
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

FORM 20-F

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

OR

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

OR

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

Date of event requiring this shell company report _____

Commission file number: 001-20892

ATTUNITY LTD

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

Israel

(Jurisdiction of incorporation or organization)

16 Atir Yeda Street, Atir Yeda Industrial Park, Kfar Saba, 4464321, Israel

(Address of principal executive offices)

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

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

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on which Registered</u>
Ordinary Shares, NIS 0.4 par value 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 the close of the period covered by the annual report (December 31, 2013): **14,527,292**

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

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

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

Item 17 Item 18

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

Yes No

INTRODUCTION

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

- “we”, “us”, “our”, “Attunity”, the “Company” or the “Registrant” are to Attunity Ltd and its subsidiaries;
- “dollars” or “\$” are to United States dollars;
- “NIS” or “shekel” are to New Israeli Shekels;
- the “Companies Law” or the “Israeli Companies Law” are to the Israeli Companies Law, 5759-1999;
- the “SEC” are to the United States Securities and Exchange Commission;
- “Big Data” are to very large and complex quantities of datasets that are difficult to process using traditional data processing applications;
- “CDC” are to change data capture, a process that captures and replicate only the changes made to enterprise data sources rather the entire data sources;
- “Cloud computing” are to the use of computing resources, hardware and software, that are generally delivered as a service over the Internet;
- “Convertible Notes” or “Notes” are to the convertible promissory notes we issued to certain investors (including Mr. Shimon Alon, the Chairman of our Board of Directors and our Chief Executive Officer, and Mr. Ron Zuckerman, a member of our Board of Directors) pursuant to a Note and Warrant Purchase Agreement, dated March 22, 2004, as amended from time to time, by and between us and the investors, or the Note Agreement;
- “Hayes” are to Hayes Technology Group, Inc., an Illinois corporation we acquired in December 2013; and
- “RepliWeb” are to RepliWeb Inc., a Delaware corporation we acquired in September 2011.

We have obtained trademark registrations in the U.S. for, among others, Attunity®, Attunity Connect®, Attunity Federate®, Attunity Replicate®, RepliWeb®, Better Data®, Smaller Databases®, Data Echo®, Data Recast® and Gold Client®. Unless indicated otherwise by the context, any other trademarks and trade names appearing in this annual report are owned by their respective holders.

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

On April 1, 2014, the exchange rate between the NIS and the dollar, as quoted by the Bank of Israel, was NIS 3.476 to \$1.00. Unless indicated otherwise by the context, statements in this annual report that provide the dollar equivalent of NIS amounts or provide the NIS equivalent of dollar amounts are based on such exchange rate.

On July 19, 2012, we effected a one-for-four reverse split of our ordinary shares, and accordingly the par value of our ordinary shares was changed from NIS 0.1 to NIS 0.4 per share. Unless indicated otherwise by the context, all ordinary share, option and per share amounts as well as stock prices in this annual report have been adjusted to give retroactive effect to the stock split for all periods presented.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The following selected consolidated statements of operations data for the years ended December 31, 2013, 2012 and 2011 and the selected consolidated balance sheet data as of December 31, 2013 and 2012, which have been prepared in accordance with U.S. GAAP, are derived from our audited consolidated financial statements set forth elsewhere in this annual report. The selected consolidated statements of operations data for the years ended December 31, 2010 and 2009 and the selected consolidated balance sheet data as of December 31, 2011, 2010 and 2009, which have also been prepared in accordance with U.S. GAAP, have been derived from audited consolidated financial statements not included in this annual report.

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

Balance Sheet Data:

	December 31,				
	2013	2012	2011	2010	2009
	(U.S. dollars in thousands)				
Working capital (deficiency)	\$ 12,292	\$ (3,046)	\$ (6,891)	\$ (2,643)	\$ (2,710)
Total assets	49,980	26,132	22,993	10,705	11,895
Current maturities of long term-debt, short-term convertible debt, including current maturities of long-term convertible debt	--	1,934	950	1,259	1,250
Long-term debt, less current maturities	--	--	--	1,661	2,750
Contingent purchase consideration	3,280	--	1,669	--	--
Warrants and bifurcated conversion feature, and other liabilities presented at fair value	1,093	730	510	1,215	303
Shareholders' equity	30,098	9,562	5,188	733	2,042
Additional paid-in capital	130,944	110,318	107,345	102,459	102,095

Income Statement Data:

	Year ended December 31,				
	2013	2012	2011	2010	2009
	(U.S. dollars and share amounts in thousands, except per share data)				
Software licenses	\$ 13,364	\$ 14,437	\$ 8,140	\$ 4,645	\$ 4,126
Maintenance and services	11,833	11,042	7,029	5,430	5,327
Total revenues	25,197	25,479	15,169	10,075	9,453
Cost of software licenses	748	831	563	1,119	2,347
Cost of maintenance and services	1,384	1,525	890	832	723
Research and development expenses	7,756	7,748	4,960	2,482	1,894
Selling and marketing expenses	11,793	9,833	5,851	3,831	3,469
General and administrative expenses	3,574	3,024	2,835	1,854	1,608
Total operating expenses	25,255	22,961	15,099	10,118	10,041
Operating income (loss)	(58)	2,518	70	(43)	(588)
Financial expenses, net	627	1,241	1,284	1,388	697
Other income	--	--	--	--	10
Income (loss) before taxes on income	(685)	1,277	(1,214)	(1,431)	(1,275)
Taxes on income (benefit)	(56)	(209)	(399)	74	28
Net income (loss)	(629)	1,486	(815)	(1,505)	(1,303)
Basic net income /(loss) per share	\$ (0.05)	\$ 0.14	\$ (0.09)	\$ (0.20)	\$ (0.20)
Weighted average number of shares used in computing basic net income / (loss) per share	11,474	10,716	8,662	7,993	7,124
Diluted net income /(loss) per share	\$ (0.05)	\$ 0.12	\$ (0.09)	\$ (0.20)	\$ (0.20)
Weighted average number of shares used in computing diluted net income / (loss) per share	11,474	12,311	8,662	7,993	7,124

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

Risk Factors Relating to Our Business

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

We incurred an operating loss of \$58,000 in the fiscal year ended December 31, 2013 and, while we generated operating income in the prior two fiscal years, we incurred operating losses in the past. Our ability to achieve and sustain profitability in the future depends in part on the rate of growth of, and changes in technology trends in, our market; the global economy; our ability to develop new products and technologies in a timely manner; the competitive position of our products; our ability to manage expenses; and other risks, some of which are described in this annual report. We may also seek to increase our operating expenses and make additional expenditures in anticipation of generating higher revenues, which we may not realize, if at all, until sometime in the future. As such, there can be no assurance that we will be able to achieve or sustain profitable operations in the future. Even if we maintain profitability, we cannot assure that future net income will offset our cumulative losses, which, as of December 31, 2013, were approximately \$102.0 million.

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

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

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

Our ability to expand our business into the SAP market and the success of our Gold Client offering depend on our relationship with SAP, including our ability to maintain our status as a SAP Software Solution and Technology Partner.

On December 18, 2013, we acquired Hayes, a leading U.S.-based provider of data replication software for the market in which SAP AG, or SAP, operates, including Hayes' flagship product, Gold Client®, a globally-recognized software solution in the SAP data replication market. Through Hayes, we maintain a status of a "SAP Software Solution and Technology Partner" and our Gold Client solutions have achieved several certifications from SAP, including, most recently, as a certified integration with the SAP® ERP 6.0 application running on the SAP HANA® platform. The success of our Gold Client offering is dependent to a large extent on our relationship with SAP and, in particular, our ability to maintain these certifications and, where appropriate, our ability to obtain additional certifications from SAP for our future SAP related offerings. This is primarily because an installation of SAP solutions is considered as a sizeable investment and current and prospective customers tend to view these certifications as valuable when making capital expenditure decisions related to their SAP solution-based environment. If we fail to maintain our status as a SAP Software Solution and Technology Partner or, where appropriate, obtain additional certifications from SAP for our future SAP related offerings, our business and operating results, especially our ability to expand our business into the SAP market and the sales of our Gold Client offering, could be adversely affected.

Our business and operating results depend in part on the successful and timely implementation of our third party partner solutions.

We rely on our strategic partners to extend the functionality and facilitate the wider adoption of our software solutions. Specifically, our software solutions, which are designed to enable access, sharing, replication, management, consolidation and distribution of data across heterogeneous enterprise platforms, organizations and the cloud, are often licensed or incorporated as part of a broader offering through our strategic partners. As a result, our revenue and financial results depend in part on the timely and successful implementation of our partners' solutions. To the extent our partners' deliverables are not met in a timely manner or at all, our business and operating results could be adversely affected.

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

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

Our products have a lengthy sales cycle.

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

We face risks associated with acquisition of businesses and technologies.

We completed the acquisition of Hayes and RepliWeb in December 2013 and September 2011, respectively. As part of our growth strategy, we may continue to evaluate and pursue additional acquisitions of, or significant investments in, other complementary companies or technologies to increase our technological capabilities and expand our product offerings. Future acquisitions and the successful integration of new technologies, products, assets or businesses into our own would require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. Other risks commonly encountered with acquisitions include disruption of our ongoing business; difficulties in integration of the acquired operations and personnel; inability of our management to maximize our financial and strategic position by the successful implementation of uniform product offerings and the incorporation of uniform technology into our product offerings and control system; being subject to known or unknown contingent liabilities, including taxes, expenses and litigation costs; and inability to realize expected synergies or other anticipated benefits. We cannot assure you that we will be successful in overcoming these risks or any other problems we may encounter in connection with the Hayes acquisition or other potential future acquisitions. Our inability to successfully integrate the operations of an acquired business and realize anticipated benefits associated with an acquisition could have a material adverse effect on our business, financial condition, results of operations and cash flows. Acquisitions or other strategic transactions may also result in dilution to our existing shareholders if we issue additional equity securities as consideration and may increase our debt. We may also be required to amortize significant amounts of intangible assets or record impairment of goodwill in connection with future acquisitions, which would adversely affect our operating results.

Severe global economic conditions may materially adversely affect our business.

Our business and financial condition is affected by global economic conditions and their impact on levels of spending by customers, which may be disproportionately affected by economic downturns. For example, starting in late 2008 and lasting through much of 2009, a steep downturn in the global economy sparked by uncertainty in credit markets and deteriorating consumer confidence, reduced technology spending by many organizations. More recently, credit and sovereign debt issues have destabilized certain European economies as well and thereby increased global macroeconomic uncertainties. Uncertainty about current global economic conditions continues to pose a risk as customers may postpone or reduce spending in response to restraints on credit. Should the economic slowdown resume and/or companies in our target markets reduce capital expenditures, it may cause our customers to reduce or postpone their technology spending significantly, which could result in reductions in sales of our products, longer sales cycles, slower adoption of new technologies and increased price competition. In addition, if the market is flat and customers experience low visibility we may not be able to increase our sales (whether direct sales or indirect sales through our distributors). Each of the above scenarios would have a material adverse effect on our business, operating results and financial condition.

We are subject to risks associated with international operations.

We are based in Israel and generate a large portion of our sales outside the United States. Our sales outside of the United States accounted for approximately 30%, 35% and 29% of our total revenues for the years ended December 31, 2013, 2012 and 2011, respectively. Although we commit significant management time and financial resources to developing direct and indirect international sales and support channels, we cannot be certain that we will be able to maintain or increase international market demand for our products. To the extent that we cannot do so in a timely manner, our business, operating results and financial condition may be adversely affected.

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

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

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

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

The markets for our software products are intensely competitive and, particularly in the file replication and application release automation markets, also fragmented. Competition in the industry is generally based on product performance, depth of product line, technical support and price. We compete both with international and local software providers, many of whom have significantly greater financial, technical and marketing resources than us. In the fields of application release automation, web deployment and enterprise file replication, we also compete with providers of open source and freeware solutions, which are substantially less expensive than our solutions. We anticipate continued growth and competition in the software products market. In the past few years, we have identified a trend of consolidation in the software industry in general, and in the real-time data integration market in particular. For example, in July 2011, Informatica Corporation acquired WisdomForce, which engages, among other things, in data replication and loading, and in December 2013, IBM acquired Aspera, which engages, among other things, in the sale of managed file transfer solutions. Consolidation and mergers in our market may result in stronger competition by larger companies that threaten our market positioning.

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

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

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

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

We are currently developing new products as well as enhancements and new features to our existing products, and new solutions for cloud computing and other integrated management products. We may not be able to successfully complete the development and market introduction of new products or product enhancements or new features. If we fail to develop and deploy new products and product enhancements or features on a timely basis or if we fail to gain market acceptance of our new products, our revenues will decline and we may lose market share to our competitors. For example, in late 2005, we launched Attunity InFocus, and, despite significant investments in developing and marketing of this product, demand was weak and we determined to end the sales of this product in the end of 2008.

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

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

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

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

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

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

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

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

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

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

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

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

We had cash and cash equivalents of approximately \$16.5 million as of December 31, 2013. Although we anticipate that our existing capital resources will be adequate to satisfy our working capital and capital expenditure requirements in the next 12 months, we may need to raise additional funds in the future in order to satisfy our future working capital and capital expenditure requirements. There is no assurance that we will be able to obtain additional funds on a timely basis, on acceptable terms or at all. If we cannot raise needed funds on acceptable terms, we may be required to delay, scale back or eliminate some aspects of our operations. In addition, if additional funds are raised through the issuance of equity securities, the percentage ownership of then current shareholders would be diluted.

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

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

Our operating results fluctuate significantly and are affected by seasonality.

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

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

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

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

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

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

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

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

Although our internal control over financial reporting was considered effective as of December 31, 2013, there is no assurance that our internal control over financial reporting will continue to be effective in the future, which could result in our financial statements being unreliable, government investigation or loss of investor confidence in our financial reports.

The Sarbanes-Oxley Act of 2002, or SOX, imposes certain duties on us. Our efforts to comply with the management assessment requirements of Section 404(a) of SOX have resulted in a devotion of management time and attention to compliance activities, and as we expect to be subject to the auditor attestation requirements of Section 404(b) of SOX starting with the year ending December 31, 2014, these efforts are expected to require the continued commitment of significant resources. If we fail to maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting. We may also identify material weaknesses or significant deficiencies in our internal control over financial reporting. In addition, while we expect that our internal control over financial reporting would need to be audited by our independent registered public accounting firm starting the year ending December 31, 2014, such internal control has not and is not currently required to be audited. In the future, if we are unable to assert that our internal controls are effective, our investors could lose confidence in the accuracy and completeness of our financial reports, which in turn could cause our stock price to decline. Failure to maintain effective internal control over financial reporting could also result in investigation or sanctions by regulatory authorities.

Risk Factors Relating to Our Ordinary Shares

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

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

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

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

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

As of April 1, 2014, our directors and executive officers beneficially own approximately 19.1% of our outstanding ordinary shares. As a result, if these shareholders acted together, they could exert significant influence on the election of our directors and on decisions by our shareholders on matters submitted to shareholder vote, including mergers, consolidations and the sale of all or substantially all of our assets. This concentration of ownership of our ordinary shares could delay or prevent proxy contests, mergers, tender offers, or other purchases of our ordinary shares that might otherwise give our shareholders the opportunity to realize a premium over the then-prevailing market price for our ordinary shares. This concentration of ownership may also adversely affect our share price.

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

As of April 1, 2014, we had approximately 14.8 million ordinary shares issued and outstanding and approximately 2.0 million of additional ordinary shares which are issuable upon exercise of outstanding employee stock options and warrants. The issuance of a significant amount of additional ordinary shares on account of these outstanding securities will dilute our current shareholders' holdings and may depress our share price.

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

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

Our ordinary shares have experienced significant market price and volume fluctuations in the past and may experience significant market price and volume fluctuations in the future. Numerous factors, many of which are beyond our control, may cause our market price and trade volume to fluctuate and decrease, including the following factors:

- quarterly variations in our operating results;

- changes in expectations as to our future financial performance and cash position, including financial estimates by securities analysts and investors;
- announcements of technological innovations or new products by us or our competitors;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in the status of our intellectual property rights;
- announcements by third parties of significant claims or proceedings against us; and
- future substantial sales of our ordinary shares.

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

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

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

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

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

We do not intend to pay cash dividends.

