Allot Ltd.
Form 20-F
March 19, 2019

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

FORM 20-F

(Mark One)

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, 2018

OR

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

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………………………………

For the transition period from ______ to ______

Commission File Number 001-33129

ALLOT LTD
(Exact Name of Registrant as specified in its charter)

ISRAEL
(Jurisdiction of incorporation or organization)

22 Hanagar Street
Neve Ne'eman Industrial Zone B
Hod-Hasharon 45240
Israel

(Address of principal executive offices)

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

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

Title of each class	Name of each exchange on which registered
Ordinary Shares, par value ILS 0.10 per share	The NASDAQ Stock Market, LLC

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2018:
33,896,261 ordinary shares, ILS 0.10 par value per share

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

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

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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 every Interactive Data File required to be submitted 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 such files).

Yes No

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

Large accelerated filer   Accelerated filer   Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

† The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark 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 statement item 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

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PRELIMINARY NOTES

Terms

As used herein, and unless the context suggests otherwise, the terms "Allot," "Company," "we," "us" or "ours" refer to Allot L

Cautionary Note Regarding Forward-Looking Statements

In addition to historical facts, this annual report on Form 20-F contains forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended (the "Securities Act"), Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future events. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, potential market opportunities and the effects of competition. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as "anticipates," "believes," "could," "seeks," "estimates," "expects," "intends," "may," "plans," "potential," "predi "should," "will," "would" or similar expressions that convey uncertainty of future events or outcomes and the negatives of those terms. These statements include but are not limited to:

- statements regarding projections of capital expenditures;
- statements regarding competitive pressures;
- statements regarding expected revenue growth;
- statements regarding the expected growth in demand of our products;
- statements regarding trends in mobile networks, including the development of a digital lifestyle, over-the-top applications, the need to manage mobile network traffic and cloud computing, among others;
- statements regarding our ability to develop technologies to meet our customer demands and expand our product and service offerings;
- statements regarding the acceptance and growth of our services by our customers;
- statements regarding the expected growth in the use of particular broadband applications;
- statements as to our ability to meet anticipated cash needs based on our current business plan;
- statements as to the impact of the rate of inflation and the political and security situation on our business;
- statements regarding the price and market liquidity of our ordinary shares;
- statements as to our ability to retain our current suppliers and subcontractors; and
- statements regarding our future performance, sales, gross margins, expenses (including stock-based compensation expenses) and cost of revenues.

These statements may be found in the sections of this annual report on Form 20-F entitled “ITEM 3: Key Information—Risk Factors,” “ITEM 4: Information on Allot,” “ITEM 5: Operating and Financial Review and Prospects,” “ITEM 10: Additional Information—Taxation—United States Federal Income Taxation—Passive Foreign Investment Company Considerations” and elsewhere in this annual report, including the section of this annual report entitled “ITEM 4: Information on Allot—Business Overview—Overview” and “ITEM 4: Information on Allot—Business Overview—Industry Background,” which contain information obtained from independent industry sources. Actual results could differ materially from those anticipated in these forward-looking statements due to various factors, including all the risks discussed in “ITEM 3: Key Information—Risk Factors” and elsewhere in this annual report.

All forward-looking statements in this annual report reflect our current views about future events and are based on assumptions and are subject to risks and uncertainties that could cause our actual results to differ materially from future results expressed or implied by the forward-looking statements. Many of these factors are beyond our ability to control or predict. You should not put undue reliance on any forward-looking statements. Unless we are required to do so under U.S. federal securities laws or other applicable laws, we do not intend to update or revise any forward-looking statements.

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

You should read the following selected consolidated financial data in conjunction with “ITEM 5: Operating and Financial Review and Prospects” and our consolidated financial statements and the related notes included elsewhere in this annual report on Form 20-F. The consolidated statements of operations data for the years ended December 31, 2016, 2017 and 2018 and the consolidated balance sheet data as of December 31, 2017 and 2018 are derived from our audited consolidated financial statements included in “ITEM 18: Financial Statements,” which have been prepared in accordance with generally accepted accounting principles in the United States. The consolidated statements of operations for the years ended December 31, 2014 and 2015 and the consolidated balance sheet data as of December 31, 2014 and 2015 have been derived from our audited consolidated financial statements which are not included in this annual report.

	Year ended December 31,				
	2014	2015	2016	2017	2018
Consolidated Statements of Operations:					
Revenues:					
Products	$77,240	$62,642	$54,432	$48,727	$56,169
Services	39,946	37,325	35,937	33,265	39,668
Total revenues	117,186	99,967	90,369	81,992	95,837
Cost of revenues(1):					
Products	27,389	26,707	20,401	19,258	20,061
Services	7,350	6,720	7,494	9,272	9,288
Total cost of revenues	34,739	33,427	27,895	28,530	29,349
Gross profit	82,447	66,540	62,474	53,462	66,488
Operating expenses:					
Research and development, gross	29,998	27,674	24,827	22,244	25,792
Less grant participation	984	1,252	606	392	374
Research and development, net(1)	29,014	26,422	24,221	21,852	25,418
Sales and marketing(1)	44,599	43,318	35,290	38,316	40,849
General and administrative(1)	11,941	12,702	9,812	10,696	10,416
Total operating expenses	85,554	82,442	69,323	70,864	76,683
Operating income (loss)	(3,107)	(15,902)	(6,849)	(17,402)	(10,195)
Financing income (expenses), net	660	(584)	1,059	894	2,208
Income (loss) before income tax expenses (benefit)	(2,447)	(16,486)	(5,790)	(16,508)	(7,987)
Income tax expenses (benefit)	50	3,356	2,204	1,564	2,428
Net income (loss)	$(2,497)	$(19,842)	$(7,994)	$(18,072)	(10,415)
Basic net earnings (loss) per share	$(0.08)	$(0.59)	$(0.24)	$(0.54)	$(0.31)
Diluted net earnings (loss) per share	$(0.08)	$(0.59)	$(0.24)	$(0.54)	$(0.31)
Weighted average number of shares used in computing basic net earnings (loss) per share	33,143,168	33,419,917	33,202,309	33,253,158	$33,710,507
Weighted average number of shares used in computing diluted net earnings (loss) per share	33,143,168	33,419,917	33,202,309	33,253,158	33,710,507

(1) Includes stock-based compensation expense related to options and restricted stock units, or RSUs, granted to employees and others as follows:

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	Year ended December 31, 2014	2015	2016	2017	2018
	(in thousands)				
Cost of revenues	$353	$324	$367	$362	316
Research and development expenses, net	1,919	1,637	1,240	648	678
Sales and marketing expenses	3,322	2,802	1,833	1,166	928
General and administrative expenses	2,501	2,407	1,701	1,190	940
Total	$8,095	$7,170	$5,141	$3,366	2,862

	At Year ended December 31, 2014	2015	2016	2017	2018
	(in thousands)				
Consolidated balance sheet data:					
Cash and cash equivalents	$19,180	$15,470	$23,326	$15,342	16,336
Short-term deposits and restricted deposits	59,000	42,903	29,821	31,471	23,008
Marketable securities	54,271	64,921	60,507	63,194	64,290
Working capital	138,174	126,756	123,980	111,786	101,999
Total assets	212,948	208,215	190,940	184,525	189,844
Total liabilities	37,968	44,810	33,637	41,396	53,491
Accumulated deficit	(76,339)	(96,181)	(104,175)	(122,247)	(131,950)
Share capital	819	837	843	851	853
Total shareholders' equity	174,980	163,405	157,303	143,129	(135,903)

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

Risks Relating to Our Business

We have a history of losses and may not be able to achieve or maintain profitability in the future.

We have a history of net losses in all fiscal years since our inception, other than in 2006 and 2011. In 2018 we had a net loss of $10.4 million. Compared to the previous year, in 2018 revenues increased by $13.8 million while the gross profit increased by $13.0 million. Operating expenses increased by $5.8 million, tax expenses increased in $0.9 million, financial income increased in $1.3 million. In the future we intend to continue to invest in these areas that we believe will contribute to our future growth. We had a net loss of $18.1 million in 2017, resulting mainly from a decrease in both products revenues and services revenues of $8.4 million, restructuring expenses of $2.4 million, changes in tax related items of $1.7 million and the impact of the weakening of the U.S. dollar mainly against the ILS and Euros. We had a net loss of $8.0 million in 2016, resulting mainly from a decrease in both products revenues and services revenues.

We can provide no assurance that we will be able to achieve or maintain profitability, and we may incur losses in the future if we do not generate sufficient revenues.

We can provide no assurance that we will be able to achieve or maintain profitability, and we may incur losses in the future if we do not generate enough revenues.

Our revenues and business may be adversely affected if we do not effectively compete in the markets in which we operate.

We compete against large companies in a rapidly evolving and highly competitive sector of the networking technology and security markets, which offer, or may offer in the future, competing technologies, including partial or alternative solutions to operators' and enterprises’ challenges, and which, similarly to us, intensely pursue the largest service providers (referred to as Tier 1 operators) as well as large enterprises. Our ability to effectively compete in these markets may be limited since our competitors may have greater financial resources, significant market share and established relationships with operators and distribution channels.

Our Deep Packet Inspection (DPI) technology enabled offerings face significant competition from router and switch infrastructure companies that integrate functionalities into their platforms, addressing some of the same types of issues that our products are designed to address.

Our security products are offered to operators and are deployed in their networks, enabling them to provide security services to their end customers. Such products face significant competition from companies that directly approach end customers and offer them security applications to be installed on their devices; companies that approach the business enterprise sector through distribution channels and offer cloud security products; and companies that offer security products bundled with other products. By offering our security products to operators that provide security services to both business enterprises and individual end customers, we aim to expand the reach of our products. However, such business model may prove to be slower to market or less effective than our competitors' models, in which case our business may be harmed.

Certain of our current direct competitors are substantially larger than we are and have significantly greater financial, sales and marketing, technical, manufacturing and other resources. As the intelligent broadband solutions market has grown, including the markets for DPI enabled solutions for mobile networks and for security products, new competitors have entered and may continue to enter the market. Furthermore, our market is subject to industry consolidation, as companies attempt to maintain or strengthen their positions in our evolving industry. Some of our current and potential competitors have made acquisitions or have announced new strategic alliances designed to position them to provide many of the same products and services that we provide to both the service provider and enterprise markets, such as the recent the Sandvine – Procera transaction, which resulted in a combined company positioned to compete with us in the fields of analytics, policy charging and control, traffic management, security, regulatory compliance and cloud managed services. Industry consolidation may result in stronger competitors that are better able to compete as sole-source vendors for customers, may cause price reductions, reduced gross margins and loss of market share.

If our competitors announce new products, services or enhancements that better meet the needs of customers or changing industry requirements, offer alternative methods to achieve customer objectives or implement faster go to market strategies, if our business model proves less effective than those of our competitors, if new competitors enter the market, or if industry consolidation results in stronger competitors with wider range of product offerings and greater financial resources, our ability to effectively compete may be harmed, which could have a material adverse effect on our business, financial condition or results of operations.

Our technology faces challenges due to increased network encryption.

Our DPI, analytics and security products rely on their ability to read and understand the nature of Internet traffic. Due to an increase in network encryption our ability to read, understand and analyze the traffic transmitted becomes impaired and may reduce or eliminate our ability to provide our customers with the classification of the traffic and the necessary tools and capabilities that they might require.

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

We derived 22% and 32% of our total revenues in 2018 and 2017 from one Tier 1 mobile and fixed operator, respectively. In 2016, we derived 42% of our total revenues from two Tier 1 mobile and fixed operators. In addition, revenues from individual customers may fluctuate from time to time based on the timing and the terms under which orders are received and the duration of the delivery and implementation of such orders, potentially resulting in decreases in revenues from such customers. The loss of any significant customer or a significant decrease in business from any such customer could have a material adverse effect on our revenues, results of operations and financial condition.

Our revenues and business may be adversely affected due to decline in revenues and profits of Communication Service Providers (CSPs).

Currently a substantial amount of our revenues are received from communication service providers. Many of these CSPs are facing declining revenues and profits and may not be able to continue to purchase our products and services for the prices we charge or will be unable to purchase these products and services entirely.   The outcome of such could result in a decline in our revenues and profits and adversely affect our business.

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

Service providers are subject to government regulation in a number of jurisdictions in which we sell our products. There are several proposals in the United States, Europe and elsewhere for regulating service providers' ability to prioritize applications in their networks. Some advocates for regulating this industry claim that collecting premium fees from certain "preferred" applications would distort the market for Internet applications in favor of larger and better-funded content providers. They also claim that this would impact end-users who already purchased broadband access only to experience response times that differ based on content provider. Some opponents believe that content providers who support bandwidth-intensive applications should be required to pay service providers a premium in order to support further network investments.

On December 14, 2017 the United States Federal Communications Commission (the "FCC") announced that it voted to repeal the Open Internet Report and Order on Remand, Declaratory Ruling, and Order (the "Open Internet Order"). The Open Internet Order was issued by the FCC and went into effect on June 12, 2015. The Open Internet Order sets forth rules, grounded, among others, on Title II of the Communications Act of 1934; the Open Internet Order regulates both fixed and mobile Internet Service Providers (ISPs) and prohibits them, subject to reasonable network management, from blocking and/or throttling of lawful content, applications, services, or non-harmful devices, and from unreasonably interfering or disadvantaging of (i) end users' ability to select, access service of the lawful Internet content, applications, services, or devices of their choice or (ii) edge providers' ability to make lawful content, applications, services, or devices available to end users. The Open Internet Order also prohibits paid prioritization of content. The approved proposal to repeal the Open Internet Order would largely reverse the Open Internet Order, including the classification of broadband Internet service as a telecommunications service, which is subject to certain common carrier regulations, and restore the regulatory framework, which preceded the Open Internet Order. Because our products allow ISPs to identify network traffic and facilitate traffic management, the reinstatement of this traditional regulatory framework may affect ISP's demand for certain of our products. However, the repeal of the Open Internet Order will only take effect upon approval of the revised transparency rule by the Office of Management and Budget and may also be reversed by Congress, by a resolution of disapproval, under the Congressional Review Act. Therefore, the impact of the FCC's approved proposal on the demand for our products is uncertain and difficult to assess at this time.

On April 30, 2016, Regulation (EU) 2015/2120 of the European Parliament and of the Council came into effect, setting forth the first EU-wide Net Neutrality ("Open Internet") rules. Under these rules, blocking, throttling and discrimination of internet traffic by ISPs is prohibited in the EU, with three exceptions: (i) compliance with legal obligations; (ii) integrity of the network; and (iii) congestion management in exceptional and temporary situations. Outside these exceptions, there can be no prioritization of traffic within an internet access service. However, equal treatment permits reasonable day-to-day traffic management according to objectively justified technical requirements, and which must be independent of the origin or destination of the traffic and of any commercial considerations. These rules also allow internet access providers, as well as content and applications providers, to offer special services with specific quality requirements (provided the Open Internet is not negatively affected by the provision of these services). Such specialized services cannot be a substitute to internet access services, can only be provided if there is sufficient network capacity to provide them in addition to any internet access service and must not be to the detriment of the availability or general quality of internet access services for end-users.

Such regulation of both fixed and mobile ISPs, in European Economic Area (EEA) Member States, may limit ISPs' ability to manage, prioritize and monetize their network. Additionally, these regulations may attract growing public debate and attention of regulators in other jurisdictions we operate in. Demand from service providers, in affected jurisdictions, for the traffic management and subscriber management features of our products may be adversely affected by such regulations. A decrease in demand for these features could adversely impact sales of our products and could have a material adverse effect on our business, financial condition or results of operations.

In addition, strict data privacy laws regulating the collection, transmission, storage and use of employee data and consumers' personally-identifying information applicable to ISPs are evolving in the US, European Union and other jurisdictions in which we sell our products. For example, in the U.S., legislation has in recent years been proposed regarding restrictions on the use of geolocation information collected by mobile devices without consumer consent. Similarly, the General Data Protection Regulation ("GDPR"), enforcement of which began on May 25, 2018, creates a range of new compliance obligations, increases financial penalties for non-compliance and extends the scope of the EU data protection law to all companies established in the EEA, and all companies established outside the EEA that either: (a) offer goods or services to individuals in the EEA; or (b) monitor the behavior of individuals in the EEA. The GDPR imposes a strict data protection compliance regime and includes enhanced rights for individuals. It applies to the collection, use, retention, security, processing, transfer and deletion of personally identifiable information of individuals, and creates a range of new compliance obligations. Implementation of, and compliance with, the GDPR has increased, and could continue to increase, our cost of doing business. In addition, the GDPR may be interpreted or applied in a manner that is unforeseen by, or adverse to, us. Violations of the GDPR may result in significant fines (up to four percent of worldwide annual turnover or EUR 20.0 million, whichever is greater) and reputational harm. Such regulations may increase our compliance and administrative burden significantly and may require us to invest resources and management attention in order to update our IT systems to meet the new requirements.

The GDPR and other privacy and data protection laws may be interpreted and applied differently from country to country and may create inconsistent or conflicting requirements. Such regulations increase our customers' compliance and administrative burden significantly and may require us to adapt certain of our products, if necessary, to different requirements in EEA Member States, as well as in the US, in order to allow our customers in such jurisdictions, to comply with such regulations. There is also no assurance that we will be able to adapt our products sufficiently in order to allow our customers in various jurisdictions to comply with such regulatory requirements in each jurisdiction.

As data protection and privacy-related laws and regulations continue to evolve, these changes may result in increased regulatory and public scrutiny, escalating levels of enforcement and sanctions and increased costs of compliance. Therefore, we may be required to modify the features and functionalities of certain of our products, in a manner that is less attractive to customers. Such adjustments of our products, if required, may require extensive financial investments and may take long periods of time, leading to delay in sales cycles, deployment of our products and recognition of related revenues.

We need to continue to increase the functionality of our products and offer additional features and products to maintain or increase our profitability.

The commoditization of DPI technology and the introduction of competitive features and services will result in a decrease of the average sale prices of our DPI technology enabled products.

The market in which we operate is highly competitive and unless we continue to enhance the functionality of our products, add additional features and offer additional products, our competitiveness may be harmed.

We seek to enhance our products by offering higher system speeds, additional features and products, such as security and parental control products, and support for additional applications and enhanced reporting tools. We also continuously endeavor to assure our solutions comply with contemporary network and software architectures such as virtualized network services (NFV).

Our products offer customers additional tools to increase the efficiency of their networks or to help them offer additional services to their end customers and derive additional revenues from their end customers. The industry and market for our products are still developing and are affected, among others, by trends and changes in internet broadband traffic, including changes in methods used by various content providers and broadband applications and evolution of network security threats.

We cannot provide any assurance that demand for our additional features and products will continue or grow, or that we will be able to generate revenues from such sales at the levels we anticipate or at all. Any inability to sell or maintain our additional features and products may lead to commercial disputes with our customers and increased spending on technical solutions, any of which may negatively impact our results of operations.

Our revenues and business will be harmed if we do not keep pace with changes in broadband applications, network security threats and with advances in technology, or if we do not achieve widespread market acceptance, including through significant investments.

We will need to invest heavily in the continued development of our technology in order to keep pace with rapid changes in applications, increased broadband network speeds, network security threats and with our competitors' efforts to advance their technology. Our ability to develop and deliver effective product offerings depends on many factors, including identifying our customers' needs, technical implementation of new services and integration of our products with our customers' existing network infrastructure. While we will continue to introduce innovative products, we cannot provide any assurance that any new products we introduce will achieve the same degree of success that we have with our existing products. Designers of broadband applications and distributors of various network security threats that our products identify, manage or mitigate are using increasingly sophisticated methods to avoid detection and management and/or mitigation by network operators.

Even if our products successfully identify a particular application, it is sometimes necessary to distinguish between different types of traffic belonging to a single application. Accordingly, we face significant challenges in ensuring that we identify new applications and new versions of current applications as they are introduced, without impacting network performance, especially as networks become faster. This challenge is increased as we seek to expand sales of our products to new geographic territories because the applications vary from country to country and region to region.

The network equipment market is characterized by rapid technological progress, frequent new product introductions, changes in customer requirements and evolving industry standards. To compete, we need to achieve widespread market acceptance. Alternative technologies could achieve widespread market acceptance and displace the technology on which we have based our product architecture. Our business and revenues will be adversely affected if we fail to develop enhancements to our products, in order to keep pace with changes in broadband applications, network security threats and advances in technology. We can give no assurance that our technological approach will achieve broad market acceptance or that other technology or devices will not supersede our technology and products.

A failure of our products may adversely affect the operation of our customers' live networks or the quality and scope of service to our customers and their end users, including, specifically with regard to security protection which could harm our reputation, brand position, and financial condition.

Our products are, generally, installed in line as part of our customers' networks and provide a wide range of services that our customers may offer to their own customers. We endeavor to avoid any interruption to the regular operation of our customers' networks, any reduction of quality of services or failure to provide the quality and/or scope of services to users, including, by performing certain tasks during predetermined maintenance windows, and implementing a system bypass, in the event of malfunctions. In addition, we offer security protection services offered by our customers to their end users at a certain level and terms of performance. However, in certain cases, a failure of our products or failure of our products to perform in accordance with the performance levels to which we may be committed, may result in our customers experiencing loss of functionality, denial of service and access, interruption of live traffic on our customers' networks, loss of security protection or inability to provide similar services to our customers' end users. Such failure of our products, may cause disputes with our customers, adversely affect our reputation, lead to loss of revenues and potential legal exposure.

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

Our sales cycles to large service providers, including carriers, mobile operators and cable operators, are generally lengthy because these end-customers consider our products to be critical equipment and undertake significant testing to assess the performance of our products within their networks. Furthermore, many of our product and service arrangements with our customers provide that the final acceptance of a product or service may be specified by the customer. In such instances, we do not recognize the revenue until all acceptance criteria have been met. As a result, we often invest significant time from initial contact with a large service provider until it decides to incorporate our products into its network, and we may not be able to recognize the revenue from a customer until all acceptance criteria have been satisfied. We may also expend significant resources in attempting to persuade large service providers to incorporate our products into their networks without success. Even after deciding to purchase our products, the initial network deployment of our products by a large service provider may last up to one year and in certain exceptional instances up to one and a half years. If a competitor succeeds in convincing a large service provider to adopt that competitor's product, it may be difficult for us to displace the competitor because of the cost, time, effort and perceived risk to network stability involved in changing solutions. As a result, we may incur significant expenses without generating any sales, which could adversely affect our profitability.

In addition, we intend to enter, from time to time, into deal structures based on a revenues model determined by the number of end subscribers using our solution. In these types of deals we may invest resources upfront comprised of professional services, hardware and other resources, while the revenues stream will occur at a later stage.

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

The complexity and scope of the solutions and services we provide to larger service providers are increasing. The larger and more complex such projects are, the greater the operational risks associated with them. These risks include, but are not limited to, the failure to meet high customization requirements of service providers, the failure to fully integrate our products into the service provider’s network or with third-party products, our dependence on subcontractors and partners and on effective cooperation with third-party vendors for the successful and timely completion of such projects. If we encounter any of these risks, we may incur higher costs in order to complete the project and may be subject to contractual penalties resulting in lower profitability. In addition, the project may demand more of our management’s time than was originally planned, and our reputation may be adversely impacted.

