder Representatives on their behalf) reasonably informed about developments and progress in respect of such Third Party Claim. Other than in the case of an Excluded Third Party Claim, the Indemnified Party shall not admit any liability with respect to, or settle, compromise or discharge any Third Party Claim, without the indemnifying person's prior written consent (which consent shall not be unreasonably withheld or delayed).

Section 8.7 No Right of Contribution. Neither the Stockholder Representatives nor any Indemnifying Person shall make any claim for contribution from the Company or the Surviving Corporation with respect to any indemnity claims arising under or in connection with this Agreement to the extent that the Company, Surviving Corporation or any Indemnified Person is entitled to indemnification hereunder for such claim, and the Stockholder Representatives, on their own behalf and on behalf of all Indemnifying Persons, hereby waives any such right of contribution from the Company or the Surviving Corporation it has or may have in the future.

Section 8.8 Effect of Investigation; Reliance. The right to indemnification, payment of Losses or any other remedy will not be affected by any investigation conducted with respect to, or any knowledge acquired (or capable of being acquired) at any time, whether before or after the execution and delivery of this Agreement or the Closing Date, with respect to the accuracy or inaccuracy of or compliance with, any representation, warranty, covenant or agreement made by the Company or any other matter. The waiver of any condition based on the accuracy of any such representation or warranty, or on the performance of or compliance with any such covenant or agreement, will not affect the right to indemnification, payment of Losses, or any other remedy based on any such representation, warranty, covenant or agreement. No Parent Indemnitee shall be required to show reliance on any representation, warranty, certificate or other agreement in order for such Parent Indemnitee to be entitled to indemnification hereunder.

Section 8.9 Treatment of Payments. Any payment under Article VIII of this Agreement shall be treated by the parties for income Tax purposes as an adjustment to the Aggregate Merger Consideration.

Section 8.10 Exclusivity. As of the Closing Date, the indemnification provisions contained in this Article VIII are intended to provide the sole and exclusive remedy as to all Losses any of the Indemnified Persons may incur arising from or relating to this Agreement, the agreements and documents contemplated hereby and the transactions contemplated hereby and thereby, and each of the parties hereby waives (and, in the case of the Stockholders Indemnitees, the Stockholder Representatives on their behalf), to the fullest extent provided by applicable Law, any other rights or remedies for monetary damages that may arise under any applicable Legal Requirement. Notwithstanding the aforesaid, nothing in the Agreement shall limit any right to specific performance or injunctive relief, or any right or remedy arising by reason of any claim of fraud or intentional misrepresentation with the respect to this Agreement or any of the other Ancillary Agreements.

Section 8.11 No Circular Recovery. No Company Stockholder shall make any claim for indemnification against the Parent, Buyer, Company or the Surviving Corporation by reason of the fact that such Company Stockholder was a controlling person, director, employee or representative of the Company or the Surviving Corporation or was serving as such for another Person at the request of the Buyer or the Company (whether such claim is for Losses of any kind or otherwise and whether such claim is pursuant to any statute, organizational document, contractual obligation or otherwise) with respect to any claim brought by a Parent Indemnitee against any Company Stockholder relating to this Agreement or the transactions contemplated hereunder. With respect to any claim brought by a Parent Indemnitee against any Company Stockholder relating to this Agreement or the transactions contemplated hereunder, each Company Stockholder shall expressly waive any right of subrogation, contribution, advancement, indemnification or other claim against the Company with respect to any amounts owed by such Company Stockholder pursuant to this Article VIII.

Section 8.12 Stockholder Representatives. k) The Indemnifying Persons, by executing or approving this Agreement and the transactions contemplated hereby, irrevocably agree to appoint and constitute Yossi Moriel and Elad Baron (and by the execution of this Agreement as the Stockholder Representatives, Yossi Moriel and Elad Baron hereby accept of their appointment) for and on behalf of the Indemnifying Persons as the true, exclusive and lawful agents and attorney-in-fact for and on behalf of each such Indemnifying Person to act: (i) as Stockholder Representatives under this Agreement and the Paying Agent Agreement, and to have the right, power and authority to perform all actions (or refrain from taking any actions) the Stockholder Representatives shall deem necessary, appropriate or advisable in connection with, or related to, this Agreement and the Paying Agent Agreement and the transactions contemplated hereby and thereby; (ii) in the name, place and stead of each Company Stockholders (A) in connection with the Merger and the transactions contemplated by this Agreement and in accordance with the terms and provisions of this Agreement, and (B) in any proceeding involving this Agreement, to do, or refrain from doing, all such further acts and things, necessary, appropriate or advisable in connection with any of the foregoing, including execute and deliver all such documents as the Stockholder Representatives shall deem necessary or appropriate in connection with the Merger, including this Agreement or agreeing to any modification or amendment of this Agreement in accordance with Section 9.10 or the Paying Agent Agreement and executing and delivering an agreement of such modification or amendment. Without derogating from the generality of the foregoing, as of the date hereof the Stockholder Representatives shall have the right, power and authority to: (i) give and receive notices and communications, executed by the Stockholder Representatives (ii) authorize delivery to Parent Indemnitees of the applicable portion of the Earn-Out Payment Amount or supplemental indemnification amounts, if any, in satisfaction of claims by Indemnified Parties, (iii) object to such deliveries, (iv) agree to, negotiate, defend, resolve, enter into settlements and compromises of, any suit, proceeding, claim or dispute under this Agreement or the Paying Agent Agreement on behalf of the Indemnifying Persons and comply with orders of courts and awards of arbitrators with respect to such claims, (v) to agree to, negotiate, enter into and provide amendments and supplements to and waivers in respect of this Agreement and the Paying Agent Agreement, (vi) retain legal counsel, accountants, consultants, advisors and other experts, and incur any other reasonable expenses, in connection with all matters and things set forth or necessary with respect to this Agreement and the Ancillary Agreements and the transactions contemplated hereby and thereby; (vii) apply the Rep Reimbursement Amount to the payment of (or reimbursement of the Stockholder Representatives for) expenses and liabilities which the Stockholder Representatives may incur pursuant to this Agreement; and (viii) to take all actions necessary or appropriate in the judgment of the Stockholder Representatives for the accomplishment of any or all of the foregoing. The identity of the Stockholder Representatives may be changed by the holders of a majority of the Proportionate Indemnification Share (the "Majority Holders") from time to time upon not less than fifteen (15) days' prior written notice to all of the Indemnifying Persons and to Parent. Each of the Stockholder Representatives may resign from his position by providing a 15-day prior written notice to the Indemnifying Persons and in such case, or in the case of death, disability, or inability of such Stockholder Representatives, the Majority Holders shall, within fifteen (15) days from such event, appoint a replacement Stockholder Representatives and notify Parent. No bond shall be required of the Stockholder Representatives, and the Stockholder Representatives shall receive no compensation for his services. Notices or communications to or from the Stockholder Representatives shall constitute notice to or from each of the Indemnifying Persons. Any and all decisions, acts, consents or instructions made or given by the Stockholder Representatives in connection with this Agreement or the Paying Agent Agreement shall constitute a decision of all the Company Stockholders and shall be final, binding and conclusive upon each and every Company Stockholder Holder, and the Parent shall be entitled to rely upon any such decision, act, consent or instruction of the Stockholder Representatives, provided that as long as there are more than one Person performing the role of the Stockholder Representatives, such decision, act, consent or instruction are evidenced by a document jointly executed by such Stockholder Representatives . This power of attorney is coupled with an interest and is irrevocable.