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

Risk Factors Relating to Our Operations in Israel

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

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

Over the past several decades, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Since late 2000, there has also been a high level of violence between Israel and the Palestinians which has strained Israel's relationship with its Arab citizens, Arab countries and, to some extent, with other countries around the world. Since the end of 2010 several countries in the region, including Egypt and Syria, have been experiencing increased political instability, which led to changes in government in some of these countries, the effects of which are currently difficult to assess. In addition, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. Iran is also believed to have a strong influence among extremist groups in areas that neighbor Israel, such as Hamas in Gaza and Hezbollah in Lebanon. This situation may potentially escalate in the future to violent events which may adversely affect Israel and us. This instability may lead to deterioration of the political and trade relationships that exist between the State of Israel and these countries. In addition, this instability may affect the global economy and marketplace. Any armed conflicts or political instability in the region, including acts of terrorism or any other hostilities involving or threatening Israel, would likely negatively affect business conditions and could make it more difficult for us to conduct our operations in Israel, which could increase our costs and adversely affect our financial results. Our commercial insurance does not cover losses that may occur as a result of events associated with the security situation in the Middle East, such as damages to our facilities resulting in disruption of our operations. Although the Israeli government currently covers the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained or will be adequate in the event we submit a claim.

Furthermore, some neighboring countries, as well as certain companies and organizations, continue to participate in a boycott of Israeli firms and others doing business with Israel or with Israeli companies. Similarly, Israeli companies are limited in conducting business with entities from several countries. For example, in 2008, the Israeli legislature passed a law forbidding any investments in entities that transact business with Iran. Restrictive laws, policies or practices directed towards Israel or Israeli businesses could have an adverse impact on the expansion of our business.

In addition, we could be adversely affected by the interruption or curtailment of trade between Israel and its trading partners, a significant increase in the rate of inflation, or a significant downturn in the economic or financial condition of Israel.

Our financial results may be adversely affected by currency fluctuations.

Since we report our financial results in dollars, fluctuations in rates of exchange between the dollar and non-dollar currencies may have a material adverse effect on our results of operations. We generate a majority of our revenues in dollars or in dollar-linked currencies, but some of our revenues are generated in other currencies such as the Euro, the British Pound Sterling, the Hong-Kong Dollar and the NIS. As a result, some of our financial assets are denominated in these currencies, and fluctuations in these currencies could adversely affect our financial results. In addition, a large portion of our expenses, principally salaries and related personnel expenses, are paid in NIS. For instance, during 2013, we witnessed a strengthening of the average exchange rate of the NIS against the dollar, which increased the dollar value of Israeli expenses. If the NIS strengthens against the dollar, as it did in 2013, the value of our Israeli expenses will increase. While we engage, from time to time, in currency hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on our results of operations, we cannot guarantee that such measures will adequately protect us against currency fluctuations in the future. Although exposure to currency fluctuations to date has not had a material adverse effect on our business, there can be no assurance such fluctuations in the future will not have a material adverse effect on our operating results and financial condition.

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

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

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

We are incorporated under the laws of the State of Israel. Service of process upon us, our Israeli subsidiaries, our directors and officers and the Israeli experts, if any, named in this annual report, substantially all of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, because the majority of our assets and investments, and substantially all of our directors, officers and such Israeli experts are located outside the United States, any judgment obtained in the United States against us or any of them may be difficult to collect within the United States.

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

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

- subject to limited exceptions, the judgment is final and non-appealable;
- the judgment was given by a court competent under the laws of the state of the court and is otherwise enforceable in such state;
- the judgment was rendered by a court competent under the rules of private international law applicable in Israel;
- the laws of the state in which the judgment was given provides for the enforcement of judgments of Israeli courts;

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

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Corporate History and Details

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

Our executive headquarters are located at 16 Atir Yeda Street, Atir Yeda Industrial Park, Kfar Saba 4464321, Israel, telephone number (972) 9-899-3000. Our authorized representative and agent in the U.S. is Attunity Inc., our wholly owned subsidiary, which maintains its principal offices at 70 Blanchard Road, Burlington, Massachusetts 01803, telephone number (781) 730-4070. Our address on the Internet is <http://www.attunity.com>. The information on our website is not incorporated by reference into this annual report.

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

We began operations in 1989 and, when we went public on NASDAQ in December 1992, our principal products were the APT (Application Programming Tools) product family of software productivity tools, comprised of the APTuser - a production report generator and APTools - a comprehensive software development system. In 1993, we acquired Attunity Software Services (1991) Ltd. (formerly known as Meyad Computers Company (1991) Ltd.), which owned Mancal 2000 - a financial and logistic application software package. In 1994, we acquired Attunity Inc. (formerly known as Cortex Inc.), which owned CorVision - an application generator for enterprise applications. In 1996, we released Attunity Connect® - a universal data and application access product. In 2004, we released Attunity Stream - a CDC software that captures only the changes made to enterprise data sources with minimal impact on the database systems. In 2005, we released Attunity InFocus - a software platform for workplace - focused composite applications which, since late 2008, we no longer offer. In 2009, we released Attunity Operational Data Replication - a set of solutions that allow the transfer and synchronization of data between heterogeneous databases. In 2011, we acquired RepliWeb, a leading provider of enterprise file replication and managed file transfer technologies, and released Attunity Replicate, a high performance data replication software that enables organizations to accelerate and improve the distribution and sharing of data for enhanced accessibility. In 2013, we raised net proceeds of approximately \$18 million in a public offering and acquired Hayes, a leading provider of data replication software for the SAP market.

Recent Major Business Developments

Below is a summary of the major business developments in Attunity since January 1, 2013:

- On April 2, 2014, we announced the release of Attunity Maestro, a new Big Data management platform.
- On December 18, 2013, we acquired Hayes, a leading U.S.-based provider of data replication software for the SAP market.
- On November 26, 2013, we raised net proceeds of approximately \$18 million in a public offering.
- On October 16, 2013, we announced the extension of an OEM distribution agreement with one of the world's largest business software and hardware systems companies.
- On September 23, 2013, we announced that we enhanced Attunity Replicate, our data replication platform, to enable fast and easy disaster recovery for Oracle environments.
- On May 8, 2013, we announced that we have extended our multi-year OEM strategic distribution agreement with one of our partners, a world-leading software and IT corporation, and that, as part of the extension, the new structure of the agreement improves for us the pricing terms for license, support and maintenance revenues.

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

B. BUSINESS OVERVIEW

Overview

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

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

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

Our software solutions have been deployed at thousands of organizations worldwide across all industries, including government, financial services, healthcare, oil and gas, manufacturing, retail, pharmaceuticals, and the supply chain industry. Over the years, our company and products have also won a number of awards for ingenuity, performance and innovation, including the following recent awards:

- In December 2013, our Attunity Replicate data replication software was named to the List of the Trendsetting Products in Data for 2014 by DBTA Magazine;
- In September 2013, Info-Tech Research Group named Attunity as 'Top Innovator' and awarded us the 'Trend Setter Award' for Managed File Transfer (MFT);
- In June 2013, DBTA Magazine named Attunity 'One of the Most Important Companies in Data Today'; and
- In April 2013, CRN Magazine selected Attunity as a 'Big Data 100 Company' in its annual list recognizing the most innovative technology vendors that offer products and services to help businesses manage Big Data.

We are not responsible for any of these awards or the entities that award them.

Through distribution, OEM agreements and strategic relationships with global-class partners such as Microsoft, Oracle, IBM, HP, EMC and Amazon Web Service (AWS), our solutions have been deployed at thousands of organizations worldwide in all areas of industry, including government, healthcare, financial services, insurance, oil & gas, manufacturing, retail, pharmaceuticals and the supply chain industry.

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

The Market Opportunity and Our Solutions

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

In 2009, we expanded our product offering to target the data replication market, an important segment of the data integration market that enables the real-time availability and consistency of data across heterogeneous databases. Specifically, we focused on what we call Operational Data Replication, or ODR, software solutions, which are designed to make information available to support operational business intelligence. We have since expanded on our technology to support a variety of mission-critical data initiatives. Based, among other things, on market studies and inputs from our customers and prospects, we believe that the need for heterogeneous data integration and replication will continue to increase with the adoption of cloud computing and Hadoop (an open-source software framework for storage and large-scale processing of data-sets on clusters of commodity hardware), as organizations start to manage data both in on-premises data centers and in cloud-based systems. In this respect, we focus on high-speed bulk data transfer and CDC capabilities to support both environments. In September 2011, we acquired RepliWeb, which allows us to offer an extensive data and content replication platform for enterprise data centers and the cloud. In December 2013, we acquired Hayes, which allows us to offer SAP users, through our Gold Client® suite of solutions, a flexible and reliable solution for selecting and moving targeted volumes of data from and between SAP applications and data warehouses, including SAP HANA (SAP's in-memory Big Data platform designed to fulfill the increasing demand for real-time analytics).

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

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

Our Strategy

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

- *Extend our Product Leadership.* Our flexible, open and standards-based architecture extends integration opportunities into more business applications and enterprise computing environments, including cloud computing. Our goal is to provide the most comprehensive and reliable suite of data management and integration solutions for enterprise data centers and cloud environments that accelerate information access and movement, improve system uptime and reduce operational overhead and complexities.
- *Expand Our Selling Capabilities.* We market and sell our products in the U.S, the U.K, Europe, Asia-Pacific regions, the Middle East and Latin America through direct sales, OEM, reseller and distributor channels. We intend to expand our sales channels in those territories and seek to enter into agreements with new OEMs and other indirect channels.
- *Enter New Markets.* To date, our revenues have been derived predominantly from licensing our software to enterprises that use it in their data centers and cloud environments to enable Big Data analytics, data integration, business intelligence, release automation and file replication. We believe that our software is well positioned to meet the new and fast-growing markets of Big Data and cloud computing (including cloud data warehousing, analytics, the "Industrial Internet of Things", Hadoop-based environments, cloud data archiving, and disaster recovery), adding value to customers with new solutions as these markets evolve. We intend to capitalize upon these opportunities by marketing our software and services to companies with real-time information needs.
- *Increased Penetration of Our Existing Customer Base.* Over the years, our different software solutions were licensed to over 2,500 customers worldwide and that base continues to grow. This large installed base affords us a unique opportunity for cross-selling our expanded product offering and future software solutions. By way of example, through our acquisition of Hayes, we are now in a position to cross-sell and up-sell our solutions to existing customers who leverage SAP software. Since enterprises today are largely heterogeneous and SAP is one of the largest Enterprise Resource Planning (ERP) vendors in the world today, we believe there is significant opportunity to grow our business in this area.

- *Expand and Leverage our Strategic Relationships.* We believe that a significant market opportunity exists to sell our software with the complementary products and services provided by other organizations. We plan to extend our existing strategic relationships and develop new alliances with leading global software providers, equipment manufacturers, application service providers, systems integrators and value-added resellers, in order to extend the functionality of our software and increase sales. We have strategic relationships with global-class partners such as Microsoft, IBM, Oracle, HP, EMC, AWS, SAP and CenturyLink, Inc. (Savvis), where our software is sold as a complementary product to their product line, or embedded within their own products. We intend to leverage the sales and marketing capabilities of our alliance partners and facilitate the wider adoption of our software.
- *Pursue Strategic Acquisitions and Investments.* In order to achieve our business objectives, we may evaluate and pursue the acquisition of, or significant investments in, other complementary companies, technologies, products and/or businesses that enable us to enhance and increase our technological capabilities and expand our software products and service offerings. For instance, in September 2011, we completed the acquisition of RepliWeb, a provider of enterprise file replication and managed file transfer technologies, and in December 2013 we acquired Hayes to expand our capability to select and replicate SAP and SAP HANA data.

Products

Our software offering currently consists of the following key products:

Attunity Maestro

Attunity Maestro, which we launched in April 2014, is an enterprise-class information flow management and automation platform, integrating mission-critical data. The solution accelerates and orchestrates data transmission and deployment processes of Big Data and other large-file assets throughout global data center and cloud environments. Maestro is designed to meet the needs of a diverse portfolio of users like IT Operations, "lines of business" and risk management teams, and to provide controls for defining, executing, managing and auditing all transaction and automation initiatives. The key features of Attunity Maestro are:

- Cascading, distribution and consolidation;
- Central monitoring and management for Attunity products; and
- Process flow designer.

Attunity Replicate®

Attunity Replicate is a high-performance data replication software, which we believe enables organizations to accelerate and reduce the costs of distributing, sharing and ensuring the availability of data for meeting business operations and business intelligence needs. Using Attunity Replicate, organizations can load data efficiently and quickly to operational data stores/warehouses; create copies of production databases to enable operational reporting; offload queries from operational systems to reduce load and impact; facilitate zero-downtime migrations and upgrades; and distribute data across data sources/centers. Instead of relying on a complex, resource-intensive ETL (Extract, Transform and Load) process which moves data in batches, Attunity enables ELT with a simple yet powerful GUI (Graphic User Interface) expediting the traditionally-slow process of data provisioning. The key features of Attunity Replicate are:

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

Attunity CDC

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

- Real-time capture of changes from most data sources, including Oracle and SQL Server, as well as legacy systems such as mainframe, HP NonStop, and HP OpenVMS;
- Structured Query Language (SQL)-based change delivery for ETL and data-oriented applications;
- Extensible Markup Language (XML)-based change delivery for Enterprise Application Integration, or EAI, and message-oriented applications;
- Simple installation and fast configuration using wizard-based GUI; and
- Auditing and recoverability.

Attunity Connect®

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

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

Attunity Managed File Transfer (MFT)

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

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

Attunity for EFR

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

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

Attunity for ARA

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

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

Attunity Gold Client®

Attunity Gold Client Solutions is our replication software for data management within SAP environments. Businesses around the world choose Gold Client Solutions to maximize the value of their investments in SAP, by reducing enterprise storage requirements, improving the quality and availability of test data, restoring development integrity, and ensuring data security. Using Gold Client Solutions, customers can quickly select and copy subsets of only relevant data from production or non-production sources to non-production targets, with options to simultaneously scramble sensitive data and keep data subsets in sync across systems. Gold Client Solutions reside natively in the SAP application layer and supports a broad list of SAP applications, including ERP, BW, HR, CRM, SRM, GTS and SAP HANA. The key features of Gold Client are:

- Replicating data with all relevant data, exactly as it exists in the source;
- Providing flexible selection methods allow any criteria to identify data for replication;
- Creating smaller, fully functional clients;
- Migrating select data to new or existing environments, on premise or in cloud;
- Simultaneously copying relevant data on multiple SAP applications;
- Protecting sensitive data at export with extensive, extendable transformation rules; and
- Selectively deleting unwanted data in non-production systems.

Attunity CloudBeam

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

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

Sales and Marketing

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

We maintain direct sales operations through wholly owned subsidiaries in the United States, the United Kingdom, Hong Kong and Israel. In several countries in Europe, as well as in Japan, South Korea, Taiwan, Singapore, and South and Central America, we distribute our products through independent distributors. Our field force (including marketing, sales, technical pre-sales and support personnel) as of December 31, 2013 was comprised of 40 persons in North America, 11 persons in Europe, the Middle East and Africa and 3 persons in the Asia Pacific region.

Over the course of the past several years, we have focused on developing long-term strategic partnerships with platform vendors, business intelligence vendors, resellers, VARs, OEMs, system integrators and managed service providers as well as with other business partners, such as EMC and HP Vertica. We entered into a number of OEM, VAR and/or reseller agreements with Microsoft, IBM, Oracle, HP, Business Objects (owned by SAP), CenturyLink, Inc. (Savvis) and other enterprise software vendors and integrators. For example, in February 2011, we announced that we had entered into an OEM agreement with Microsoft to provide our ODBC connector in Microsoft's next version of SQL Server. This OEM agreement was in addition to a multi-million dollar OEM agreement with Microsoft to provide our CDC in Microsoft's enterprise edition of SQL Server 2012, which we announced in December 2010. The scope of these OEM agreements is global and it also covers resellers, developers and distributors of Microsoft's SQL Server.

Customer Support Services

We provide the following direct support services to our customers:

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

Training. We provide classroom and on-site training in the use and, where necessary, implementation, of our products. The courses, which, where appropriate, are also provided as online learning programs, typically include product use education, product troubleshooting and system management. Our customers receive documentation that includes user manuals, reference manuals, tutorials, installation guides and release notes.