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

We depend on third-party channel partners, such as distributors, resellers, original equipment manufacturers, or OEMs, and system integrators, to market and sell a material portion of our products to end-customers. In 2018, approximately 48% of our revenues were derived from channel partners. Our channel partners are also responsible for installing our products and providing initial customer support for them. As a result, we depend on the ability of our channel partners to successfully market and sell our products to these end-customers. We can give no assurance that our channel partners will market our products effectively, receive and fulfill customer orders for our products on a timely basis or continue to devote the resources necessary to provide us with effective sales, marketing and technical support. In addition, any failure by our channel partners to provide adequate initial support to end-customers could result in customer dissatisfaction with us or our products, which could result in a loss of customers, harm our reputation and delay or limit market acceptance of our products. Our products are complex and it takes time for a new channel partner to gain experience in the operation and installation of these products. Therefore, it may take a period of time before a new channel partner can successfully market, sell and support our products if an existing channel partner ceases to sell our products. Additionally, our agreements with channel partners are generally not exclusive and our channel partners may market and sell products that compete with our products. Our agreements with our distributors and resellers are usually for an initial one-year term and following the expiration of this term, can be terminated by either party. We can give no assurance that these agreements will remain in effect. If we are unable to maintain our relationships with existing channel partners and to develop relationships with new channel partners in key markets our profitability and results of operations may be materially adversely affected.

We are subject to certain regulatory regimes that may affect the way that we conduct business internationally, and our failure to comply with applicable laws and regulations could materially adversely affect our reputation and result in penalties and increased costs.

We are subject to a complex system of laws and regulations related to international trade, including economic sanctions and export control laws and regulations. We also depend on our distributors and agents outside of Israel for compliance and adherence to local laws and regulations in the markets in which they operate. It is our policy not to make direct or indirect prohibited sales of our products, including into countries sanctioned under laws to which we are subject, and to contractually limit the territories into which our channel partners may sell our products. Nevertheless, several years ago one of our channel partners sold certain of our products (designed for the enterprise market) outside of its contractually designated territory, including into a sanctioned country, and we subsequently determined that our contract management protocol for authorizing channel partner sales was not adequately followed in that instance.

Significant political or regulatory developments in the jurisdictions in which we sell our products, such as those stemming from the recent change in the presidential administration in the U.S. or the U.K.'s potential exit from the E.U. (known as "Brexit"), are difficult to predict and may have a material adverse effect on us. For example, in the United States, the presidential administration has imposed tariffs on imports from China, Mexico, Canada and other countries, and has expressed support for greater restrictions on free trade and increase tariffs on goods imported into the United States. Changes in U.S. political, regulatory and economic conditions or in its policies governing international trade and foreign manufacturing and investment in the U.S. could adversely affect our sales in the U.S. A prolonged government shutdown in the U.S. may hinder the growth of the U.S. economy, thus negatively affecting our business.

In the United Kingdom, following the vote to approve an exit from the E.U., commonly referred to as "Brexit," the government officially triggered the process to formally initiate negotiations for the terms of separation from the E.U. The U.K. and the E.U. are expected to reach an agreement by 2019; however, the exact terms and timing of such exit remain unclear. The withdrawal of the U.K from the E.U. could potentially disrupt the free movement of goods, services and people between the U.K. and the E.U., undermine bilateral cooperation in key geographic areas and significantly disrupt trade between the U.K. and the E.U. or other nations as the U.K. pursues independent trade relations. Because this is an unprecedented event, it is unclear what long-term economic, financial, trade and legal implications Brexit would have and how it would affect the regulation applicable to our business globally and in the region. The impact on us will depend, in part, on the outcome of tariff, trade, regulatory and other negotiations. Brexit could also lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replace or replicate. In addition, Brexit may lead other E.U. member countries to consider referendums regarding their European Union membership. Any of these developments, along with any political, economic and regulatory changes that may occur, could cause political and economic uncertainty in Europe and internationally and could adversely affect our sales in Europe.

We are also subject to the U.S. Foreign Corrupt Practices Act and may be subject to similar worldwide anti-bribery laws that generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business. Some of the countries in which we operate have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. Despite our compliance and training programs, we cannot be certain that our procedures will be sufficient to ensure consistent compliance with all applicable international trade and anti-corruption laws, or that our employees or channel partners will strictly follow all policies and requirements to which we subject them. Any alleged or actual violations of these laws may subject us to government scrutiny, investigation, debarment, and civil and criminal penalties, which may have an adverse effect on our results of operations, financial condition and reputation.

We depend on our network intelligence solutions for the substantial majority of our revenues.

In the past few years, we have increased sales of our security products. However, sales of our network intelligence solutions, which provide service providers with visibility and control of their networks, continue to account for a major portion of our revenues, and accounted for 74% of our total revenue in 2018. We expect that the network intelligence solutions will continue to account for a considerable portion of our revenues in the immediate future. If we are unable to increase these sales, or compensate for them by sales of security products, our business will suffer. In addition, service providers may choose embedded or integrated solutions using routers and switches from larger networking vendors over a standalone solution that we offer. Any factor adversely affecting our ability to sell, or the pricing of or demand for, our network intelligence solutions would severely harm our ability to generate revenues and could have a material adverse effect on our business.

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

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

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

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

Demand for our DPI technology enabled products depends, in part, on the rate of adoption of bandwidth-intensive broadband applications, and the impact multiple applications may have on network speed.

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

Demand for our security products depends, in part, on continued evolution of on-line threats as well as on operators' interest in providing security services to their end customers.

Our security products are used by service providers to offer security services to their end customers, comprising both of business enterprises as well as individual end customers. The demand for these services depends highly on continued evolution and increase of online threats. In the event that such threats decrease, that end customers are unwilling to incur the costs of security services and/or that ISPs do not continue to pursue security services to their end customers as a revenue source, demand for our security products may be materially adversely impacted.

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

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

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

We obtain certain hardware components used in our products from single or limited sources.

Although the abovementioned hardware components are off-the-shelf items, because our systems have been designed to incorporate these specific hardware components, any change to these components due to an interruption in supply or our inability to obtain such components on a timely basis, may require engineering changes to our products before substitute hardware components could be incorporated. Such changes could be costly and result in lost sales particularly to our traffic management systems. The agreements with our suppliers do not contain any minimum supply commitments. If we or our contract manufacturer fail to obtain components in sufficient quantities when required, our business could be harmed.

We obtain certain software components of our security products from a few limited sources, depending primarily on our customers' preferences. In the event that we are no longer able to source such software components from a particular source, and our customers refuse to implement components from our alternative sources, we may be required to identify an alternative source from which we do not currently acquire such software or develop such software ourselves. This may result in disputes with our customers and/or cancellation or delay of orders, which may materially adversely affect our business.

Our suppliers also sell products to our competitors and may enter into exclusive arrangements with our competitors, stop selling their products or components to us at commercially reasonable prices or refuse to sell their products or components to us at any price. Our inability to obtain sufficient quantities of single-source or limited-sourced components or to develop alternative sources for components or products would harm our ability to maintain and expand our business.

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

Part of our strategy is to selectively pursue partnerships and acquisitions. We have acquired a number of companies in recent years. The negotiation of acquisitions, investments or joint ventures, as well as the integration of acquired or jointly developed businesses or technologies, could divert our management’s time and resources. Acquired businesses, technologies or joint ventures may not be successfully integrated with our products and operations and we may not realize the intended benefits of these acquisitions. We may also incur future losses from any acquisition, investment or joint venture. In addition, acquisitions could result in:

· substantial cash expenditures;

· potentially dilutive issuances of equity securities;

· the incurrence of debt and contingent liabilities;

· a decrease in our profit margins; and

· amortization of intangibles and potential impairment of goodwill.

If we are unable to successfully protect the intellectual property embodied in our technology, our business could be materially adversely affected.

Know-how relating to networking protocols, building carrier-grade systems, identifying applications and developing and maintaining security products is an important aspect of our intellectual property. It is our practice to have our employees sign appropriate non-compete agreements when permitted under applicable law. These agreements prohibit our employees who cease working for us from competing directly with us or working for our competitors for a limited period of time. The enforceability of non-compete clauses in certain jurisdictions in which we operate may be limited. Under the current laws of some jurisdictions in which we operate, we may be unable to enforce these agreements and it may thereby be difficult for us to restrict our competitors from gaining the expertise our former employees gained while working for us.

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

As of December 31, 2018, we had a patent portfolio consisting of 19 issued U.S. patents. While we plan to protect our intellectual property with, among other things, patent protection, there can be no assurance that:

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

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

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

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

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

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

Unfavorable or unstable economic conditions in the markets in which we operate could have a material adverse effect on our business, financial condition or operating results.

In recent years, economies worldwide have demonstrated instability. Negative economic conditions in the global economy or certain regions such as the European Market, from which we derived 48% of our revenues in 2018, could cause a decrease in spending on the types of products and services that we offer.

Additionally, if the worldwide economy remains unstable or further deteriorates, enterprises, telecommunication carriers and service providers in affected regions may significantly reduce or postpone capital investments, which could result in reductions in sales of our products or services, longer sales cycles, slower adoption of new technologies and increased price competition in such regions. Such circumstances would have a material adverse effect on our results of operations and cash flows.

Further, because a substantial portion of our operating expenses consists of salaries, we may not be able to reduce our operating expenses in line with any reduction in revenues and, therefore, may not be able to continue to generate increased revenues and manage our costs to maintain profitability.

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

Our revenues are generated primarily in U.S. dollars and a major portion of our expenses are denominated in U.S. dollars. As a result, we consider the U.S. dollar to be our functional currency. A significant portion of our revenue is also generated in Euros. Other significant portions of our expenses are denominated in Israeli shekel (ILS) and, to a lesser extent, in Euros and other currencies. Our ILS-denominated expenses consist principally of salaries and related personnel expenses. We anticipate that a material portion of our expenses will continue to be denominated in ILS. In the past years, we have experienced material fluctuation between the ILS and the U.S. dollar and we anticipate that the ILS will continue to fluctuate against the U.S dollar in the future. In 2018, the ILS depreciated by approximately 7.5% against the U.S. dollar and in 2017 the ILS appreciated by approximately 10.9% against the U.S. dollar. In 2018, the EUR depreciated by approximately 4.4% against the U.S. dollar, and in 2017 the EUR appreciated by approximately 13.9% against the U.S. dollar. If the U.S dollar weakens against the ILS we are exposed to negative impact on our results of operations. Moreover, if the U.S. dollar will strengthen against the EUR, our results of operations generated by revenue in the EUR may be negatively impacted.

We use derivative financial instruments, such as foreign exchange forward contracts and others, to mitigate the risk of changes in foreign exchange rates on balance sheet accounts and forecast cash flows. We may not purchase derivative instruments adequately to insulate ourselves from foreign currency exchange risks. The volatility in the foreign currency markets may make hedging our foreign currency exposures challenging. In addition, because a portion of our revenue is not earned in U.S. dollars, fluctuations in exchange rates between the U.S. dollar and the currencies in which such revenue is earned may have a material adverse effect on our results of operations and financial condition. Additionally, our efforts to effectively price products in U.S. dollars may have disadvantages as they may affect demand for our products if the local currency strengthens relative to the U.S. dollar. We could be adversely affected when the U.S. dollar strengthens relative to the local currency between the time of a sale and the time we receive payment, which would be collected in the devalued local currency. Accordingly, if there is an adverse movement in one or more exchange rates, we might suffer significant losses and our results of operations may otherwise be adversely affected. Uncertainty in global market conditions has resulted in and may continue to cause significant volatility in foreign currency exchange rates which could increase these risks. As our international operations expand, our exposure to these risks also increases.

Further, volatility in exchange rates resulting from Brexit is expected to continue in the short term as the U.K. negotiates its exit from the E.U. We translate sales and other results denominated in foreign currency into U.S. dollars for our financial statements. During periods of a strengthening dollar, our reported international sales and earnings could be reduced because foreign currencies may translate into fewer U.S. dollars.

Disruption to our IT systems could adversely affect our reputation and have a material adverse effect on our business and results of operations.

Risks to cybersecurity and privacy, including the activities of criminal hackers, hacktivists, state-sponsored intrusions, industrial espionage, employee malfeasance and human or technological error are constantly evolving. Computer hackers and others routinely attempt to breach the security of companies, governmental agencies, technology products, services and systems.

Our IT systems contain personal, financial and other information that is entrusted to us by our customers and employees as well as financial, proprietary and other confidential information related to our business, and we rely on said systems to manage our business, operations and research and development. If these IT systems are compromised as a result of cyber attacks or cyber related incidents, it could result in the loss or misappropriation of sensitive data or other disruption to our operations. Although we have a cybersecurity program designed to protect and preserve the integrity of our information technology systems, we have experienced and expect to continue to experience actual or attempted cyber-attacks of our IT systems or networks (such as limited phishing and malware activities identified by us in the past, which were mitigated). Although none of these actual or attempted cyber-attacks has had a material effect on our operations or financial condition, we cannot guarantee that any such incidents would not materially harm our business in the future.

If our IT systems are compromised as a result of cyberattacks or cyber related incidents, it could result in the loss or misappropriation of sensitive data or other disruption to our operations. It could also disrupt our electronic communications systems and thus our ability to conduct our business operations, our ability to process customer orders and electronically deliver products and services and our distribution channels.

Additionally, as a provider of network intelligence and security solutions for mobile and fixed service providers, an actual or perceived cyberattack, breach of security or theft of personal data store by us, regardless of whether the cyberattack, breach or theft is attributable to the failure of our products, could adversely affect the market's perception of the efficacy of our solutions and current or potential customers may look to our competitors for alternative solutions. A breach of our systems may also lead defects and security vulnerabilities to be introduced into our software, thereby damaging the reputation and perceived reliability and security of our products and services, potentially making the data systems of our customers vulnerable to further data loss and cyber incidents.

Despite our investments in risk prevention and contingencies, data protection, prevention of intrusions, access control systems and other security measures, we can provide no assurance that our current IT systems are fully protected against third-party intrusions, viruses, hacker attacks, information or data theft or other similar threats. Any such security breach, whether actual or alleged, could result in system disruptions or shutdowns and/or destruction, alteration, theft or unauthorized disclosure of confidential information. Even when an actual or attempted security breach is detected, the full extent of the breach may not be determined for some time. An increasing number of companies have disclosed security breaches of their IT systems and networks, some of which have involved sophisticated and highly targeted attacks. We believe such incidents are likely to continue, and we are unable to predict the direct or indirect impact of these future attacks on our business.

Our actual financial results may differ materially from any guidance we may publish from time to time.

We may, from time to time, voluntarily publish guidance regarding our future performance that represents our management's estimates as of the date of relevant release. Any such guidance is based upon a number of assumptions and estimates that, while presented with numerical specificity, is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. The principal reason that we may release this data is to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any such persons. Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions of the guidance furnished by us will not materialize or will vary significantly from actual results. Further, our sales during any given quarter tend to be unevenly distributed as individual orders tend to close in greater numbers immediately prior to the relevant quarter end and further. Our revenues from individual customers may also fluctuate from time to time based on the timing and the terms under which further orders are received and the duration of the delivery and implementation of such orders. Therefore, if our projected sales do not close before the end of the relevant quarter, our actual results may be inconsistent with our published guidance. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Actual results will vary from the guidance and the variations may be material. Investors should also recognize that the reliability of any forecasted financial data diminishes the farther in the future that the data is forecast. In light of the foregoing, investors are urged to consider any guidance we may publish in context and not to place undue reliance on it.

Our business may be materially affected by changes to fiscal and tax policies. Potentially negative or unexpected tax consequences of these policies, or the uncertainty surrounding their potential effects, could adversely affect our results of operations and share price.

As we operate in the global market, we are subject to tax in Israel and various jurisdictions in which we conduct our business. Our tax expenses include the impact of tax exposures in certain jurisdictions, and may also be affected by adverse changes in the underlying profitability and financial outlook of our operations or changes in tax law, including international tax treaties, or guidelines such as the BEPS project (Base Erosion and Profit Shifting), which could lead to changes in our valuation allowances against deferred tax assets on our consolidated balance sheets. Furthermore, we are subject to tax audits by governmental authorities everywhere we do business. If we experience unfavorable results from one or more such tax audits, there could be an adverse effect on our tax rate and therefore on our net income.

Our results of operations may be affected by changes in tax laws, tax rates or double tax treaties. For example, in the United States, the 2017 Tax Cuts and Jobs Act (the "TCJA") made significant changes to the U.S. Internal Revenue Code, including a reduction in the federal income corporate tax rate from 35% to 21% and limitations on certain corporate deductions and credits. In addition, the TCJA requires complex computations to be performed that were not previously required in U.S. tax law, and the preparation and analysis of information not previously relevant or regularly produced. Because the law is still relatively new, the U.S. Treasury Department, the IRS, and other standard-setting bodies could interpret or issue guidance on how provisions of the TCJA will be applied or otherwise administered that is different from our interpretation. Finally, foreign governments may enact tax laws in response to the TCJA that could result in further changes to global taxation and materially affect our financial position and results of operations. We have provided the effect of the TCJA in note 13 to our financial statements included elsewhere in this report.

Additionally, actions by national and international regulators and law enforcement agencies may result in changes to debt reference rates, including the United Kingdom's Financial Conduct Authority's announcement that it intends to phase out the London interbank offered rate ("LIBOR") by the end of 2021. While we do not have any long-term borrowings, it is difficult to predict the effect of potential alternatives to LIBOR on our business, including the liquidity of our customers, due to a lack of current consensus as to what rate or rates may become accepted alternatives to LIBOR. However, if LIBOR ceases to exist, there may be an adverse impact on the value of any LIBOR-based marketable securities, loans and derivatives that are included in our financial assets and liabilities and may also adversely affect us as holders of derivative instruments for hedging our non-dollar currency exposure.

Risks Related to Our Ordinary Shares

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

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

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

- winning or losing contracts with service providers;

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

- announcements of strategic partnerships, joint ventures, acquisitions or other agreements by us or our competitors;
- recruitment or departure of key personnel;
- regulatory developments in the markets in which we sell our products;
- our future repurchases, if any, of our ordinary shares pursuant to our current share repurchase program and/or any other share repurchase program which may be approved in the future;
- our sale of ordinary shares or other securities;
- changes in the estimation of the future size and growth of our markets; or
- market conditions in our industry, the industries of our customers and the economy as a whole.

Share price fluctuations may be exaggerated if the trading volume of our ordinary shares is too low. The lack of a trading market may result in the loss of research coverage by securities analysts. Moreover, we can provide no assurance that any securities analysts will initiate or maintain research coverage of our company and our ordinary shares. If our future quarterly operating results are below the expectations of securities analysts or investors, the price of our ordinary shares would likely decline. Securities class action litigation has often been brought against companies following periods of volatility.

Our shareholders do not have the same protections afforded to shareholders of a U.S. company because we have elected to use certain exemptions available to foreign private issuers from certain NASDAQ corporate governance requirements.

As a foreign private issuer, we are permitted under NASDAQ Rule 5615(a)(3) to follow Israeli corporate governance practices instead of the NASDAQ Stock Market requirements that apply to U.S. companies. As a condition to following Israeli corporate governance practices, we must disclose which requirements we are not following and describe the equivalent Israeli law requirement. We must also provide NASDAQ with a letter from our Israeli outside counsel, certifying that our corporate governance practices are not prohibited by Israeli law. As a result of these exemptions, our shareholders do not have the same protections as are afforded to shareholders of a U.S. company. We currently follow Israeli home country practices with regard to the quorum requirement for shareholder meetings and shareholder approval of equity compensation plans requirements. As permitted under the Israeli Companies Law, 5759-1999, or the Companies Law, our articles of association provide that the quorum for any meeting of shareholders shall be the presence of at least two shareholders present in person or by proxy who hold at least 25% of the voting power of our shares instead of 33 1/3% of our issued share capital (as prescribed by NASDAQ's rules). We do not seek shareholder approval for equity compensation plans in accordance with the requirements of the Companies Law, which does not fully reflect the requirements of Rule 5635(c).

In the future, we may also choose to follow Israeli corporate governance practices instead of NASDAQ requirements with regard to, among other things, the composition of our board of directors, compensation of officers, director nomination procedures and quorum requirements at shareholders' meetings. In addition, we may choose to follow Israeli corporate governance practice instead of NASDAQ requirements to obtain shareholder approval for certain dilutive events (such as for issuances that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company). Accordingly, our shareholders may not be afforded the same protection as provided under NASDAQ corporate governance rules. Following our home country governance practices, as opposed to the requirements that would otherwise apply to a U.S. company listed on the Nasdaq Global Select Market, may provide less protection than is accorded to investors of domestic issuers. See "ITEM 16G: Corporate Governance".

As a foreign private issuer, we are not subject to the provisions of Regulation FD or U.S. proxy rules and are exempt from filing certain Exchange Act reports.

As a foreign private issuer, we are exempt from the rules and regulations under the Exchange Act related to the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file annual and current reports and financial statements with the SEC as frequently or as promptly as U.S. domestic companies whose securities are registered under the Exchange Act, we are permitted to disclose limited compensation information for our executive officers on an individual basis and we are generally exempt from filing quarterly reports with the SEC under the Exchange Act. Moreover, we are not required to comply with Regulation FD, which restricts the selective disclosure of material nonpublic information to, among others, broker-dealers and holders of a company's securities under circumstances in which it is reasonably foreseeable that the holder will trade in the company's securities on the basis of the information. These exemptions and leniencies reduce the frequency and scope of information and protections to which you may otherwise have been eligible in relation to a U.S. domestic issuer.

We would lose our foreign private issuer status if (a) a majority of our outstanding voting securities were either directly or indirectly owned of record by residents of the United States and (b)(i) a majority of our executive officers or directors were United States citizens or residents, (ii) more than 50% of our assets were located in the United States or (iii) our business were administered principally in the United States. Our loss of foreign private issuer status would make U.S. regulatory provisions mandatory. The regulatory and compliance costs to us under U.S. securities laws as a U.S. domestic issuer may be significantly higher. If we are not a foreign private issuer, we will be required to file periodic reports and registration statements on U.S. domestic issuer forms with the SEC, which are more detailed and extensive than the forms available to a foreign private issuer. We would also be required to follow U.S. proxy disclosure requirements, including the requirement to disclose, under U.S. law, more detailed information about the compensation of our senior executive officers on an individual basis. We may also be required to modify certain of our policies to comply with accepted governance practices associated with U.S. domestic issuers. Such conversion and modifications will involve additional costs. In addition, we would lose our ability to rely upon exemptions from certain NASDAQ corporate governance requirements that are available to foreign private issuers.

Certain U.S. holders of our ordinary shares may suffer adverse tax consequences if we or any of our non-U.S. subsidiaries are characterized as a "controlled foreign corporation", or a CFC, under Section 957(a) of the Internal Revenue Code of 1986, as amended (the "Code").

A non-U.S. corporation is considered a CFC if more than 50 percent of (1) the total combined voting power of all classes of stock of such corporation entitled to vote, or (2) the total value of the stock of such corporation, is owned, or is considered as owned by applying certain constructive ownership rules, by United States shareholders who each own stock representing 10% or more of the vote or 10% or more of the value on any day during the taxable year of such non-U.S. corporation ("10% U.S. Shareholder"). Generally, 10% U.S. Shareholders of a CFC are required to include currently in gross income such 10% U.S. Shareholder's share of the CFC's "Subpart F income", a portion of the CFC's earnings to the extent the CFC holds certain U.S. property, and certain other new items under the TCJA. Such 10% U.S. Shareholders are subject to current U.S. federal income tax with respect to such items, even if the CFC has not made an actual distribution to such shareholders. "Subpart F income" includes, among other things, certain passive income (such as income from dividends, interests, royalties, rents and annuities or gain from the sale of property that produces such types of income) and certain sales and services income arising in connection with transactions between the CFC and a person related to the CFC.