(b) Each of the Stockholder Representatives shall be entitled to receive reimbursement from any Rep Reimbursement Amounts retained on behalf of the Stockholder Representatives, for any and all expenses, charges and liabilities, including reasonable attorneys' fees, incurred by the Stockholder Representatives in the performance or discharge of its rights and obligations under this Agreement (the "Rep Expenses"). The Rep Reimbursement Amount shall only be used for the payment of the Rep Expenses or as otherwise required by this Agreement. The Stockholder Representatives will not be required to take any action involving any expense unless the payment of such expense is made or provided for in a manner satisfactory to him. The Company Stockholders shall be responsible for and shall, jointly and severally, on a pro rata basis based on their Proportionate Indemnification Share, reimburse the Stockholder Representatives or any member thereof upon demand for all reasonable expenses, disbursements and advances incurred or made by the Stockholder Representatives in accordance with any of the provisions of this Agreement, the Paying Agent Agreement or any other documents executed in connection herewith or therewith, including the costs and expense of receiving advice of counsel according to this Agreement and the Paying Agent Agreement. Any of the Rep Reimbursement Amount deposited with the Paying Agent that has not been consumed by the Stockholder Representatives pursuant to the terms of this Agreement on or prior to the end of the period in which Parent may make claims for indemnification pursuant to Article VIII or, if later, the date on which all indemnification claims of Parent outstanding at the end of such period have been discharged in full, shall be distributed by the Paying Agent to the Company Stockholders on a proportionate basis based on the Proportionate Indemnification Share.

(c) Each of the Stockholder Representatives will not incur any liability with respect to any action taken or suffered by him in reliance upon any notice, direction, instruction, consent, statement or other document believed by him, her or it to be genuine and to have been signed by the proper person (and shall have no responsibility to determine the authenticity thereof), nor for any other action or inaction, except his own willful misconduct. In all questions arising under this Agreement or the Paying Agent Agreement, the Stockholder Representatives may rely on the advice of counsel, and the Stockholder Representatives will not be liable to the Company Stockholder for anything done, omitted or suffered by the Stockholder Representatives based on such advice. Each Company Stockholder hereby releases the Stockholder Representatives from any loss (including any losses incurred, as such losses are incurred), liability or expense for, arising out of or in connection with the acceptance or administration of the Stockholder Representatives' duties hereunder or any action taken or not taken by any of them, her or it in his, her or its capacity as such agent (including the legal costs and expenses of defending the Stockholder Representatives against any claim or liability (and all actions, claims, proceedings and investigations in respect thereof) in connection with, caused by or arising out of, directly or indirectly, the performance of the Stockholder Representatives' duties hereunder), except for the liability of the Stockholder Representatives, to a Company Stockholder for loss which such holder will suffer from the willful misconduct of the Stockholder Representatives in carrying out their duties hereunder. In addition, and without derogating from the generality of the foregoing, the Indemnifying Persons shall severally and jointly, indemnify the Stockholder Representatives and hold him harmless against any loss (including any losses incurred, as such losses are incurred), liability or expense for, arising out of or in connection with the acceptance or administration of the Stockholder Representatives' duties hereunder or any action taken or not taken by any of them, her or it in his, her or its capacity as such agent (including the legal costs and expenses of defending the Stockholder Representatives against any claim or liability (and all actions, claims, proceedings and investigations in respect thereof) in connection with, caused by or arising out of, directly or indirectly, the performance of the Stockholder Representatives' duties hereunder), except for the liability of the Stockholder Representatives, to a Company Stockholder for loss which such holder will suffer from the willful misconduct of the Stockholder Representatives in carrying out their duties hereunder.

(d) The Stockholder Representatives shall treat confidentially and, subject to any Legal Requirement, not disclose any nonpublic information from or about the Company (as the Surviving Corporation) or Parent to anyone (except on a need to know basis to individuals (identified to the Company and Parent in writing in advance) who agree in writing to treat such information confidentially)

(e) Subject to the provisions of this Section 8.12, a decision, act, consent or instruction of the Stockholder Representatives shall constitute a decision of all of the Indemnifying Persons and shall be final, binding and conclusive upon each and every Indemnifying Person, and the other Parties may rely upon any decision, act, consent or instruction of the Stockholder Representatives as being the decision, act, consent or instruction of each and every Indemnifying Person. Each of Parent and Buyer is hereby relieved from any liability to any Person for any acts done by them in accordance with such decision, act, consent or instruction of the Stockholder Representatives.

ARTICLE IX

Miscellaneous

Section 9.1 Definitions. When used in this Agreement, the following terms shall have the respective meanings specified therefor below.

"102 Shares" shall mean Company Capital Stock issued to the 102 Trustee for the benefit of Company Optionholders.

"102 Trustee" shall mean the trustee appointed by the Israeli Subsidiary in accordance with the provisions of the ITO, and approved by the ITA in relation to securities granted or issued under the capital gains route of Section 102 of the ITO, which is currently ESOP Management and Trust Services Ltd. or any duly authorized successor thereto.

"Aggregate Cash Consideration" shall mean $9,300,000 minus the Company Cash Shortfall.