Professional Services. We offer consulting services and system integration assistance to customers, although most of our products do not require material support in implementation. In respect of our Gold Client solutions, we offer customers professional services for the implementation of the product, including installation assistance of the software, software configuration specific to the SAP application version, custom table analysis, custom configuration when needed, and training.

Seasonality

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

Customers

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

For the year ended December 31, 2013, no single customer accounted more than 10% of our total revenues. For the year ended December 31, 2012, Microsoft accounted for approximately 10.9% of our total revenues. For the year ended December 31, 2011, Microsoft and another OEM partner accounted for approximately 13.4% and 10.7%, respectively, of our total revenues.

In the past three years, a substantial majority of our license revenues were derived from our connectivity and data replication products whereas the balance of license revenues were derived from our file replication products, which consist of our file replication, MFT and ARA solutions associated with the acquisition of RepliWeb in September 2011.

In 2012 and 2013, a substantial majority of our maintenance and support revenues were derived from both our connectivity and data replication products and file replication products, whereas the balance of our maintenance and support revenues were derived from the Corvision and APTuser products, which are our legacy products. In 2011, a substantial majority of our maintenance and support revenues were derived from our connectivity and data replication products, whereas the balance of our maintenance and support revenues were derived from the file replication products and, to a lesser extent, from our legacy products.

In 2013, 69.6% of our revenues were from the U.S., 13.0% were from Europe, 7.2% were from Israel, 7.0% were from the Far East and 3.2% were from other countries, compared to 65.0%, 14.3%, 8.8%, 5.8% and 6.1%, respectively, in 2012, and 70.7%, 14.4%, 6.2%, 5.7% and 2.8%, respectively, in 2011.

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

Competition and Pricing

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

We anticipate continued growth and competition in this market and, consequently, the entrance of new competitors into the market or intensified competition, including by way of consolidation. In the past few years, we have identified a trend of consolidation in the software industry in general, and in the real-time data integration market in particular, such as IBM's acquisition of Aspera (December 2013), Informatica Corporation's acquisition of Wisdom Force (July 2011) and Oracle's acquisition of GoldenGate Software (July 2009). Consolidation and mergers in our market may result in stronger competition by larger companies that threatens our market positioning. New entrants may also include the IT departments of current and potential customers of ours that develop solutions that compete with our products.

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

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

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

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

SAP Data Replication and Management: Our competitors in the SAP data replication and management market include major platform vendors, such as IBM and SAP itself; global consulting services and software solutions vendors, such as Informatica, EPI-USE and BackOffice; and storage management providers, such as EMC and NetApp. Our competitors in this market enjoy advantages over us in terms of stronger global brand recognition, research and development resources, and sales infrastructure. However, we believe our solutions for SAP data are competitive in their ability to offer a rich portfolio of features and a quick implementation process, and deliver a quick total return on investment.

Intellectual Property Rights and Software Protection

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

We have obtained trademark registrations in the U.S. for, among others, Attunity®, Attunity Connect®, Attunity Federate®, Attunity Replicate®, RepliWeb®, Better Data®, Smaller Databases®, Data Echo®, Data Recast® and Gold Client®.

We believe that copyright protection, which generally applies whether or not a license agreement exists, is sufficient to protect our rights in our products. We do not currently own any registered copyrights. Our policy is for our customers to sign non-transferable software license agreements providing contractual protection against unauthorized use of the software. Preventing the unauthorized use of software is difficult, and unauthorized software use is a persistent problem in the software industry. However, we believe that, because of the rapid pace of technological change in the software industry, the legal protections for our products are less significant factors in our success than the knowledge, ability and experience of our employees, the frequency of product enhancements and the timeliness and quality of support services provided by us.

Government Regulations

General

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

Grants from the Office of the Chief Scientist

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

We have not received grants since 2000 and, since 2006, we have not had any liability to pay royalties to the Chief Scientist. Nevertheless, the R&D Law provides that know-how developed under an approved research and development program or rights associated with such know-how may not be transferred to third parties in Israel without the approval of the Chief Scientist. Such approval is not required for the sale or export of any products resulting from such research or development. The R&D Law, as amended, further provides that the know-how developed under an approved research and development program or rights associated with such know-how may not be transferred to any third parties outside Israel, except in certain special circumstances and subject to the Chief Scientist's prior approval. The Chief Scientist may approve the transfer of Chief Scientist-funded know-how outside Israel, generally, in the following cases: (a) the grant recipient pays to the Chief Scientist a portion of the sale price paid in consideration for such Chief Scientist-funded know-how (according to certain formulas), (b) the grant recipient receives know-how from a third party in exchange for its Chief Scientist-funded know-how, or (c) such transfer of Chief Scientist-funded know-how arises in connection with certain types of cooperation in research and development activities.

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

C. ORGANIZATIONAL STRUCTURE

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

Subsidiary Name	Country of Incorporation	Ownership Percentage
Attunity Inc.	United States	100%
Attunity (UK) Limited	United Kingdom	100%
Attunity (Hong Kong) Ltd.	Hong-Kong	100%
Attunity Israel (1992) Ltd.	Israel	100%
RepliWeb Inc.	United States	100%
Hayes Technology Group, Inc.	United States	100%

D. PROPERTY, PLANTS AND EQUIPMENT

General. Other than the leased properties described below, we do not own or lease any material tangible fixed assets. With respect to encumbrances on our assets, see Item 5.B "Operating and Financial Review and Prospects– Liquidity and Capital Resources – Principal Financing Activities – Credit Line."

Israeli Leases. Our executive, marketing and sales offices as well as research and development facilities are located in the industrial park of Kfar Saba, Israel. In August 2012, in order to consolidate our two Israeli facilities into one location, we entered into a new lease agreement for the lease of approximately 18,400 square feet in said location. In accordance with the lease, we relocated to these new facilities in mid-March 2013. The lease expires in February 2018 and may be extended for two additional periods of three years each. The aggregate annual rent for our Israeli facilities in 2013, which was comprised in 2013 of this facility and another facility that we left in mid-March 2013, was approximately \$535,000 in 2013, compared with approximately \$414,000 in 2012.

North America Leases. We lease approximately 4,200 square feet of office space in Burlington, MA, approximately 2,500 square feet of office space in Coconut Creek, FL, and approximately 4,300 square feet of office space in Buffalo Grove, IL. The aggregate annual rent of these facilities was approximately \$155,000 in 2013. In February 2014, we relocated to a new office space in Burlington of approximately 6,000 square feet, for annual rent of approximately \$134,000 (which reflects an annual increase in our lease expenses of approximately \$28,000).

Leases in Other Locations. We lease office space in Hong Kong and, commencing March 2013, in Chertsey, England. The aggregate annual rent for these premises was approximately \$160,000 in 2013 (compared with \$126,000 in 2012).

Facilities - Outlook. We believe that the aforesaid offices and facilities are suitable and adequate for our operations as currently conducted and as currently foreseen. In the event that additional or substitute offices and facilities are required, we believe that we could obtain such offices and facilities at commercially reasonable rates.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

A. OPERATING RESULTS

Overview

We were founded in 1988 and became a public company in the United States in 1992. We have been delivering software solutions to organizations around the world for over twenty years and we are now a leading provider of information availability software solutions that enable access, sharing, replication, management, consolidation and distribution of data, including Big Data, across heterogeneous enterprise platforms, organizations, and the cloud.

Our software solutions include data replication (Replicate and Gold Client), CDC, data connectivity (Attunity Connect), EFR, MFT and cloud data transfer (CloudBeam). These solutions benefit our customers' businesses by enabling real-time access and availability of data and files where and when needed, across the maze of heterogeneous systems making up today's IT environment. Our software is commonly used for projects such as data warehousing, big data analytics, reporting, migration and modernization, ARA, data distribution and cloud initiatives.

Through distribution, OEM agreements and strategic relationships with global-class partners, our solutions have been deployed at thousands of organizations worldwide in all areas of industry, including government, healthcare, financial services, insurance, oil & gas, manufacturing, retail, pharmaceuticals and the supply chain industry.

Executive Summary

2013 Highlights

In 2013, our total revenues were approximately \$25.2 million, compared to \$25.5 million in 2012. Our total revenues were comprised of:

- License revenues that decreased by 7.4% to \$13.4 million in 2013, compared to \$14.4 million in 2012. The decrease in license revenues mainly resulted from lower than expected sales of our solutions during the first half of 2013 with \$5.0 million in license revenues, compared to \$7.1 million in the first half of 2012. We attribute this decrease primarily to the generation of fewer marketing leads and a relatively weak execution of sales, both through our direct sales and our OEM partners. In the second half of 2013, we were able to improve our marketing and sales operations and our license revenues grew to \$8.4 million, compared to \$7.3 million in the second half of 2012. The growth in license revenues in the second half of 2013 was primarily due to an increase in the average size of our deals and in the number of transactions, which we attribute to our expanded sales and marketing initiatives during that period and an increase in license revenues from one of our OEM partners, which we attribute to the modification in the commercial terms of the OEM agreement with such partner; and
- Maintenance and services revenues that increased by 7.2% to \$11.8 million, compared to \$11.0 million in 2012. The increase is primarily due to an increase in license revenues generated throughout 2012 that contributed to higher maintenance revenues in the 2013.

Our operating loss for 2013 was \$58,000 compared to operating income of \$2.5 million for 2012. This change is mainly a result of a \$1.9 million increase in sales and marketing expenses, while the total revenues remained at the same level.

Our operating loss contributed to a net loss of \$629,000 or (\$0.05) per diluted share, compared to a net income of \$1.5 million, or \$0.12 per diluted share, in 2012.

In November 2013, we raised net proceeds of approximately \$18 million in a public offering of our ordinary shares. We currently intend to continue to use the net proceeds in connection with the execution of our strategic plan, including for expanding our sales, marketing and research and development activities, as well as acquisitions and investments, and for working capital and other general corporate purposes.

In December 2013, we acquired Hayes, a leading U.S.-based provider of data replication software for the SAP market, in consideration for (1) approximately \$6.2 million in a combination of cash (\$4.5 million) and ordinary shares (185,000 shares) and (2) contingent payments of up to \$4.2 million (in a combination of cash and shares) over 2014 and 2015. With this acquisition, we plan to penetrate the SAP market, accessing a new, larger customer base and further establishing Attunity as a leading software vendor for Big Data replication, offering a broader line of solutions that enable data access, sharing and distribution across heterogeneous IT platforms in enterprise data centers and cloud environments. *See also in Item 10.C "Material Contracts - Acquisition of Hayes."*

We had cash and cash equivalents of approximately \$16.5 million as of December 31, 2013 compared with \$3.8 million as of December 31, 2012. This increase in our cash position is mainly attributable to approximately \$18.0 million raised in the public offering and the exercise of stock options and warrants of approximately \$1.1 million. This increase was partially offset by the payment, in April 2013, of \$2.0 million to RepliWeb's former shareholders, as a full and final payment of the contingent consideration payable to them in connection with the acquisition of RepliWeb.

Our shareholders' equity increased to \$30.1 million as of December 31, 2013 compared to \$9.6 million as of December 31, 2012.

2014 Outlook

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

- Big Data, which is a relatively new target market for Attunity with our ability to enable information availability and to facilitate the replication and transfer of large amounts of structured and unstructured data to enable analytics and business intelligence, seems to continue growing rapidly, with numerous software vendors, developers and integrators looking to invest substantial resources in this market;
- Continued growth of the already large open systems database, or DBMS, market, which is a target market for Attunity with our data replication software solutions. Continued and accelerated growth of the amounts of data stored and managed by organizations; Information immediacy, or the growing need and expectation by business users to have fresh and up-to-date information;
- The "Industrial Internet of Things," which is a trend that refers to integrating complex physical machinery with networked sensors and software, together with Big Data, and machine-to-machine communication over wide distances, for the purpose of analyzing all of it together (often in real-time), to gain better insights. These insights enable organizations to adjust and optimize operations. This evolving trend may present new opportunities and markets for our solutions;
- Ongoing extensive growth in unstructured data and a need to deploy, migrate and integrate this data across distributed computing environments and into competent Big Data systems, including Hadoop; and
- Cloud computing, which is also a relatively new target market for Attunity with our data replication software solutions, and which seems to continue growing significantly, with numerous software vendors, developers and integrators looking to invest substantial resources in this market.

In 2014, we intend to continue to invest in expanding our sales and marketing, developing and marketing new solutions and products, such as our recently announced Attunity Maestro, and enhancing existing solutions and products, including for supporting new markets. We believe that this strategy will enable us to support continued sales growth and enhance market acceptance for our offerings. In particular, we intend to continue to introduce and market several of our new software solutions, such as our optimized data loading solution for Amazon Redshift as well as our SAP replication solution supporting SAP HANA.

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

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

Critical Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

Services revenues are recognized as the services are performed.

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

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

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

Liabilities Presented at Fair Value. The Plenus Right (*see Note 8 to our consolidated financial statements*) is considered as a derivative and classified as liability in accordance with ASC No. 815-40, "*Contracts in Entity's Own Equity*", or ASC No. 815-40, and is marked to market at each reporting date. As of December 31, 2013 and 2012 the liability associated with the Plenus Right amounted to \$1,093,000 and \$730,000, respectively.

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

Provisions for Income Taxes. We are subject to income taxes in Israel, the United States and a number of other foreign jurisdictions. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Based on the guidance in ASC No. 740 "Income Taxes", we use a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax expense or benefit as the largest amount that is more than 50% likely of being realized upon settlement.

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

We also assess our ability to utilize tax attributes, including those in the form of carry forwards for which the benefits have already been reflected in the financial statements. We do not record valuation allowances for deferred tax assets that we believe are more likely than not to be realized in future periods. While we believe the resulting tax balances as of December 31, 2013 and 2012 are appropriately accounted for, the ultimate outcome of such matters could result in favorable or unfavorable adjustments to our consolidated financial statements and such adjustments could be material. See Note 13 to our consolidated financial statements included elsewhere in this annual report for further information regarding income taxes.

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

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

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

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

Goodwill and Intangible Assets. Goodwill is measured as the excess of the cost of acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed.

We review goodwill for impairment at least annually on December 31st or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. We test goodwill using the two-step goodwill impairment process in accordance with ASC 350, "Intangibles-Goodwill and Other". The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the second step will be performed; otherwise, no further step is required. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying amount of the goodwill. Any excess of the goodwill carrying amount over the applied fair value is recognized as an impairment loss, and the carrying value of goodwill is written down to fair value. As of December 31, 2013, no impairment of goodwill has been identified.

Results of Operations

The following discussion of our results of operations for the years ended December 31, 2013, 2012 and 2011, including the following table, which presents selected financial information data in dollars and as a percentage of total revenues, is based upon our statements of operations contained in our financial statements for those periods, and the related notes, included in this annual report.