Certain changes to the CFC constructive ownership rules introduced by the TCJA may cause one or more of our non-U.S. subsidiaries to be treated as CFCs and may impact our CFC status, thus affecting holders of our ordinary shares that are 10% United States shareholders. For 10% U.S. Shareholders, this may result in negative U.S. federal income tax consequences, such as current U.S. taxation of Subpart F income and of any such shareholder's share of our accumulated non-U.S. earnings and profits (regardless of whether we make any distributions), taxation of amounts treated as global intangible low-taxed income under Section 951A of the Code with respect to such shareholder, and being subject to certain reporting requirements with the U.S. Internal Revenue Service. Current or prospective 10% U.S. Shareholders should consult their own tax advisors regarding the U.S. tax consequences of acquiring, owning, or disposing our ordinary shares and the impact of the TCJA, especially the changes to the rules relating to CFCs.

If the price of our ordinary shares declines, we may be more vulnerable to an unsolicited or hostile acquisition bid.

We do not have a controlling shareholder. Notwithstanding provisions of our articles of association and Israeli law, a decline in the price of our ordinary shares may result in us becoming subject to an unsolicited or hostile acquisition bid. In the event that such a bid is publicly disclosed, it may result in increased speculation regarding our company and volatility in our share price even if our board of directors decides not to pursue a transaction. If our board of directors does pursue a transaction, there can be no assurance that it will be consummated successfully or that the price paid will represent a premium above the original price paid for our shares by all of our shareholders.

Additionally, in recent years, U.S. and non-U.S. companies listed on securities exchanges in the United States have been faced with governance-related demands from activist shareholders, unsolicited tender offers and proxy contests. Although as a foreign private issuer we are not subject to U.S. proxy rules, responding to any action of this type by activist shareholders could be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees. Such activities could interfere with our ability to execute our strategic plans. In addition, a proxy contest for the election of directors at our annual meeting would require us to incur significant legal fees and proxy solicitation expenses and require significant time and attention by management and our board of directors. The perceived uncertainties due to such actions of activist shareholders also could affect the market price of our securities.

Risks Relating to our Location in Israel

Conditions in Israel could adversely affect our business.

We are incorporated under Israeli law and our principal offices, research and development division and manufacturing facilities are located in Israel. Accordingly, political, economic and military conditions in Israel directly affect our business. Since the State of Israel was established in 1948, a number of armed conflicts have occurred between Israel and its Arab neighbors. Although Israel has entered into various agreements with Egypt, Jordan and the Palestinian Authority, there has been an increase in unrest and terrorist activity, which began in September 2000 and continued with varying levels of severity into 2018. In recent years, these have included, among others, hostilities between Israel and Hezbollah in Lebanon and Hamas in the Gaza strip, both of which resulted in rockets being fired into Israel, causing casualties and significant disruption of economic activities. Outside of periods of armed conflict, Israel has also historically experienced terrorist activity and unrest, including for instance, recent unrest due to the United States' announcement to relocate its embassy from Tel Aviv to Jerusalem. Any armed conflicts, terrorist activities or political instability in the region may affect a significant portion of our work force, which is located in Israel, and may limit materially our ability to obtain raw materials from affected countries or sell our products to companies in these countries. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners, or significant downturn in the economic or financial condition of Israel, could adversely affect our operations and product development and manufacturing, cause our revenues to decrease and adversely affect the share price of publicly traded companies having operations in Israel, such as us.

Continued salary increase of Research and Development manpower could adversely affect our ability to recruit suitable Research and Development employees and could have an adverse effect on our business and revenues.

The current ongoing increase in salary of Research and Development manpower could have an adverse effect on our ability to recruit such suitable individuals as well as adversely affect our ability to meet the ongoing Research and Development related requirements of the market and our customers.

Our operations may be disrupted by the obligations of personnel to perform military service.

As of December 31, 2018, we employed 524 people, of whom 296 were based in Israel. Some of our employees in Israel are obligated to perform annual military reserve duty in the Israel Defense Forces, depending on their age and position in the army. Additionally, they may be called to active reserve duty at any time under emergency circumstances for extended periods of time. Our operations could be disrupted by the absence of one or more of our executive officers or key employees for a significant period due to military service and any significant disruption in our operations could harm our business. The full impact on our workforce or business if some of our executive officers and employees are called upon to perform military service, especially in times of national emergency, is difficult to predict. Additionally, the absence of a significant number of employees at our manufacturing subcontractor, Flex, as a result of military service obligations may disrupt their operations and could have a material adverse effect on our ability to timely deliver products to customers may be materially adversely affected.

The tax benefits that are available to us require us to meet several conditions and may be terminated or reduced in the future, which would increase our costs and taxes.

Our investment program in equipment at our facility in Hod-Hasharon, Israel, has been granted approved enterprise status and we are therefore eligible for tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959, referred to as the Investments Law. We also have been granted benefited enterprise status. We expect to utilize these tax benefits after we utilize our net operating loss carry forwards. As of December 31, 2018, our net operating loss carry forwards for Israeli tax purposes amounted to approximately $57.7 million. To remain eligible for these tax benefits, we must continue to meet certain conditions stipulated in the Investments Law and its regulations and the criteria set forth in the specific certificate of approval. If we do not meet these requirements, the tax benefits would be canceled and we could be required to refund any tax benefits and investment grants that we received in the past. Further, in the future these tax benefits may be reduced or discontinued. If these tax benefits are cancelled, our Israeli taxable income would be subject to regular Israeli corporate tax rates. The standard corporate tax rate in Israel for 2019 and thereafter is scheduled to be 23.0% and was 23.0% in 2018 and 24.0% in 2017.

Effective January 1, 2011, the Investment Law was amended. Under the amended Investment Law, the criteria for receiving tax benefits were revised. Under the transition provisions of the 2011 - Amendment, a company may decide to irrevocably implement the 2011 Amendment while waiving benefits provided under the Investment law's prior benefits programs or to remain subject to the Investment Law's prior benefits programs. In the future, we may not be eligible to receive additional tax benefits as were made available under the Investment law prior to the 2011 Amendment. The termination or reduction of these tax benefits would increase our tax liability, which would reduce our profits. Finally, in the event of a distribution of a dividend from the abovementioned tax-exempt income, in addition to withholding tax at the following rates: (i) Israeli resident corporation – 0%, (ii) Israeli resident individual – 20% in 2014 and onwards, and (iii) non-Israeli resident – 20% in 2014 and onwards subject to a reduced tax rate under the provisions of an applicable double tax treaty, would be subject to income tax on the amount distributed in accordance with the effective corporate tax rate which would have been applied had we not enjoyed the exemption. See "ITEM 10: Additional Information—Taxation—Israeli Tax Considerations and Government Programs."

No assurance can be given that we will be eligible to receive additional tax benefits under the Investments Law in the future. The termination or reduction of these tax benefits would increase our tax liability in the future, which would reduce our profits or increase our losses. Additionally, if we increase our activities outside of Israel, for example, by future acquisitions, our increased activities may not be eligible for inclusion in Israeli tax benefit programs.

The government grants we have received for research and development expenditures require us to satisfy specified conditions and restrict our ability to manufacture products and transfer technologies outside of Israel. If we fail to comply with these conditions or such restrictions, we may be required to refund grants previously received together with interest and penalties and may be subject to criminal charges.

We have received grants from the Israel Innovation Authority (formerly known as the Office of the Chief Scientist of the Ministry of Economy) for the financing of a portion of our research and development expenditures in Israel, pursuant to the provisions of The Encouragement of Research, Development and Innovation in Industry Law, 1984, referred to as the Research and Development Law. In the future we may not receive grants or we may receive significantly smaller grants from the Israel Innovation Authority, and our failure to receive grants in the future could adversely affect our profitability. In 2016, 2017 and 2018 we received and accrued non-royalty-bearing grants totaling $0.6 million, $0.4 million and $0.4 million, respectively, from the Israel Innovation Authority, representing 2.4%, 1.8% and 1.5%, respectively, of our gross research and development expenditures. In each of the years 2016, 2017 and 2018, we qualified to participate in one non-royalty-bearing research and development program, funded by the Israel Innovation Authority to develop generic technology relevant to the development of our products. Such programs are approved pursuant to special provisions of the Research and Development Law. We were eligible to receive grants constituting of up to 50% of certain research and development expenses relating to these programs. Although the grants under these programs are not required to be repaid by way of royalties, the restrictions of the Research and Development Law described below apply to these programs.

The provisions of the Research and Development Law and the terms of the Israel Innovation Authority grants prohibit us from transferring manufacturing products which we originally planned to manufacture in Israel outside of Israel if they incorporate technologies funded by the Israel Innovation Authority, and from transferring intellectual property rights in technologies developed using these grants, without special approvals from the Israel Innovation Authority.

Even if we receive approval to manufacture our products outside of Israel, we may be required to pay an increased total amount of royalties, which may be up to 300% of the grant amount plus interest, depending on the manufacturing volume that is performed outside of Israel. This restriction may impair our ability to outsource manufacturing or engage in similar arrangements for those products or technologies. Know-how developed under an approved research and development program may not be transferred to any third-parties, except in certain circumstances and subject to prior approval. Similarly, even if we receive approval to transfer intellectual property rights in technologies developed using these grants, we may be required to repay a multiple of the original grants plus LIBOR interest to the Israel Innovation Authority. In addition, if we fail to comply with any of the conditions and restrictions imposed by the Research and Development Law or by the specific terms under which we received the grants, we may be required to refund any grants previously received together with interest and penalties, and may be subject to criminal charges.

It may be difficult to enforce a U.S. judgment against us, our officers and directors in Israel or the United States, or to assert U.S. securities laws claims in Israel or serve process on our officers and directors.

We are incorporated in Israel. The majority of our executive officers and directors are not residents of the United States, and the majority of our assets and the assets of these persons are located outside the United States. Therefore, it may be difficult for an investor, or any other person or entity, to enforce a U.S. court judgment based upon the civil liability provisions of the U.S. federal securities laws against us or any of these persons in a U.S. or Israeli court, or to effect service of process upon these persons in the United States. Additionally, it may be difficult for an investor, or any other person or entity, 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 on the grounds that Israel is not the most appropriate forum in which to bring such a claim. 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 the matters described above.

Provisions of Israeli law and our articles of association may delay, prevent or make undesirable an acquisition of all or a significant portion of our shares or assets.

Our articles of association contain certain provisions that may delay or prevent a change of control, including a classified board of directors. In addition, Israeli corporate law regulates acquisitions of shares through tender offers and mergers, requires special approvals for transactions involving significant shareholders and regulates other matters that may be relevant to these types of transactions. These provisions of Israeli law could delay or prevent a change in control and may make it more difficult for third-parties to acquire us, even if doing so would be beneficial to our shareholders, and may limit the price that investors may be willing to pay for our ordinary shares in the future. Furthermore, Israeli tax considerations may make potential transactions undesirable to us or to some of our shareholders. See “ITEM 10: Additional Information—Memorandum and Articles of Association—Acquisitions under Israeli Law” and “—Anti-Takeover Measures.”

ITEM 4: Information on Allot

A. History and Development of Allot

Our History

Our legal and commercial name is Allot Ltd. We are a company limited by shares organized under the laws of the State of Israel. Our principal executive offices are located at 22 Hanagar Street, Neve Ne'eman Industrial Zone B, Hod-Hasharon 45240, Israel, and our telephone number is +972 (9) 761-9200. We have irrevocably appointed Allot Communications Inc. as our agent to receive service of process in any action against us in any United States federal or state court. The address of Allot Communications Inc. is 1500 District Avenue, Burlington, MA 01803.

We were incorporated on November 12, 1996 as "Ariadne Ltd." and commenced operations in 1997. In September 1997, we changed our name to "Allot Communications Ltd.". In November 2006, we listed our shares on NASDAQ. In 2007, we introduced our Service Gateway platform that enables broadband providers to build efficient, secure, manageable and profitable intelligent networks that are optimized to deliver Internet-based content and services. In 2008, we completed the acquisition of the business of Esphion Limited, a developer of network protection solutions for carriers and internet service providers. In 2010, we listed our shares on the Tel Aviv Stock Exchange, or TASE, and began applying the reporting reliefs afforded under the Israeli Securities Law to companies whose securities are dually listed on NASDAQ and the TASE. In 2012, we acquired the business of Ortiva Wireless Inc., a developer of video optimization solutions for mobile and Internet networks. In 2012, we acquired the business of Oversi Networks Ltd., a developer of products and systems for caching Internet content. In 2015, we acquired substantially all of the assets and business of Optenet S.A., a Madrid-based global IT security company. In early 2018, we acquired all of the outstanding shares of Netonomy Ltd., a Tel-Aviv based developer of software-based cyber security for the connected home. In October 2018, we changed our name to "Allot Ltd".

B. Business Overview

Overview

We are a provider of leading innovative network intelligence and security solutions for mobile and fixed service providers as well as enterprises worldwide. Our solutions are deployed globally for network and application analytics, traffic control and shaping, network-based security including mobile security, DDoS protection, IoT security, and more. Allot's multi-service platforms are deployed by over 500 mobile, fixed and cloud service providers and over 1000 enterprises. Our industry leading network-based security as a service solution has achieved over 50% penetration with some service providers and is already used by over 21 million subscribers in Europe.

We have a global and diverse customer base composed of mobile and fixed broadband service providers, cable operators, satellite service providers, private networks, data centers, governments, and enterprises such as financial and educational institutions. With over 20 years of experience empowering service providers and enterprises to get more out of their networks and to manage them better, we enable network operators as well as enterprises, to clearly see and understand their networks from within, to optimize, innovate and capitalize on every opportunity, to learn about users and network behaviors, to improve quality of service and reduce costs, and to detect security breaches to protect their own networks and their users from attacks, all while increasing value to customers and deploying new services faster.

Through our combination of innovative technology, proven know-how and collaborative approach to industry standards and partnerships, we deliver solutions that equip service providers with the capabilities to elevate their role as premier digital services providers and to expand into new business opportunities. We offer our customers market leading, proprietary technologies that are powerful, diverse, and scalable. In addition, we have developed significant industry know-how and expertise through our experience in designing and implementing use cases with our large customer base. We believe that when visibility is clear and network intelligence is accurate, service providers can make smart decisions in real time to manage their networks, engage customers and innovate with new services.

Industry Background

The rapid proliferation of broadband networks in recent years has been largely driven by demand from users for faster and more reliable access to the Internet and by the proliferation in the number and complexity of broadband applications, as well as the proliferation of mobile smartphones, tablets and other Internet-connected devices.

Rising Network Operational Costs Due to the Rapid Adoption of Broadband Applications

Advances in broadband access (such as the introduction of long-term evolution, or LTE, technology) combined with the advanced data capabilities of end-user devices (such as smartphones and tablets) have promoted a growing number of applications and content delivered over broadband networks. The vast majority of these applications run over-the-top of the network, which means they are not originated, controlled or charged by the network operator. The use of OTT applications, such as streaming video, peer-to-peer (P2P), Voice over IP (VoIP), social networks, interactive gaming and online content, requires large and increasing amounts of bandwidth. Moreover, many of these applications are highly sensitive to network delays caused by congestion. In response to these challenges, service providers have been forced to invest heavily in network infrastructure upgrades and customer support services in order to maintain the quality of experience for subscribers.

Rising Data Traffic in Mobile Networks

The mobile data market continues to grow rapidly, fueled by the proliferation of smartphones and tablets, mobile-enabled laptops that use mobile modems or tethered smartphones to connect to the Internet. On average, the data traffic generated by an Internet user with a smartphone is multiple times that of an Internet user without a smartphone.

The cost of increasing the bandwidth in mobile networks is significantly higher than that in wireline networks. As a result, mobile operators are experiencing economic and infrastructure challenges in meeting the rising tide of data traffic over their networks. In addition, as capacity increases in mobile networks, smartphone users are likely to have increased expectations with respect to speed and performance.

It is becoming increasingly apparent that unmanaged 4G/LTE mobile networks (and soon also 5G mobile networks) will not be able to cope with the rising tide of data traffic, without implementing intelligent bandwidth management solutions. Moreover, network providers may need to develop new pricing models if they are not able to monetize the OTT traffic carried by their networks.

Service Providers Demand the Ability to Offer Services that Can Be Monetized at Different Rates

Some service providers still offer flat-rate broadband access, regardless of the type of applications and data used by subscribers. These operators provide the same level of service to all subscribers and do not guarantee access quality, regardless of a subscriber's willingness to pay for premium services and network performance. However, with the increasing amount of data used, the flat-rate pricing model may not be profitable, especially for mobile broadband operators, unless they can charge subscribers high rates. As a result, both mobile and fixed operators have begun to offer service plans based on gigabytes of data used. However, this pricing model is also subject to competition from other service providers offering lower rates, contributing to downward pricing pressure and high subscriber turnover rates.

To address these issues and increase the average revenue per user (ARPU), a significantly increased number of service providers have begun to offer premium, differentiated services, such as free usage for specific applications, content bundling, off-peak usage incentives, security services, improved quality for VoIP and Internet video, among others. By offering such tiered services and charging subscribers according to the value of these services, as well as based on the gigabyte usage, service providers can capitalize on the revenue opportunities embodied in their networks. To offer premium services and to guarantee high-quality delivery of content and user experience, service providers need enhanced visibility into and control of network traffic, including visibility into the type of applications used on the network and levels of traffic generated by different subscribers.

The Challenge of Elevating the Role of Fixed and Mobile Broadband Networks

In the evolving digital lifestyle, consumers recognize the importance of the devices they use to access the Internet and choose the Internet content and services they use based on quality. However, the network that connects them to the Internet is not as "visible", and is therefore not as highly valued, even though it plays a critical role in the service chain. In order to generate revenue through various pricing models and encourage consumers and content providers to seek higher quality network services, service providers are seeking to elevate the role of network connectivity and services. To do so, service providers must be able to identify and leverage the business intelligence in their data networks and capitalize on the network traffic that they generate.

The ability to identify, distinguish and prioritize different applications plays a major role in intelligent management of network resources and service delivery, allowing service providers to optimize bandwidth utilization and reduce operational costs, while maintaining high quality of service for tiered and premium services. Application designers are employing increasingly sophisticated methods to avoid detection by network operators who desire to manage network use. Traditional network infrastructure devices, such as routers and switches, do not generally have sufficient computing resources or the required algorithms to distinguish between different and rapidly evolving applications.

Network Security Threats

As reliance on the Internet has grown, service provider and enterprise networks have become increasingly vulnerable to a wide range of security threats, including distributed denial of service attacks, spambots malware and other threats. These attacks are designed to flood the network with traffic that consumes all the available bandwidth and hinder the ability to provide high quality broadband access to subscribers or to prevent enterprises from using mission-critical applications. These threats also compromise network and data integrity. We believe service providers and enterprises must protect against such attacks by detecting and neutralizing malicious traffic at very early stages before such threats can compromise network integrity and services.

End-User Security Threats

Broadband devices, especially mobile devices, are increasingly vulnerable to online threats such as malware and phishing. Since most broadband users have limited cyber-security expertise, they become easy targets for cybercriminals. Mobile device users are even more exposed since the threat awareness is lower than that of PC users. There are several options to safeguard broadband users on-the-go. We believe service providers must protect their subscribers by providing security-as-a-service so that individual and business customers are always protected seamlessly from the network security threats.

Enterprise Demand for Visibility and Delivery of Mission-Critical Applications and Services in the Cloud

The proliferation of network applications, bring your own device and cloud computing present significant challenges for enterprises that operate data centers, wide-area networks, virtual private networks (VPN) and Internet connectivity for organizations of all sizes. Enterprises depend on network infrastructure to ensure the delivery of business-critical applications to an increasingly mobile and often global workforce, and as such, face many of the same issues as service providers. At the same time, Internet access has introduced a wide variety of recreational and non-business applications to enterprise networks, resulting in network congestion and negatively impacting employee productivity. As a result, there is an increasing need for enterprises to be able to monitor and control the traffic on their business networks.

Integrated Network Intelligence Solutions

Our integrated network intelligence solutions provide network visibility and control allowing mobile, fixed and enterprise operators to elevate their role in the digital lifestyle ecosystem and expand into new business opportunities. Our solutions enable our customers to increase revenues by monetizing network usage through value-added products and services, value-based charging, reduce costs by optimizing the delivery and performance of OTT content and cloud computing services and improve customer loyalty by personalizing operator offerings with various choices of service tiers and digital lifestyle options.

Our Network Intelligence Solutions include:

- Analytics solutions deliver accurate and meaningful network business intelligence to drive capacity planning, congestion management, service planning, regulatory compliance and marketing decisions.

- Traffic Management solutions prioritize critical network traffic, control congestion and optimize service delivery. Dynamic Quality of Experience (QoE) enforcement enables effective traffic management strategies that minimize infrastructure and operating costs.

- Policy Control and Charging solutions drive personalized service plans and pay-for-use pricing models based on real-time consumption of bandwidth and OTT applications. We provide a single point of integration with provisioning and pricing systems.

- Service Enablement solutions facilitate a wide variety of cost-saving and revenue-generating use cases to create personalized customer experiences demanded by today's sophisticated consumers.

Allot's Products (Our Platforms)

The Allot Service Gateway platforms (including Allot Service Gateway Tera and Allot Service Gateway 9500 & 9700) are based on leading technology and high performance, designed for in-line deployment in a wide range of networks. Allot service Gateway platforms are designed for deployment both on traditional and virtualized network access infrastructure. Within each platform, our Dynamic Actionable Recognition Technology (DART) engine employs multiple deep packet inspection (DPI) and analytical methods to identify network traffic by subscriber, application, device and network topology. Our technology is able to identify more OTT applications than any other solution on the market with frequent and custom updates to our extensive signature library. These granular elements may be mapped directly into dynamic traffic management, charging and service enablement policies.

High-Performance Platforms

- Allot Service Gateway (series of products) provides visibility, control and security of application and user traffic in cloud data centers and ISP networks. The platform provides a unified framework and single point of integration for traffic visibility and policy enforcement, charging, as well as pre-integrated services, including, web and cyber security, and web optimization, cyber threat protection, data sourcing, and network analytics.

- Allot Service Gateway Tera powers the deployment and delivery of digital lifestyle services in fixed, mobile and cloud networks that are on the path to software-defined networking (SDN)and virtualized network services (NFV). The Allot Service Gateway Tera provides a unified framework for traffic detection, policy enforcement and service integration across any access network, and helps manage traffic loads, keeping pace with the growing demand for services and the complex needs of application delivery. Allot Service Gateway Tera supports both physical and virtual service deployment and serves as a single point of seamless integration in the network for real-time data sourcing, traffic management, service chaining, application-based charging, endpoint protection and anti-DDoS, as well as value-added services from other leading vendors.