"Aggregate CS Cash Consideration" means the Aggregate Cash Consideration minus the Designated Employees Cash Consideration minus the Aggregate Optionholders Cashout Consideration.

"Aggregate CS Share Consideration" shall mean the Aggregate Share Consideration minus the Aggregate Designated Employees Share Consideration.

"Aggregate Designated Employees Cash Consideration" shall mean $314,764.

"Aggregate Designated Employees Consideration" shall mean the Aggregate Designated Employees Cash Consideration and the Aggregate Designated Employees Share Consideration, provided that the value of Aggregate Designated Employees Consideration shall be equal to the lower of: (i) 3.38983% of the Aggregate Merger Consideration, or (ii) $400,000.

"Aggregate Designated Employee Share Consideration" shall mean 137,487 Parent Ordinary Shares, which amount shall be subject to adjustment for any share combination, subdivision or other recapitalization of the Parent Ordinary Shares occurring at any time prior to or at the Closing (such that in the event that prior to or at the Closing, Parent effects a subdivision of its Parent Ordinary Shares and the number of Parent Ordinary Shares is increased, the Aggregate Share Consideration shall be proportionately increased and conversely, if the Parent combines the outstanding Parent Ordinary Share into a smaller number of shares prior to or at the Closing, the Aggregate Stock Consideration shall be proportionately decreased).

"Aggregate Merger Consideration" shall mean the Aggregate Share Consideration and the Aggregate Cash Consideration.

"Aggregate Optionholders Cashout Consideration" shall mean $68,445.

"Aggregate Share Consideration" shall mean the number of Parent Ordinary Shares equal to the product obtained by dividing $2,500,000 by the Average Price, which amount shall be subject to adjustment for any share combination, subdivision or other recapitalization of the Parent Ordinary Shares occurring at any time prior to or at the Closing (such that in the event that prior to or at the Closing, Parent effects a subdivision of its Parent Ordinary Shares and the number of Parent Ordinary Shares is increased, the Aggregate Share Consideration shall be proportionately increased and conversely, if the Parent combines the outstanding Parent Ordinary Share into a smaller number of shares prior to or at the Closing, the Aggregate Stock Consideration shall be proportionately decreased).

"Affiliate" of any Person shall mean any other Person directly or indirectly controlling, controlled by, or under common control with, such Person; provided, that, for the purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by Contract or otherwise.

"Average Price" shall mean Sixty Two Cents ($0.62).

"BIRD Foundation" means the Israel-US Binational Industrial Research and Development Foundation.

"Business Day" shall mean any day except a Friday, Saturday, a Sunday or any other day on which commercial banks are required or authorized or obligated by law or executive order to close in Tel Aviv, Israel or Delaware.

"Cash and Cash Equivalents" shall mean cash, publicly-traded securities, short term instruments, cheques, and other cash equivalents, funds in time and demand deposits or similar accounts, cash security deposits and other cash collateral posted with vendors, landlords, and other parties.

"Code" shall mean the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated and the rulings issued thereunder.

"Collective Bargaining Agreement" shall mean any and all written agreements, arrangements, memorandums of understanding, contracts, letters, side letters and contractual obligations of any kind, nature and description, that have been entered into between the Company or any of its Subsidiaries or any employers' organization in which the Company or any of its Subsidiaries is a member and any employees' organization.

"Company Alternate Proposal" shall mean (a) any stock purchase, merger, consolidation, reorganization, change in organizational form, spin off, split off, recapitalization, sale of equity interests or other similar transaction involving the Company or any of its Affiliates, (b) any sale of all or any significant portion of the assets of the Company, (c) any other transaction in respect of the Company which results directly or indirectly, in a change of control of the Company or sale of any minority equity interest in the Company, or (d) any other transaction or series of transactions which has substantially similar economic effects.

"Company Capital Stock" shall mean the Company Common Stock and the Company Preferred Stock, and any other shares of capital stock of the Company.

"Company Cash" means the amount equal to the lower of: (i) $4,000,000 or (ii) the amount of cash, short term deposits (i.e., available for withdrawal with 5 Business Days) and checks and/or credit card transactions actually received or executed but not yet cashed by the bank(provided these checks and/or credit card transactions are drawn to or effective as of a date that is no later than the Company Cash Calculation Date and that, to the Company's actual knowledge, they are not disputed or doubtful accounts) of the Company and its Subsidiaries, *minus* the Company Transaction Expenses and Company Indebtedness, if any, that have not been fully paid or repaid through the Company Cash Calculation Date; and the "Company Cash Calculation Date" shall mean August 31, 2011.

"Company Cash Shortfall" shall mean: (i) in the event the Company Cash is equal to or greater than $4,000,000, the Company Cash Shortfall will be zero; and (ii) in the event the Company Cash is less than $4,000,000, the Company Cash Shortfall will be the balance between $4,000,000 and the Company Cash.

"Company Common Stock" shall mean the common stock, par value $0.01 per share, of the Company.

"Company EULA" shall mean the standard customer/end user license agreement used by the Company and the Company Subsidiaries for licensing the Company Products.

"Company Equityholders" shall mean any holder of Company Capital Stock, or any securities that are exchangeable or convertible into Company Capital Stock, including Company Stock Options, immediately prior to the Effective Time.

"Company Equitysecurities" shall mean Company Capital Stock, or any securities that are exchangeable or convertible into Company Capital Stock, including Company Stock Options, immediately prior to the Effective Time.

"Company Indebtedness" shall mean, as of any specified date, the amount equal to the sum (without any double-counting) of the following obligations (whether or not then due and payable), to the extent they are of the Company or any of its Subsidiaries or guaranteed by the Company or any of its Subsidiaries, including through the grant of a security interest upon any assets of such Person all outstanding obligations for borrowed money owed to third parties and any accrued interest and other outstanding costs and expenses related thereto, , including all obligations for borrowed money evidenced by notes, bonds, debentures or other similar instruments (whether or not convertible) or arising under indentures. For the avoidance of doubt, (a) accounts payable, trade payables, and similar liabilities or accruals that do not represent indebtedness for borrowed money and (b) any Company Transaction Expenses, shall not be considered Indebtedness.

"Company Intellectual Property" shall mean any and all Intellectual Property and Intellectual Property Rights that are owned by, or purported to be owned by, or licensed to, the Company or any Company Subsidiary. "Company Intellectual Property" includes Company Registered Intellectual Property.