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

On December 18, 2013, we completed the acquisition of Hayes, which is described elsewhere in this annual report, including in *Item 10.C "Material Contracts - Acquisition of Hayes."* As a result of this transaction, the revenues and expenses of Hayes are consolidated with our results of operations starting December 18, 2013. The assets and liabilities of Hayes are consolidated with our balance sheet as of December 31, 2013. *See Note 3 to our consolidated financial statements included in this annual report.*

**Year Ended December 31,
(U.S. dollars in thousands)**

	2013		2012		2011	
Software licenses	53%	13,364	57%	14,437	54%	8,140
Maintenance and services	47%	11,833	43%	11,042	46%	7,029
Total Revenues	100%	\$ 25,197	100%	\$ 25,479	100%	\$ 15,169
Operating expenses:						
Cost of software licenses	3%	\$ 748	3%	831	4%	563
Cost of maintenance and services	5%	1,384	6%	1,525	6%	890
Research and development	31%	7,756	30%	7,748	33%	4,960
Selling and marketing	47%	11,793	39%	9,833	39%	5,851
General and administrative	14%	3,574	12%	3,024	19%	2,835
Total operating expenses	100%	25,255	90%	22,961	100%	15,099
Operating income (loss)	*	(58)	10%	2,518	*	70
Financial expenses, net	2%	627	5%	1,241	8%	1,284
Income / (loss) before tax on income	(3)%	(685)	5%	1,277	(8)%	(1,214)
Income tax benefit	(*)	(56)	(1)%	(209)	(3)%	(399)
Net income (loss)	(2)%	\$ (629)	6%	\$ 1,486	(5)%	\$ (815)

* Less than 1%

Comparison of Years Ended December 31, 2013, 2012 and 2011

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

The following table provides a breakdown of our revenues by type of revenues, relative percentages out of total revenues during the last three fiscal years as well as the percentage change between such periods (dollars in thousands):

	2013		2012		2011		Percent change 2013 vs. 2012	Percent change 2012 vs. 2011
Software licenses	\$ 13,364	53%	\$ 14,437	57%	\$ 8,140	54%	(7)%	77%
Maintenance and services	11,833	47%	11,042	43%	7,029	46%	7%	57%
Total	\$ 25,197	100%	\$ 25,479	100%	\$ 15,169	100%	0%	68%

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

	2013		2012		2011		Percent change 2013 vs. 2012	Percent change 2012 vs. 2011
United States	\$ 17,529	69.6%	\$ 16,568	65%	\$ 10,729	70.7%	6%	54%
Europe	3,265	13.0%	3,646	14.3%	2,191	14.4%	(10)%	66%
Israel	1,818	7.2%	2,234	8.8%	948	6.2%	(19)%	136%
Far East	1,774	7.0%	1,478	5.8%	869	5.7%	20%	70%
Other	811	3.2%	1,553	6.1%	432	2.8%	(48)%	259%
Total	<u>\$ 25,197</u>	<u>100%</u>	<u>\$ 25,479</u>	<u>100%</u>	<u>\$ 15,169</u>	<u>100%</u>	<u>(1)%</u>	<u>68%</u>

In 2013, our total revenues were approximately \$25.2 million, compared to \$25.5 million in 2012. Total revenues were comprised of:

- License revenues that decreased by 7.4% to \$13.4 million in 2013, compared to \$14.4 million in 2012. The decrease in license revenues mainly resulted from lower than expected sales of our solutions during the first half of 2013 with \$5.0 million in license revenues, compared to \$7.1 million in the first half of 2012. We attribute this decrease primarily to the generation of fewer marketing leads and a relatively weak execution of sales, both through our direct sales and our OEM partners. In the second half of 2013, we were able to improve our marketing and sales operations and our license revenues grew to \$8.4 million, compared to \$7.3 million in the second half of 2012. The growth in license revenues in the second half of 2013 was primarily due to increase in the average size of our deals and in the number of transactions, which we attribute to our expanded sales and marketing initiatives during that period and an increase in license revenues from one of our OEM partners, which we attribute to the modification in the commercial terms of the OEM agreement with such partner; and
- Maintenance and services revenues that increased by 7.2% to \$11.8 million, compared to \$11.0 million in 2012. The increase is primarily due to an increase in license revenues generated throughout 2012 that contributed to higher maintenance revenues in the 2013.

In 2012, total revenues increased by approximately 68% to \$25.5 million from \$15.2 million in 2011. This increase was primarily attributable to the 77% increase in license revenues and a 57% increase in maintenance and services revenues. The 77% growth in license revenues between 2011 and 2012 was primarily due to (1) the acquisition of RepliWeb in September 2011 and the full consolidation of its operating results with our results of operations in 2012; and (2) the launch in the fourth quarter of 2011 and market acceptance of Attunity Replicate with first sales starting in the second quarter of 2012, resulting also in an increase in the average size of our deals. The \$4.0 million increase in maintenance and service revenues in 2012 compared to 2011, reflecting a 57% growth, was also primarily due to the acquisition of RepliWeb and the full consolidation of its operating results with ours.

While our revenues increased between 2011 and 2013 primarily in the United States, where revenues increased from approximately \$10.7 million in 2011 to \$16.6 million in 2012 and to \$17.5 million in 2013, the change in our revenues is primarily related to the aforesaid factors, rather than a specific demand for our products in any region. We have, however, witnessed a growing demand for our products in the Far East, where revenues increased from approximately \$0.9 million in 2011 to \$1.5 million in 2012 and to \$1.8 million in 2013.

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

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

	2013	2012	2011	Percent change 2013 vs. 2012	Percent change 2012 vs. 2011
Cost of software licenses	\$ 748	\$ 831	\$ 563	(10.0)%	47.6%
Cost of maintenance and services	1,384	1,525	890	(9.2)%	71.3%
Total	\$ 2,132	\$ 2,356	\$ 1,453	(9.5)%	62.1%

Our cost of revenues decreased to approximately \$2.1 million in 2013 from approximately \$2.4 million in 2012. This decrease is mainly due to (1) a decrease in amortization of capitalized software development expenses from \$160,000 in 2012 to zero in 2013 and (2) a decrease of approximately \$113,000 in our employee related costs. This decrease was partially offset by an increase of approximately \$88,000 in amortization of acquired intangible assets.

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

Operating Expenses. The following table sets forth a breakdown of our operating expenses for the last three fiscal years as well as the percentage change between such periods (dollars in thousands):

	2013	2012	2011	Percent change 2013 vs. 2012	Percent change 2012 vs. 2011
Research and development	\$ 7,756	\$ 7,748	\$ 4,960	0.1%	56.2%
Selling and marketing	11,793	9,833	5,851	19.9%	68.1%
General and administrative	3,574	3,024	2,835	18.2%	6.7%
Total	\$ 23,123	\$ 20,605	\$ 13,646	12.2%	51%

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

Total R&D costs remained at the same level with \$7.8 million in 2013, compared to \$7.7 million in 2012. In 2013, our employee related costs, including stock-based compensation expenses, decreased by approximately \$128,000 compared to 2012. This decrease was offset by an increase of \$134,000 in rent expenses.

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

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

Selling and marketing expenses increased by approximately 20% to \$11.8 million in 2013 from \$9.8 million in 2012. This increase is primarily due to (1) an increase of approximately \$1.0 million in costs related to the expansion of our sales and marketing teams (from 33 employees as of December 31, 2012 to 54 employees as of December 31, 2013) during 2013, consistent with our strategy to increase our global footprint, (2) additional investment in marketing activities of approximately \$450,000 to support this expansion, and (3) related expenses that resulted in an increase of \$410,000 in travel and rent expenses.

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

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

General and administrative expenses increased by approximately 18% to \$3.6 million in 2013 from \$3.0 million in 2012. The increase is primarily attributable to expenses associated with the acquisition of Hayes that amounted to \$0.5 million.

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

Operating Income. Based on the foregoing, our operating income decreased from approximately \$2.5 million in 2012 to an operating loss of \$58,000 in 2013. In 2011, we had an operating income of \$70,000.

Financial Expenses, Net. In 2013, we had net financial expenses of \$627,000 compared to approximately \$1.2 million in 2012. This decrease is attributed mainly to an expense of \$717,000 that we recorded in 2012 related to the conversion and repayment of the Convertible Notes and the loan to us from Plenus during 2012, resulting in no financial expense in 2013. In addition, the financial expenses associated with the \$2.0 million contingent milestone payment due in connection with the RepliWeb acquisition were approximately \$66,000 in 2013, compared to \$265,000 in 2012. This decrease in financial expenses was partially offset by an increase in financial expense of (1) approximately \$140,000 that was attributed to a revaluation of the Plenus Right presented at fair value, and (2) approximately \$90,000 associated with increase of expenses associated with exchange rate differences (mainly due to the revaluation of the NIS in relation to the dollar in 2013).

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

In 2012, approximately \$0.7 million of financial expenses was attributed to the increase in the valuation of certain outstanding warrants and the conversion features of the Convertible Notes, as well as an increase in the valuation of the Plenus Right, compared to approximately \$0.6 million for the same items in 2011. In general, for as long as these securities contained anti-dilution and price protection features, any change in our share price would lead to recognition of financial income (in the event of decrease of our share price) or financial expense (in the event of increase of our share price) in accordance with ASC No. 815-40, which could have an impact on our results of operations. During 2011, we were able to secure waivers from the price protection provisions from the holders of most of the warrants and Convertible Notes, which waivers partially mitigated the aforesaid impact of fluctuations in our share price over our financial income or expense starting with the first quarter of 2011. During 2012, we were able to secure waivers from the price protection provisions from the remaining holders of these securities. *See also note 13 to our consolidated financial statements included elsewhere in this annual report.*

Taxes on Income. The corporate tax rate in Israel was 25% for 2013, compared with 25% in 2012 and 24% in 2011.

Income tax benefit for 2013 was \$56,000 compared to \$209,000 in 2012 and \$399,000 in 2011. The net change mainly relates to changes in deferred tax assets and liabilities with respect to acquired intangible assets and tax loss carryforwards.

For additional details regarding our income taxes, see also note 13 to our consolidated financial statements included elsewhere in this annual report and "Item 10E – Taxation – Israeli Tax Considerations."

Impact of Currency Fluctuations and of Inflation

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

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

In 2013, the revaluation of the dollar in relation to the NIS increased the dollar reporting value of our operating expenses by approximately \$0.7 million for that year compared with 2012. Since the beginning of 2014, we have been engaged in several currency hedging transactions intended to reduce the effect of fluctuations in currency exchange rates on our financial statements. As of December 31, 2012 and 2013, we had outstanding currency options in the total amount of approximately \$0.5 million and \$0, respectively, because the options outstanding as of December 31, 2012 expired in various dates until June 2013.

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

B. LIQUIDITY AND CAPITAL RESOURCES

In the past few years, we financed our operations through cash generated by operations, equity investments in private placements, short-term loans and, until mid 2012, borrowings under loans from Plenus and the Convertible Notes. Most recently, in November 2013, we also raised proceeds in a public offering, as described below.

Our funding and treasury activities are conducted within corporate practices to maximize investment returns while maintaining appropriate liquidity for both our short and long term needs. Cash and cash equivalents are held primarily in U.S. dollars and NIS.

Principal Financing Activities

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

Public offering. On November 26, 2013, we closed a firm commitment underwritten public offering of 2,852,000 ordinary shares (including 372,000 ordinary shares issued to the underwriter upon full exercise of its over-allotment option), at a public offering price of \$7.00 per share. The net proceeds for us were approximately \$18.0 million.

Credit Line. In August 2012, we secured a short-term line of credit of approximately \$1.0 million from an Israeli bank. Draws under the credit line bear interest, most of which at the bank's cost of funds plus a margin of 3.0%. As of December 31, 2013, we have drawn approximately \$0.5 million under the credit line to support the bank guarantees we granted in connection with our Israeli office lease. The credit line is scheduled to expire in April 2014 and we have determined not to renew such facility. In order to secure our obligations to the bank, we granted to the bank, among others, a first priority floating charge on all of our assets, which pledge will be removed as part of the termination of such facility.

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

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

The Prepayment Offer expired on January 31, 2012. On July 29, 2012, the holders, in the aggregate, of the remaining Convertible Notes in the principal amount of approximately \$0.2 million, converted their Convertible Notes into a total of 92,743 ordinary shares at a conversion price per share of \$2.48. *For additional details, see Item 7.B "Related Party Transactions – Convertible Notes."*

Working Capital and Cash Flows

As of December 31, 2013, we had \$16.5 million in cash and cash equivalents, compared to \$3.8 million in cash and cash equivalents as of December 31, 2012. The increase is mainly due to the proceeds raised in the public offering and proceeds we received from exercises of warrants and stock options.

During 2012, the entire principal amount then outstanding (including interest accrued thereon) under the Convertible Notes and the Plenus Loan was fully repaid. As such, as of December 31, 2012 and 2013, we did not have any third-party debt other than the short-term credit line described above. As of December 31, 2013, our working capital amounted to \$12.3 million, compared to a deficit of \$3.0 million as of December 31, 2012.

The following table presents the major components of net cash flows used in and provided by operating, investing and financing activities for the periods presented (dollars in thousands):

	2013	2012	2011
Net cash provided by operating activities	\$ 262	\$ 1,942	\$ 4,249
Net cash provided by (used in) investing activities	(4,826)	54	(2,685)
Net cash provided by (used in) financing activities	17,322	363	(947)

Net cash provided by operating activities was \$262,000 in 2013, compared to approximately \$1.9 million in 2012 and \$4.3 million in 2011. The decrease from 2012 to 2013 is mainly attributed to a decrease in net income as compared to 2012. The decrease from 2011 to 2012 is primarily due to the payment in the aggregate amount of \$3.9 million we received from Microsoft during 2011.

Net cash used in investing activities in 2013 was approximately \$4.8 million, compared to net cash provided by investing activities in 2012 of \$54,000 and net cash used in investing activities of \$2.7 million in 2011. The change between 2013 and 2012 is attributable mainly to cash paid, of \$4.1 million in connection with the acquisition of Hayes in December 2013 and our relocation to new office space in Israel during the first quarter of 2013, which resulted in capital expenditures in the amount of approximately \$0.7 million. The change between 2012 and 2011 is mainly attributable to \$2.4 million of cash used in 2011 in connection with the acquisition of RepliWeb during that year.

Net cash provided by financing activities in 2013 was \$17.3 million, compared to net cash provided by financing activities of \$363,000 in 2012 and net cash used in financing activities of \$1.0 million in 2011. The increase between 2012 and 2013 is mainly due to net proceeds of approximately \$18.0 million raised in the public offering and proceeds of approximately \$1.1 million we received from exercises of warrants and stock options during 2013 (compared to proceeds of approximately \$0.6 million we received from exercises of warrants and stock options in 2012). This increase was partially offset by the payment, in April 2013, of \$2.0 million to RepliWeb's former shareholders, as a full and final payment of the contingent consideration payable to them in connection with the acquisition of RepliWeb. The change between 2011 to 2012 is attributable mainly to repayments of loans of \$0.3 million in 2012, compared to \$1.3 million in 2011, and to proceeds we received from exercises of warrants and stock options in the aggregate amount of approximately \$0.6 million in 2012, compared to \$0.3 million in 2011.

Principal Capital Expenditure and Divestitures

During 2013, our capital expenditures totaled approximately \$663,000 (compared to \$308,000 during 2012 and \$161,000 during 2011), most of which were used for leasehold improvements and the purchase of equipment and furniture in connection with our relocation to new offices in Israel and for the purchase of computer equipment. Other than future capital expenditures in connection with the purchase of computers and licensee software and consistent with the amounts described in 2013, we have no significant capital expenditures in progress. We did not affect any principal divestitures in the past three years.

Outlook

Currently, our principal commitments consist of (1) liability for the contingent payments due to Hayes former shareholders in the amount of up to \$4.2 million (presented in our consolidated financial statements at present value of approximately \$3.2 million), which, if earned, is payable in March 2015 and 2016, and (2) a short-term credit line of up to \$1.0 million. *See also Item 5.F "Tabular Disclosure of Contractual Obligations."*

In light of our cash balances and other factors, including our ability to generate cash from operations, we believe that our existing capital resources will be adequate to satisfy our working capital and capital expenditure requirements for a period of no less than the next twelve months.

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

The software industry is characterized by rapid product changes resulting from new technological developments, performance improvements and lower hardware costs and is highly competitive with respect to timely product innovation. We, through our research and development and support personnel, work closely with our customers and prospective customers to determine their requirements, to design enhancements and new releases to meet their needs and to adapt our products to new platforms, operating systems and databases. Research and development activities for all products principally take place in our research and development facilities in Israel and in Illinois. As of December 31, 2013, we employed 58 persons in research and development.

We have committed substantial financial resources to our research and development efforts. During 2013, 2012 and 2011, our research and development expenditures were \$7.8 million, \$7.7 million and \$5.0 million, respectively.

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

D. TREND INFORMATION

See *Item 5.A "Operating Results - Executive Summary."*

E. OFF-BALANCE SHEET ARRANGEMENTS

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

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations and commercial commitments, as of December 31, 2013:

Contractual Obligations	Payments due by Period (U.S. dollars in thousands)				
	Total	Less than 1 year*	1-3 Years	3-5 Years	More than 5 Years
Severance pay obligation (1)	1,095	--	--	--	--
Operating lease obligations (2)	4,324	1,224	1,852	1,165	83
Hayes payment obligation (3)	3,280	--	3,280	--	--
Total (4)	\$ 8,669	\$ 1,224	\$ 5,132	\$ 1,165	\$ 83

* For 2014.

(1) Severance payments of \$4,328 are payable only upon termination, retirement or death of the respective employee. Of this amount, \$1,095 is unfunded. Since we are unable to reasonably estimate the timing of settlement, the timing of such payments is not specified in the table. See also Note 2(r) to our Consolidated Financial Statements.

(2) Includes rent expenses of approximately \$3,936 related to our leased facilities for the next six years.