- Allot Service Gateway Virtual Edition provides contemporary, software only based version of our Service Gateway functionality, enabling telecommunication service providers to deploy leading integrated network intelligence, policy enforcement and revenue-generating services in a scalable manner, which complies with any hardware and orchestration infrastructure used by the provider. Our Service Gateway Virtual Edition enables both on-premises and cloud deployments, and provides the promise of expansion on demand based on the actual traffic dynamic of the network.

- Allot Secure Service Gateway integrates network intelligence, policy enforcement, and web security in a single scalable platform for large enterprises. This unified platform offers enterprises a cost-effective solution of advance technologies for visibility, control and security of their network. Allot's SSG ranges from several hundred Mbps (megabits per second) to several dozen Gbps, hence providing full coverage to even the most complex enterprise network.

- Allot NetEnforcer bandwidth management devices monitor and manage network traffic per application and per subscriber, enabling intelligent optimization of broadband and wide area network (WAN) services. With full duplex speeds ranging from 10 megabits per second (Mbps) to 16 Gbps, these devices provide essential visibility, policy enforcement and traffic steering to added-value services in a wide range of service provider and enterprise networks. End of Life of the Allot NetEnforcer was declared during September 2017, and thus is being withdrawn from sale.

Subscriber Management Platform

The Allot Subscriber Management Platform (SMP) drives the centralized creation, provisioning and pricing of subscriber services, including tiered and usage-based data plans, which we believe are key to personalizing digital lifestyle offerings and maximizing average revenue per user. The Allot SMP allows subscriber traffic to be managed across converged access networks and when offloading to Wi-Fi hotspots. Modular licensing provides flexible and scalable management for any number of subscribers.

Analytics Services

Our analytics solutions analyze traffic data to drive smart business decisions.

- Allot ClearSee Analytics: Is a business intelligence application that helps network operators turn big data into valuable insight for the decision-makers in their organization. Its self-service approach allows network operators to synthesize and analyze large varieties and volumes of data with extreme efficiency. Tools include built-in dashboards for mining Network, Application, Subscriber, Device, and Quality of Experience data, plus Self-Service data mining for modeling fresh perspectives and gaining deeper understanding of network usage and subscriber behavior.

- Allot ClearSee Data Source: Extracts a rich variety of raw traffic statistics from operator networks, enriches it with data from operator business systems, and loads it into a cutting-edge data warehouse where it is transformed into modeled data objects that are meaningful to telco operators and easy to manipulate using the Allot ClearSee Analytics application. This valuable source data may also be exported to external analytics tools and other business applications.

Security Solutions

Our security solutions protect network customers, network service integrity and brand reputation.

- "Security as a Service" Solutions enable operators to secure subscribers against online threats and harmful content by providing network-based Security as a Service (SECaaS) to their end customers.

  - Allot NetworkSecure (previously WebSafe Personal): Opt-in security services that allow subscribers to define and enforce safe-browsing limits (Parental Control) and to prevent incoming malware from infecting their devices (Anti-Malware). Services are enforced at the network level, requiring no device involvement or battery consumption.

  - Allot HomeSecure- Opt-in security services that allow subscribers to define and enforce safe-browsing limits (Parental Control) and to prevent incoming malware from infecting their devices (Anti-Malware). Services are enforced at the home router & network level.

- Allot DDoS Secure: Platform that provides attack detection and mitigation services that protect commercial networks against inbound and outbound Denial of Service (DoS/DDoS) attacks, Zero Day attacks, worms, zombie and spambot behavior.

- Allot Content Protector: Provides a carrier-class URL filtering service that blocks access to blacklisted and illegal content, enabling network operators to comply with regulatory requirements.

- Allot SpamOut Protector: Prevents malicious spambots from compromising operators' network service and includes an anti-spam filter which detects and blocks outbound spam and protects network and IP domain against being blacklisted as a spammer or a phishing security risk.

- Allot Unified Security: Provides end-to end security capabilities through combining Allot's multi-tenant NetworkSecure platform and third party (McAfee and Bitdefender) endpoint protection. Offering On-Net and Off-Net coverage, the solution blends advanced threat detection technologies in network and at the endpoint with customer intelligence and comprehensive personalization capabilities to deliver a scalable platform that simplifies security service activation, service awareness, operation and management.

Centralized Management

The Allot NetXplorer is the management umbrella for our devices, platforms and solutions, providing a central access point for network-wide monitoring, reporting, analytics, troubleshooting, accounting and QoS policy provisioning. Its user-friendly interface provides our customers with a comprehensive overview of the application, user, device and network topology traffic, while its wide variety of reports provide accessible, detailed analyses of granular traffic data.

Customers

We have a global, diversified customer base consisting primarily of mobile and fixed service providers, cable operators, private networks, data centers, governments and enterprises. We derive a significant and growing portion of our revenue from direct sales to large mobile and fixed-line service providers. We generate the remainder of our revenue through a select and well-developed network of channel partners, generally consisting of distributors, resellers, OEMs and system integrators. We also endeavor to increase our sales to enterprises and have adapted the structure of our sales organization to this end. In 2018, we derived 48% of our revenues from Europe, 15% from the Americas, 23% from Asia and Oceania and 14% from the Middle East and Africa. For a breakdown of total revenues by geographic location, see "ITEM 5.A – Operating Results – Results of Operations – Revenues."

Channel Partners

We market and sell our products to end-customers both by direct sales and through channel partners, which include distributors, resellers, OEMs and system integrators. A significant portion of our sales occur through our channel partners. In 2018, approximately 48% of our revenues were derived from channel partners. Our channel partners are responsible for installing and providing initial customer support for our products. Our channel partners are located around the world and address most major markets. Our channel partners target a range of end-users, including carriers, alternative carriers, cable operators, private networks, data centers and enterprises in a wide range of industries, including government, financial institutions and education. Our agreements with channel partners that are distributors or resellers are generally non-exclusive, for an initial term of one year and automatically renew for successive one-year terms unless terminated. After the first year, such agreements may typically be terminated by either party upon ninety days prior notice.

We offer support to our channel partners. This support includes the generation of leads through marketing events, seminars and web-based leads and incentive programs as well as technical and sales training.

Sales and Marketing

Our product sales cycle varies based on the intended use by the end-customer. The sales cycle for initial network deployment may generally last between twelve and eighteen months for large and medium service providers, six to twelve months for small service providers, and one to six months for enterprises. Follow-on orders and additional deployment of our products usually require shorter cycles. Large and medium service providers generally take longer to plan the integration of our solutions into their existing networks and to set goals for the implementation of the technology.

We focus our marketing efforts on product positioning, increasing brand awareness, communicating product advantages and generating qualified leads for our sales organization. We rely on a variety of marketing communications channels, including our website, trade shows, industry research and professional publications, the press and special events to gain wider market exposure.

We have organized our worldwide sales efforts into the following regions: North America, South America, Europe, the Middle East and Africa; and Asia and Oceania. We have regional offices in Spain, Italy, France, Singapore, India, Colombia, the U.S. and Israel. As of December 31, 2018, our sales and marketing staff, including product management and business development functions, consisted of 125 employees.

Service and Technical Support

We believe our technical support and professional services capabilities are a key element of our sales strategy. Our technical staff provides project management, delivery, training, support and professional services, as well as assists in presale activities and advises channel partners on the integration of our solutions into end-customer networks. Our basic warranty to end-customers (directly or through our partners) is three months for software and twelve months for hardware. Generally, end-customers are also offered a choice of one year or multi-year customer support programs when they purchase our products. These customer support programs can be renewed at the end of their terms. Our end-customer support plans generally offer the following features:

- unlimited 24/7 access to our global support organization, via phone, email and online support system, provided by regional support centers;

- expedited replacement units in the event of a warranty claim;

- software updates and upgrades offering new features and protocols and addressing new and changing network applications; and

- periodic updates of solution documentation, technical information and training.

Our support plans are designed to maximize network up-time and minimize operating costs. Our customers, including partners and their end-customers, are entitled to take advantage of our around-the-clock technical support which we provide through our seven support centers, located in France, Israel, Singapore, India, Colombia Spain and the United States. We also offer our customers, 24-hour access to an external web-based technical knowledge base, which provides technical support information and, in the case of our channel partners, enables them to support their customers independently and obtain follow up and support from us.

Many of our strategic customers purchase special support contracts, which include specifics service levels (for example, with respect to response time, restoration time, resolution time, on-site support, spare parts management, and resident engineers).

We also offer particular professional services, such as, network audit, solution design, project management, business intelligence reports, customer project documentation, integration services, interoperability testing and training and specific customizations.

The expenditures associated with the technical support staff are allocated in our statements of comprehensive loss between sale and marketing expenses and cost of goods sold, based on the roles of and tasks performed by personnel.

As of December 31, 2018, our technical staff consisted of 136 employees, including 59 technical support persons, 68 deployment and professional services engineers, 7 documentation and training persons, and 2 Customer Success managers.

Research and Development

Our research and development activities take place primarily in Israel. We also have research and development activities in Spain and Mexico. As of late 2018, we have also been using a subcontractor in Belarus to source R&D engineers. As of December 31, 2018, 148 of our employees in Israel, 40 of our employees in Spain, 9 of our employees in Belarus and 3 of our employees in Mexico, were engaged primarily in research and development. We devote a significant amount of our resources towards research and development in order to introduce new products and continuously enhance existing products and to support our growth strategy. We have assembled a core team of experienced engineers, many of whom are leaders in their particular field or discipline and have technical degrees from top universities and have experience working for leading Israeli or international networking companies. These engineers are involved in advancing our core technologies, as well as in applying these core technologies to our product development activities. In previous years, our research and development efforts have benefited from royalty-bearing grants from the Israel Innovation Authority. As of December, 31 2018, there are no outstanding royalties due from us to the Israel Innovation Authority. In 2018, we benefited from additional grants from the Israel Innovation Authority; however, these grants do not bear royalties. Under the terms of those grants we are required to perform our manufacturing activities within the state of Israel, as a condition to maintaining these benefits. The State of Israel does not own any proprietary rights in technology developed with the Innovation Authority funding and there is no restriction related to the Israel Innovation Authority on the export of products manufactured using technology developed with the Israel Innovation Authority funding (other limitations on export apply under applicable law). For a description of restrictions on the transfer of the technology and with respect to manufacturing rights, please see “ITEM 3: Key Information—Risk Factors—The government grants we have received for research and development expenditures require us to satisfy specified conditions and restrict our ability to manufacture products and transfer technologies outside of Israel. If we fail to comply with these conditions or such restrictions, we may be required to refund grants previously received together with interest and penalties and may be subject to criminal charges.”

Manufacturing

We subcontract the manufacture and repair of the hardware components of our Service Gateway Tera platform to Flex (Israel) Ltd., which manufactures these components in accordance with our design. This strategy enables us to reduce our fixed costs, focus on our core research and development competencies and provide flexibility in meeting market demand. Flex (Israel) is contractually obligated to provide us with manufacturing services based on agreed specifications, including manufacturing, assembling, testing, packaging and procuring the raw materials for our devices. We are not required to provide any minimum orders. Our agreement with Flex (Israel) is automatically renewed annually for additional one-year terms. Flex (Israel) may terminate our agreement with them at any time during the term upon prior notice. We retain the right to procure independently any of the components used in our products. Flex (Israel) has affiliates outside of Israel, to which it can, with the prior consent of the Israel Innovation Authority, transfer manufacturing of our products if necessary, in which event we may be required to pay increased royalties to the Israel Innovation Authority.

We subcontract the integration of our security software products with an off-the- shelf hardware platforms provided by Lenovo and Hewlett Packard Enterprise (HPE). Based on verbal understandings, Arrow ocs (Israel) performs the integration of the software product with HPE servers, while Malam-Team (Israel) performs the integration of such software with Lenovo Servers. Such hardware components are manufactured in accordance with our design.

We design and develop internally a number of the key components for our products, including printed circuit boards. Some of the hardware components of our products are obtained from single or limited sources. Since our products have been designed to incorporate these specific components, any change in these components due to an interruption in supply or our inability to obtain such components on a timely basis may require engineering changes to our products before we could incorporate substitute components. In particular, we purchase the central processing unit for our Service Gateway platforms from NetLogic Microsystems, Inc. (now part of Broadcom Corporation, recently acquired by Avago). We also purchase off the shelf hardware components from single or limited sources for our security and Traffic Management products. We carry approximately three to six months of inventory of key components. We also work closely with our suppliers to monitor the end-of-life of the product cycle for integral components, and believe that in the event that they announce end of life, we will be able to increase our inventory to allow enough time for replacing such components. The agreements with our suppliers do not contain any minimum purchase or supply commitments. Product testing and quality assurance is performed by our contract manufacturer using tests and automated testing equipment and according to controlled test documentation we specify. We also use inspection testing and statistical process controls to assure the quality and reliability of our products.

Competition

We compete against large companies in a rapidly evolving and highly competitive sector of the networking technology market, which offer, or may offer in the future, competing technologies, including partial or alternative solutions to operators' and enterprises' challenges, and which, similarly to us, intensely pursue the largest service providers (referred to as Tier 1 operators) as well as large enterprises. Our DPI technology enabled offerings face significant competition from router and switch infrastructure companies that integrate functionalities into their platforms addressing some of the same types of issues that our products are designed to address.

Our security products, which are offered to operators and are deployed in their networks for the purpose of enabling them to provide security services to their end customers, are subject to competition from companies which offer security products, based on different technology and marketing and sales approaches. Generally, we compete on the basis of product performance, ease of use and installation, customer support and price.

Our security product offerings face significant competition from companies that directly approach end customers and offer them security applications to be installed on their devices; companies that approach the business enterprise sector through distribution channels and offer cloud security products; and companies that offer security products bundled with other products. By offering our security products to operators that provide security services to both business enterprises and individual end customers, we aim to expand the reach of our products.

See "ITEM 3: Key Information—Risk Factors—Our revenues and business may be adversely affected if we do not effectively compete in the markets in which we operate."

Intellectual Property

Our intellectual property rights are very important to our business. We believe that the complexity of our products and the know-how incorporated into them makes it difficult to copy them or replicate their features. We rely on a combination of confidentiality and other protective clauses in our agreements, copyright and trade secrets to protect our know-how. We also restrict access to our servers physically and through closed networks since our product designs and software are stored electronically and thus are highly portable.

We customarily require our employees, subcontractors, customers, distributors, resellers, software testers, technology partners and contractors to execute confidentiality agreements or agree to confidentiality undertakings when their relationship with us begins. Typically, our employment contracts also include assignment of intellectual property rights for all inventions developed by employees, non-disclosure of all confidential information, and non-compete clauses, which generally restrict the employee for six months following termination of employment. The enforceability of non-compete clauses in certain jurisdictions in which we operate may be limited. See “ITEM 3: Key Information—Risk Factors— If we are unable to successfully protect the intellectual property embodied in our technology, our business could be harmed significantly.” Because our product designs and software are stored electronically and thus are highly portable, we attempt to reduce the portability of our designs and software by physically protecting our servers through the use of closed networks, which prevent external access to our servers.

The communications equipment industry is characterized by constant product changes resulting from new technological developments, performance improvements and lower hardware costs. We believe that our future growth depends to a large extent on our ability to be an innovator in the development and application of hardware and software technology. As we develop the next generation products, we intend to pursue patent protection for our core technologies in the telecommunications segment. We plan to seek patent protection in our largest markets and our competitors’ markets, for example in the United States and Europe. As we continue to move into new markets, such as Japan, Korea and China, and Latin America countries we will evaluate how best to protect our technologies in those markets. We intend to vigorously prosecute and defend the rights of our intellectual property.

As of December 31, 2018, we had 19 issued U.S. patents. We expect to formalize our evaluation process for determining which inventions to protect by patents or other means. We cannot be certain that patents will be issued as a result of the patent applications we have filed.

Government Regulation

Due to the industry and geographic diversity of our operations and services, our operations are subject to a variety of rules and regulations, and several government agencies in the United States, the E.U. and other countries regulate various aspects of our business. See the following risk factors in "ITEM 3. Key Information—D. Risk Factors" for more information on regulation material to our business, financial condition and results of operations:

- Risks Relating to our Business—Demand for our products may be impacted by government regulation of the telecommunications industry.

- Risks Relating to our Business—We are subject to certain regulatory regimes that may affect the way we conduct business internationally, and our failure to comply with applicable laws and regulations could materially adversely affect our reputation and result in penalties and increased costs.

- Risks Relating to our Business—Our business may be materially affected by changes to fiscal and tax policies. Potentially negative or unexpected tax consequences of these policies, or the uncertainty surrounding their potential effects, could adversely affect our results of operations and share price.

- Risks Relating to our Ordinary Shares—Our shareholders do not have the same protections afforded to shareholders of a U.S. company because we have elected to use certain exemptions available to foreign private issuers from certain NASDAQ corporate governance requirements.

- Risks Relating to our Ordinary Shares—As a foreign private issuer, we are not subject to the provisions of Regulation FD or U.S. proxy rules and are exempt from filing certain Exchange Act reports.

- Risks Relating to our Ordinary Shares—Our U.S. shareholders may suffer adverse tax consequences if we are characterized as a passive foreign investment company.

- Risks Relating to our Ordinary Shares—Certain U.S. holders of our ordinary shares may suffer adverse tax consequences if we or any of our non-U.S. subsidiaries are characterized as a ‘controlled foreign corporation,’ or a CFC, under Section 957(a) of the Internal Revenue Code of 1986, as amended (the ‘Code’).

- Risks Relating to our Ordinary Shares—The tax benefits that are available to us require us to meet several conditions and may be terminated or reduced in the future, which would increase our costs and taxes.

- Risks Relating to our Ordinary Shares—The government grants we have received for research and development expenditures require us to satisfy specified conditions and restrict our ability to manufacture products and transfer technologies outside of Israel. If we fail to comply with these conditions or such restrictions, we may be required to refund grants previously received together with interest and penalties and may be subject to criminal charges.

Additionally, see “ITEM 5: Overview—Government Grants” for a description of grants received from the Israel Innovation Authority of the Ministry of Economy.

Internal Cybersecurity

As a provider of innovative network intelligence and security solutions for mobile and fixed service providers, we are sensitive about the possibility of cyber-attacks and data theft. A breach of our system could provide data information about us and the customers that our solutions protect. Further, we may be targeted by cyber-terrorists as an Israeli company. We are also aware of the impact that an actual or perceived breach of our network may have on the market perception of our products and services and on our potential liability.

We are focused on instituting new technologies and solutions to assist in the prevention of potential and attempted cyber-attacks, as well as protective measures and contingency plans in the event of an existing attack. For instance, in our internal IT systems, we employ identity and access controls, product software designs and other security measures that we believe are less susceptible to cyber-attacks. We also continuously monitor our IT networks and systems for intrusions and regularly maintain our backup and protective systems. We have made certain updates to our IT infrastructure to enhance our ability to prevent and respond to such threats and we routinely test the infrastructure for vulnerabilities.

We conduct periodic trainings for our employees in this respect on phishing, malware and other cybersecurity risks to the Company. We also have mechanisms in place designed to ensure prompt internal reporting of potential or actual cybersecurity breaches, and maintain compliance programs to address the potential applicability of restrictions on trading while in possession of material, nonpublic information generally and in connection with a cybersecurity breach. Finally, our agreements with third parties also typically contain provisions that reduce or limit our exposure to liability.

C. Organizational Structure

As of December 31, 2018, we held directly and indirectly the percentage indicated of the outstanding capital stock of the following subsidiaries:

Company	Jurisdiction of Incorporation	Percentage Ownership	
Allot Communications Inc.	United States	100	%
Allot Communications Europe SARL	France	100	%
Allot Communications (Asia Pacific) Pte. Limited	Singapore	100	%
Allot Communications (UK) Limited (with branches in Spain, Italy and Germany)	United Kingdom	100	%
Allot Communications Japan K.K.	Japan	100	%
Allot Communications (New Zealand) Limited (with a branch in Australia)	New Zealand	100	%
Oversi Networks Ltd.	Israel	100	%
Allot Communications (Hong Kong) Ltd	Hong Kong	100	%
Allot Communications Africa (PTY) Ltd	South Africa	100	%
Allot Communications India Private Ltd	India	100	%
Allot Communications Spain, S.L. Sociedad Unipersonal	Spain	100	%
Allot Communications (Colombia) S.A.S	Colombia	100	%
Allot MexSub	Mexico	100	%
Allot Turkey Komunikasion Hizmeleri limited	Turkey	100	%
Allot Australia (PTY) LTD	Australia	100	%

* Allot Ltd also holds a branch in Colombia.

D. Property, Plant and Equipment

Our principal administrative and research and development activities are located in our approximately 67,694 square foot (6,289 square meter) facilities in Hod-Hasharon, Israel. The leases for our facilities vary in dates and terms, with the main facility's non-stabilized lease expiring in March 2022.

We also lease a 5,888 square foot (547 square meter) facility in Woburn, Massachusetts, for the purposes of our U.S. sales and marketing operations pursuant to a lease that expires in August 2019. We lease a total of 7,653 square feet (711 square meter) in two facilities in Spain, mainly for our sales and research and development operations in Spain, pursuant to lease agreements. The lease agreement of our main site in Spain was renewed for one year in 2018 and may be renewed for additional terms by mutual consent. We lease other smaller facilities for the purpose of our sales and marketing and support activities in USA, France, the United Kingdom, Italy, Singapore, South Africa, Colombia, and India.

ITEM 4A: Unresolved Staff Comments

Not applicable.

ITEM 5: Operating and Financial Review and Prospects

The information contained in this section should be read in conjunction with our consolidated financial statements for the year ended December 31, 2018 and related notes and the information contained elsewhere in this annual report. Our financial statements have been prepared in accordance with U.S. GAAP. This discussion contains forward-looking statements that are subject to known and unknown risks and uncertainties. As a result of many factors, such as those set forth under "ITEM 3.D: Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements," our actual results may differ materially from those anticipated in these forward-looking statements.

A. Operating Results

Overview

We are a leading global provider of network intelligence and security solutions that enable service providers and enterprises to protect and personalize the digital experience and monetize on their networks. Allot's flexible and highly scalable service delivery framework leverages the intelligence in data networks, enabling service providers to get closer to their customers, safeguard network assets and users, and accelerate time-to-revenue for value-added services. Our customers use our solutions to create sophisticated policies to monitor network applications, enforce quality of service policies that guarantee mission-critical application performance, mitigate security risks and leverage network infrastructure investments. Demand from users for faster and more reliable access to the Internet, an increase in the number and complexity of broadband applications, and growth in mobile data-enhanced smartphones have resulted in the rapid proliferation of broadband access networks in recent years. Our carrier-class products are used by service providers to offer subscriber-based and application-based tiered services that enable them to optimize their service offerings, reduce churn rates and increase ARPU.

We market and sell our products through a variety of channels, including direct sales and through our channel partners, which include distributors, resellers, OEMs and system integrators. End customers of our products include carriers, mobile operators, cable operators, wireless, wireline and satellite Internet service providers, educational institutions, governments and enterprises. The resulting intelligent, content-aware broadband networks enable our customers to accurately monitor and manage IP traffic per application, subscriber, network topology and device.

In 2018, the primary drivers of our revenues were the mobile and fixed markets, which were highlighted by our ongoing relationship with global Tier 1 mobile and fixed operators groups.