"Company Option Plan" shall mean collectively, each stock option plan, program or arrangement of the Company

"Company Optionholders" means the holders of Company Stock Options.

"Company Preferred Stock" shall mean the preferred stock, par value $0.01 per share, of the Company, all of which shares are designated as Series A Preferred Stock.

"Company Products" shall mean all products or service offerings, including maintenance and related services, of the Company and/or its Subsidiaries that have been and/or currently are, marketed, sold, provided or distributed by the Company or its Subsidiaries.

"Company Registered Intellectual Property" shall mean the applications, registrations, patents and other filings for Intellectual Property Rights that have been registered, filed, certified, issued or otherwise perfected or recorded with or by any Governmental Entity by or in the name of the Company or any Company Subsidiary.

"Company Series A Agreements" shall mean that certain Series A Preferred Stock Purchase Agreement, dated March 3, 2004, by and among the Company and the other signatories thereto; the related Investors' Rights Agreement, dated as of even date; and the Stockholders Agreement, dated as of even date.

"Company Stockholders" shall mean the holders and beneficial owners of Company Capital Stock.

"Company Stock Options" shall mean any issued and outstanding option, (including commitments to grant options and including warrants, but excluding Company Preferred Stock) to purchase or otherwise acquire shares of Company Capital Stock (whether or not vested).

"Company Subsidiary" shall mean a Subsidiary of the Company.

"Company Transaction Expenses" shall mean all expenses (including VAT imposed thereon, if any) of the Company and its Subsidiaries incurred or to be incurred prior, through and following the Closing Date in connection with the negotiation, preparation and execution of this Agreement and the consummation of the transactions contemplated hereby and the Closing, including out of pocket costs, fees and disbursements of financial advisors, attorneys, accountants and other advisors and service providers, or any similar charges in connection with this Agreement or any transaction contemplated hereby, including also the costs of any bonuses, retention payments and any other change of control or similar payments payable as a result of or in connection with the transactions contemplated by this Agreement and the D&O Insurance Expenses, in each case, as payable by the Company or its Subsidiaries after the Closing.

"Contract" shall mean any note, bond, mortgage, indenture, guarantee, license, franchise, permit, agreement, understanding, arrangement, contract, commitment, letter of intent, or other instrument or obligation (whether oral or written), and any amendments thereto.

"Consideration Shares" shall mean the Parent Ordinary Shares constituting the Aggregate Share Consideration.

"Copyleft License" means a Software license that requires, as a condition of use, modification and/or distribution of Software licensed under such license, that other Software or content incorporated into, derived from, used, or distributed with such Software: (i) be made available or distributed in non-binary form, (ii) be licensed for the purpose of preparing derivative works, (iii) be licensed under terms that allow the Company Products or portions thereof or interfaces therefor to be reverse engineered, reverse assembled or disassembled (other than by operation of law), or (iv) be redistributable or used for no license fee. Copyleft Licenses include without limitation the GNU General Public License, the GNU Lesser General Public License, the Mozilla Public License, the Common Development and Distribution License, the Eclipse Public License, and all Creative Commons "sharealike" licenses.

"Employee" shall mean any former or current employee of the Company or any Subsidiary of the Company.

"Employee Representative" shall mean any labor union, trade union, labor organization, employee organization, works council, European works council, workers' committee, bargaining representatives, or any other type of employees' representatives appointed for information, consultation and/or collective bargaining purposes.

"Export Control and Import Laws" shall mean applicable Legal Requirements concerning export and import and governing embargoes, sanctions and boycotts, including the Arms Export Controls Act (22 U.S.C. §2778), the International Emergency Economic Powers Act (50 U.S.C. § 1701 et seq.), the Export Administration Act of 1979 (50 U.S.C. app. 2401 2420), the International Traffic in Arms Regulations (22 C.F.R. § 120 et seq.), the Export Administration Regulations (15 C.F.R. § 730 et. seq.), The Israeli Trading with the Enemy Ordinance and all Legal Requirements relating to any of the foregoing, and the laws administered by the Office of Foreign Assets Controls of the U.S. Department of the Treasury, and the laws administered by U.S. Customs and Border Protection.

"Foreign Corrupt Practices Act" shall mean the Foreign Corrupt Practices Act of the United States, 15 U.S.C. Sections 78a, 78m, 78dd 1, 78dd 2, 78dd 3, and 78ff, as amended, if applicable, or any similar Legal Requirement of any jurisdiction where one or more properties owned or leased by the Company or any of its Subsidiaries are located or where the Company or any of its Subsidiaries transacts business or any other jurisdiction, if applicable, including, but not limited to, laws based on the Anti-Bribery Convention of the Organization for Economic Co-operation and Development, Title 5 of the Israeli Penalty Law (Bribery Transactions) and the Israeli Prohibition on Money Laundering Law – 2000.

"GAAP" shall mean generally accepted accounting principles of the of U.S. consistently applied, as in effect from time to time.

"Governmental Entity" shall mean any U.S. or non U.S. federal, state, provincial or local court, arbitral tribunal, administrative agency or commission or other governmental or regulatory agency or authority or any securities exchange.

"Indemnifying Person" shall mean the Company Stockholders who are entitled to receive any portion of the Aggregate Merger Consideration.

"Intellectual Property" shall mean any or all of the following (i) works of authorship including computer programs, source code, and executable code, whether embodied in Software, or otherwise, architecture, documentation, designs, files, records, and proprietary data, (ii) inventions (whether or not patentable), discoveries and improvements, (iii) proprietary and confidential information and Trade Secrets (iv) databases, data compilations and collections and proprietary technical data, (v) logos, trade names, trade dress, trademarks and service marks, (vi) domain names, web addresses and sites, (vii) tools, methods and processes, (viii) devices, prototypes, schematics, breadboards, netlists, test methodologies, verilog files, emulation and simulation reports, test vectors and hardware development tools and (ix) any and all instantiations of the foregoing in any form and embodied in any media.