(3) Represents the fair value of contingent payments of up to \$4,200 in the aggregate payable in March 2015 and 2016 to former Hayes shareholders.

(4) As of December 31, 2013, these figures exclude (1) \$82 for an accrual for uncertain income tax position under ASC No. 740 "Income Taxes," which is paid upon settlement because we are unable to reasonably estimate the ultimate amount or timing of settlement (see Note 2(k) of our consolidated financial statements included elsewhere in this annual report), and (2) \$1,093 for liabilities presented at fair value associated with the Plenus Right because we are unable to reasonably estimate the ultimate amount of, or timing of payment for, such Plenus Right (see Note 8 of our consolidated financial statements included elsewhere in this annual report).

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

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

<u>Name</u>	<u>Age</u>	<u>Director Since</u>	<u>Position with the Company</u>
Shimon Alon	64	2004	Chairman of the Board of Directors and Chief Executive Officer
Dror Harel-Elkayam	46	- -	Chief Financial Officer and Secretary
Erez Zeevi	48	- -	Vice President, Research and Development and Worldwide Support
Dov Biran	61	2003	Director
Dan Falk (1) (2)	69	2002	Director
Tali Alush-Aben (1) (2)	50	2008	Outside Director
Ron Zuckerman	56	2004	Director
Gil Weiser (1) (2)	72	2010	Outside Director

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

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

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

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

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

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

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

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

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

Additional Information

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

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

Messrs. Alon, Biran, Falk and Zuckerman will serve as directors until our annual general meeting of shareholders in 2014. Ms. Alush-Aben was elected as an outside director in December 2011 for a three-year term, until our 2014 annual general meeting of shareholders. Mr. Weiser was re-elected as an outside director in December 2013 for a three-year term, until our annual general meeting of shareholders in 2016.

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

B. COMPENSATION

General

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

	Salaries, fees, commissions and bonuses	Pension, retirement and similar benefits
2012 - All directors and executive officers as a group, consisting of 8 persons for the year ended December 31, 2012	\$ 948,000	\$ 152,000
2013 - All directors and executive officers as a group, consisting of 8 persons for the year ended December 31, 2013	\$ 1,023,000	\$ 163,000

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

In accordance with the approval of our shareholders in December 2012, our non-employee directors, including outside directors, received an annual fee of \$9,000 and an attendance fee of NIS 1,650 (equivalent to approximately \$475) per meeting attended, both linked to the Israeli Consumer Price Index, or CPI. Following the approval of our shareholders in December 2013, the annual fee of all non-employee directors, including outside directors, was increased to \$15,000, starting in 2014.

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

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

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

In 2013, our directors and executive officers were granted options exercisable into 113,338 ordinary shares, at a weighted-average exercise price of \$8.81 per share. Such options will expire in 2019.

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

Our Chief Executive Officer

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

- A gross monthly salary (denominated in NIS) of the NIS equivalent of approximately \$28,770 during the term of his employment;
- An annual bonus (denominated in NIS) that will not exceed the NIS equivalent of (1) for 2012, \$170,600 gross (for 100% achievement), and (2) starting 2013, \$230,150 gross (for 100% achievement) or \$322,200 (for overachievement of 120% or more). In general, the annual bonus is payable on a quarterly basis, subject to Mr. Alon achieving certain criteria and milestones set by our Compensation Committee and Board of Directors. The milestones and criteria for the annual bonus for the years 2013, 2014 and 2015, which are described in more detail below, were also approved by our shareholders and consist of several performance metrics (namely, an annual revenue metric and, for 2014 and 2015, also a profitability metric), which are tied to our annual budget for the applicable year and are subject to target thresholds within each metric and ranges of bonus payout. Based on the applicable criteria and milestones set for 2012 and 2013, Mr. Alon was granted the full amount of the annual bonus for 2012 and approximately 67% of the annual bonus for 2013;

- In June 2008, when Mr. Alon was appointed as our Chief Executive Officer, we granted him options to purchase 240,000 ordinary shares at an exercise price equal to \$1.20 per share. In December 2009, December 2010, December 2011 and December 2013, we granted Mr. Alon additional options to purchase (1) 62,500 ordinary shares at an exercise price equal to \$1.00 per share, (2) 25,000 ordinary shares at an exercise price equal to \$2.80 per share, (3) 50,000 ordinary shares at an exercise price equal to \$2.84 per share, and (4) 93,338 ordinary shares at an exercise price equal to \$8.55 per share.
 - o All exercise prices reflect the market price of our shares on the applicable date of grant (with respect to the grant in 2013, see below).
 - o All options expire six years after the date of grant, are subject to the terms of our equity incentive plans and vest as follows: (1) the initial grant of 240,000 options - one third of the options vest at the end of each of the three years following the commencement of Mr. Alon's employment (all of which are currently vested); and (2) with respect to the additional grants, one third of the options vest one year after the grant date, with the balance vesting in eight equal quarterly installments. Vesting of the options will accelerate upon certain change of control events, in accordance with Mr. Alon's employment agreement.
 - o The grant of options in December 2013 was made pursuant to our agreement with Mr. Alon, as approved by our shareholders, to grant him, on the date of the annual meeting of shareholders for each of 2013, 2014 and 2015, options to purchase a number of ordinary shares equal to 0.7% of the total outstanding shares (on a fully diluted basis) of the Company as of November 1st of each year, at an exercise price equal to the average market price of the shares in the 30 trading days prior to the applicable grant date. Such stock options will vest within three years following the applicable grant date, with one third of the options vesting one year after the grant date and the balance vesting in eight equal quarterly installments. Vesting of the options will accelerate upon certain change of control events, in accordance with Mr. Alon's current employment agreement. Such options will expire six years after the applicable grant date. The fair market value of the proposed grant, as measured on the date of the grant, based on Black-Scholes model, shall not exceed the NIS equivalent of approximately \$1,035,670, or the Cap, which is the equivalent of three times Mr. Alon's annual base salary per year of vesting, on a linear basis. By way of example, assuming the grant took place on April 1, 2014 and with an average price per share in the 30 trading days prior to the applicable grant date of \$9.71, the fair market value of such grant (using the Black-Scholes model) is approximately \$174,000 per each year of vesting, well below the Cap. For the sake of clarity, if the fair market value on the applicable grant date exceeds the Cap per year, the number of options will be reduced so that it does not exceed the Cap. All other terms and conditions in connection with such options shall be as set forth in the Company's 2012 Stock Incentive Plan, as amended.
- A company car and all related expenses, except for related taxes;
- Company contributions for the benefit of Mr. Alon to (1) our Managers Insurance Policy in the amount of 18.33% of Mr. Alon's gross salary (a portion of which is for severance pay, to which Mr. Alon would be entitled), and (2) our Education Fund ("Keren Hishtalmut") in the amount of 7.5% of Mr. Alon's gross salary;
- Up to 22 days paid vacation per year and 10 days recreation payment per year in an amount normally paid by our Company; and
- In the event of termination of Mr. Alon's employment for any reason (other than (1) by the Company under circumstances that he is not entitled to severance pay under Israeli law, or (2) by resignation at any time without the required prior notice), Mr. Alon will be entitled to an adjustment period of 12 months following the end of the prior notice period under the agreement (or from the date that he actually ceased to provide services should we choose to waive the prior notice period). During the adjustment period, Mr. Alon will be entitled to all rights to which he is entitled under his employment agreement and he will be entitled to exercise any vested options; however, his options will cease to vest. The employee-employer relationship will not terminate until the end of the adjustment period. Mr. Alon will be entitled to reimbursement of all expenses in connection with his employment.

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

Determination of Annual Bonus

For each of 2013, 2014 and 2015, the annual bonus granted to our Chief Executive Officer will be granted in accordance with the following milestones and criteria:

- Annual Bonus: NIS equivalent of \$230,150 gross (for 100% achievement of the applicable metric).
- Cap: Not more than 140% of the Annual Bonus (for overachievement of 120% or more).
- Annual weighting of metrics:
 - Revenues: Achievement of the revenues target set in the annual budget of the Company approved by the Board of Directors for the applicable fiscal year, or the "Annual Budget" will entitle our Chief Executive Officer to 80% (100% weight for 2013) of the annual bonus; and
 - Profitability: Achievement of the non-GAAP operating income target set in the Annual Budget will entitle our Chief Executive Officer to 20% (0% weight for 2013) of the annual bonus.
- Target thresholds within each of the aforesaid revenues and profitability metrics and ranges of bonus payout (out of the applicable portion of the annual bonus assigned to such metric):

Achievement/Overachievement of the Revenue/Profitability Targets	Bonus Payment/Payout Percentage (straight line between steps)
0 < 80%	0%
80%	65%
90%	80%
100%	100%
110%	120%
120% or more	140%

- Payments: Other than the annual bonus for 2013 and payments on account of overachievement (which are payable only following release of our financial results for the applicable full year), the annual bonus shall be paid on a quarterly basis, based on the achievement of the applicable targets, measured on an accumulated basis and allocated evenly for each quarter (i.e., for each quarter, up to 25% of the Annual Bonus will be payable upon on-target achievement of the quarterly target in the Annual Budget, on an accumulated basis, but, for the sake of clarity, if the target threshold for the applicable quarter is not achieved, no payment shall be made). In case of any overpayment of bonus, which may occur as a result of fluctuations in quarterly results compared to the Annual Budget, will be repaid promptly.

- Adjustments: Our Board of Directors, following recommendation and approval of our Compensation Committee, may adjust the annual targets set in the Annual Budget in case of one-time events (such as acquisitions) that may occur during the relevant fiscal year.

Change of Control Arrangements

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

C. BOARD PRACTICES

Introduction

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

Election of Directors; Board Meetings

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

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

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

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

Outside Directors

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

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

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

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

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

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

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

The initial term of an outside director is three years and he or she may be reelected for up to two additional three-year terms. Thereafter, in a company whose shares are listed for trading on, among others, the NASDAQ Capital Market, such as Attunity, he or she may be reelected by our shareholders for additional periods of up to three years each, if our audit committee and the Board of Directors confirm that, in light of the outside director's expertise and special contribution to the work of the Board of Directors and its committees, the reelection for such additional period is beneficial to the Company. Reelection of an outside director may be effected through one of the following mechanisms: (1) the Board of Directors proposed the reelection of the nominee and the election was approved by the shareholders by the majority required to appoint outside directors for their initial term as described above; or (2) a shareholder holding 1% or more of the voting rights proposed the reelection of the nominee, and the reelection is approved by a majority of the votes cast by the shareholders of the company, excluding the votes of controlling shareholders and those who have a personal interest in the matter as a result of their relations with the controlling shareholders; provided that the aggregate votes cast in favor of the reelection by such non-excluded shareholders constitute more than 2% of the voting rights in the company.

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

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

Independent Directors

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

Committees of the Board of Directors

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

Audit Committee

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

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

Our audit committee adopted a written charter specifying the committee's duties and responsibilities, which include, among other things, assisting our Board of Directors in overseeing the accounting and financial reporting processes of our Company and audits of our financial statements, including the integrity of our financial statements; compliance with legal and regulatory requirements; our independent public accountants' appointment, qualifications and independence; the performance of our internal audit function and independent public accountants; finding any defects in the business management of our Company for which purpose the audit committee may consult with our independent auditors and internal auditor and proposing to the Board of Directors ways to correct such defects; approving related-party transactions; and such other duties as may be directed by our Board of Directors or required by applicable law. In addition, our audit committee functions as our Qualified Legal Compliance Committee, or the QLCC. In its capacity as the QLCC, the audit committee is also responsible for investigating reports made by attorneys appearing and practicing before the SEC in representing us of perceived material violations of U.S. federal or state securities laws, breaches of fiduciary duty or similar violations by us or any of our agents.

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

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

Compensation Committee

Pursuant to applicable NASDAQ rules that became effective on July 1, 2013, the compensation payable to a company's chief executive officer and other executive officers must generally be approved by a compensation committee comprised solely of independent directors.

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

Our compensation committee, established in December 2012, adopted a written charter specifying the committee's duties and responsibilities, which include, among other things, the duties and roles assigned to it pursuant to the Companies Law and applicable NASDAQ rules described above; and oversight and administration of our equity based plans.

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

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

Internal Audit

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

Directors' Service Contracts

Our Chief Executive Officer. We entered into an employment agreement with Mr. Alon, our Chief Executive Officer, who is also the Chairman of our Board of Directors. *See Item 6.B "Directors, Senior Management and Employees – Compensation – Our Chief Executive Officer."*

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

Fiduciary Duties of Office Holders

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

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

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

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

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

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

Approval of Related Party Transactions Under Israeli Law

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

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

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

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

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

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

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

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

Approval of Office Holder Compensation. Pursuant to a recent amendment to the Companies Law, every Israeli public company, such as Attunity, must adopt a compensation policy, recommended by the compensation committee, and approved by the Board of Directors and the shareholders, in that order. The shareholder approval requires a majority of the votes cast by shareholders, excluding any controlling shareholder and those who have a personal interest in the matter. In general, all office holders' terms of compensation – including fixed remuneration, bonuses, equity compensation, retirement or termination payments, indemnification, liability insurance and the grant of an exemption from liability – must comply with the Company's compensation policy. In December 2013, our shareholders approved the compensation policy for our executive officers and directors.

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

Exculpation, Indemnification and Insurance of Directors and Officers

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

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

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

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

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

- expenses he or she incurs as a result of administrative proceedings that may be instituted against him or her under Israeli securities laws, if applicable, and payments made to injured persons under specific circumstances thereunder; and
- any other matter in respect of which it is permitted or will be permitted under applicable law to indemnify an office holder in the Company.

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

- a breach by the office holder of his or her duty of loyalty, unless with respect to indemnification and insurance, the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach by the office holder of his or her duty of care if the breach was committed intentionally or recklessly, unless it was committed only negligently;
- any act or omission committed with the intent to derive an illegal personal benefit; or
- any fine levied against the office holder.

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

We have undertaken to indemnify our office holders to the fullest extent permitted by law by providing them with a Letter of Indemnification, the form of which was approved by our shareholders. We also currently maintain directors and officers liability insurance with an aggregate coverage limit of \$15 million, with a Side A coverage of an additional \$5 million.

D. EMPLOYEES

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

	As of December 31,		
	2013	2012	2011
<i>Numbers of employees by geographic location</i>			
United States	53	26	27
Israel	70	76	79
Europe	8	6	5
Other	5	6	7
Total workforce	136	114	118
<i>Numbers of employees by category of activity</i>			
Research and development	58	59	66
Sales and marketing	54	33	29
Product and customer support	14	11	14
Management and administrative	10	11	9
Total workforce	136	114	118

The overall increase in our workforce, from 114 employees in 2012 to 136 employees in 2013, was primarily due to the expansion of our sales and marketing personnel as part of our strategy to increase our global footprint and the acquisition of Hayes in December 2013. The overall decrease in our workforce, from 118 employees in 2011 to 114 employees in 2012, was primarily due to a decrease in the number of R&D personnel as a result of synergies related to the acquisition of RepliWeb in September 2011.

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

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

Pursuant to Israeli law, we are legally required to pay severance benefits upon certain circumstances, including the retirement or death of an employee or the termination of employment of an employee without due cause. Israeli employers and employees are required to pay predetermined amounts to the National Insurance Institute, which is substantially similar to the United States Social Security Administration. In 2013, payments to the National Insurance Institute amounted to approximately 18.5% of wages, of which approximately two thirds was contributed by employees with the balance contributed by the employer.

E. SHARE OWNERSHIP

Beneficial Ownership of Executive Officers and Directors

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

Equity Incentive Plans

Our Option Plans

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

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

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

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

The number of shares reserved for issuance under all of the Option Plans is currently 3,250,625 ordinary shares. Any options or similar awards which are canceled or forfeited before expiration become available for future grants. As of April 1, 2014, 365,895 ordinary shares remain available for grant of awards under the Option Plans.

Grants in 2013

In 2013, we granted options exercisable into 366,088 ordinary shares under the Option Plans.