In March 2015, we acquired the business and substantially all of the assets of Optenet, S.A., a developer of security solutions for internet service providers and enterprises. Under the terms of the agreement, the consideration includes approximately $9.9 million (€8.9 million) in cash. In addition, there is a performance-based earn-out over a period of five years following closing, which is capped at approximately $27.5 million (€25 million) and is contingent upon reaching certain revenue thresholds from sale of Optenet products. The fair value of the contingent consideration as of the acquisition date was estimated at $8.1 million (€7.3 million).

In January 2018, we acquired all of the outstanding shares of Netonomy Ltd., a developer of software-based cyber security for the connected home. Under the terms of the agreement, the consideration includes approximately $3.2 million in cash, a $1.1 million holdback amount and a performance-based contingent amount over a period of two and a half years following closing, which is capped at approximately $1.1 million. See Note 1(b) to our consolidated financial statements for further information.

Key measures of our performance

Revenues

We generate revenues from two sources: (1) sales of our network traffic management systems and our network management application solutions and platforms, security as a service solution to telecom providers and (2) maintenance and support services and professional services, including installation and training. We generally provide maintenance and support services pursuant to a one- to three-year maintenance and support program, which may be purchased by customers at the time of product purchase or on a renewal basis.

We recognize revenue under the core principle that transfer of control to our customers should be depicted in an amount reflecting the consideration we expect to receive in revenue. As such, we identify a contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation in the contract and recognize revenues when (or as) we satisfy each performance obligation. We typically grant a one-year hardware and three-month software warranty on all of our products, or one-year hardware and software warranty to customers that purchase annual maintenance and support. Typically, our support contracts with our customers, provide hot line support, warranty, software updates and upgrades, if and when available. We record a provision for warranty at the time the product's revenue is recognized. We estimate the liability of possible warranty claims based on our historical experience. Warranty claims have to date been immaterial to our results of operations. Maintenance and support revenues are recognized on a straight-line basis over the term of the applicable maintenance and support agreement. See "—Critical Accounting Policies and Estimates—Revenue Recognition" below.

Customer concentration. We derived 22% and 32% of our total revenues in 2018 and 2017 from one Tier 1 mobile and fixed operator, respectively. In 2016, we derived 42% of our total revenues from two Tier 1 mobile and fixed operators.

Geographical breakdown. See “ITEM 4B: Information on Allot—Business Overview—Customers” for the geographic breakdown of our revenues by percentage for the years ended December 31, 2016, 2017 and 2018.

Cost of revenues and gross margins

Our products’ cost of revenues consists primarily of costs of materials, manufacturing services and overhead, warehousing and product testing. Our services’ cost of revenues consists primarily of salaries and related personnel costs for our customer support staff. In 2018, our gross margin increased compared to 2017, partially due to an increase in revenues, which was driven mainly by the higher demand of our Visibility and Control offering in addition to better execution capabilities. In 2017, our gross margin decreased compared to 2016, due to an increase in projects which required a higher portion of services and the weakening of the U.S. dollar mainly against the ILS and the Euro. We expect our percentage of gross margin to remain at the same level as in 2019.

Operating expenses

Research and development. Our research and development expenses consist primarily of salaries and related personnel costs, costs for subcontractor services, depreciation, rent and costs of materials consumed in connection with the design and development of our products. We expense all of our research and development costs as they are incurred. Our net research and development expenses are comprised of gross research and development expenses offset by financing through grants from the Israel Innovation Authority. Such participation grants are recognized at the time at which we are entitled to such grants on the basis of the costs incurred and included as a deduction of research and development expenses (see - “Government Grants” below). We believe that significant investment in research and development, including hiring high quality research and development personnel, is essential to our future success.

Sales and marketing. Our sales and marketing expenses consist primarily of salaries and related personnel costs, travel expenses, costs associated with promotional activities such as public relations, conventions and exhibitions, rental expenses, depreciation and commissions paid to third parties, promote our brand, establish new marketing channels and expand our presence worldwide.

General and administrative. Our general and administrative expenses consist of salaries and related personnel costs, rental expenses, costs for professional services and depreciation. General and administrative expenses also include costs associated with corporate governance, tax and regulatory compliance, compliance with the rules implemented by the SEC, NASDAQ and the Tel-Aviv Stock Exchange (“TASE”) and premiums for our director and officer liability insurance.

Approved Enterprise

Our facilities in Hod-Hasharon, Israel have been granted Approved Enterprise status under the Encouragement of Capital Investments Law, 1959, and enjoy certain tax benefits under this program. We expect to utilize these tax benefits after we utilize our net operating loss carry forwards. As of December 31, 2018, our net operating loss carry forwards for Israeli tax purposes totaled approximately $57.7 million, which includes losses related to our acquisition of Oversi. As a result of our acquisition of Oversi, we may offset operating losses in Israel against taxable income annually with a limitation of up to 14% of the total accumulated loss but no more than 50% of our taxable income. Income derived from other sources, other than through our “Approved Enterprise” status, during the benefit period will be subject to the regular corporate tax rate.

Government Grants

Our research and development efforts have been financed, in part, through grants from the Israel Innovation Authority under our approved plans in accordance with the Research and Development Law. In 2016, 2017 and 2018 we received grants from the Israel Innovation Authority through non-royalty bearing programs.

Factors Affecting Our Performance

Our business, financial position and results of operations, as well as the period-to-period comparability of our financial results, are significantly affected by a number of factors, some of which are beyond our control, including:

Customer concentration. We derived 22% of our total revenues in 2018 from one global Tier 1 mobile and fixed operator groups. While we have some visibility into the likely scope of the customers' projects, our relationships are conducted solely on a purchase order basis and we do not have any commitment for future purchase orders from these customers. The loss of any of such third parties could harm our results of operations and financial condition.

Size of end-customers and sales cycles. We have a global, diversified end-customer base consisting primarily of service providers and enterprises. The deployment of our products by small and midsize enterprises and service providers can be completed relatively quickly. Large service providers take longer to plan the integration of our solutions into their existing networks and to set goals for the implementation of the technology. Sales to large service providers are therefore more complicated as they involve a relatively larger number of network elements and solutions. We are seeking to achieve further significant customer wins in the large service provider market that would positively impact our future performance. The longer sales cycles associated with the increased sales to large service providers of our platforms may increase the unpredictability of the timing of our sales and may cause our quarterly and annual operating results to fluctuate if a significant customer delays its purchasing decision and/or defers an order. Furthermore, longer sales cycles may result in delays from the time we increase our operating expenses and make investments in inventory to the time that we generate revenue from related product sales.

Average selling prices. Our performance is affected by the selling prices of our products. We price our products based on several factors, including manufacturing costs, the stage of the product's life cycle, competition, technical complexity of the product, and discounts given to channel partners in certain territories. We typically are able to charge the highest price for a product when it is first introduced to the market. We expect that the average selling prices for our products will decrease over the product's life cycle as our competitors introduce new products. In order to maintain or increase our current prices, we expect that we will need to enhance the functionality of our existing products by offering higher system speeds, additional products and features, such as additional security functions, supporting additional applications and providing enhanced reporting tools. We also from time to time introduce enhanced products, typically higher-end models that include new architecture and design and new capabilities. Such enhanced products typically increase our average selling price. To further offset such declines, we sell maintenance and support programs for our products, and as our customer base and number of field installations grow, our related service revenues are expected to increase.

Cost of revenues and cost reductions. Our cost of revenues as a percentage of total revenues was 30.9% for 2016, 34.8% for 2017 and 30.6% for 2018. Our products use off-the-shelf components and typically the prices of such components decline over time. However, the introduction and sale of new or enhanced products and services may result in an increase in our cost of revenues. We make a continuous effort to identify cheaper components of comparable performance and quality. We also seek improvements in engineering and manufacturing efficiency to reduce costs. Our products incorporate features that are purchased from third parties. In addition, new products usually have higher costs during the initial introduction period. We generally expect such costs to decline as the product matures and sales volume increases. The introduction of new products may also involve a significant decrease in demand for older products. Such a decrease may result in a devaluation or write-off of such older products and their respective components. The growth of our customer base is usually coupled with increased service revenues primarily resulting from increased maintenance and support. In addition, the growth of our installed base with large service providers may result in increased demand for professional services, such as training and installation services. An increase in demand for such services may require us to hire additional personnel and incur other expenditures. However, these additional expenses, handled efficiently, may be utilized to further support the growth of our customer base and increase service revenues. In 2016 we recorded no intangible assets impairment and as a result our gross margin increased compared to 2015. In 2017 our cost of revenues increased mainly due to an increase in projects which require a higher portion of services and a higher portion of deals with higher hardware components, as well as because of the decrease in revenues and the fixed costs element in the cost of revenues. In 2018 our cost of revenues increased due to an increase in revenues while we kept fixed elements of cost of revenues on a similar level.

Currency exposure. A majority of our revenues and a substantial portion of our expenses are denominated in the U.S. dollar. However, a significant portion of our revenues is incurred in currencies other than U.S. dollar, mostly in Euro. In addition, a significant portion of our expenses, associated with our global operations, including personnel and facilities-related expenses, are incurred in currencies other than the U.S. dollar; this is the case primarily in Israel and to a lesser extent in other countries in Europe and Asia. Consequently, a decrease in the value of the U.S. dollar relative to local currencies will increase the dollar cost of our operations in these countries. A relative decrease in the value of the U.S. dollar would be partially offset to the extent that we generate revenues in such currencies. In order to partially mitigate this exposure, we have decided in the past and may decide from time to time in the future to enter into hedging transactions. We may discontinue hedging activities at any time. As such decisions involve substantial judgment and assessments primarily regarding future trends in foreign exchange markets, which are very volatile, as well as our future level and timing of cash flows of these currencies, we cannot provide any assurance that such hedging transactions will not affect our results of operations when they are realized. See Note 5 to our consolidated financial statements included elsewhere in this annual report for further information. Also see “ITEM 11: Quantitative and Qualitative Disclosure About Market Risk.”

Interest rate exposure. We have a significant amount of cash that is currently invested primarily in interest bearing vehicles, such as bank time deposits and available for sale marketable securities. These investments expose us to risks associated with interest rate fluctuations. See “ITEM 11: Quantitative and Qualitative Disclosure About Market Risk.”

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles, or U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and judgments are subject to an inherent degree of uncertainty and actual results may differ. Our significant accounting policies are more fully described in Note 2 to our consolidated financial statements included elsewhere in this annual report. Certain of our accounting policies are particularly important to the portrayal of our financial position and results of operations. In applying these critical accounting policies, our management uses its judgment to determine the appropriate assumptions to be used in making certain estimates. Those estimates are based on our historical experience, the terms of existing contracts, our observance of trends in our industry, information provided by our customers and information available from other outside sources, as appropriate. With respect to our policies on revenue recognition and warranty costs, our historical experience is based principally on our operations since we commenced selling our products in 1998. Our estimates are primarily guided by observing the following critical accounting policies:

- Revenue recognition;
- Provision for returns;
- Business combinations
- Allowance for doubtful accounts;
- Accounting for stock-based compensation;
- Inventories;
- Marketable securities;
- Impairment of goodwill and long lived assets;
- Income taxes; and
- Contingent liabilities.
- Contingent Consideration.

Because each of the accounting policies listed above requires the exercise of certain judgments and the use of estimates, actual results may differ from our estimations and as a result would increase or decrease our future revenues and net income.

Revenue recognition.

We generate revenues mainly from selling products along with related maintenance and support services. At times, these arrangements may also include professional services, such as installation services or training. We generally sell our products through resellers, distributors, OEMs and system integrators, all of whom are considered end-users.

We have adopted accounting standards codification 606, "Revenue from Contracts with Customers" ("ASC 606"), effective as of January 1, 2018. We recognize revenue under the core principle that transfer of control to our customers should be depicted in an amount reflecting the consideration we expect to receive. As such, we identify a contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation in the contract and recognize revenues when (or as) we satisfy each performance obligation.

We enter into contracts that can include combinations of products and services, that are capable of being distinct and accounted for as separate performance obligations. The products are distinct as the customer can derive the economic benefit of it without any professional services, updates or technical support. We allocate the transaction price to each performance obligation based on its relative standalone selling price out of the total consideration of the contract. For support, we determine the standalone selling prices based on the price at which we separately sell a renewal contract on a stand-alone basis. For professional services, we determine the standalone selling prices based on the price at which we separately sell those services on a stand-alone basis.

Maintenance and support related revenues are deferred and recognized on a straight-line basis over the term of the applicable maintenance and support agreement. Other services are recognized upon the completion of installation or when the service is provided.

Deferred revenue includes amounts received from customers for which revenue has not yet been recognized. Deferred revenues are classified as short and long-term based on their contractual term and recognized as revenues at the time the respective elements are provided.

As of December 31, 2018, following the adoption of ASC 606, we recognize for term-based license agreements at the point in time when control transfers and the associated maintenance revenues over the contract period. Adoption of the standard have resulted in a reduction of deferred revenues of $712 that was recorded in accumulated deficit due to upfront recognition of license revenues from term licenses. This adjustment relates to the way we account for term-based license agreements. Under ASC 605 we recognized both the term license and maintenance revenues ratably over the contract period whereas under the new revenue standard we recognize term license revenues at the point in time when control transfers and the associated maintenance revenues over the contract period.

Provision for returns. We provide a provision for product returns based on its experience with historical sales returns. Such provisions amounted to $0.2 million, $0.7 million and $0.9 million as of December 31, 2018, 2017 and 2016, respectively.

Business combinations. We account for our business acquisitions in accordance with Accounting Standards Codification (ASC) No. 805, Business Combinations. We use management best estimates and assumptions as part of the purchase price allocation process to value assets acquired and liabilities assumed at the business combination date. The total purchase price allocated to the tangible assets acquired is assigned based on the fair values as of the date of the acquisition.

Allowance for doubtful accounts. We evaluate the collectability of our accounts receivable on a specific basis. We estimate this allowance based on our judgment as to our ability to collect outstanding receivables. We primarily base this judgment on an analysis of significant outstanding invoices, the age of the receivables, our historical collection experience and current economic trends. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us, we record a specific allowance against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected.

Accounting for stock-based compensation. We account for stock-based compensation in accordance with Accounting Standards Codification No. 718, "Compensation - Stock Compensation" ("ASC No. 718") that requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in our consolidated statement of operations. We recognize compensation expense for the value of its awards granted based on the straight-line method over the requisite service period of each of the awards, net of estimated forfeitures. ASC No. 718 requires forfeitures to be estimated at the time of the grant and revised in subsequent periods if actual forfeitures differ from those estimates.

In connection with the grant of options and RSUs, we recorded total stock-based compensation expenses of $5.1 million in 2016, $3.4 million in 2017 and $2.9 million in 2018. In 2018, $0.3 million, $0.7 million, $0.9 million and $1.0 million of our stock-based compensation expense resulted from cost of revenue, research and development expenses, net, sales and marketing expenses and general and administrative expenses, respectively, based on the department in which the recipient of the option grant was employed. As of December 31, 2018, we had an aggregate of $6.2 million of unrecognized stock-based compensation remaining to be recognized over a weighted average vesting period of 3 years.

Inventories are stated at the lower of cost or market value. Inventory write-offs are provided to cover risks arising from slow-moving items, technological obsolescence, excess inventory and discontinued products. Inventory write-off provision as of December 31, 2018, 2017 and 2016 totaled $2.2 million, $2.7 million, and $2.0 million, respectively.

Marketable securities. We account for our investments in marketable securities using Accounting Standards Codification No. 320, "Investments – Debt and Equity Securities" ("ASC No. 320").

We determine the appropriate classification of marketable securities at the time of purchase and evaluate such designation as of each balance sheet date. We classify all of our investments in marketable securities as available for sale. Available for sale securities are carried at fair value, with unrealized gains and losses reported in "accumulated other comprehensive income (loss)" in shareholders' equity. Realized gains and losses on sales of investments are included in earnings and are derived using the specific identification method for determining the cost of securities. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization together with interest and dividends on securities are included in financial income, net, if any.

As of December 31, 2018, we held available for sale marketable securities of $64.3 million. As of December 31, 2018, the unrealized loss recorded in other comprehensive income was $0.3 million.

Impairment of goodwill and long lived assets. Goodwill represents the excess of the purchase price over the fair value of net assets of purchased businesses. Under Accounting Standards Codification No. 350, "Intangibles-Goodwill and Other" ("ASC No. 350"), goodwill and intangible assets deemed to have indefinite lives are tested for impairment annually, or more often if there are indicators of impairment present.

We perform an annual impairment analysis of goodwill at December 31 of each year, or more often as applicable. We operate in one operating segment, and this segment comprises only one reporting unit. The provisions of ASC No. 350 require that a two-step impairment test be performed on goodwill at the level of the reporting units. In the first step, we compare the fair value of the reporting unit to its carrying value. If the fair value exceeds the carrying value of the net assets, goodwill is considered not impaired, and no further testing is required to be performed. If the carrying value of the net assets exceeds the fair value, then we must perform the second step of the impairment test in order to determine the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied fair value, then we would record an impairment loss equal to the difference.

We believe that our business activity and management structure meet the criterion of being a single reporting unit for accounting purposes. We performed an annual impairment analysis as of December 31, 2018 and determined that the carrying value of the reporting unit was more than the fair value of the reporting unit. Fair value is determined using market capitalization. During the years ended 2016, 2017 and 2018, no impairment losses were recorded.

Intangible assets acquired in a business combination are recorded at fair value at the date of the acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets that are not considered to have an indefinite useful life are amortized over their estimated useful lives. Some of the acquired intangible assets are amortized over their estimated useful lives in proportion to the economic benefits realized. This accounting policy results in accelerated amortization of such customer relationships and backlog as compared to the straight-line method. All other intangible assets are amortized over their estimated useful lives on a straight-line basis.

Property and equipment and intangible assets subject to amortization are reviewed for impairment in accordance with ASC No. 360, "Accounting for the Impairment or Disposal of Long-Lived Assets," 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 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. During the years ended 2016, 2017 and 2018, no impairment losses were recorded.

Income taxes. We account for income taxes in accordance with Accounting Standards Codification No. 740, “Income Taxes” (“ASC No. 740”). ASC No. 740 prescribes the use of the liability method, whereby deferred tax asset and liability account balances are determined based on 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. We provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

In Israel, we have accumulated operating loss carry forwards of approximately $57.7 million and capital losses of approximately $27.2 million for tax purposes as of December 31, 2018, which may be carried forward and offset against ordinary income and capital gains respectively in the future for an indefinite period. In the United States, the accumulated losses for U.S. federal income tax return purposes were approximately $5.9 million as of December 31, 2018, and expire between 2026 and 2032. We believe that because of our history of losses, and uncertainty with respect to future taxable income, it is more likely than not that some of the deferred tax assets regarding the loss carry forwards will not be utilized in the foreseeable future, and therefore, a valuation allowance was provided to reduce deferred tax assets to their realizable value. The valuation allowance for the year ended December 31, 2018 was $24.8 million.

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

Contingent liabilities. We are, from time to time, involved in claims, lawsuits, government investigations, and other proceedings arising in the ordinary course of our business. In making a determination regarding provisions for liability, using available information, we evaluate the likelihood of an unfavorable outcome in legal or regulatory proceedings to which we are a party to and record a loss contingency when it is probable a liability has been incurred and the amount of the loss can be reasonably estimated. These subjective determinations are based on the status of such legal or regulatory proceedings, the merits of our defenses and consultation with legal counsel. Legal proceedings are inherently unpredictable and subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could have a material impact on our results of operations, financial position and cash flows.

Contingent Consideration. We measure liabilities related to earn-out payments at fair value at the end of each reporting period. The fair value was estimated by utilizing the future potential cash payments discounted to arrive at a present value amount, based on our expectation. The discount rate was based on the Monte-Carlo simulation method by taking into account, forecast future revenues, expected volatility and weighted average cost of debt.

For more information regarding recently issued accounting pronouncements see note 2 to the Financial Statements.

Results of Operations

The following table sets forth our statements of operations as a percentage of revenues for the periods indicated:

	Year Ended December 31,		
	2016	2017	2018
Revenues:			
Products	60.2 %	59.4 %	58.6 %
Services	39.8	40.6	41.4
Total revenues	100.0	100.0	100.0
Cost of revenues:			
Products	22.6	23.5	20.9
Services	8.3	11.3	9.7
Total cost of revenues	30.9	34.8	30.6
Gross profit	69.1	65.2	69.4
Operating expenses:			
Research and development, net	26.8	26.7	26.5
Sales and marketing	39.1	46.7	42.6
General and administrative	10.9	13.0	10.9
Total operating expenses	76.7	86.4	80.0
Operating loss	7.6	21.2	10.6
Financing income, net	1.2	1.1	2.3
Loss before income tax expense	6.4	20.1	8.3
tax expense	2.4	1.9	2.6
Net loss	8.8 %	22.0 %	10.9 %

Revenues

The following table sets forth a breakdown of our revenues by geographic locations for the periods indicated:

	Revenues by Location					
	2018	% Revenues	2017	% Revenues	2016	% Revenues
	($ in thousands)					
Revenues:						
Europe	$45,730	48 %	$40,394	49 %	$34,279	38 %
Asia and Oceania	22,018	23 %	13,936	17 %	27,700	31 %
Middle East and Africa	13,726	14 %	12,130	15 %	12,365	14 %
Americas	14,363	15 %	15,532	19 %	16,025	17 %
Total Revenues	$95,837	100 %	$81,992	100 %	$90,369	100 %

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Products. Product revenues increased by $7.3 million, or 14.9%, to $56.2 million in 2018 from $48.9 million in 2017. The increase in revenues in 2018 was attributable to a better execution capability, changes in the Company structure to support better our sales efforts and higher demand of our Visibility and Control offering.

Services. Service revenues increased by $6.4 million, or 19.3%, to $39.6 million in 2018 from $33.2 million in 2017. A material part of the sales of our Services is linked to the sale of our products; Thus, service revenues increased in correlation with product revenues.

Product revenues comprised 58.6% of our total revenues in 2018, a decrease of 0.8% compared to 2017 while the services revenues portion of total revenues increased by 0.8%.

Cost of revenues and gross margin

Products. Cost of product revenues increased by $0.8 million, or 4.2%, to $20.1 million in 2018 from $19.3 million in 2017. Product gross margin increased to 64.3% in 2018 from 60.5% in 2017. This increase is attributed to increase in revenues.

Services. Cost of services revenues increased by $0.02 million, or 0.2%, to $9.3 million in 2018 from $9.3 million in 2017.

Total gross margin increased to 69.4% in 2018 from 65.2% in 2017.

Operating expenses

Research and development. Gross research and development expenses increased by $3.6 million, or 16%, to $25.8 million in 2018 from $22.2 million in 2017. Gross research and development expenses as a percentage of total revenues decreased to 26.9% (26.5%, net) in 2018 from 27.1% (26.7%, net) in 2017.

Sales and marketing. Sales and marketing expenses increased by $2.5 million, or 6.6%, to $40.8 million in 2018 from $38.3 million in 2017. The increase in our sales and marketing expenses is mainly attributable to our increased efforts to strengthen our position in certain territories, which led to the recruitment of additional senior sales representatives in various countries, as well as use of agents in specific accounts. Sales and marketing expenses as a percentage of total revenues decreased to 42.6% in 2018 from 46.7% in 2017.