"Intellectual Property Rights" shall mean on a worldwide basis, any and all (i) patents, patent applications and inventors' certificates, (ii) copyrights, copyright registrations and copyright applications and "moral" rights and other rights of authors, (iii) mask works and mask sets, and all applications and registrations of any of the foregoing, (iv) confidential and proprietary information, trade and industrial secrets and non-public discoveries, concepts, ideas, research and development, technology, know-how, formulae, inventions, compositions, processes, techniques, technical data and information, procedures, , drawings, specifications, databases and other information, including, without limitation, customer lists, supplier lists, pricing and cost information, and business and marketing plans and proposals (collectively, "Trade Secrets"), (v) other proprietary rights relating to intangible intellectual property, (vi) trademarks, trade names and service marks and domain names, (vii) rights of privacy and rights of publicity, (viii) divisions, continuations, renewals, reissuances and extensions of any of the foregoing (as applicable), (ix) all other common law and statutory intellectual property or industrial property rights recognized under applicable law, and (x) analogous rights to those set forth above, including the right to enforce and recover damages for all past and future infringements, misappropriations or violations of any of the foregoing.

"Investment Center" shall mean the Investment Center of the Israeli Ministry of Trade, Industry & Labor.

"Investor Representation Statement" shall mean the investment questionnaire substantially in the form attached as Exhibit F hereto.

"IRS" shall mean the U.S. Internal Revenue Service.

"ISL" shall mean the Israeli Securities Law, 1968.

"ITA" shall mean the Israeli Tax Authority.

"ITO" shall mean the Israeli Income Tax Ordinance [New Version], 1961, as amended, and all rules and regulations promulgated thereunder.

"Legal Requirement" means, with respect to any Person, any applicable law, extension order, treaty, statute, code, ordinance, decree, Order, constitution, bylaw, permit, directive, rule, regulation, ruling, certificate (including a withholding certificate) and lawful requirements enacted or promulgated by any Governmental Entity and all judicial, quasi-judicial, administrative, quasi-administrative and arbitral judgments, orders (including injunctions) decisions or awards of any Governmental Entity or any arbitrator, including general principles of common law, civil law and equity applicable to such Person, any property (immovable and real or movable and personal, tangible or intangible) of such Person or any activity of such Person, in each case as in effect at the Closing.

"Liabilities" shall mean any and all indebtedness, liabilities and obligations, whether accrued or fixed, known or unknown, absolute or contingent, matured or unmatured or determined or determinable.

"Liens" shall mean any liens, security interests, options, rights of first refusal, claims, easements, mortgages, charges, indentures, deeds of trust, rights of way, restrictions on the use of real property, encroachments, , leases to third parties, security agreements, or any other encumbrances and other restrictions or limitations on ownership or use of real or personal property or irregularities in title thereto.

"Material Adverse Effect" shall mean, any event, circumstance, development, condition, state of facts, occurrence, change or effect that, individually or together with any other event, circumstance, development, condition, state of facts, occurrence, change or effect, (x) is reasonably likely, either individually or in the aggregate, to have a material adverse effect on the financial condition, properties, assets, Liabilities, business, operations or results of operations of the Company and its Subsidiaries, taken as a whole, or (y) would, either individually or in the aggregate, prevent, materially alter or materially delay the Company's ability to consummate the Merger or the other transactions contemplated hereby in accordance with the terms hereof, other than any event, change, occurrence or effect resulting from (A) changes in general economic, financial market, business or geopolitical conditions (which changes do not disproportionately affect the Company), (B) general changes or developments in any of the industries in which the Company or its Subsidiaries operate (which changes do not disproportionately affect the Company), (C) changes in any applicable laws or applicable accounting regulations or principles or interpretations thereof, or (D) any outbreak or escalation of hostilities or war or any act of terrorism.

"OCS" shall mean the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor.

"Open Source Software" shall mean all Software that is distributed under (i) any license approved by the Open Source Initiative or any similar license, (ii) any license that meets the Open Source Definition or the Free Software Definition, and (iii) to the extent not included in the foregoing (i) and (ii), any Copyleft Licenses.

"Order" shall mean any judgment, order, injunction, decree, writ, permit or license of any Governmental Entity or any arbitrator.

"Parent Ordinary Shares" shall mean Ordinary Shares, par value NIS 0.10 each, of Parent.

"Permitted Liens" shall mean (i) statutory liens for Taxes that are not yet due and payable or are being contested in good faith by appropriate proceedings and are disclosed in the Company Disclosure Schedule , (ii) statutory or common law liens to secure obligations to landlords, lessors or renters under leases or rental agreements confined to the premises rented, (iii) deposits or pledges made in connection with, or to secure payment of, workers' compensation, unemployment insurance, old age pension or other social security programs mandated under Legal Requirements, (iv) statutory or common law liens in favor of carriers, warehousemen, mechanics and materialmen, to secure claims for labor, materials or supplies and other like liens and (v) restrictions on transfer of securities imposed by applicable state and federal securities laws.

"Parent LOI" shall mean the letter of intent entered into between the Company and Parent as of July 20, 2011.

"Per CS Cash Consideration" shall mean an amount of cash per share equal to the quotient obtained by dividing (i) Aggregate CS Share Cash Consideration *by* (ii) the total number of shares of Company Capital Stock outstanding as of immediately prior to the Effective Time.

"Per CS Share Consideration" shall mean the number of shares of Parent Ordinary Shares equal to the quotient of (i) the Aggregate CS Share Consideration *divided by* (ii) the total number of shares of Company Capital Stock outstanding as of immediately prior to the Effective Time.

"Per Share Consideration" shall mean the Per CS Cash Consideration and the Per CS Share Consideration.

"Person" shall mean and include an individual, a partnership, a limited partnership, a limited liability partnership, a joint venture, a corporation, a limited liability company, an association, a trust, an unincorporated organization, a group and a Governmental Entity.

"Proportionate Indemnification Share" shall mean with respect to an Indemnifying Person, a fraction (rounded to the 5 decimal places) (i) the numerator of which is the portion of the Aggregate Merger Consideration which such Indemnifying Person is entitled to receive and (ii) the denominator of which is the sum of the portions of the Aggregate Merger Considerations which all Indemnifying Persons are entitled to received, all based on the Final Payment Spreadsheet. Solely for the purposes of this definition, the Aggregate Merger Consideration shall be deemed to be equal to the sum of (A) (i) the Aggregate Cash Consideration and (ii) the Aggregate Share Consideration *multiplied by* the Average Price, *less* (B) the sum of (i) the Aggregate Designated Employees Consideration and (ii) Aggregate Optionholders Cashout Consideration.

"Representatives" of any Person shall mean such Person's directors, managers, officers, employees, agents, attorneys, consultants, advisors or other Persons acting on behalf of such Person.