Total Outstanding Options

The following table sets forth, as of December 31, 2013, the number of options outstanding under our Option Plans and their respective exercise prices and expiration dates:

Number of Outstanding Options	Range of exercise price	Weighted average remaining contractual life (in years)
169,875	\$0.32-\$0.56	1.09
302,500	\$1.00-\$1.20	0.43
163,204	\$1.48-\$1.52	2.08
69,187	\$2.00-\$2.32	0.49
121,156	\$2.60-\$2.76	3.71
488,130	\$2.80-\$3.44	3.84
201,963	\$5.68-\$8.76	5.50
198,750	\$8.92-\$10.41	5.00
Total: 1,714,765 (*)		2.95

(*) Includes 1,186,054 options that are vested and exercisable as of December 31, 2013.

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

A. **MAJOR SHAREHOLDERS**

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information, to our knowledge, as of April 1, 2014 regarding the beneficial ownership by (i) all shareholders who own beneficially more than 5% of our ordinary shares and (ii) by each of our directors and executive officers:

	Number of Ordinary Shares Beneficially Owned (1)	Percentage of Outstanding Ordinary Shares (2)
Shimon Alon	1,637,208(3)	10.74%
Ron Zuckerman	816,727(4)(5)	5.48%
Directors and Officers as a group (consisting of 8 persons)*	2,961,042(6)	19.08%

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

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Ordinary shares relating to options currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.
- (2) The percentages shown are based on 14,849,209 shares issued and outstanding as of April 1, 2014. This figure of outstanding ordinary shares outstanding does not include:
 - employee stock options to purchase an aggregate of 1,959,897 ordinary shares at a weighted average exercise price of approximately \$5.17 per share, with the latest expiration date of these options being March 19, 2020 (of which, options to purchase 1,095,050 of our ordinary shares were exercisable as of April 1, 2014); and
 - outstanding warrants to purchase an aggregate of 78,810 ordinary shares at an exercise price of \$0.48 per share, which expire until July 29, 2015.
- (3) Mr. Alon is the Chairman of our Board and our Chief Executive Officer. Includes (i) 1,247,505 ordinary shares; (ii) 19,703 ordinary shares issuable upon exercise of warrants that expire on December 30, 2014 at an exercise price of \$0.48 per ordinary share; and (iii) 370,000 ordinary shares issuable upon exercise of stock options at exercise prices ranging from \$1.00 to \$9.68 per ordinary share. These options expire between June 11, 2014 and December 22, 2017.
- (4) Mr. Zuckerman is a member of our Board. Includes (i) 763,691 ordinary shares; (ii) 19,703 ordinary shares issuable upon exercise of warrants that expire on December 31, 2014 at an exercise price of \$0.48 per ordinary share; and (iii) 33,333 ordinary shares issuable upon exercise of stock options at exercise prices ranging from \$0.32 to \$9.68 per ordinary share. These options expire between December 27, 2014 and December 22, 2017. See also footnote 5 below.
- (5) Based on an Amendment No. 9 to a Schedule 13D filed by Mr. Zuckerman with the SEC on March 13, 2012, or the Schedule 13D, Bonale Foundation, a trust for the benefit of persons related to Mr. Zuckerman, beneficially owns 420,725 ordinary shares, which represent approximately 2.84% of our outstanding ordinary shares, or the Bonale Shares. According to the Schedule 13D, Mr. Zuckerman does not direct the management of Bonale Foundation, its investment or voting decisions and disclaims beneficial ownership of the Bonale Shares.
- (6) Includes (i) 2,291,347 ordinary shares; (ii) 39,406 ordinary shares issuable upon exercise of warrants that expire on December 31, 2014, at an exercise price of \$0.48 per ordinary share; and (iii) 630,289 ordinary shares issuable upon exercise of stock options at an exercise price ranging from \$0.32 to \$9.68 per ordinary share. These options expire between June 11, 2014 and January 23, 2018.

Significant Changes in the Ownership of Major Shareholders

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

The following table sets forth the beneficial ownership of Mr. Alon and Mr. Zuckerman on September 1, 2011, before the adjustment to the conversion price of the Convertible Notes, and as of March 1, 2013 and April 1, 2014:

	Beneficial Ownership (September 1, 2011)*	Beneficial Ownership (March 1, 2013)**	Beneficial Ownership (April 1, 2014)***
Shimon Alon	15.43%	13.49%	10.74%
Ron Zuckerman	7.99%	7.32%	5.48%

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

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

*** The percentages shown are based on 14,849,209 shares issued and outstanding as of April 1, 2014. Includes 2,480,000 ordinary shares that we issued in the public offering that we conducted in November 2013.

Major Shareholders Voting Rights

Our major shareholders do not have different voting rights.

Record Holders

Based on a review of the information provided to us by our transfer agent, as of April 1, 2014, there were 32 holders of record of our ordinary shares, of which 14 record holders, holding approximately 90.2% of our ordinary shares, had registered addresses in the United States. These numbers are not representative of the number of beneficial holders of our shares nor is it representative of where such beneficial holders reside since many of these ordinary shares were held of record by brokers or other nominees (including one U.S. nominee company, CEDE & Co., which held approximately 84.5% of our outstanding ordinary shares as of said date).

B. RELATED PARTY TRANSACTIONS

Convertible Notes

In March 2004, we entered into a Note and Warrant Purchase Agreement with certain investors (including Mr. Shimon Alon, the Chairman of our Board of Directors and our Chief Executive Officer, and Mr. Ron Zuckerman, a member of our Board of Directors), or the Note Agreement, pursuant to which we issued the investors convertible promissory notes, also referred to in this annual report as the Convertible Notes, in the aggregate principal amount of \$2.0 million, initially convertible into our ordinary shares at a conversion price of \$7.00, and warrants to purchase 112,500 of our ordinary shares at an initial exercise price of \$7.00 per share (subsequently adjusted to \$0.48 per share). In January 2009 and March 2010, we entered into two Extension Agreements with the investors, whereby the maturity date of the Convertible Notes was extended in consideration for, among others, increases of the interest rate of the Convertible Notes and extension of the exercise period of warrants held by the investors and another person.

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

- the interest rate of the Convertible Notes was increased from a fixed annual rate of 9% to a fixed annual rate of 11%;
- the warrants issued in September 2006 to the holders of the Convertible Notes, exercisable into a total of 122,400 ordinary shares, were amended so that the expiration date was extended from: (A) the later of (1) February 4, 2012 and (2) date on which the principal amount under the Convertible Note issued to the holder, and any interest accrued and outstanding thereon, shall have been fully repaid to the holder to (B) the later of (1) December 31, 2013 and (2) date on which the principal amount under the Convertible Note issued to the holder, and any interest accrued and outstanding thereon, shall have been fully repaid to the holder; and
- the warrants issued in May 2009 to certain holders of the Convertible Notes and another person (including Bonale Foundation, a trust for the benefit of persons related to Mr. Zuckerman), exercisable into a total of 555,680 ordinary shares were amended so that the expiration date was extended from May 11, 2012 to the later of (1) December 31, 2013 and (2) date on which the principal amount under the Convertible Note issued to the holder, and any interest accrued and outstanding thereon, shall have been fully repaid to the holder.

Between December 31, 2011 and January 31, 2012, the holders, in the aggregate, of approximately \$1.2 million of principal amount of the Convertible Notes, or approximately 76% of the then total outstanding principal amount of the Convertible Notes, converted their Convertible Notes into a total of approximately 2.4 million ordinary shares pursuant to the Prepayment Offer. On July 29, 2012, the holders, in the aggregate, of the remaining Convertible Notes in the principal amount of approximately \$0.2 million, converted their Convertible Notes into a total of 92,743 ordinary shares at a conversion price per share of \$2.48.

Compensation to Chief Executive Officer

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

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Financial Statements

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

Export Sales

In the year ended December 31, 2013, the amount of our export sales (i.e., sales outside Israel) was approximately \$23.4 million, which represents 92.8% of our total sales.

Legal Proceedings

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

Dividend Distribution Policy

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

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

B. SIGNIFICANT CHANGES

Except as otherwise disclosed in this annual report, no significant change has occurred since December 31, 2013.

ITEM 9. THE OFFER AND LISTING**A. OFFER AND LISTING DETAILS****Annual Share Price Information**

The following table sets forth, for each of the years indicated, the range of high ask and low bid prices and high and low sale prices, as applicable, of our ordinary shares on the Over-The-Counter Bulletin Board, or OTCBB, through July 25, 2012, and, starting July 26, 2012, on the NASDAQ Capital Market:

<u>Year</u>	<u>High</u>	<u>Low</u>
2009	\$ 1.48	\$ 0.28
2010	\$ 3.24	\$ 0.88
2011	\$ 3.56	\$ 1.56
2012	\$ 9.75	\$ 2.36
2013	\$ 11.22	\$ 4.42

Quarterly Share Price Information

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

	<u>High</u>	<u>Low</u>
2012		
First Quarter	\$ 4.00	\$ 2.36
Second Quarter	\$ 6.60	\$ 2.92
Third Quarter	\$ 9.75	\$ 5.08
Fourth Quarter	\$ 8.25	\$ 6.00
2013		
First Quarter	\$ 8.25	\$ 6.65
Second Quarter	\$ 6.89	\$ 4.42
Third Quarter	\$ 9.00	\$ 5.24
Fourth Quarter	\$ 11.22	\$ 7.25

Monthly Share Price Information

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

<u>Month</u>	<u>High</u>	<u>Low</u>
October 2013	\$ 11.22	\$ 8.5
November 2013	\$ 9.7	\$ 7.25
December 2013	\$ 10.81	\$ 8.05
January 2014	\$ 11.58	\$ 9.26
February 2014	\$ 11.51	\$ 9.52
March 2014	\$ 12.00	\$ 9.00
April 2014 (through April 7, 2014)	\$ 11.35	\$ 9.44

On April 7, 2014, the last reported sale price of our ordinary shares on the NASDAQ Capital Market was \$9.78 per share.

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

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

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSE OF THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

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

Purposes and Objects of the Company

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

The Powers of the Directors

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

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

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

Rights Attached to Shares

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

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

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

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

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

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

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

Changing Rights Attached to Shares

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

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

Shareholders Meetings

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

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

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

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

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

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

Limitations on the Rights to Own Securities in Our Company

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

Duties of Shareholders

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

Approval of Certain Transactions. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and the engagement of a controlling shareholder as an office holder or employee (including compensation therefor), generally require the approval of the audit committee (or compensation committee with respect to engagement as an office holder or employee), the Board of Directors and the shareholders, in that order. The shareholder approval must include at least a majority of the shares of non-interested shareholders voted on the matter. However, the transaction can be approved by shareholders without this special approval if the total shares of non-interested shareholders that voted against the transaction do not represent more than 2% of the voting rights in the company. In addition, any such extraordinary transaction whose term is longer than three years may require further shareholder approval every three years, unless, where permissible under the Companies Law, the audit committee approves that a longer term is reasonable under the circumstances. With respect to approval of compensation to directors and executive officers, see also *Item 6.C "Directors, Senior Management and Employees – Board Practices – Approval of Related Party Transactions Under Israeli Law."*

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

Provisions Restricting Change in Control of Our Company

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

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

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

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

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

Disclosure of Shareholders Ownership

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

Changes in Our Capital

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

C. MATERIAL CONTRACTS

Acquisition of Hayes

On December 18, 2013, we and Attunity Inc., a Massachusetts corporation and our wholly owned subsidiary, or Buyer, entered into a Share Purchase Agreement, or the Purchase Agreement, with Hayes, the shareholders of Hayes (to which we refer as the "Sellers") and one of the Sellers, as the Shareholders' Representative.

Pursuant to the Purchase Agreement, we acquired all of the outstanding shares of Hayes, with Hayes continuing after the closing as an indirect wholly owned subsidiary of us. Under the Purchase Agreement, the total consideration is composed of:

- \$4.5 million in cash, paid at the closing;
- \$1.65 million, which are payable in 185,000 ordinary shares of the Company (to which we refer as the "Closing Share Consideration"). 123,500 of these ordinary shares are subject to a six-month "lock-up" period ending on June 17, 2014, during which period they may not be sold or otherwise disposed, subject to certain exceptions. The balance of 61,500 shares are held-back for one year to secure indemnity claims and, subject to possible indemnity claims, will be issued on December 17, 2014; and
- Two milestone-based contingent payments of up to, in the aggregate, \$4.2 million payable in cash (with option of Sellers to receive up to 50% thereof in ordinary shares of the Company) payable during early 2015 and/or early 2016.

The Purchase Agreement includes customary representations, warranties and covenants by the parties, which survived the closing and, subject to certain exceptions, expire on the second anniversary of the closing. In this respect, the Sellers agreed to indemnify us and the Buyer for damages arising out of breach(es) or inaccuracies of Hayes' or the Sellers' representations, warranties and covenants subject to certain limitations, including a cap equal to 25% of the consideration for breach(es) or inaccuracies of Hayes' or the Sellers' representations and warranties. Similarly, we and the Buyer agreed to indemnify the Sellers for damages arising out of breach(es) or inaccuracies of Attunity's and Buyer's representations, warranties and covenants subject to certain limitations, including a cap of \$375,000. To secure the Sellers' indemnity obligations (i) one third of the Closing Share Consideration will be held-back and not issued for one year and (ii) we and Buyer retained a right to a set-off from the contingent payments.

We also granted the Sellers "piggyback" registration rights, for three years following the closing, in case we file a registration statement relating to the offer and sale of ordinary shares for the account of any of our directors and executive officers.

Microsoft OEM Agreement (CDC)

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

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

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

Plenus Loan

On January 31, 2007, we entered into the Plenus Loan, whereby Plenus provided us a \$2.0 million loan and in connection therewith, we issued to Plenus warrants to purchase up to 109,971 ordinary shares at an initial exercise price per share of \$5.456 (subsequently adjusted to \$0.48).

In September 2011, in connection with the acquisition of RepliWeb, we and Plenus entered into an amendment to the Plenus Loan and the related security agreements whereby, among other things, (1) the period during which Plenus is entitled to compensation upon consummation of a Fundamental Transaction, as described in the following sentence, was extended until December 31, 2017, and (2) during such extended period, Plenus may elect to receive \$300,000 in cash in lieu of such compensation. In particular, under the Plenus Loan, as amended, if on or before December 31, 2017, we enter into a "Fundamental Transaction", which is defined to include a sale through a merger, selling all or substantially all of our assets, or a transaction in which a person or entity acquires more than 50% of our outstanding shares, then we will be required to pay Plenus an amount equal to, in general, the higher of \$300,000 or 15% of the aggregate proceeds payable to our shareholders or us in connection with such Fundamental Transaction. We refer to such right as the "Plenus Right."

In January 2012, the Plenus Loan was fully repaid in accordance with its terms. However, the Plenus Right remains outstanding.

D. EXCHANGE CONTROLS

Israeli law and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our ordinary shares. There are currently no Israeli currency control restrictions on payments of dividends or other distributions with respect to our ordinary shares or the proceeds from the sale of the shares, except for the obligation of Israeli residents to file reports with the Bank of Israel regarding certain transactions. However, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

The ownership or voting of our ordinary shares by non-residents of Israel, except with respect to citizens of countries which are in a state of war with Israel, is not restricted in any way by our memorandum of association or articles of association or by the laws of the State of Israel.

E. TAXATION

Israeli Tax Considerations

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

General Corporate Tax Structure

Israeli companies are generally subject to "Corporate Tax" on their taxable income at the rate of 25% for the 2012 and 2013 tax years and 26.5% for the 2014 tax year and for future tax years. Israeli companies are generally subject to Capital Gains Tax at the corporate tax rate.

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

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

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

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

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

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

Tax Benefits and Government Support for Research and Development

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

Israeli Transfer Pricing Regulations

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

Capital Gains Tax

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

Israeli Residents

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

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

As of January 1, 2013, shareholders that are individuals who have taxable income that exceeds NIS 800,000 in a tax year (linked to the CPI each year), will be subject to an additional tax, referred to as High Income Tax, at the rate of 2% on their taxable income for such tax year which is in excess of NIS 800,000. For this purpose, taxable income includes taxable capital gains from the sale of our shares and taxable income from dividend distributions.