General and administrative. General and administrative expenses decreased by $0.3 million, or 2.6%, to $10.4 million in 2018 from $10.7 million in 2017. General and administrative expenses as a percentage of revenues decreased to 10.9% in 2018 from 13.0% in 2017.

Financial income, net. In 2018 we had $2.2 million financial income, net. In 2017 we had $0.9 million financial income, net. The change in 2018 was primarily attributed to foreign currency exchange differences of $0.9 million compared to 2017 and an increase in interest income of $0.4 million.

Income tax expense. Income tax expense in 2018 was $2.4 million, compared to income tax expense of $1.6 million in 2017. The increase in 2018 was mainly due to an increase in the write-off of withholding taxes expenses of approximately $0.9 million, compared to 2017.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Products. Product revenues decreased by $5.7 million, or 10.5%, to $48.7 million in 2017 from $54.4 million in 2016. The decrease in revenues in 2017 was attributable to the longer than expected sale cycles and the low backlog at the beginning of the year.

Services. Service revenues decreased by $2.6 million, or 7.2%, to $33.3 million in 2017 from $35.9 million in 2016. A material part of the sales of our Services is linked to the sales of our Products, which decreased due to the factors described above. Such factors also contributed to the decrease in Services revenues.

Product revenues comprised 59.4% of our total revenues in 2017, a decrease of 0.8% compared to 2016 while the services revenues portion of total revenues increased by 0.8%.

Cost of revenues and gross margin

Products. Cost of product revenues decreased by $1.1 million, or 5.4%, to $19.3 million in 2017 from $20.4 million in 2016. Product gross margin slightly decreased to 60.5% in 2017 from 62.5% in 2016. This increase is attributed to direct costs related to new Tier 1 projects.

Services. Cost of services revenues increased by $1.8 million, or 24.0%, to $9.3 million in 2017 from $7.5 million in 2016.

Total gross margin decreased to 65.2% in 2017 from 69.1% in 2016.

Operating expenses

Research and development. Gross research and development expenses decreased by $2.6 million, or 10.4%, to $22.2 million in 2017 from $24.8 million in 2016. Gross research and development expenses as a percentage of total revenues decreased to 27.1% (26.7%, net) in 2017 from 27.5% (26.8%, net) in 2016.

Sales and marketing. Sales and marketing expenses increased by $3.0 million, or 8.5%, to $38.3 million in 2017 from $35.3 million in 2016. The increase in our sales and marketing expenses is mainly attributable to the reorganization of our sales department implemented during 2017, which included, among others, recruitment of senior sales executives. Sales and marketing expenses as a percentage of total revenues increased to 46.7% in 2017 from 39.1% in 2016.

General and administrative. General and administrative expenses increased by $0.9 million, or 9.2%, to $10.7 million in 2017 from $9.8 million in 2016. General and administrative expenses as a percentage of revenues increased to 13.0% in 2017 from 10.9% in 2016.

Financial income, net. In 2017 we had $0.9 million financial income, net, similar to the level of income in 2016, which was $1.1 million, financial income, net.

Income tax expense. Income tax expense in 2017 was $1.6 million, compared to income tax expense of $2.2 million in 2016. the decrease in 2017 was mainly due to less write offs of unutilized withholding taxes, compared to 2016.

B. Liquidity and Capital Resources

As of December 31, 2018, we had $16.3 million in cash and cash equivalents, $64.3 million available for sale marketable securities and $23.0 million in short-term and restricted deposits. As of December 31, 2018, our working capital, which we calculate by subtracting our current liabilities from our current assets, was $102 million.

Based on our current business plan, we believe that our existing cash balances will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next twelve months. If our estimates of revenues, expense or capital or liquidity requirements change or are inaccurate and are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or arrange additional debt financing. In addition, we may seek to sell additional equity or arrange debt financing to give us financial flexibility to pursue attractive acquisitions or investment opportunities that may arise in the future.

Operating activities.

During 2018, our operating activities provided $1.0 million in cash and cash equivalents from operating activities. Net cash provided by operating activities consisted mainly of a net loss of $10.4 million, depreciation, amortization and impairment of intangible assets of $3.8 million, $2.9 million of stock-based compensation expense, an increase of $3.4 million in inventory, a decrease of $1.2 million in employees and payroll accruals, an increase of $3.4 million in trade receivables, an increase of $1.9 million in trade payables, an increase of $6.9 in other payables and accrued expenses, an increase of $1.1 million in other receivables and prepaid expenses, an increase of $3.6 million in deferred revenues and $1.4 million related to other operating activities.

During 2017, we used $0.2 million in cash and cash equivalents in operating activities. Net cash used in operating activities consisted mainly of a net loss of $18.1 million, depreciation, amortization and impairment of intangible assets of $3.7 million, $3.4 million of stock-based compensation expense, an increase of $0.7 million in inventory, an increase of $1.1 million in employees and payroll accruals, a decrease of $1.4 million in trade receivables, an increase of $2.6 million in trade payables, an increase of $3.5 in other payables and accrued expenses, a decrease of $1.4 million in other receivables and prepaid expenses and $1.5 million related to other operating activities.

During 2016, we used $3.5 million in cash and cash equivalents in operating activities. Net cash used in operating activities consisted mainly of a net loss of $8.0 million, depreciation, amortization and impairment of intangible assets of $4.0 million, $5.1 million of stock-based compensation expense, a decrease of $2.9 million in inventory, a decrease of $0.8 million in employees and payroll accruals, an increase of $0.3 million in trade receivables, a decrease of $4.2 million in deferred revenues attributed to sales which revenue recognition criteria were met while cash was collected in the previous years, a decrease of $3.8 million in trade payables, a decrease of $0.2 in long-term deferred taxes, net, a decrease of $0.7 million in other receivables and prepaid expenses and $0.7 million related to other operating activities

Investing activities.

Net cash used in investing activities in 2018 was $0.5 million, primarily attributable to an investment in available-for sale marketable securities of $34.8 million, purchase of property and equipment for $3.5 million and the acquisition of Netonomy for a purchase price of $3.0 million. The above changes were partially offset by redemption of marketable securities of $32.6 million and the redemption in short-term bank deposits and restricted deposits of $8.2 million.

Net cash used in investing activities in 2017 was $8.1 million, primarily attributable to an investment in available-for sale marketable securities of $30.1 million, purchase of property and equipment of $2.8 million and investment in short-term bank deposits and restricted deposits of $1.7 million. The above changes were partially offset by redemption of marketable securities of $26.5 million.

Net cash provided by investing activities in 2016 was $15.0 million, primarily attributable to an investment in available-for sale marketable securities of $29.7 million and the purchase of property and equipment of $1.6 million. The above changes were partially offset by redemption of marketable securities of $33.2 million and redemptions of short-term bank deposits of $12.9 million.

We expect that our capital expenditures will total approximately $3.6 million in 2019. We anticipate that these capital expenditures will be primarily related to further investments in lab equipment for research and development and customer success as well as IT infrastructure.

Financing activities.

Net cash provided by financing activities in 2018 was $0.4 million, which was attributable to issuance of share capital through the exercise of stock options and RSUs.

Net cash provided by financing activities in 2017 was $0.4 million, which was all attributable to the issuance of share capital through the exercise of stock options and RSUs.

Net cash used in financing activities in 2016 was $3.7 million, which was attributable to issuance of share capital through the exercise of stock options and RSUs of $0.1 million and repurchase of our ordinary shares of $3.8 million.

C. Research and Development, Patents and Licenses

In 2016, 2017 and 2018, we benefited from non-royalty bearing grants from the Israel Innovation Authority. The government grants we have received for research and development expenditures restrict our ability to manufacture products and transfer technologies outside of Israel and require us to satisfy specified conditions. If we fail to comply with such restrictions or these conditions, we may be required to refund grants previously received together with interest and penalties, and may be subject to criminal charges.

As of December 31, 2018, we had 19 issued U.S. patents and 5 pending patent applications in the United States. We expect to formalize our evaluation process for determining which inventions to protect by patents or other means. We cannot be certain that patents will be issued as a result of the patent applications we have filed.

D. Trend Information

See "ITEM 5: Operating and Financial Review and Prospects" above.

E. Off-Balance Sheet Arrangements

We are not a party to any material off-balance sheet arrangements. In addition, we have no unconsolidated special purpose financing or partnership entities that are likely to create material contingent obligations.

F. Contractual Obligations

The following table of our material contractual and other obligations known to us as of December 31, 2018, summarizes the aggregate effect that these obligations are expected to have on our cash flows in the periods indicated.

	Payments due by period			
Contractual Obligations	Total	Less than 1 year	1–3 years	Over 3 years
	(in thousands of U.S. dollars)			
Operating leases —offices[1]	$6,712	$2,203	$3,828	681
Operating leases —vehicles	1,004	456	548	
Uncertain tax position (ASC-740)	243			243
Total	$7,959	$2,659	$4,376	$924

(1) Consists primarily of an operating lease for our facilities in Hod Hasharon, Israel, as well as operating leases for facilities leased by our subsidiaries.

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ITEM 6: Directors, Senior Management and Employees

A. Directors and Senior Management

The following table sets forth the names, ages and positions of our directors and executive officers as of March 1, 2019:

Name	Age	Position
Directors		
Yigal Jacoby(5)	58	Chairman of the Board
Manuel Echanove(5)	54	Director
Itzhak Danziger (5)	70	Director
Nurit Benjamini (1)(2)(3)(4)(5)	52	Director
Steven D. Levy (1)(2)(4)(5)	62	Director
Miron (Ronnie) Kenneth (1)(2)(5)	63	Director
Nadav Zohar (5)	53	Director
Executive Officers		
Erez Antebi	60	Chief Executive Officer and President
Alberto Sessa	56	Chief Financial Officer
Nir Pery	49	Senior Vice President, Research and Development
Anat Shenig	50	Vice President, Human Resources
Ronen Priel	43	VP Product Management & Marketing
Rael Kolevsohn	49	Vice President, Legal Affairs, General Counsel and Company Secretary
Pini Gvili	54	Vice President, Operations
Keren Rubanenko	42	Senior Vice President, Customer Success
Ran Fridman	44	Executive Vice President, Global Sales
Vered Zur	55	Vice President, Marketing
Hagay Katz	59	VP Strategic Accounts, Cyber Security, BD

(1) Member of our compensation and nomination committee.
(2) Member of our audit committee.
(3) Lead independent director.
(4) Outside director.
(5) Independent director under the rules of NASDAQ.

Directors

Yigal Jacoby has served as Chairman of the Board of Directors since November, 2016. Mr. Jacoby co-founded our company in 1996 and served as our CEO until 2006 and as a Chairman of our board of directors until 2008. Prior to co-founding Allot, Mr. Jacoby founded Armon Networking, a manufacturer of network management solutions in 1992, and managed it until it was acquired by Bay Networks, where he served as the General Manager of its Network Management Division. From 1985 to 1992, Mr. Jacoby held various engineering and marketing management positions at Tekelec, a manufacturer of Telecommunication monitoring and diagnostic equipment. Currently, Mr. Jacoby is an active investor and director of several Israeli start-up companies, including serving as Chairman at LiveU Ltd., a provider of live cellular video transmission solutions. Mr. Jacoby has a B.A., cum laude, in Computer Science from Technion — Israel Institute of Technology and an M.Sc. in Computer Science from University of Southern California.

Manuel Echanove has served as an interim director since July 2017. Prior to his appointment Mr. Echanove served in various management positions with the Telefonica group between 1996 and 2012. During his tenure at Telefonica, Mr. Echanove held various senior management positions as Commercial General Manager, General Director of Business Development and General Director of Multimedia and Brand Business. He also served as General Manager in the Corporate Strategy area of Telefónica S.A. before leaving Telefonica in 2012. Prior to joining Telefonica, Mr. Echanove served in sales and marketing management positions at France Telecom, British Telecom, and Data General. Mr. Echanove is currently the CEO of Wetania Consulting S.L. a management consulting company, which he founded in 2013. Mr. Echanove has an Economics and Business Administration degree from the Universidad Pontificia de Comillas.

Itzhak Danziger has served as a director since 2011. Prior to his appointment as a director, Mr. Danziger served as an observer to our Board since 2010. Itzhak Danziger serves as a member of the board of Galil Software, an Israeli software services company, and as a director of Jinni Media, a privately held technology company. From 1985 to 2007, Mr. Danziger held various executive positions at Comverse, a technology companies group that develops and markets telecommunications systems, including as president of Comverse Technology Group, as president of Comverse Network Systems and as chairman of Comverse subsidiary - Starhome. Prior to joining Comverse, Mr. Danziger held various R&D and management positions in Tadiran Telecom Division. In the non-profit sector, Mr. Danziger serves as the chairman of the Center for Educational Technology (CET), as Vice President and board member of the New Israel Fund (NIF), the chairman of Israel Venture Network (IVN)- Yozma fund for investments in social businesses and a director in Israel Venture Network (IVN), a venture philanthropy NGO. Mr. Danziger was also a member of the National Task Force for the Advancement of Education in Israel (Dovrat Committee). Mr. Danziger holds a B.Sc. cum laude and an M.Sc. in electrical engineering from the Technion - Israel Institute of Technology and an M.A. cum laude in philosophy and digital culture from Tel Aviv University.

Nurit Benjamini has served as an outside director since 2007 and serves as the lead independent director on our board. Since December 2013, Ms. Benjamini has served as the Chief Financial Officer of TabTale Ltd. a company that provides mobile content. Ms. Benjamini served as the Chief Financial Officer of Wix.com Ltd. (NASDAQ: WIX) from 2011 to 2013. Previously, from 2007 to 2011, Ms. Benjamini has served as the Chief Financial Officer of CopperGate Communications Ltd. (now Sigma Designs Ltd.) that was acquired by Sigma Designs Inc. (NASDAQ:SIGM) in November 2009. Prior to her position with CopperGate Communications Ltd., Ms. Benjamini served as the Chief Financial Officer of Compugen Ltd. (NASDAQ: CGEN) from 2000 to 2007. Ms. Benjamini serves as an outside director of BiolineRX Ltd. (NASDAQ/TASE: BLRX), a member of its compensation committee, and as a chairman of its audit committee. Ms. Benjamini serves as a director and chair-person of the audit committee of Redhill Biopharma (NASDAQ/TASE: RDHL). Ms. Benjamini serves as a director and chair-person of the audit committee of Gamida Cell Ltd. (NASDAQ: GMDA). Ms. Benjamini holds a B.A. in Economics and Business and an M.B.A. in Finance, both from Bar Ilan University, Israel.

Steven D. Levy has served as an outside director since 2007. Mr. Levy served as a Managing Director and Global Head of Communications Technology Research at Lehman Brothers from 1998 to 2005. Before joining Lehman Brothers, Mr. Levy was a Director of Telecommunications Research at Salomon Brothers from 1997 to 1998, Managing Director and Head of the Communications Research Team at Oppenheimer & Co. from 1994 to 1997 and a senior communications analyst at Hambrecht & Quist from 1986 to 1994. Mr. Levy has served as a director of PCTEL, a broadband wireless technology company since 2006 and served as a director of Edison Properties a privately held U.S. real estate company since 2018. Mr. Levy previously served as a director of privately held GENBAND Inc., a U.S. provider of telecommunications equipment. Mr. Levy holds a B.Sc. in Materials Engineering and an M.B.A., both from the Rensselaer Polytechnic Institute.

Miron (Ronnie) Kenneth has served as a director since October 2014. Mr. Kenneth has more than 20 years of experience in the global high technology business, and is currently a private investor in high technology startups. He serves as the Chairman of Teridion Technologies Ltd., a privately held company specializing in overlay network technologies for service providers. From May 2011 to May 2013, Mr. Kenneth served as the CEO of Pontis Ltd., a privately-held company specializing in providing online marketing and analytics platforms for service providers. Prior to his tenure at Pontis, Mr. Kenneth was the Chairman and Chief Executive Officer of Voltaire Technologies Ltd. (from January 2001 to 2011). In 2011 Voltaire was acquired by Mellanox Technologies Ltd. (NASDAQ: MLNX). Prior to his employment at Voltaire, Mr. Kenneth was a General Partner in Telos Venture Partners, a Silicon Valley based venture firm. Prior to Telos, Mr. Kenneth also held senior management positions in Cadence Design Systems Inc.'s (NASDAQ: CDN) European organization. Mr. Kenneth has an M.B.A. from Golden Gate University in San Francisco, California and a B.A. in Economics and Computer Science from Bar Ilan University in Israel.

Nadav Zohar has served as an interim director since February 2017 and as a director since April 2017. Mr. Zohar serves as the head of Business Development of Gett, an "on demand" transportation service provider. Prior to joining Gett, Mr. Zohar served as Chief Operating Officer of Delek Global Real Estate PLC between 2066 and 2009 and held several executive positions with Morgan Stanley, between 2001 and 2006, the last of which was Executive Director, Financial Sponsors Group. Prior to joining Morgan Stanley, Mr. Zohar served in executive roles at Lehman Brothers between 1997 and 2001. Mr. Zohar serves as a board member of Matomy Media Group Ltd. (London Stock Exchange: MTMY), a digital performance-based advertising company. Mr. Zohar holds a Masters in Finance (graduated with Merit) from the London Business School and a LLB in Law (graduated with honors) from the University of Reading.

Executive Officers

Erez Antebi has served as our President and Chief Executive Officer since February 2017. Mr. Antebi served as the CEO of Gilat Satellite Networks (NADAQ: GILT), a satellite communications technology and services provider, between 2012 and 2015. Between 2005 and 2012 Mr. Antebi also served in several executive roles at Gilat Satellite Networks. Between 2003 and 2005 Mr. Antebi served as the CEO of Clariton Networks, a start-up company, providing services in cellular coverage. Prior to that Mr. Antebi has served in a variety of roles at Gilat Satellite Networks, Tadiran, a provider of radio communications for military applications and for Rafael, Israel Ministry of Defense. Mr. Antebi currently serves on the board and advisory boards of several companies, including Effective Space Services, HiSky and\ Xinow. Mr. Antebi holds a B. Sc., Electrical Engineering (Communications), Summa Cum Laude, and a M.Sc., Electrical Engineering (Information Theory), both from the Technion, Israel.

Alberto Sessa has served as our Chief Financial Officer since January 2017. Prior to joining Allot, since 2009, Mr. Sessa served as the CFO of Flash Networks, a leading provider of optimization solutions. Prior to joining Flash, between 2007 and 2009 Mr. Sessa served as the CFO of ARA Minerals. He also served as Vice President, Finance at Amdocs Management Ltd. between 2000 and 2007. Between 1996 and 1999, Mr. Sessa served as Group Corporate CFO at a privately held international group of companies. Mr. Sessa holds a B.A. in Statistics and Economics and an M.B.A., both from the Hebrew University in Jerusalem.

Anat Shenig joined our company in 2000 and has served as our Vice President—Human Resources since 2007. Ms. Shenig is responsible for human resources recruiting, welfare policy and employees' training. Prior to joining us, Ms. Shenig served as Human Resource Manager for Davidoff insurance company and as an organizational consultant for Aman Consulting. Ms. Shenig holds a B.A. in Psychology and Economics from Tel Aviv University and an M.B.A. in organizational behavior from Tel Aviv University.

Ronen Priel has served as Vice President—Product Management & Marketing, since August 2016. Prior to joining Allot, Mr. Priel served as VP Business Management and Strategy, Video Intelligence Solutions (VIS) Division of Verint (NADAQ: VRNT), a global leader in Actionable Intelligence® solutions with a focus on customer engagement optimization, security intelligence, and fraud, risk and compliance, since 2014. Between 2008 and 2014 Mr. Priel served in a number of executive roles in Verint. Between 2006 and 2008 he served as Senior Director of Products Marketing at Pontis Ltd. and between 1999 and 2004 Mr. Priel served as Product Line Manager & Director of Marketing at ECtel Ltd. Mr. Priel holds a BA in computer science from the Israeli Open University and an M.B.A. from Insead, France.

Rael Kolevsohn joined our company in 2014 and serves as our Vice President—Legal Affairs, General Counsel, and Company Secretary. Prior to joining us, he served as Vice President and General Counsel of Radvision Ltd. from 2007 to 2014. From 1998 to 2007, Mr. Kolevsohn served as General Counsel and Vice President of Gilat Satellite Networks Ltd. after joining Gilat as Legal Counsel. From 1994 to 1998, he completed his legal internship and worked as an Associate at the Tel Aviv law firm of Yossifof, Amir Cohen & Co. Mr. Kolevsohn is a member of the Israel Bar Association and holds an LL.B. degree, with honors, from the Hebrew University in Jerusalem.

Pini Gvili has served as our Vice President—Operations since 2006. Prior to joining us, from 2004 to 2006, he served as Vice President Operations for Celerica, a start-up company specializing in solutions for cellular network optimization. From 2001 to 2004, Mr. Gvili was the Vice President—Operations and IT at Terayon Communication Systems, and from 1998 to 2000, held the position of Manager of Integration and Final Testing at Telegate. Mr. Gvili was also a hardware/software engineer at Comverse/Efrat, a world leader of voice mail and digital recording systems, from 1994 to 1997. Mr. Gvili has a B.Sc. in Computer Science from Champlain University and was awarded a practical electronics degree from ORT Technical College.

Ran Fridman has served as our Executive Vice President, Global Sales since April 2017. Prior to joining us, Mr. Fridman served as Chief Business Officer of eVolution Networks, a provider of Deep Learning AI based energy efficiency solution for mobile operators and data centers. Between 2013 and 2015 Mr. Fridman served as SVP of Sales and Customer Services, worldwide, of Flash Networks, a provider of mobile optimization and monetization solutions. Prior to that, Mr. Fridman held various executive sales positions at Nokia Siemens Networks. Mr. Fridman holds a B.A. in computer science from the Academic College of Tel-Aviv Jaffa.

Vered Zur has served as our Vice President, Marketing since April 2017. Prior to joining us, Ms. Zur served as CMO of Electra Ltd. (TASE: ELECTRA), a leading supplier of electric appliances. Between 2011 and 2014, Ms. Zur served as VP global Sales Operations and Business enablement of Amdocs (NASDAQ: DOX), a provider of software and services to communications and media companies. Between 2005 and 2011 Ms. Zur served as VP Customer Marketing of Comverse (Xura), a company that provided telecommunications software. Prior to that Ms. Zur served in various marketing roles at telecommunications companies and advertising agencies. Ms. Zur holds a B.A. in Behavioral Science from the Ben-Gurion University and a M.B.A from the Edinburgh Business School, Heriot-Watt University. (

Hagay Katz has served as our VP Strategic Accounts, Cyber Security, BD since July 2017. Prior to joining us Mr. Katz served as Head of VSAT line of business at Gilat Satellite Networks (NASDAQ/TASE: GILT), a provider of satellite communication, systems between 2010 and 2017. Between 2006 and 2010 Mr. Katz served as Director of Products at Modu Mobile, a provider of cellular handsets and consumer electronics. Between 2000 and 2006 Mr. Katz served as Co-Founder and VP Marketing and Business Development of PacketLight Networks, a developer of broadband access/transport system to operator networks and a range of optical transport systems for storage applications, which was acquired by the RAD group. Prior to that, Mr. Katz served as Regional VP Sales – APAC and Scandinavia of Teledata and as a project manager in Telstra. Mr. Katz also serves as a member of the advisory boards of several technological companies. Mr. Katz holds a BSc and a MSc in Electronic Engineering from the Tel-Aviv University and a MBA in Marketing and Finance of Monash University; Melbourne.