"Shrink-Wrapped Code" means generally commercially available software code (other than development tools and development environments) where available for a cost of not more than Ten Thousand Five Hundred Dollars ($2,500) for a perpetual license for a single user or work station (or One Hundred Thousand Dollars ($25,000) in the aggregate for all users and work stations on an annual basis).

"Software" means computer software, firmware, programs and databases in any form, including Source Code, executable code, tools, developer kits, utilities, graphical user interfaces, and forms, and all versions, updates, corrections, enhancements and modifications thereof, and all related documentation, related thereto.

"Specified Representations" shall mean those representations and warranties made by the Company in Sections 2.1 (*Organization and Standing; Subsidiaries*); 2.2 (*Authority; No Conflicts*); 2.3 (*Capitalization*), 2.8 (*Litigation*), 2.23 (Broker's or Finder's Fees; Transaction Expenses), and those representations and warranties made by the Executing Stockholders, with the understanding that the information set forth in the Final Payment Spreadsheet, including such information relating to any Company Cash Shortfall, shall be deemed for purpose of this Agreement to be a "Specified Representation."

"Subsidiary", with respect to any Person, shall mean (a) any corporation more than fifty percent (50%) of the stock of any class or classes of which having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time stock of any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is owned by such Person directly or indirectly through one or more subsidiaries of such Person and (b) any partnership, association, limited liability company or other entity in which such Person directly or indirectly through one or more subsidiaries of such Person has more than a fifty percent (50%) equity interest.

"Tax" or "Taxes" shall mean all taxes, assessments, charges, duties, fees, levies or other governmental charges including all U.S. federal, state, local, foreign and other income, franchise, profits, gross receipts, capital gains, capital stock, transfer, sales, use, value added, occupation, property, excise, severance, windfall profits, stamp, license, payroll, social security, withholding and other taxes, assessments, charges, duties, fees, levies or other governmental charges of any kind whatsoever (whether payable directly or by withholding and whether or not requiring the filing of a Return), all estimated taxes, deficiency assessments, additions to tax, penalties and interest and linkage and shall include any liability for such amounts as a result of (a) being a transferee or successor or member of a combined, consolidated, unitary or affiliated group, or (b) a Contractual obligation to indemnify any Person.

"Technology" means tangible embodiments of Intellectual Property Rights, whether in electronic, written or other form, including Company Products, Software, technical documentation, specifications, information, process flows, process recipes, test cases, schematics, prototypes, schematics, breadboards, netlists, test methodologies, verilog files, emulation and simulation reports, test vectors and development tools, designs (including any design databases, mask layers, reticles, test vectors, industrial designs and reference designs), formulae, algorithms (and implementations thereof), application programming interfaces, user interfaces, test reports, build instructions, research and development procedures and results, technical data, lab notebooks, studies, programs, routines, subroutines, formulae, recordings, graphs, drawings, reports, analyses and other writings or materials.

"Treasury Regulations" shall mean the Treasury Regulations promulgated pursuant to the Code, as amended from time to time, including the corresponding provisions of any successor regulations.

"U.S." shall mean the United States of America.

"Vested Company Stock Options" means all Company Options that are vested as of the Closing.

Section 9.2 Construction. In this Agreement, unless the context otherwise requires:

(a) references to "writing" or comparable expressions include a reference to facsimile transmission or comparable means of communication (including electronic mail, provided the sender complies with the provisions of Section 9.7 hereof);

(b) the phrases "delivered" or "made available" shall mean that the information referred to has been physically or electronically delivered to the relevant parties (including, in the case of "made available" to Parent, material that has been posted and thereby made available to Parent through the on line "virtual data room" established by the Company if such material was made available at least two Business Days prior to the date hereof);

(c) words expressed in the singular number shall include the plural and vice versa; words expressed in the masculine shall include the feminine and neuter gender and vice versa;

(d) references to Articles, Sections, Annexes, Sections of the Company Disclosure Schedule, the Parent Disclosure Schedule, the Preamble and Recitals are references to articles, sections, annexes, disclosure schedules, the preamble and recitals of this Agreement, and the descriptive headings of the several Articles and Sections of this Agreement, the Company Disclosure Schedule and the Parent Disclosure Schedule (as applicable) are inserted for convenience only, do not constitute a part of this Agreement and shall not affect in any way the meaning or interpretation of this Agreement;

(e) references to "day" or "days" are to calendar days (subject to the definition of the term "Business Day");

(f) the words "hereof", "herein", "hereto" and "hereunder", and words of similar import, shall refer to this Agreement as a whole and not to any provision of this Agreement;

(g) this "Agreement" or any other agreement or document shall be construed as a reference to this Agreement or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated or supplemented;

(h) "include", "includes", and "including" are deemed to be followed by "without limitation" whether or not they are in fact followed by such words or words of similar import; and

(i) references to "Dollars", "dollars" or "$", without more are to the lawful currency of U.S.

Section 9.3 Annexes, Exhibits and the Disclosure Schedules. The Annexes, Exhibits, the Company Disclosure Schedule and the Parent Disclosure Schedule are incorporated into and form an integral part of this Agreement.

Section 9.4 Knowledge. When any representation, warranty, covenant or agreement contained in this Agreement (other than representations and warranties regarding Intellectual Property, Intellectual Property Rights or Technology set forth in Section 2.12) is expressly qualified by reference to the "Knowledge" of a Person or words of similar import, it shall mean the collective knowledge of such matter of each director and executive officers of the applicable Person, in each case, after reasonable and due inquiry; and with respect to any representation or warranty set forth in Section 2.12 that is expressly qualified by reference to the "Knowledge" of a Person or words of similar import, it shall mean the actual knowledge of such matter of each director and executive officer of the applicable Person, in each case, without the obligation to make any reasonable or due inquiry.

Section 9.5 Fees and Expenses. Except as specifically set forth herein, all costs and expenses incurred in connection with this Agreement and the consummation of the transactions contemplated hereby shall be paid by the party incurring such costs and expenses (it being understood that the all Transaction Expenses will be paid by the Company).