Non-Israeli Residents

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

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

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

Taxation of Non-Residents on Dividend Distributions

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

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

United States Federal Income Tax Consequences

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

U.S. Federal Income Taxation

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

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

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

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

Distributions on Ordinary Shares

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

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

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

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

Disposition of Shares

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

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

Tax on Net Investment Income

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

Passive Foreign Investment Companies

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

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

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

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

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

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

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

We believe that we were not a PFIC for any of our 2007 through 2013 taxable years. The tests for determining PFIC status, however, are applied annually, and it is difficult to make accurate projections of future income and assets which are relevant to this determination. Accordingly, there can be no assurance that we are not or will not become a PFIC. U.S. Holders who hold ordinary shares during a period when we are a PFIC will be subject to the foregoing rules, even if we cease to be a PFIC, subject to specified exceptions for U.S. Holders who made a QEF or mark-to-market election. U.S. Holders are strongly urged to consult their tax advisors about the PFIC rules, including tax return filing requirements and the eligibility, manner, and consequences to them of making a QEF or mark-to-market election with respect to our ordinary shares in the event that we qualify as a PFIC.

Information Reporting and Withholding

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

Under the Hiring Incentives to Restore Employment Act of 2010 (the "HIRE Act"), some payments made to "foreign financial institutions" in respect of accounts of U.S. stockholders at such financial institutions may be subject to withholding at a rate of 30%. U.S. Treasury Regulations provide that such withholding will only apply to distributions paid on or after January 1, 2014 (a notice issued by the IRS, Notice 2013-31, postponed the date on which the 30% will start to apply to June 30, 2014), and to other "withholdable payments" (including payments of gross proceeds from a sale or other disposition of our ordinary shares) made on or after January 1, 2017. U.S. Holders should consult their tax advisors regarding the effect, if any, of the HIRE Act on their ownership and disposition of our ordinary shares. See "—Non-U.S. Holders of Ordinary Shares."

Non-U.S. Holders of Ordinary Shares

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

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

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

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

The HIRE Act may impose withholding taxes on some types of payments made to "foreign financial institutions" and some other non-U.S. entities. Under the HIRE Act, the failure to comply with additional certification, information reporting and other specified requirements could result in withholding tax being imposed on payments of dividends and sales proceeds to U.S. Holders that own ordinary shares through foreign accounts or foreign intermediaries and specified non-U.S. Holders. The HIRE Act imposes a 30% withholding tax on dividends on, and gross proceeds from the sale or other disposition of, ordinary shares paid from the United States to a foreign financial institution or to a foreign nonfinancial entity, unless (1) the foreign financial institution undertakes specified diligence and reporting obligations or (2) the foreign nonfinancial entity either certifies it does not have any substantial U.S. owners or furnishes identifying information regarding each substantial U.S. owner. In addition, if the payee is a foreign financial institution, it generally must enter into an agreement with the U.S. Treasury that requires, among other things, that it undertake to identify accounts held by specified U.S. persons or U.S.-owned foreign entities, annually report certain information about such accounts, and withhold 30% on payments to other specified account holders. U.S. Treasury Regulations provide that such withholding will only apply to distributions paid on or after January 1, 2014 (a notice issued by the IRS, Notice 2013-31, postponed the date on which the 30% will start to apply to June 30, 2014), and to other "withholdable payments" (including payments of gross proceeds from a sale or other disposition of our ordinary shares) made on or after January 1, 2017. You should consult your tax advisor regarding the HIRE Act.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

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

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

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

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

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

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

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

General

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

As of December 31, 2013, we had cash and cash equivalents of approximately \$16.5 million. As of that date, most of such cash and cash equivalents were held in U.S. dollars and NIS. The majority of our cash and cash equivalents are invested in banks in Israel and, to a smaller extent, in banks in the United States. The Israeli bank deposits are not insured, while the deposits made in the United States are in excess of insured limits and are not otherwise insured.

Interest Rate Risk

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

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

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

Foreign Currency Exchange Risk

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

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

	Year Ended December 31,				
	2009	2010	2011	2012	2013
NIS	0.7%	6.4%	7.7%	(1.3)%	(6.4)%
Euro	3.5%	7.4%	4.2%	(0.4)%	(3.2)%
British Pound	10.9%	4.4%	7.3%	2.5%	(7.5)%
Israeli Consumer Price Index	3.9%	2.7%	2.2%	1.6%	1.83%

Our operating results may be affected by fluctuations in the value of the dollar as it relates to foreign currencies, predominantly the NIS. In 2013, the revaluation of the NIS in relation to the dollar increased the dollar reporting value of our operating expenses by approximately \$0.7 million for that year. Other than that, foreign currency fluctuations did not have a material impact on our financial results in the past three years.

A revaluation of the NIS in relation to the dollar, as was the case in 2008 through 2011 and in 2013, has the effect of increasing the dollar amount of any of our expenses or liabilities which are payable in NIS (unless such expenses or payables are linked to the dollar). For example, an increase of 10% in the value of the NIS relative to the U.S. dollar in 2013 would have resulted in an increase in the U.S. dollar reporting value of our operating expenses of approximately \$1.1 million for that year. A revaluation of the NIS relative to the U.S. dollar also has the effect of increasing the dollar value of any asset, which consists of NIS or receivables payable in NIS (unless such receivables are linked to the dollar). Conversely, any decrease in the value of the NIS in relation to the dollar, has the effect of decreasing the dollar value of any unlinked NIS assets and the dollar amounts of any unlinked NIS liabilities and expenses.

During 2012, we engaged in currency hedging transactions intended to reduce the effect of fluctuations in currency exchange rates on our financial statements and we may enter into similar transactions in the future. As of December 31, 2012, we had outstanding currency options in the total amount of approximately \$0.5 million. These options expired in various dates until June 2013. In early 2014, we have engaged in new currency hedging transactions (currently, in a total amount of approximately \$1.1 million) to hedge portions of our forecasted expenses denominated in NIS with put and call options ("zero-cost cylinder"). However, we cannot guarantee that such measures will effectively protect us from adverse effects due to the impact of change in currency exchange rates.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

ITEMS 12A, 12B AND 12C

Not applicable.

ITEM 12D

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

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

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

None.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, including our chief executive officer, or CEO, and our chief financial officer, or CFO, is responsible for establishing and maintaining our disclosure controls and procedures (within the meaning of Rule 13a-15(e) of the Exchange Act). These controls and procedures were designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information was accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. We evaluated these disclosure controls and procedures under the supervision of our CEO and CFO as of December 31, 2013. Based upon that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures are effective.

Management's Annual Report on Internal Control Over Financial Reporting

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

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

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2013 based on the framework for Internal Control-Integrated Framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (1992).

Based on such evaluation, our management, including the CEO and CFO, has concluded that our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) as of December 31, 2013 is effective.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

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

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics that applies to all of our directors, executive officers and employees. The code of ethics is publicly available on our website at www.attunity.com. If we make any amendment to the code of ethics or grant any waivers, including any implicit waiver, from a provision of the codes of ethics, which applies to our chief executive officer, chief financial officer, chief accounting officer or controller, or persons performing similar functions, we will disclose the nature of such amendment or waiver on our website. The information on our website is not incorporated by reference into this annual report.

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

In the annual meeting held on December 26, 2013, our shareholders re-appointed Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global, or EY, to serve as our independent registered public accounting firm until the next annual meeting.

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

Services Rendered	Year Ended December 31,			
	2013		2012	
	Fees (in US\$)	Percentages	Fees (in US\$)	Percentages
Audit Fees (1)	\$ 152,041	51%	\$ 160,811	92%
Audit-Related Fees (2)	52,000	17%	--	--
Tax Fees (3)	62,356	21%	14,865	8%
All Other Fees (4)	32,000	11%	--	--
Total	298,397	100%	175,676	100%

- (1) Audit fees consist of fees for professional services rendered by our principal accountant for the audit of our consolidated annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements.
- (2) Audit-related fees consist of services performed by EY in connection with the public offering we conducted in November 2013.
- (3) Tax fees relate to services performed by the tax division of EY for tax compliance, planning and advice, including a transfer pricing study.
- (4) Other fees relate to tax due diligence and tax planning services associated with acquisitions.

Pre-Approval Policies and Procedures

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

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

None.

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

None.

Item 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

Item 16G. CORPORATE GOVERNANCE

We are a foreign private issuer whose ordinary shares are listed on the NASDAQ Capital Market. As such, we are required to comply with U.S. federal securities laws, including the Sarbanes-Oxley Act, and the NASDAQ rules, including the NASDAQ corporate governance requirements. The NASDAQ rules provide that foreign private issuers may follow home country practice in lieu of certain qualitative listing requirements subject to certain exceptions and except to the extent that such exemptions would be contrary to U.S. federal securities laws, so long as the foreign issuer discloses that it does not follow such listing requirement and describes the home country practice followed in its reports filed with the SEC. Below is a concise summary of the significant ways in which our corporate governance practices differ from the corporate governance requirements of NASDAQ applicable to domestic U.S. listed companies:

The NASDAQ rules require that an issuer have a quorum requirement for shareholders meetings of at least one-third of the outstanding shares of the issuer's common voting stock. We have chosen to follow home country practice with respect to the quorum requirements of shareholder meetings. Our articles of association, as permitted under the Israeli Companies Law and Israeli practice, provide that the quorum requirements for shareholders meetings are at least 25% of the total voting rights in the Company or, with respect to adjourned shareholders meetings convened by the board of directors, the presence of a minimum of two shareholders.

The NASDAQ rules (namely, NASDAQ Listing Rule 5635(c)) also require shareholder approval of stock option plans available to officers, directors or employees and any material amendments thereto. We have decided to follow home country practice in lieu of obtaining shareholder approval for our stock option plans. However, subject to exceptions permitted under the Companies Law, we are required to seek shareholder approval of any grants of options to directors and controlling shareholders or plans that require shareholder approval for other reasons.

Additionally, we have chosen to follow our home country practice in lieu of the requirements of NASDAQ Listing Rule 5250(d)(1), relating to an issuer's furnishing of its annual report to shareholders. Specifically, we file annual reports on Form 20-F, which contain financial statements audited by an independent accounting firm, electronically with the SEC and post a copy on our website.

Item 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

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

ITEM 18. FINANCIAL STATEMENTS

Consolidated Financial Statements.

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ITEM 19. EXHIBITS

<u>Exhibit</u>	<u>Description</u>
1.1	Memorandum of Association of the Registrant, as amended and restated ¶ (1)
1.2	Amended and Restated Articles of Association of the Registrant (2)
2.1	Specimen of Ordinary Share Certificate (3)
4.3	2001 Stock Option Plan, as amended (4)
4.4	2003 Israeli Stock Option Plan, as amended (5)
4.5	Note and Warrant Purchase Agreement dated March 22, 2004 among the Registrant and the purchasers listed on Exhibit A thereto; Form of Warrant issued in connection therewith; Form of Convertible Promissory Note issued in connection therewith; and Registration Rights Agreement dated May 4, 2004, among the Registrant and the purchasers signatory thereto (6), as amended by Extension Agreement, dated as of January 7, 2009 (7), by Extension Agreement, dated as of March 23, 2010 (8), by Extension Agreement, effective as of December 31, 2010 (9), and Form of Prepayment Offer (10)
4.6	Loan Agreement dated January 31, 2007 among the Registrant and Plenus Technologies Ltd.; Form of First and Second Warrants to purchase Ordinary Shares issued by the Registrant to Plenus; Floating Charge Agreement dated January 31, 2007 among the Registrant, Plenus and its affiliates; and Fixed Charge Agreement dated January 31, 2007 among the Registrant, Plenus and its affiliates (11), as amended by Amendment to the Loan Agreement and Charge Agreements, dated March 30, 2009 (12), and by Amendment No. 2 to the Loan Agreement and Charge Agreements, dated September 4, 2011 (13)

4.7	Form of Indemnification Letter (14)
4.8	Change Data Capture OEM Agreement, dated as of December 14, 2010, by and between Attunity Inc. and Microsoft Corporation (15)
4.9	Agreement and Plan of Merger, dated as of September 7, 2011, by and among the Registrant, Attunity Inc., RepliWeb Inc. and the other signatories thereto (16)
4.10	Summary – Directors Compensation*
4.11	2012 Stock Incentive Plan (17)
4.12	Compensation Policy for Executive Officers and Directors (18)
4.13	Share Purchase Agreement, dated as of December 18, 2013, by and among the Registrant, Attunity Inc., Hayes Technology Group, Inc., and the other persons named therein*
8	List of Subsidiaries of the Registrant*
12.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended*
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended*
13.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350**
13.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350**
15.1	Consent of Kost Forer Gabbay & Kasierer, a Member of Ernst & Young Global*
101	The following financial information from the Registrant's Annual Report on Form 20-F for the year ended December 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statement of Comprehensive Income; (iv) Consolidated Statements of Changes in Shareholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements, tagged as blocks of text and in detail*

-
- (1) Filed as Exhibit 3.1 to the Registrant's Registration Statement on Form F-3, filed with the SEC on September 27, 2012, and incorporated herein by reference.
- (2) Filed as Exhibit 3.2 to the Registrant's Registration Statement on Form F-3, filed with the SEC on September 27, 2012, and incorporated herein by reference.
- (3) Filed as Exhibit 4.1 to the Registrant's Registration Statement on Form F-3, filed with the SEC on September 27, 2012, and incorporated herein by reference.
- (4) Filed as Exhibit 4.3 to the Registrant's Registration Statement on Form S-8, filed with the SEC on January 26, 2005, and incorporated herein by reference. The 2001 Stock Option Plan was amended in the annual general meetings of the Registrant's shareholders in December 2005 and December 2006, as reflected in Item 3 of the Registrant's Proxy Statement filed on Report of Foreign Private Issuer on Form 6-K submitted to the SEC on November 29, 2005, and in Item 2 of the Registrant's Proxy Statement filed on Report of Foreign Private Issuer on Form 6-K submitted to the SEC on November 22, 2006, which are incorporated herein by reference.
- (5) Filed as Exhibit 4.4 to the Registrant's Registration Statement on Form S-8, filed with the SEC on January 26, 2005, and incorporated herein by reference. The 2003 Israeli Stock Option Plan was amended in the annual general meetings of the Registrant's shareholders in December 2005 and December 2006, as reflected in Item 3 of the Registrant's Proxy Statement filed on Report of Foreign Private Issuer on Form 6-K submitted to the SEC on November 29, 2005, and in Item 2 of the Registrant's Proxy Statement filed on Report of Foreign Private Issuer on Form 6-K submitted to the SEC on November 22, 2006, which are incorporated herein by reference.

- (6) Filed as Items 3, 4, 5 and 6, respectively, to the Registrant's Report of Foreign Private Issuer on Form 6-K submitted to the SEC on March 25, 2004, and incorporated herein by reference.
- (7) Filed as Exhibit 4.5 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2008, and incorporated herein by reference.
- (8) Filed as Exhibit 4.5 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2009, and incorporated herein by reference.
- (9) Exhibit 99.2 to the Registrant's Registrant's Report of Foreign Private Issuer on Form 6-K submitted to the SEC on February 2, 2011, and incorporated herein by reference.
- (10) Filed as Exhibit 4.5 to the Registrant's Annual Report on Form 20-F/A for the year ended December 31, 2011, and incorporated herein by reference.
- (11) Filed as Exhibits 4.1, 4.2, 4.3, 4.4 and 4.5, respectively, to the Registrant's Report of Foreign Private Issuer on Form 6-K submitted to the SEC on February 6, 2007, and incorporated herein by reference.
- (12) Filed as Exhibit 4.6 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2008, and incorporated herein by reference.
- (13) Filed as Exhibit 4.6 to the Registrant's Annual Report on Form 20-F/A for the year ended December 31, 2011, and incorporated herein by reference.
- (14) Filed as Appendix B to the Registrant's Proxy Statement filed on Report of Foreign Private Issuer on Form 6-K submitted to the SEC on November 14, 2011, and incorporated herein by reference.
- (15) Filed as Exhibit 4.10 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2010, and incorporated herein by reference.
- (16) Filed as Exhibit 4.9 to the Registrant's Annual Report on Form 20-F/A for the year ended December 31, 2011, and incorporated herein by reference.
- (17) Filed as Appendix A to the Registrant's Proxy Statement filed on Report of Foreign Private Issuer on Form 6-K submitted to the SEC on November 20, 2012, and incorporated herein by reference.
- (18) Filed as Appendix A to the Registrant's Proxy Statement filed on Report of Foreign Private Issuer on Form 6-K submitted to the SEC on November 19, 2013, and incorporated herein by reference.

¶ Translated from Hebrew

* Filed herewith.

ATTUNITY LTD. AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2013
U.S. DOLLARS IN THOUSANDS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

ATTUNITY LTD.