Nir Pery has served as our SVP Research and Development since September 24, 2017. Prior to joining us, Mr. Pery has served in various research and development and managerial roles of increasing responsibilities, in Verint Systems Ltd. (NASDAQ: VRNT), an analytics company, providing actionable intelligence solutions in the areas of customer engagement and cyber intelligence, between the years 1996 and 2017, most recently, serving as SVP Product House and ISL Site Manager, Enterprise Intelligence Solutions, between 2015 and 2017, as SVP Global R&D, Video Intelligence Solutions, between 2011 and 2014, and as VP TLV R&D, Witness Action Solution, between 2008 and 2010. Mr. Pery holds a B.Sc. cum laude, in Electrical and Electronical Engineering from the Tel-Aviv University and a MBA from the Tel-Aviv University.

Keren Rubanenko has served as our VP Global Business & Customer Success since November 2018 Prior to joining Allot, Ms. Rubanenko was VP Customer Success at RADCOM, VP R&D and Operations Surveillance Solutions at Nice Systems between 2011 and 2015. Between 1999 and 2011, she held a number of senior positions at Comverse Technologies including serving as Associate VP and General Manager, Voice Product Unit. Ms. Rubanenko holds a B.A. in Business Administration from the College of Management Academic Studies (COLLMAN) in Rishon Lezion, Israel.

B. Compensation of Officers and Directors

The aggregate compensation paid to or accrued on behalf of our directors and executive officers as a group during 2018 consisted of approximately $3.5 million in salary, fees, bonus, commissions and directors’ fees, including amounts we expended for automobiles made available to our officers, but excluding equity based compensation, dues for professional and business associations, business travel and other expenses, and other benefits commonly reimbursed or paid by companies in Israel. This amount includes approximately $0.5 million set aside or accrued to provide pension, severance, retirement or similar benefits or expenses.

In 2018, we paid or accrued to the chairman of the board of directors, Mr. Yigal Jacoby, an annual fee of ILS 358,200 (approximately $99,625). During such time we paid our directors, Itzhak Danziger, Nadav Zohar and Manuel Echanove ILS 73,815 (approximately $20,530), ILS 72,315 (approximately $20,113) and ILS 76,065 (approximately $21,156), respectively, and we paid or accrued to each of our outside directors, Nurit Benjamini, Steven Levy and Miron (Ronnie) Keneth, as permitted by the Companies Law, an annual fee of ILS 112,065 (approximately $31,168), ILS 112,065 (approximately $31,168) and ILS 109,815 (approximately $30,543), respectively. The above fees for each of our directors (other than Yigal Jacoby) have included a per-meeting attendance fee of ILS 3,750 (approximately $1,043) for any meeting he or she attended in person, and ILS 2,250 (approximately $626) for any meeting he or she attended by conference call or similar means. Our directors are also typically granted upon election an agreed amount of equity based awards, which vest over a period of not less than three years, and 10,000 RSUs, as of every third annual general meeting following the respective director's initial election.

During 2018, our executive officers and directors received, in the aggregate, options and RSUs to purchase 270,000 ordinary shares under our equity incentive plans. The options (excluding RSUs) have a weighted average exercise price of approximately $5.94 and expire up to ten years after the date the options were granted.

Compensation of our Five Most Highly Compensated Office Holders

Summary Compensation Table

The table and summary below outline the compensation granted to our five most highly compensated office holders during or with respect to the year ended December 31, 2018. We refer to the five individuals for whom disclosure is provided herein as our “Covered Executives.”

For purposes of the table and the summary below, “compensation” includes base salary, discretionary and non-equity incentive bonuses, equity-based compensation, payments accrued or paid in connection with retirement or termination of employment, and personal benefits and perquisites such as car, phone and social benefits paid to or earned by each Covered Executive during the year ended December 31, 2018.

Name and Principal Position (1)	Salary ($)	Bonus ($) (2)	Equity-Based Compensation ($) (3)	All Other Compensation ($) (4)	Total ($)
Erez Antebi, President and Chief Executive Officer	267,876	65,849	232,160	99,781	665,666
Ran Fridman, Executive Vice President Global Sales	412,514	11,812	58,817	70,609	553,752
Alberto Sessa, Chief Financial Officer	219,502	26,685	67,772	71,890	385,849
Rael Kolevsohn, Vice President, Legal Affairs, General Counsel and Company Secretary	211,001	26,669	80,240	60,270	378,180
Ronen Priel, VP Product and Strategy, Product Management	184,682	21,906	60,483	66,439	333,510

(1) Unless otherwise indicated herein, all Covered Executives are full-time employees of Allot.

(2) Amounts reported in this column represent annual incentive bonuses granted to the Covered Executives based on performance-metric based formulas set forth in their respective employment agreements.

(3) Amounts reported in this column represent the grant date fair value computed in accordance with accounting guidance for stock-based compensation. For a discussion of the assumptions used in reaching this valuation, see Note 12 to our consolidated financial statements for the year ended December 31, 2018, included herein.

(4) Amounts reported in this column include personal benefits and perquisites, including those mandated by applicable law. Such benefits and perquisites may include, to the extent applicable to the respective Covered Executive, payments, contributions and/or allocations for savings funds (e.g., Managers Life Insurance Policy), education funds (referred to in Hebrew as “keren hishtalmut”), pension, severance, vacation, car or car allowance, medical insurances and benefits, risk insurance (e.g., life insurance or work disability insurance), telephone expense reimbursement, convalescence or recreation pay, relocation reimbursement, payments for social security, and other personal benefits and perquisites consistent with the Company’s guidelines. All amounts reported in the table represent incremental cost to the Company.

Compensation Policy

Under the Companies Law, we are required to adopt a compensation policy, recommended by the compensation and nominating committee and approved by the Board of Directors and the shareholders, in that order. The shareholder approval requires a majority of the votes cast by shareholders, excluding any controlling shareholder and those who have a personal interest in the matter. In general, all directors and executive officers' terms of compensation, including fixed remuneration, bonuses, equity compensation, retirement or termination payments, indemnification, liability insurance and the grant of an exemption from liability, must comply with the compensation policy.

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

Our compensation policy was approved by our compensation and nominating committee and by our Board of Directors, and subsequently approved by our shareholders in August 2016, and will be in effect for a period of three years following approval. Our compensation policy provides:

- Objectives: To attract, motivate and retain highly experienced personnel who will provide leadership for Allot's success and enhance shareholder value, and to promote for each executive officer an opportunity to advance in a growing organization.

- Compensation instruments: Includes base salary; benefits and perquisites; cash bonuses; equity-based awards; and retirement and termination arrangements.

- Ratio between fixed and variable compensation: Allot aims to balance the mix of fixed compensation (base salary, benefits and perquisites) and variable compensation (cash bonuses and equity-based awards) pursuant to the ranges set forth in the compensation policy in order, among other things, to tie the compensation of each executive officer to Allot's financial and strategic achievements and enhance the alignment between the executive officer's interests and the long-term interests of Allot and its shareholders .

- Internal compensation ratio: Allot will target a ratio between overall compensation of the executive officers and the average and median salary of the other employees of Allot, as set forth in the compensation policy, to ensure that levels of executive compensation will not have a negative impact on work relations in Allot.

- Base salary, benefits and perquisites: The compensation policy provides guidelines and criteria for determining base salary, benefits and perquisites for executive officers.

- Cash bonuses: Allot's policy is to allow annual cash bonuses, which may be awarded to executive officers pursuant to the guidelines and criteria, including maximum bonus opportunities, set forth in the compensation policy.

- "Clawback": In the event of an accounting restatement, Allot shall be entitled to recover from current executive officers bonus compensation in the amount of the excess over what would have been paid under the accounting restatement, with a three-year look-back.

- Equity-based awards: Allot's policy is to provide equity-based awards in the form of stock options, restricted stock units and other forms of equity, which may be awarded to executive officers pursuant to the guidelines and criteria, including minimum vesting period, set forth in the compensation policy.

- Retirement and termination: The compensation policy provides guidelines and criteria for determining retirement and termination arrangements of executive officers, including limitations thereon.

- Exculpation, indemnification and insurance: The compensation policy provides guidelines and criteria for providing directors and executive officers with exculpation, indemnification and insurance.

- Directors: The compensation policy provides guidelines for the compensation of our directors in accordance with applicable regulations promulgated under the Companies Law, and for equity-based awards that may be granted to directors pursuant to the guidelines and criteria, including minimum vesting period, set forth in the compensation policy.

- Applicability: The compensation policy applies to all compensation agreements and arrangements approved after the date on which the compensation policy is approved by the shareholders.

- Review: The compensation and nominating committee and the Board of Directors of Allot shall review and reassess the adequacy of the Compensation Policy from time to time, as required by the Companies Law.

C. Board Practices

Corporate Governance Practices

As a foreign private issuer, we are permitted under NASDAQ Rule 5615(a)(3) to follow Israeli corporate governance practices instead of the NASDAQ Stock Market requirements applicable to the U.S. issuers, provided we disclose which requirements we are not following and describe the equivalent Israeli requirement. See "ITEM 16G: Corporate Governance Requirements" for a discussion of those ways in which our corporate governance practices differ from those required by NASDAQ for domestic companies.

Board of Directors

Terms of Directors

Our articles of association provide that we may have not less than five directors and up to nine directors.

Under our articles of association, our directors (other than the outside directors, whose appointments are required under the Companies Law; see "—Outside Directors") are divided into three classes. Each class of directors consists, as nearly as possible, of one-third of the total number of directors constituting the entire board of directors (other than the outside directors). At each annual general meeting of our shareholders, the election or re-election of directors following the expiration of the term of office of that class of directors is for a term of office that expires on the third annual general meeting following such election or re-election, such that each year the term of office of only one class of directors will expire.

Our Class I directors, Nadav Zohar, will hold office until the 2019 Annual General Meeting of Shareholders. Our Class II directors, Itzhak Danziger and Miron Kenneth, will hold office until our annual meeting of shareholders to be held in 2020. Our Class III directors, Yigal Jacoby (who also serves as our Chairman of the board of directors) and Manuel Echanove, will hold office until our annual meeting of shareholders to be held in 2021. The directors (other than the outside directors) are elected by a vote of the holders of a majority of the voting power present and voting at the meeting. Each director will hold office until the annual general meeting of our shareholders for the year in which his or her term expires and until his or her successor is duly elected and qualified, unless the tenure of such director expires earlier pursuant to the Companies Law or unless he or she resigns or is removed from office.

Under the Companies Law, a director (including an outside director) must declare in writing that he or she has the required skills and the ability to dedicate the time required to serve as a director in addition to other statutory requirements. A director who ceases to meet the statutory requirements for his or her appointment must immediately notify us of the same and his or her office will become vacated upon such notice.

Under our articles of association, the approval of a special majority of the holders of at least 75% of the voting rights present and voting at a general meeting is generally required to remove any of our directors (other than the outside directors) from office. The holders of a majority of the voting power present and voting at a meeting may elect directors in their stead or fill any vacancy, however created, in our board of directors. In addition, vacancies on our board of directors, other than a vacancy in the office of an outside director, may be filled by a vote of a simple majority of the directors then in office. A director so chosen or appointed will hold office until the next annual general meeting of our shareholders, unless earlier removed by the vote of a majority of the directors then in office prior to such annual meeting. See "—Outside Directors" for a description of the procedure for election of outside directors.

Outside Directors

Qualifications of Outside Directors

The Companies Law requires companies incorporated under the laws of the State of Israel with shares listed on a stock exchange, including the NASDAQ Global Select Market, to appoint at least two outside directors. Our outside directors are Ms. Benjamini and Mr. Levy. Ms. Benjamini also serves as the lead independent director.

Outside directors are required to meet standards of independence and qualifications set forth in the Companies Law and related regulations. Among other independence qualifications, a person may not serve as an outside director if he is a relative of a controlling shareholder of a company, or if he or his affiliate (as defined in the Companies Law) has an employment, business or professional relationship or other affiliation (as defined in the Companies Law) with us.

In addition, the Companies Law requires every outside director appointed to the board of directors of an Israeli company to qualify as a "financial and accounting expert" or as "professionally competent," as such terms are defined in the applicable regulations under the Companies Law, and at least one outside director must qualify as a "financial and accounting expert." If at least one of our directors meets the independence requirements of the Exchange Act and the standards of the NASDAQ Stock Market rules for membership on the audit committee and also has financial and accounting expertise as defined in the Companies Law, then the other outside directors are only required to meet the professional qualifications requirement. Under applicable regulations, a director with financial and accounting expertise is a director who, through his or her education, professional experience and skill, has a high level of proficiency in and understanding of business accounting matters and financial statements. He or she must be able to thoroughly comprehend the financial statements of the company and initiate debate regarding the manner in which financial information is presented.

Election of Outside Directors

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

- the majority of shares voted at the meeting, including at least a majority of the shares of non-controlling shareholder(s) and shareholders who do not have a personal interest in the election of the outside director (other than a personal interest that does not result from the shareholder's relationship with a controlling shareholder), voted at the meeting, excluding abstentions, vote in favor of the election of the outside director; or

- the total number of shares of non-controlling shareholders and shareholders who do not have a personal interest in the election of the outside director (excluding a personal interest that does not result from the shareholder's relationship with a controlling shareholder) voted against the election of the outside director does not exceed two percent of the aggregate voting rights in the company.

The initial term of an outside director is three years, and he or she may be reelected to up to two additional terms of three years each at a shareholders' meeting, subject to the voting threshold set forth above. Thereafter, an outside director may be reelected for additional periods of up to three years each, only if the company's audit committee and board of directors confirm that, in light of the outside director's expertise and special contribution to the work of the board of directors and its committees, the reelection for such additional period is beneficial to the company. Outside directors may be removed by the same voting threshold as is required for their election, or by a court, and only if the outside directors cease to meet the statutory qualifications for their appointment or if they violate their duty of loyalty to the company. The tenure of outside directors, like all directors, may also be terminated by a court under limited circumstances. If the vacancy of an outside director position causes the company to have fewer than two outside directors, a company's board of directors is required under the Companies Law to call a special general meeting of the company's shareholders as soon as possible to appoint a new outside director. Each committee of a company's board of directors which is authorized to exercise the board of directors' authorities is required to include at least one outside director, except for the audit committee and the compensation committee, which are required to include all outside directors.

An outside director is entitled to compensation and reimbursement of expenses as provided in regulations promulgated under the Companies Law, and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with services provided as an outside director, other than indemnification, exculpation and insurance as permitted pursuant to the Companies Law.

NASDAQ Requirements

Under the NASDAQ Stock Market rules, a majority of directors must meet the independence requirements specified in those rules. Our board of directors consists of seven members, all of whom are independent under the NASDAQ Stock Market rules. Specifically, our board has determined that Ms. Nurit Benjamini, Mr. Itzhak Danziger, Mr. Yigal Jacoby, Mr. Steven Levy, Mr. Miron Kenneth, Mr. Nadav Zohar and Mr. Manuel Echanove meet the independence standards of the NASDAQ Stock Market rules. In reaching this conclusion, the board determined that none of these directors have a relationship that would preclude a finding of independence and that the other relationships that these directors have with us do not impair their independence. See "ITEM 16G. Corporate Governance" for additional information.

Audit Committee

Companies Law Requirements

Under the Companies Law, the board of directors of any public company must appoint an audit committee comprised of at least three directors, including all of the outside directors. The following persons may not be appointed as members of the audit committee:

- the chairperson of the board of directors;
- a controlling shareholder or a relative of a controlling shareholder (as defined in the Companies Law); or
- any director who is engaged by, or provides services on a regular basis to the company, the company's controlling shareholder or an entity controlled by a controlling shareholder or any director who generally relies on a controlling shareholder for his or her livelihood.

The Companies Law requires the majority of the audit committee members to be independent directors (as defined in the Companies Law), and the chairman of the audit committee is required to be an outside director. Any person disqualified from serving as a member of the audit committee may not be present at the audit committee meetings, unless the chairperson of the audit committee has determined that this person is required to be present for a particular matter. The Companies Law provides for certain other exclusions to this provision.

NASDAQ Requirements

Under the NASDAQ Stock Market rules, companies are required to maintain an audit committee consisting of at least three independent directors, all of whom are financially literate and one of whom has accounting or related financial management expertise. Our audit committee members are required to meet additional independence standards, including minimum standards set forth in rules of the SEC and adopted by the NASDAQ Stock Market.

Each of the members of our audit committee is "independent" under the relevant NASDAQ Stock Market rules and as defined in Rule 10A-3(b)(1) under the Exchange Act, which is different from the general test for independence of board and committee members.

Approval of Transactions with Related Parties

The approval of the audit committee is required to effect specified actions and transactions with office holders and controlling shareholders. The term "office holder" means a general manager, chief business manager, deputy general manager, vice general manager, or any other person assuming the responsibilities of any of the foregoing positions, without regard to such person's title, as well as any director or manager directly subordinate to the general manager. The term "controlling shareholder" means a shareholder with the ability to direct the activities of the company, other than by virtue of being an office holder. A shareholder is presumed to be a controlling shareholder if the shareholder holds 50% or more of the voting rights in a company or has the right to appoint the majority of the directors of the company or its general manager. For the purpose of approving transactions with controlling shareholders, the term also includes any shareholder that holds 25% or more of the voting rights of the company, if the company has no shareholder that owns more than 50% of its voting rights. For purposes of determining the holding percentage stated above, two or more shareholders who have a personal interest in a transaction that is brought for the company's approval are deemed as joint holders. The audit committee may not approve an action or a transaction with a controlling shareholder or with an office holder unless all the requirements of the Companies Law regarding the structure of the committee and the persons entitled to be present at meetings are met at the time of approval.

Audit Committee Role

Our board of directors has adopted an audit committee charter setting forth the responsibilities of the audit committee consistent with the rules of the SEC and the NASDAQ Stock Market, which include:

- retaining and terminating the company's independent auditors, subject to shareholder ratification;

- pre-approval of audit and non-audit services provided by the independent auditors; and

- approval of transactions with office holders and controlling shareholders, as described above, and other related-party transactions.

Additionally, under the Companies Law, the audit committee is responsible for: (a) identifying deficiencies in the management of a company's business and making recommendations to the board of directors as to how to correct them; (b) reviewing and deciding whether to approve certain related party transactions and certain transactions involving conflicts of interest; (c) deciding whether certain actions involving conflicts of interest are material actions and whether certain related party transactions are extraordinary transactions; (d) reviewing the internal auditor's work program; (e) examining the company's internal control structure and processes, the performance of the internal auditor and whether the internal auditor has the tools and resources required to perform his or her duties; and (f) examining the independent auditor's scope of work as well as the independent auditor's fees, and providing the corporate body responsible for determining the independent auditor's fees with its recommendations. In addition, the audit committee is also responsible for implementing procedures concerning employee complaints on improprieties in the administration of the company's business and the protection to be provided to such employees. Furthermore, in accordance with regulations promulgated under the Companies Law, the audit committee discusses the draft financial statements and presents to the board its recommendations with respect to the draft financial statements. The audit committee charter states that in fulfilling this role the committee is entitled to rely on interviews and consultations with our management, our internal auditor and our independent auditor, and is not obligated to conduct any independent investigation or verification.

Our audit committee consists of Ms. Nurit Benjamini, Mr. Steven Levy and Mr. Miron Kenneth. The financial experts on the audit committee pursuant to the definition of the SEC are all members of the audit committee.

Compensation and Nominating Committee

Under the Companies Law, the compensation committee of a public company must consist of at least three directors who satisfy certain independence qualifications, including the additional independence requirements of the NASDAQ Stock Market rules applicable to the members of compensation committees, and the chairman of the compensation committee is required to be an outside director. We have established a compensation and nominating committee which currently consists of Ms. Nurit Benjamini, Mr. Steven Levy, and Mr. Miron Kenneth. The chairperson is Mr. Levy. This committee oversees matters related to our compensation policy and practices. Our board of directors has adopted a compensation and nominating committee charter setting forth the responsibilities of the committee consistent with the Companies Law and the NASDAQ Stock Market rules, which include:

- approving, and recommending to the board of directors and the shareholders for their approval, the compensation of our Chief Executive Officer and other executive officers;

- granting options and RSUs to our employees and the employees of our subsidiaries;

- recommending candidates for nomination as members of our board of directors; and

- developing and recommending to the board corporate governance guidelines and a code of business ethics and conduct in accordance with applicable laws.

The compensation committee is also authorized to retain and terminate compensation consultants, legal counsel or other advisors to the committee and to approve the engagement of any such consultant, counsel or advisor, to the extent it deems necessary or appropriate after specifically analyzing the independence of any such consultant retained by the committee.

On specified criteria, to review modifications to the compensation policy from time to time, to review its implementation and to approve the actual compensation terms of office holders prior to approval by the board of directors.

Internal Auditor

Under the Companies Law, the board of directors of a public company must appoint an internal auditor nominated by the audit committee. The role of the internal auditor is, among other things, to examine whether a company’s actions comply with applicable law and orderly business procedure. The internal auditor may be an employee of the company but not an interested party (as defined in the Companies Law), an office holder of the company, or a relative of an interested party or an office holder, among other restrictions. The firm of Deloitte Brightman Almagor Zohar is the internal auditor of the Company.

Exculpation, Insurance and Indemnification of Office Holders

Under the Companies Law, a company may not exculpate an office holder from liability for a breach of the duty of loyalty. However, a company may provide certain indemnification rights as detailed below and obtain insurance for an act performed in breach of the duty of loyalty of an office holder provided that the office holder acted in good faith, the act or its approval does not harm the company, and the office holder discloses the nature of his or her personal interest in the act and all material facts and documents a reasonable time before discussion of the approval. Our articles of association, in accordance with Israeli law, allow us to exculpate an office holder, in advance, from liability to us, in whole or in part, for damages caused to us as a result of a breach of duty of care. We may not exculpate a director for liability arising out of a prohibited dividend or distribution to shareholders or prohibited purchase of its securities.

In accordance with Israeli law, our articles of association allow us to indemnify an office holder in respect of certain liabilities either in advance of an event or following an event. Under Israeli law, an undertaking provided in advance by an Israeli company to indemnify an office holder with respect to a financial liability imposed on him or her in favor of another person pursuant to a judgment, settlement or arbitrator's award approved by a court must be limited to events which in the opinion of the board of directors can be foreseen based on the company's activities when the undertaking to indemnify is given, and to an amount or according to criteria determined by the board of directors as reasonable under the circumstances, and such undertaking must detail the above mentioned events and amount or criteria. Our articles of association allow us to undertake in advance to indemnify an office holder for, among other costs, reasonable litigation expenses, including attorneys' fees, and certain financial liabilities and obligations, subject to certain restrictions pursuant to the Companies Law.

In accordance with Israeli law, our articles of association allow us to insure an office holder against certain liabilities incurred for acts performed as an office holder, including certain breaches of duty of loyalty to the company, a breach of duty of care to the company or to another person and certain financial liabilities and obligations imposed on the office holder.

We may not indemnify or insure an office holder against any of the following:

- a breach of duty of loyalty, except to the extent that the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach of duty of care committed intentionally or recklessly, excluding a breach arising out of the negligent conduct of the office holder;
- an act or omission committed with intent to derive illegal personal benefit; or
- a fine, civil fine, monetary sanction or forfeit levied against the office holder.