Section 9.6 Extension; Waiver. Subject to the express limitations herein, at any time prior to the Closing, the parties hereto, may (a) extend the time for the performance of any of the obligations or other acts of the other party hereto, (b) waive any inaccuracies in the representations and warranties contained herein by the other party or in any document, certificate or writing delivered pursuant hereto by such other party or (c) waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of any party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed by or on behalf of such party. No failure or delay on the part of any party hereto in the exercise of any right hereunder shall impair such right or be construed as a waiver of, or acquiescence in, any breach of any representation, warranty, covenant or agreement herein, nor shall any single or partial exercise of any such right preclude other or further exercise thereof or of any other right.

Section 9.7 Notices. Except as otherwise provided herein, all notices, requests, claims, demands, waivers and other communications hereunder shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopier, facsimile or email transmission (in the case of telecopier, facsimile or email transmission, with copies by overnight courier service or registered mail) to the respective parties as follows (or, in each case, as otherwise notified by any of the parties hereto) and shall be effective and deemed to have been given (i) immediately when sent by telecopier, facsimile or email between 9:00 A.M. and 6:00 P.M. (Israel time) on any Business Day (and when sent outside of such hours, at 9:00 A.M. (Israel time) on the next Business Day), and (ii) when received if delivered by hand or overnight courier service or certified or registered mail on any Business Day:

(a) If to the Company prior to the Effective Time, to:

RepliWeb Inc.
Address: 6441 Lyons Road, Coconut Creek, FL 33073, USA
Attention: Yossi Moriel
Fax: 1-718-504-4982
Email: Yossi@repliweb.com

with a copy (which shall not constitute notice or service of process) to:

Alon Sahar, Adv.
Herzog, Fox, Neeman & Co.
Asia House, 4 Weizmann St., Tel Aviv 64239, Israel
Attention: Alon Sahar, Adv
Fax: +972-3-696-6464
Email: Sahar@hfn.co.il

(b) if to Parent, Buyer, Merger Sub or, after the Effective Time, to the Company, to:

Attunity Ltd.
Kfar Netter Industrial Park
POB 3787
Kfar Netter 40593
IsraelAttention Dror Elkayam, CFO
Fax: +972-9-899-3001
Email: Dror.Elkayam@attunity.com;

with a copy (which shall not constitute notice or service of process) to:

Goldfarb Seligman & Co.
98 Yigal Alon Street, Electra Tower
Tel Aviv 67891, Israel
Attention: Ido Zemach, Adv.
Fax: +972-3-5212268
Email: ido.zemach@goldfarb.com

Zysman, Aharoni, Gayer and Sullivan & Worcester LLP
One Post Office Square Boston, MA 02109
Attention: Shy Baranov, Esq.
Fax: +1-617-338-2820
Email: sbaranov@zag-sw.com

(c) if to Stockholder Representatives or the Executing Stockholders, to:

Elad Baron
Email: elad@eladbaron.com
Address: 6 Heleni Hamalka, Herzliya 46768, Israel

Yossi Moriel
Email: Yossi@repliweb.com
Address: 21 Pa'amonit St., Nes Ziona 74204, Israel

Notices sent by multiple means, each of which is in compliance with the provisions of this Agreement will be deemed to have been received at the earliest time provided for by this Agreement.

Section 9.8 Entire Agreement. This Agreement, together with the Exhibits hereto and the Company Disclosure Schedule and Parent Disclosure Schedule, contains the entire understanding of the parties hereto with respect to the subject matter contained herein and supersedes all prior agreements and understandings, oral and written, with respect thereto, including the Parent LOI (except as expressly set forth herein).

Section 9.9 Binding Effect; Benefit; Assignment. This Agreement shall inure to the benefit of and be binding upon the parties hereto. Except as set forth herein, no other Person not party to this Agreement shall be entitled to the benefits of this Agreement. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto without the prior written consent of the other party. Any attempted assignment in violation of this Section 9.9 will be void.

Section 9.10 Amendment and Modification. Subject to applicable Legal Requirements, the parties hereto may cause this Agreement to be amended at any time by execution of an instrument in writing signed on behalf of each of Parent, Buyer, the Company and the Stockholder Representatives.

Section 9.11 Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, and all of which together shall be deemed to be one and the same instrument. Facsimile signatures or signatures exchanged via electronic transmission in pdf format or other comparable format shall be accepted the same as an original signature. A photocopy of this Agreement may be used in any action brought to enforce or construe this Agreement.

Section 9.12 Applicable Law; Jurisdiction. THIS AGREEMENT AND THE LEGAL RELATIONS BETWEEN THE PARTIES HERETO SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE, WITHOUT REGARD TO THE CONFLICT OF LAWS RULES THEREOF. THE STATE OR FEDERAL COURTS LOCATED WITHIN DELAWARE SHALL HAVE EXCLUSIVE JURISDICTION OVER ANY AND ALL DISPUTES BETWEEN THE PARTIES HERETO, WHETHER IN LAW OR EQUITY, ARISING OUT OF OR RELATING TO THIS AGREEMENT AND THE AGREEMENTS, INSTRUMENTS AND DOCUMENTS CONTEMPLATED HEREBY AND THE PARTIES CONSENT TO AND AGREE TO SUBMIT TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS. EACH OF THE PARTIES HEREBY WAIVES AND AGREES NOT TO ASSERT IN ANY SUCH DISPUTE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY CLAIM THAT (A) SUCH PARTY IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF SUCH COURTS, (B) SUCH PARTY AND SUCH PARTY'S PROPERTY IS IMMUNE FROM ANY LEGAL PROCESS ISSUED BY SUCH COURTS OR (C) ANY LITIGATION OR OTHER PROCEEDING COMMENCED IN SUCH COURTS IS BROUGHT IN AN INCONVENIENT FORUM. EACH PARTY TO THIS AGREEMENT IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 9.7 ABOVE. Nothing in this Agreement shall affect the right of any party to this Agreement to serve process in any other manner permitted by law.

Section 9.13 Severability. If any term, provision, covenant or restriction contained in this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void, unenforceable or against its regulatory policy, the remainder of the terms, provisions, covenants and restrictions contained in this Agreement shall remain in valid and binding and shall in no way be affected, impaired or invalidated, and this Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable term, provision, covenant or restriction or any portion thereof had never been contained herein.