Under the Companies Law, exculpation, indemnification and insurance of office holders must be approved by our compensation committee and our board of directors and, in respect of our directors, the chief executive officer, and any employee or service provider who is considered a controlling shareholder, by our shareholders, provided that changes to existing arrangements may be approved by the audit committee if it approves that such changes are immaterial.

As of the date of this annual report, there are no claims for directors' and officers' liability insurance which have been filed in 2018 under our policies and we are not aware of any pending or threatened litigation or proceeding involving any of our directors or officers in which indemnification is sought.

We have entered into agreements with each of our directors and with certain of our office holders exculpating them, to the fullest extent permitted by law, from liability to us for damages caused to us as a result of a breach of duty of care, and undertaking to indemnify them to the fullest extent permitted by law. This indemnification is limited to events determined as foreseeable by the board of directors based on our activities, and to an amount or according to criteria determined by the board of directors as reasonable under the circumstances, and the insurance is subject to our discretion depending on its availability, effectiveness and cost. The current maximum amount set forth in such agreements is the greater of (1) with respect to indemnification in connection with a public offering of our securities, the gross proceeds raised by us and/or any selling shareholder in such public offering, and (2) with respect to all permitted indemnification, including a public offering of our securities, an amount equal to 50% of the our shareholders' equity on a consolidated basis, based on our most recent financial statements made publicly available before the date on which the indemnity payment is made.

In the opinion of the SEC, indemnification of directors and office holders for liabilities arising under the Securities Act is against public policy and therefore unenforceable.

D. Employees

As of December 31, 2018, we had 524 employees of whom 296 were based in Israel, 121 in Europe, 17 in North America, 30 in Latin America and 60 in Asia, Africa and Oceania. We have never experienced a work stoppage or a strike. The breakdown of our employees by department is as follows:

	December 31,		
Department	2016	2017	2018
Manufacturing and operations	16	13	13
Research and development	168	163	200
Sales, marketing, service and support	216	250	261
Management and administration	45	51	50
Total	445	477	524

The table below provides a breakdown of personnel employed or engaged by the Company:

	December 31,		
Department	2016	2017	2018
Full time Employee	378	404	422
Part time Employee	27	26	27
Permanent Contractor	31	36	41
Subcontractor	9	11	34
Total	445	477	524

In the foregoing table and in each instance herein where number of employees is provided, employees include full time and part time employees, as well as subcontractors and consultants. Typically, our employees, as well as our subcontractors and consultants, are employed or engaged for indefinite periods of time and may be dismissed or terminated with or without notice, depending on the jurisdiction and contracts under which they are employed or engaged. Under applicable Israeli law, we and our employees are subject to protective labor provisions such as restrictions on working hours, minimum wages, minimum vacation, sick pay, severance pay and advance notice of termination of employment as well as equal opportunity and anti-discrimination laws. Orders issued by the Israeli Ministry of Economy make certain industry-wide collective bargaining agreements applicable to us. These agreements affect matters such as cost of living adjustments to salaries, length of working hours and week, recuperation, travel expenses, and pension rights. Except as otherwise stated hereunder, our employees are not represented by a labor union. Under Spanish Labor law, we and our employees are subject to protective labor provisions and collective bargaining agreements, governing, among others, restrictions on working hours, minimum wages, minimum vacation, sick pay, severance pay and advance notice of termination of employment as well as equal opportunity and anti-discrimination laws. Our workers in our San Sebastian office in Spain, are represented by a worker’s representative, who will be subject to reelection during 2020. In addition, our employees in our Madrid office are represented by five worker representatives, who were recently elected for a term of four years and thus will be subject to reelection during 2021. Such representatives represent the employees with respect to labor health and prevention, training and equality. We provide our employees with benefits and working conditions which we believe are competitive with benefits and working conditions provided by similar companies. We have never experienced labor-related work stoppages and believe that our relations with our employees are good.

E. Share Ownership

Beneficial Ownership of Executive Officers and Directors

The following table sets forth certain information regarding the beneficial ownership of our ordinary shares as of March 1, 2019 by (i) each of our directors, (ii) each of our executive officers and (iii) all of our executive officers and directors serving as of March 1, 2019, as a group. Unless otherwise stated, the address of each named executive officer and director is c/o Allot Ltd, 22 Hanagar Street, Neve Ne’eman Industrial Zone B, Hod-Hasharon 45240, Israel.

Name of Beneficial Owner	Number of Shares Beneficially Held(1)	Percent of Class
Directors		
Nurit Benjamini	*	*
Itzhak Danziger	*	*
Manuel Echanove	*	*
Nadav Zohar	*	*
Steven D. Levy	*	*
Yigal Jacoby	432,681	1.27 %
Miron Kenneth	*	*
Executive Officers		
Erez Antebi	*	*
Alberto Sessa	*	*
Nir Pery	*	*
Anat Shenig	*	*
Ronen Priel		
Rael Kolevsohn	*	*
Pini Gvili	*	*
Keren Rubanenko		
Ran Fridman	*	*
Vered Zur	*	*
Hagay Katz	*	*
All directors and executive officers as a group	952,411	2.8 %

* Less than one percent of the outstanding ordinary shares.

(1) As used in this table, “beneficial ownership” is determined in accordance with the rules of the SEC and consists of either or both voting or investment power with respect to securities. For purposes of this table, a person is deemed to be the beneficial owner of securities that can be acquired within 60 days from March 1, 2019 through the exercise of any option or pursuant to vesting of RSU. Ordinary shares subject to options that are currently exercisable or exercisable within 60 days of March 1, 2019 and outstanding RSUs vesting within 60 days of March 1, 2019, are deemed outstanding for computing the ownership percentage of the person holding such options or RSUs, but are not deemed outstanding for the purpose of computing the ownership percentage of any other person. Except as otherwise indicated, the persons named in the table have reported that they have sole voting and sole investment power with respect to all ordinary shares shown as beneficially owned by them. The amounts and percentages are based upon 34,036,892 ordinary shares outstanding as of March 1, 2019 pursuant to Rule 13d-3(d)(1)(i) under the Exchange Act.

Our directors and executive officers hold, in the aggregate, 1,356,844 outstanding options and RSUs. The said amount includes options currently exercisable for 685,563 ordinary shares, as of March 1, 2019. The options (excluding

RSUs) have a weighted average exercise price of $7.06 per share and have expiration dates until 2025.

Share Option Plans

The following table summarizes our equity incentive plans, which have outstanding awards as of March 1, 2019:

Plan	Share reserved	Option and RSU grants, net (*)	Outstanding options and RSUs	Options outstanding exercise price	Date of expiration	Options exercisable
2016 Incentive Compensation Plan	611,410	7,358,581	3,009,310	0.028-27.58	03/01/2019-09/06/2025	1,234,476

(*) "Option and RSU grants, net" is calculated by subtracting options and RSUs expired or forfeited.

As of March 1, 2019, we had 34,036,892 ordinary shares outstanding. We have adopted three share option plans. Under our share option plans, as of March 1, 2019, there were 3,009,310 outstanding options and RSUs, including options currently exercisable for 1,234,476 ordinary shares. As of March 1, 2019, 611,410 shares remained available for future grants under the 2016 Plan (as described below). Upon issuance, such ordinary shares may be freely sold in the public market, except for shares held by affiliates who have certain restrictions on their ability to sell. The options (excluding RSUs) have a weighted average exercise price of $7.38 per share.

We will only grant options, RSUs or other equity incentive awards under the 2016 Incentive Compensation Plan, although previously-granted options will continue to be governed by our other plans.

2016 Incentive Compensation Plan, as amended (formerly, 2006 Incentive Compensation Plan)

The Allot Ltd 2006 Incentive Compensation Plan (the "2006 Plan") was adopted by the Board on October 29, 2006 and became effective immediately prior to the effective date of the Company's IPO. Effective October 28, 2016, the Board of Directors of the Company amended and restated the 2006 Plan to extend the term of the 2006 Plan by ten years and to rename the 2006 Plan as the Allot Ltd 2016 Incentive Compensation Plan (the "2016 Plan"). The 2016 Plan will remain in effect, subject to the right of the Board of Directors to amend or terminate the 2016 Plan at any time pursuant to the terms of the 2016 Plan, until all shares reserved for issuance under the 2016 Plan shall have been delivered, and any restrictions on such shares shall have lapsed, provided that in no event may an award under the 2016 Plan be granted on or after October 27, 2026.

The 2016 Plan is intended to further our success by increasing the ownership interest of certain of our and our subsidiaries' employees, directors and consultants and to enhance our and our subsidiaries' ability to attract and retain employees, directors and consultants.

The number of ordinary shares that we may issue under the 2016 Plan will increase on the first day of each fiscal year during the term of the 2016 Plan, in each case in an amount equal to the lesser of (i) 1,000,000 shares, (ii) 3.5% of our outstanding ordinary shares on the last day of the immediately preceding year, or (iii) an amount determined by our board of directors. The number of shares subject to the 2016 Plan is also subject to adjustment if particular capital changes affect our share capital. Ordinary shares subject to outstanding awards under the 2016 Plan or our 2003 plan or 1997 plans that are subsequently forfeited or terminated for any other reason before being exercised will again be available for grant under the 2016 Plan. As of March 1, 2019, there were 3,009,310 outstanding options and RSUs under the 2016 Plan and 611,410 ordinary shares remained reserved for future grants under the 2016 Plan.

Israeli participants in the 2016 Plan may be granted options and/or restricted stock units subject to Section 102 of the Ordinance. Section 102 of the Ordinance, allows employees, directors and officers, who are not controlling shareholders and are considered Israeli residents to receive favorable tax treatment for compensation in the form of shares or options. Our non-employees service providers and controlling shareholders may only be granted options under another section of the Ordinance, which does not provide for similar tax benefits. Section 102 includes two alternatives for tax treatment involving the issuance of options or shares to a trustee for the benefit of the grantees and also includes an additional alternative for the issuance of options or shares directly to the grantee. The most favorable tax treatment for the grantees is under Section 102(b)(2) of the Ordinance, the issuance to a trustee under the "capital gain track." However, under this track we are not allowed to deduct an expense with respect to the issuance of the options or shares. Any stock options granted under the 2016 Plan to participants in the United States will be either "incentive stock options," which may be eligible for special tax treatment under the U.S. Internal Revenue Code of 1986, or options other than incentive stock options (referred to as "nonqualified stock options"), as determined by our compensation and nominating committee and stated in the option agreement.

Our compensation and nominating committee administers the 2016 Plan and it selects which of our and our subsidiaries' and affiliates' eligible employees, directors and/or consultants receive options, RSUs or other awards under the 2016 Plan and will determine the terms of the grant, including, exercise prices, method of payment, vesting schedules, acceleration of vesting and the other matters necessary in the administration of the plan.

If we undergo a change of control, as defined in the 2016 Plan, subject to any contrary law or rule, or the terms of any award agreement in effect before the change of control, (a) the compensation and nominating committee may, in its discretion, accelerate the vesting, exercisability and payment, as applicable, of outstanding options, RSUs and other awards; and (b) the compensation and nominating committee, in its discretion, may adjust outstanding awards by substituting ordinary shares or other securities of any successor or another party to the change of control transaction, or cash out outstanding options, RSUs and other awards, in any such case, generally based on the consideration received by our shareholders in the transaction.

ITEM 7: Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth certain information regarding the beneficial ownership of our outstanding ordinary shares as of March 1, 2019, by each person who we know beneficially owns 5.0% or more of the outstanding ordinary shares. Each of our shareholders has identical voting rights with respect to its shares. All of the information with respect to beneficial ownership of the ordinary shares is given to the best of our knowledge.

	Ordinary Shares Beneficially Owned[(1)]	Percentage of Ordinary Shares Beneficially Owned	
Lynrock Lake Partners LLC [(2)]	3,567,466	10.48	%
Delek Group Ltd[(3)]	2,839,928	8.34	%
Clal Insurance Enterprises Holdings Ltd. [(4)]	2,555,300	7.51	%
Migdal Insurance & Financial holdings Ltd [(5)]	2,282,952	6.71	%

(1) As used in this table, "beneficial ownership" means the sole or shared power to vote or direct the voting or to dispose or direct the disposition of any security. For purposes of this table, a person is deemed to be the beneficial owner of securities that can be acquired within 60 days from March 1, 2019 through the exercise of any option or warrant. Ordinary shares subject to options or warrants that are currently exercisable or exercisable within 60 days are deemed outstanding for computing the ownership percentage of the person holding such options or warrants, but are not deemed outstanding for computing the ownership percentage of any other person. The amounts and percentages are based upon 34,036,892 ordinary shares outstanding as of March 1, 2019.

(2) Based on a Schedule 13G filed on March 11, 2019. Lynrock Lake Partners LLC reported that it had sole voting power over 2,326,734 shares. The address of the reporting person is 2 International Drive, Suite 130, Rye Brook, NY 10573.

(3) Based on a Schedule 13G/A filed on February 14, 2019 The Phoenix Holding Ltd. ("Phoenix"), Delek Group Ltd. ("Delek") and Ishak Sharon (Tshuva) reported that they had shared voting and dispositive power over 2,839,928 shares. The shares are beneficially owned by various direct or indirect, majority or wholly-owned subsidiaries of Phoenix (the "Subsidiaries"). The Subsidiaries manage their own funds and/or the funds of others, including for holders of exchange-traded notes or various insurance policies, members of pension or provident funds, unit holders of mutual funds, and portfolio management clients. Each of the Subsidiaries operates under independent management and makes its own independent voting and investment decisions. Phoenix is a majority-owned subsidiary of Delek. The majority of Delek's outstanding share capital and voting rights are owned, directly and indirectly, by Itshak Sharon (Tshuva) through private companies wholly-owned by him, and the remainder is held by the public. The address of Itshak Sharon (Tshuva) and Delek Investments and Properties Ltd. is 7 Giborei Israel Street, P.O.B. 8464, Netanya, 42504, Israel. The address of Phoenix is Derech Hashalom 53, Givataim, 53454, Israel.

(4) Based on information provided to us by Clal Insurance Enterprises Holdings Ltd. ("Clal") on March 1, 2019 Clal had shared voting and dispositive power over 2,555,300 of our shares. All of these shares are held for members of the public through, among others, provident funds, mutual funds, pension funds and insurance policies, which are managed by subsidiaries of Clal, according to the following segmentation: 2,357,231 shares are held by Pension Funds; 198,069 shares are held by Profit participating insurance policies, each of which subsidiaries operates under independent management and makes independent voting and investment decisions. The address of the reporting person is 36 Raoul Wallenberg Street, Tel Aviv 37070, Israel.

(5) Based on information provided to us by Midgal Insurance & Financial Holdings Ltd. (“Migdal”) On March 1, 2019 Migdal had shared voting power and dispositive power over these shares. Of these shares, 2,282,952 shares are held for members of the public through, among others, provident funds, mutual funds, pension funds and insurance policies, which are managed by direct and indirect subsidiaries of Reporting Person, each of which subsidiaries operates under independent management and makes independent voting and investment decisions and 125,864 shares are held by companies for the management of funds for joint investments in trusteeship, each of which operates under independent management and makes independent voting and investment decisions. The address of the reporting person is 4 Efal Street; P.O BOX 3063; Petach Tikva 49512, Israel.

Significant Changes in the Ownership of Major Shareholders

As of March 1, 2019, Soros Fund Management LLC ceased to be the beneficial owner of 5% or more of our ordinary shares. As of March 1, 2018, Soros Fund Management LLC was the beneficial owner of 5,286,063, or 15.74% of our ordinary shares. As of March 1, 2017, Soros Fund Management LLC was the beneficial owner of 3,336,166, or 10.1% of our ordinary shares.

As of March 1, 2019, Zohar Zisapel ceased to be the beneficial owner of 5% or more of our ordinary shares. As of March 1, 2018, Zohar Zisapel was the beneficial owner of 2,942,930, or 8.46% of our ordinary shares.

As of March 1, 2019, Lynrock Lake Partners LLC. was the beneficial owner of 3,567,466, or 10.48% of our ordinary shares.

As of March 1, 2019, FMR LLC ceased to be the beneficial owner of 5% or more of our ordinary shares. As of March 1, 2018, FMR LLC was the beneficial owner of 1,952,500, or 5.81% of our ordinary shares. As of March 1, 2017, FMR LLC was the beneficial owner of 3,227,461, or 9.7% of our ordinary shares.

Record Holders

As of March 1, 2019, there were 18 record holders of ordinary shares, of which eight consisted of United States record holders holding approximately 99.49% of our outstanding ordinary shares. The actual number of shareholders is greater than this number of record holders, and includes shareholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. The United States record holders included Cede & Co., the nominee of the Depositary Trust Company.

B. Related Party Transactions

Our policy is to enter into transactions with related parties on terms that, on the whole, are no less favorable, than those available from unaffiliated third parties. Based on our experience in the business sectors in which we operate and the terms of our transactions with unaffiliated third parties, we believe that all of the transactions described below met this policy standard at the time they occurred.

Agreements with Directors and Officers

Engagement of Officers. We have entered into employment agreements with each of our officers, who work for us as employees or as consultants. These agreements all contain provisions standard for a company in our industry regarding noncompetition, confidentiality of information and assignment of inventions. The enforceability of covenants not to compete in Israel may be limited. In connection with the engagement of our officers, we have granted them options pursuant to our 2016 Plan.

Exculpation, Indemnification and Insurance. Our articles of association permit us to exculpate, indemnify and insure our office holders, in accordance with the provisions of the Companies Law. We have entered into agreements with each of our directors and certain office holders, exculpating them from a breach of their duty of care to us to the fullest extent permitted by law and undertaking to indemnify them to the fullest extent permitted by law, to the extent that these liabilities are not covered by insurance. See “ITEM 6: Directors, Senior Management and Employees—Board Practices—Exculpation, Insurance and Indemnification of Office Holders.”

C. Interests of Experts and Counsel

Not applicable.

ITEM 8: Financial Information

A. Consolidated Financial Statements and Other Financial Information.

Consolidated Financial Statements

For our audited consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, please see pages F-3 to F-49 of this report.

Export Sales

See “ITEM 5: Operating and Financial Review and Prospects” under the caption “Geographic Breakdown of Revenues” for certain details of export sales for the last three fiscal years.

Legal Proceedings

We may, from time to time in the future be involved in legal proceedings in the ordinary course of business. Such matters are generally subject to many uncertainties and outcomes are not predictable with assurance. We accrue for contingencies when the loss is probable and it can reasonably estimate the amount of any such loss. Except as set forth in Note 11 to our consolidated financial statements for the fiscal year ended December 31, 2018 included elsewhere in this report, we are currently not a party to any material legal or administrative proceedings for which an appropriate accrual has not been made, and is not aware of any pending or threatened material legal or administrative proceedings against us.

Dividends

We have never declared or paid any cash dividends on our ordinary shares and we do not anticipate paying any cash dividends on our ordinary shares in the future. We currently intend to retain all future earnings to finance our operations and to expand our business. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial condition and future prospects and other factors our board of directors may deem relevant.

B. Significant Changes

Since the date of our audited financial statements included elsewhere in this annual report, there have not been any significant changes in our financial position

ITEM 9: The Offer and Listing

Our ordinary shares have been quoted under the symbol "ALLT" on the NASDAQ Stock Market since November 16, 2006 and on the Tel Aviv Stock Exchange since December 21, 2010.

As of March 1, 2019, the last reported sale price of our ordinary shares on the Nasdaq Global Select Market was 7.67 per share and on the Tel Aviv Stock Exchange was 26.70 per share.

ITEM 10: Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Memorandum and Articles of Association Incorporation

We are registered as a public company with the Israeli Registrar of Companies. Our registration number is 51-239477-6.

Objective

Our objectives under our memorandum of association are to engage in the business of computers, hardware and software, including without limitation research and development, marketing, consulting and the selling of knowledge, and any other activity which our board of directors shall determine.

Ordinary Shares

Our authorized share capital consists of 200,000,000 ordinary shares, par value ILS 0.10 per share. As of March 1, 2019, we had 34,036,892 ordinary shares outstanding. All outstanding ordinary shares are validly issued, fully paid and non-assessable. The rights attached to the ordinary shares are as follows:

Voting. Holders of our ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders at a shareholder meeting. Shareholders may vote at shareholder meeting either in person, by proxy or by written ballot. Shareholder 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.

Transfer of Shares. Fully paid ordinary shares are issued in registered form and may be freely transferred under our articles of association unless the transfer is restricted or prohibited by another instrument, Israeli law or the rules of a stock exchange on which the shares are traded.

Election of Directors. Our ordinary shares do not have cumulative voting rights for the election of directors. Rather, under our articles of association our directors are elected by the holders of a simple majority of our ordinary shares at a general shareholder meeting. As a result, the holders of our ordinary shares that represent more than 50% of the voting power represented at a shareholder meeting have the power to elect any or all of our directors whose positions are being filled at that meeting, subject to the special approval requirements for outside directors. See "ITEM 6: Directors, Senior Management and Employees—Board Practices—Outside Directors."

Dividend and Liquidation Rights. Under the Companies Law, shareholder approval is not required for the declaration of a dividend, unless the company's articles of association provide otherwise. Our articles of association provide that our board of directors may declare and distribute a dividend to be paid to the holders of ordinary shares without shareholder approval in proportion to the paid up capital attributable to the shares that they hold. Dividends may be paid only out of profits legally available for distribution, as defined in the Companies Law, provided[1] that there is no reasonable concern that the payment of a dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. If we do not have profits legally available for distribution, we may seek the approval of the court to distribute a dividend. The court may approve our request if it is convinced that there is no reasonable concern that a payment of a dividend will prevent us from satisfying our existing and foreseeable obligations as they become due.

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 paid up capital attributable to the shares that they hold. Dividend and liquidation rights 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.

Shareholder Meetings

We are required to convene an annual general meeting of our shareholders once every calendar year within a period of not more than 15 months following the preceding annual general meeting. Our board of directors may convene a special general meeting of our shareholders and is required to do so at the request of two directors or one quarter of the members of our board of directors or at the request of one or more holders of 5% or more of our share capital and 1% of our voting power or the holder or holders of 5% or more of our voting power. All shareholder meetings require prior notice of at least 21 days. The chairperson of our board of directors, or any other person appointed by the board of directors, presides over our general meetings. In the absence of the chairperson of the board of directors or such other person, one of the members of the board designated by a majority of the directors presides over the meeting. If no director is designated to preside as chairperson, then the shareholders present will choose one of the shareholders present to be chairperson. Subject to the provisions of the Companies Law and the regulations promulgated thereunder, shareholders entitled to participate and vote at general meetings are the shareholders of record on a date to be decided by the board of directors, which may be between four and 40 days prior to the date of the meeting.

Quorum

The quorum required for a meeting of shareholders consists of at least two shareholders present in person, by proxy or by written ballot, who hold or represent between them at least 25% of our voting power. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place or any time and place as the directors designate in a notice to the shareholders. At the reconvened meeting, the required quorum consists of at least two shareholders present, in person, by proxy or by written ballot, who hold or represent between them at least 10% of our voting power, provided that if the meeting was initially called pursuant to a request by our shareholders, then the quorum required must include at least the number of shareholders entitled to call the meeting. See "— Shareholder Meetings."