Section 9.14 Specific Enforcement; Limitation on Damages. l) The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached or threatened to be breached and that an award of money damages might be inadequate in such event. Accordingly, it is acknowledged that the parties shall be entitled to equitable relief, without proof of actual damages, including an Order for specific performance to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement, in addition to any other remedy to which they are entitled at law or in equity as a remedy for any such breach or threatened breach. Each party further agrees that neither the other party nor any other Person shall be required to obtain, furnish or post any bond or similar instrument in connection with or as a condition to obtaining any remedy referred to in this Section 9.14, and each party hereto irrevocably waives any right it may have to require the obtaining, furnishing or posting of any such bond or similar instrument. Each party further agrees that the only permitted objection that it may raise in response to any action for equitable relief is that it contests the existence of a breach or threatened breach of this Agreement.

Section 9.15 Waiver of Jury Trial. EACH OF THE PARTIES TO THIS AGREEMENT HEREBY IRREVOCABLY WAIVES, AND SHALL CAUSE ITS SUBSIDIARIES AND AFFILIATES TO WAIVE, ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 9.16 Rules of Construction. The parties hereto agree that they have been represented by counsel during the negotiation and execution of this Agreement and have participated jointly in the drafting of this Agreement and, therefore, waive the application of any Law, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

Section 9.17 Headings. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the Parties have caused this Agreement and Plan of Merger to be duly executed by their respective officers thereunto duly authorized, all as of the date first above written.

REPLIWEB INC.

By: _____
Name:
Title:

ATTUNITY LTD.

By: _____
Name:
Title:

ATTUNITY INC.,

By: _____
Name:
Title:

ATLAS TOPAZ ACQUISITION INC.

By: _____
Name:
Title:

YOSSI MORIEL AND ELAD BARON
(AS STOCKHOLDER REPRESENTATIVES)

_____ _____
Yossi Moriel Elad Baron

IN WITNESS WHEREOF, the Parties have caused this Agreement and Plan of Merger to be duly executed by their respective officers thereunto duly authorized, all as of the date first above written.

EXECUTING STOCKHOLDER:

By: _____
Name:
Title:

****

[PLEASE COMPLETE]

FULL NAME: _____

ADDRESS: _____

IF YOU ARE A "U.S. PERSON," YOU ARE THE RESIDENT OF THE STATE OF: _____

TEL: _____

FAX: _____

EMAIL: _____

NUMBER OF COMMON STOCK/PREFERRED STOCK: As shown in the Final Payment Spreadsheet

BANK ACCOUNT INFORMATION: _____

EXCEPTIONS TO REPRESENTATIONS AND WARRANTIES

IN SECTION 3 OF THIS AGREEMENT: _____

_____

_____

_____

EXECEPTIONS TO SECTION 3.7 (C) *(" US Persons"):*

_____

CONFIRMATION OF SECTION 3.7(D) *(" NON-Israeli residents")*:

_____

CONFIRMATION OF SECTION 3.7(I)*(" Israeli Qualified Investor")*:

_____

EXHIBIT 4.10

Summary – Directors Compensation

General

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

	Salaries, fees, commissions and bonuses	Pension, retirement and similar benefits
All non-employee directors as a group, consisting of 5 persons* for the year ended December 31, 2011	$ 64,000	--

* Excluding Shimon Alon, our Chairman Chief Executive Officer. For details, see Item 6B of the annual report.

In accordance with the approval of our shareholders, non-employee directors who are not outside directors receive an annual fee of $9,000 and an attendance fee of $300 per meeting attended. Our non-employee outside directors receive, effective July 2008, an annual fee of $9,000 (equivalent to approximately NIS 32,000) and an attendance fee of NIS 1,674 (equivalent to approximately $470) per meeting attended, both linked to the Israeli Consumer Price Index, or CPI.

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

- a grant of options under our stock option plans to purchase 80,000 ordinary shares, which vest in three equal installments over three years;
- the exercise price of all options will be equal to the fair market value of the ordinary shares on the date of the grant (i.e., the closing price of our shares on the date of the annual general meeting of shareholders in which such director is elected or reelected); and
- the portion of outstanding options scheduled to vest during any year in which the director's service with us is terminated or expires will accelerate and become fully vested and exercisable for a period of 180 days thereafter, unless termination was due to the director's resignation or for one of the causes set forth in the Companies Law.

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

EXHIBIT 8

LIST OF SUBSIDIARIES

We have the following active subsidiaries:

Subsidiary Name	Country of Incorporation	Ownership Percentage
Attunity Inc.	United States	100%
Attunity (UK) Limited	United Kingdom	100%
Attunity (France) S.A	France	100%
Attunity Pty Limited	Australia	100%
Attunity (Hong Kong) Ltd.	Hong-Kong	100%
Attunity Israel (1992) Ltd.	Israel	100%
Attunity Software Services (1991) Ltd.	Israel	98.8%
RepliWeb Inc.	United States	100%
RepliWeb (UK) Limited	United Kingdom	100%
RepliWeb Ltd.	Israel	100%

EXHIBIT 12.1

CERTIFICATION
pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended

I, Shimon Alon, certify that:

1. I have reviewed this annual report on Form 20-F of Attunity Ltd;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 30, 2012

/s/Shimon Alon

Shimon Alon

Chairman and Chief Executive Officer

EXHIBIT 12.2

CERTIFICATION

pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended

I, Dror Harel-Elkayam, certify that:

1. I have reviewed this annual report on Form 20-F of Attunity Ltd;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 30, 2012

/s/ Dror Harel-Elkayam

Dror Harel-Elkayam

Chief Financial Officer

EXHIBIT 13.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Attunity Ltd (the "Company") on Form 20-F for the period ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Shimon Alon, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Shimon Alon
Shimon Alon
Chairman and Chief Executive Officer

March 30, 2012

EXHIBIT 13.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Attunity Ltd (the "Company") on Form 20-F for the period ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dror Harel-Elkayam, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 30, 2012

/s/ Dror Harel-Elkayam

Dror Harel-Elkayam

Chief Financial Officer

EXHIBIT 15.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form F-3 (Registration No. 333-173205, 333-138044, 333-122937, 333-119157 and 333-142286) and Registration Statements on Form S-8 (Registration No. 033-84180, 333-932, 333-11648, 333-122271, 333-122302, 333-142284 and 333-164656) of Attunity Ltd. of our report dated March 30, 2012 with respect to the consolidated financial statements of Attunity Ltd. and its subsidiaries for the year ended December 31, 2011 included in this Annual Report on Form 20-F for the year ended December 31, 2011.

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

Tel-Aviv, Israel
March 30, 2012