We have audited the accompanying consolidated balance sheets of Attunity Ltd. and its subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

Tel-Aviv, Israel
April 7, 2014

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 16,481	\$ 3,778
Trade receivables (net of allowance for doubtful accounts of \$15 at December 31, 2013 and 2012)	5,224	3,671
Other accounts receivable and prepaid expenses	685	323
Total current assets	22,390	7,772
Other long-term assets	385	93
Severance pay fund	3,233	2,880
Property and equipment, net	879	423
Intangible assets, net	5,345	1,870
Goodwill	17,748	13,094
Total long-term assets	27,590	18,360
Total assets	\$ 49,980	\$ 26,132

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

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2013	2012
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 458	\$ 316
Purchase obligations	503	1,934
Deferred revenues	5,065	4,759
Employees and payroll accruals	3,210	2,589
Accrued expenses and other current liabilities	862	1,220
Total current liabilities	10,098	10,818
LONG-TERM LIABILITIES:		
Long-term deferred revenue	957	888
Liability presented at fair value	1,093	730
Contingent purchase consideration	3,280	-
Accrued severance pay	4,328	3,989
Other long-term liabilities	126	145
Total long-term liabilities	9,784	5,752
SHAREHOLDERS' EQUITY:		
Share capital - Ordinary shares of NIS 0.4 par value - Authorized: 32,500,000 shares at December 31, 2013 and 2012; Issued and outstanding: 14,527,292 shares at December 31, 2013 and 10,919,930 shares at December 31, 2012	1,677	1,270
Additional paid-in capital	130,944	110,318
Receipt on account of shares	81	-
Accumulated other comprehensive loss	(621)	(672)
Accumulated deficit	(101,983)	(101,354)
Total shareholders' equity	30,098	9,562
Total liabilities and shareholders' equity	\$ 49,980	\$ 26,132

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2013	2012	2011
Revenues:			
Software licenses	\$ 13,364	\$ 14,437	\$ 8,140
Maintenance and services	11,833	11,042	7,029
Total revenues	25,197	25,479	15,169
Operating expenses:			
Cost of software licenses	748	831	563
Cost of maintenance and services	1,384	1,525	890
Research and development	7,756	7,748	4,960
Selling and marketing	11,793	9,833	5,851
General and administrative	3,574	3,024	2,835
Total operating expenses	25,255	22,961	15,099
Operating income (loss)	(58)	2,518	70
Financial expenses, net	627	1,241	1,284
Income (loss) before taxes on income	(685)	1,277	(1,214)
Income tax benefit	(56)	(209)	(399)
Net income (loss)	\$ (629)	\$ 1,486	\$ (815)
Basic net income (loss) per share	\$ (0.05)	\$ 0.14	\$ (0.09)
Weighted average number of shares used in computing basic net income (loss) per share	11,474	10,716	8,662
Diluted net income (loss) per share	\$ (0.05)	\$ 0.12	\$ (0.09)
Weighted average number of shares used in computing Diluted net income (loss) per share	11,474	12,311	8,662

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Year ended December 31,		
	2013	2012	2011
Net income (loss)	\$ (629)	\$ 1,486	\$ (815)
Other comprehensive income (loss):			
Foreign currency translation adjustment	51	18	(50)
Net change in accumulated comprehensive income (loss)	51	18	(50)
Comprehensive income (loss)	\$ (578)	\$ 1,504	\$ (865)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

	Ordinary Shares		Additional paid-in capital	Other Comprehensive Loss	Accumulated deficit	Total shareholders' Equity
	Number	Amount				
Balance as of January 1, 2011	8,067,423	\$ 939	\$ 102,459	\$ (640)	\$ (102,025)	\$ 733
Classification of warrants to equity	-	-	860	-	-	860
Exercise of warrants and options	465,475	51	198	-	-	249
Stock-based compensation	-	-	359	-	-	359
Issuance of shares to RepliWeb's employees in connection with the acquisition	34,371	4	84	-	-	88
Issuance of shares related to RepliWeb acquisition	973,694	105	2,428	-	-	2,533
Conversion of convertible debt	368,000	39	1,105	-	-	1,144
Exercise of rights related to convertible debt	78,804	8	30	-	-	38
Fair value of guarantee associated with short term loan	-	-	49	-	-	49
Other comprehensive loss	-	-	-	(50)	-	(50)
Net loss	-	-	-	-	(815)	(815)
Balance as of December 31, 2011	9,987,777	1,146	107,572	(690)	(102,840)	5,188
Exercise of warrants, rights and options	519,715	53	683	-	-	736
Tax benefit related to exercise of stock options	-	-	40	-	-	40
Stock-based compensation	-	-	736	-	-	736
Conversion of convertible debt	316,491	61	1,251	-	-	1,312
Exercise of rights related to convertible debt	95,947	10	36	-	-	46
Other comprehensive income	-	-	-	18	-	18
Net income	-	-	-	-	1,486	1,486
Balance as of December 31, 2012	10,919,930	1,270	110,318	(672)	(101,354)	9,562

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

	Ordinary Shares		Additional paid-in capital	Receipt on Account of Shares	Other Comprehensive Loss	Accumulated deficit	Total shareholders' Equity
	Number	Amount					
Balance as of December 31, 2012	10,919,930	\$ 1,270	\$ 110,318	\$ -	\$ (672)	\$ (101,354)	\$ 9,562
Exercise of warrants and options	631,862	70	1,026	-	-	-	1,096
Tax benefit related to exercise of stock options	-	-	189	-	-	-	189
Stock-based compensation	-	-	746	-	-	-	746
Receipt on account of shares	-	-	-	81	-	-	81
Issuance of common shares, net of issuance expenses	2,852,000	323	17,633	-	-	-	17,956
Issuance of shares related to Hayes acquisition	123,500	14	1,032	-	-	-	1,046
Net change in accumulated comprehensive loss	-	-	-	-	51	-	51
Net loss	-	-	-	-	-	(629)	(629)
Balance as of December 31, 2013	<u>14,527,292</u>	<u>\$ 1,677</u>	<u>\$ 130,944</u>	<u>\$ 81</u>	<u>\$ (621)</u>	<u>\$ (101,983)</u>	<u>\$ 30,098</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2013	2012	2011
Cash flows from operating activities:			
Net income (loss)	\$ (629)	\$ 1,486	\$ (815)
Adjustments required to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	256	255	123
Loss from disposals of property and equipment	-	10	-
Expenses related to RepliWeb's employees in connection with the acquisition	-	-	139
Stock-based compensation	746	736	359
Amortization of intangible assets	909	984	843
Fair value of guarantee associated with short term loan	-	-	49
Accretion of payment obligation	95	265	75
Convertible debt inducement expenses	-	108	202
Change in:			
Accrued severance pay, net	(14)	326	40
Trade receivables	(1,049)	(1,683)	(453)
Other accounts receivable and prepaid expenses	(226)	(165)	537
Other long-term assets	4	(21)	(174)
Trade payables	115	(136)	(370)
Deferred revenues	10	(86)	2,228
Employees and payroll accruals	506	438	785
Accrued expenses and other current liabilities	(201)	(920)	882
Revaluation of restricted cash	-	-	(16)
Excess tax benefit from stock based compensation	(189)	(40)	-
Changes in liabilities presented at fair value	363	706	589
Change in deferred taxes, net	(434)	(321)	(774)
Net cash provided by operating activities	262	1,942	4,249
Cash flows from investing activities:			
Purchase of property and equipment	(663)	(308)	(161)
Decrease (increase) in restricted cash	-	362	(100)
Cash paid in connection with acquisition, net of acquired cash	(4,163)	-	(2,424)
Net cash provided by (used in) investing activities	(4,826)	54	(2,685)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2013	2012	2011
Cash flows from financing activities:			
Issuance of common shares, net of issuance expenses	17,956	-	-
Receipt of short term bridge loan to finance the acquisition	-	-	3,000
Repayment of bridge loan	-	-	(3,000)
Proceeds from exercise of employee stock options, warrants and rights related to convertible debt	1,096	576	287
Receipts on account of shares	81	-	-
Receipt of long-term debt	-	-	57
Repayment of long-term debt	-	(115)	(1,046)
Repayment of convertible debt	-	(138)	(245)
Payment of contingent consideration	(2,000)	-	-
Excess tax benefit from stock based compensation	189	40	-
Net cash provided by (used in) financing activities	17,322	363	(947)
Foreign currency translation adjustments on cash and cash equivalents	(55)	(65)	(5)
Increase in cash and cash equivalents	12,703	2,294	612
Cash and cash equivalents at the beginning of the year	3,778	1,484	872
Cash and cash equivalents at the end of the year	\$ 16,481	\$ 3,778	\$ 1,484
Supplemental disclosure of cash flow activities:			
Cash paid during the year for:			
Interest	\$ 6	\$ 225	\$ 63
Income taxes	\$ 426	\$ 298	\$ 202
Supplemental disclosure of non-cash investing and financing activities:			
Issuance of shares related to acquisition	\$ 1,046	\$ -	\$ 2,533
Liability presented at fair value allocated to equity	\$ -	\$ 1,410	\$ 1,144

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL

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

Accordingly, all per share figures or results, stock options or stock option activity and share data presented for 2011 were adjusted to reflect the effects of the reverse stock split.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

- a. Use of estimates:

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

c. Principles of consolidation:

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

d. Reclassifications:

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

e. Cash equivalents:

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

f. Property and equipment:

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's long-lived assets are reviewed for impairment in accordance with ASC No. 360-10-35, "Property, Plant, and Equipment- Subsequent Measurement," whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset (or an asset group) to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. In 2013, 2012 and 2011, no impairment losses were identified.

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

g. Goodwill and other intangible assets:

The Company applies ASC No. 350, "Intangibles - Goodwill and Other" ("ASC 350"). Goodwill is carried at cost and is not amortized but rather is tested for impairment at least annually or between annual tests in certain circumstances. The Company is permitted to conduct a qualitative assessment to determine whether it is necessary to perform a two-step quantitative goodwill impairment test, for its annual goodwill impairment test in 2013, the Company performed a quantitative test for its reporting unit.

The Company operates in one operating segment and this segment comprises the only reporting unit. The Company tests goodwill using the two-step process in accordance with ASC No. 350. The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the second step would need to be performed; otherwise, no further step is required.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying amount of the goodwill. Any excess of the goodwill carrying amount over the applied fair value is recognized as an impairment loss, and the carrying value of goodwill is written down to fair value. As of December 31, 2013, 2012 and 2011, no impairment of goodwill has been identified.

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

h. Impairment of long lived assets:

According to ASC No. 360 "Property, Plant and Equipment", the carrying amount of these assets to be held and used is reviewed whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of each asset (or asset group) to the future undiscounted cash flows the asset (or asset group) is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. During 2013, 2012 and 2011, no impairment losses were identified.

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

i. Business combinations:

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

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

j. Research and development costs:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

k. Income taxes:

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

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

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

l. Revenue recognition:

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

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

Service revenues are recognized as the services are performed.

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

m. Cost of Revenues:

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

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

n. Concentrations of credit risks:

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's trade receivables are mainly derived from sales to customers located primarily in the United States, Europe, the Far East and Israel. The Company performs ongoing credit evaluations of its customers and, through December 31, 2013, has not experienced any material losses. An allowance for doubtful accounts is determined with respect to those amounts that the Company has determined to be doubtful of collection. There were no material bad debt expenses or write offs recorded for the years ended December 31, 2013, 2012 and 2011.

o. Accounting for stock-based compensation:

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

ASC No. 718 requires the cash flows resulting from tax deductions in excess of the equity-based compensation costs recognized for those equity-based awards to be classified as financing cash flows. During the years ended December 31, 2013, 2012 and 2011, the Company classified \$ 189, \$ 40 and \$ 0, respectively, of excess tax benefit from equity-based compensation as financing cash flows.

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

The Company applies ASC No. 505-50, "Equity-Based Payments to Non-Employees", with respect to options issued to non-employees.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The fair value for options granted in 2013, 2012 and 2011 is estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2013	2012	2011
Dividend yield	0%	0%	0%
Expected volatility	69%	127%	129%
Risk-free interest	1.03%	0.56%	1.03%
Expected life (in years)	4	4	4

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

p. Derivatives and hedging:

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

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

The Company entered into forward and option contracts to hedge against the risk of overall changes in future cash flow from payments of payroll and related expenses denominated in Israeli Shekels. These contracts were not designated as hedging instruments and as such gains or losses are recognized in "financial income, net". As of December 31, 2013 and 2012, the Company had outstanding forward and cylinder contracts in the amount of \$0 and \$1,800, respectively. The Company measured the fair value of these contracts in accordance with ASC No. 820, "Fair Value Measurements and Disclosures", and they were classified as level 2. Net income (loss) from hedging transactions recognized in "financial expenses, net" during 2013, 2012 and 2011 was \$21, \$53 and \$(70), respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

The total weighted average number of shares related to the outstanding stock options excluded from the calculation of diluted net loss per share due to their anti-dilutive effect was 2,059,416, 2,718,673 and 2,784,252 for the years ended December 31, 2013, 2012 and 2011, respectively.

r. Severance pay:

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

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

Severance pay expense for the years ended December 31, 2013, 2012 and 2011 amounted to \$423, \$730 and \$296, respectively.

s. Fair value of financial instruments:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

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

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

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

t. Comprehensive income (loss):

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 3- ACQUISITIONS

Acquisition in 2013:

On December 18, 2013 ("Closing Date"), the Company completed, through the Company's wholly owned subsidiary, Attunity Inc., the acquisition of 100% of the shares of Hayes Technology Group, Inc. ("Hayes"), a U.S.-based provider of data replication software solutions for SAP environments. The results of operations of Hayes are included in the consolidated financial statements from the Closing Date. The total consideration is composed as follows:

- \$ 4,500 in cash;
- 185,000 ordinary shares of the Company for total fair value of \$1,547, out of which 123,500 shares issued on Closing Date and 61,500 shares are held-back and not issued for one year to secure indemnity claims. The held-back shares were recorded at fair market value of \$503 under purchase obligations; and
- Milestone-based contingent payments in a total of up to \$4,200, out of which up to \$2,100 is payable in early 2015 and up to \$2,100 is payable in early 2016. The contingent payments are payable pro-rata, provided that at least 75% of the applicable milestone target is met and have a catch-up mechanism in 2015. In connection with this contingent payment consideration, the Company initially recorded at the Closing Date, an estimated liability of \$3,251, and is presented in the consolidated balance sheet as of December 31, 2013 at the amount of \$3,280.

In addition, the Company incurred acquisition related costs in a total amount of \$505, which are included in general and administrative expenses for the year 2013. Acquisition related costs include legal, accounting fees and other external costs directly related to the acquisition.

The main reason for this acquisition was to penetrate into the large SAP markets and leverage the synergy of the technologies of both companies and to benefit from a wide customer base. Accordingly, a significant amount of the acquisition consideration was recorded as goodwill due to the synergies with Hayes.

Purchase price allocation:

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

Net assets (including cash of \$337)	\$ 733
Deferred revenues	(366)
Intangible assets	4,384
Goodwill	4,547
	<u> </u>
Total purchase price	<u>\$ 9,298</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 3- ACQUISITIONS (Cont.)

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

	<u>Fair value</u>
Core technology (1)	\$ 3,596
Customer relationships (2)	564
Non-Competition agreement (3)	<u>224</u>
Total intangible assets	\$ <u>4,384</u>

- (1) Core technology represents a combination of Hayes processes and trade secrets related to the design and development of its products. This proprietary know-how can be leveraged to develop new technology and improve the Company products and is amortized over 6 years using the accelerated method.
- (2) Customer relationships represent the underlying relationships and agreements with Hayes's installed customer base and are amortized over 9 years using the accelerated method.
- (3) The amount assigned to the non-competition agreement relates to the non-competition agreement that the Company entered into with the founder of Hayes for a period of four years, which is amortized on a straight line basis over four years.

The following unaudited condensed combined pro forma information for the years ended December 31, 2013 and 2012, gives effect to the acquisition of Hayes as if the acquisition had occurred on January 1, 2012. The pro forma information is not necessarily indicative of the results of operations, which actually would have occurred had the acquisition been consummated on that date, nor does it purport to represent the results of operations for future periods. For the purposes of the pro forma information, the Company has assumed that net income includes additional amortization of intangible assets related to the acquisition of \$1,109 and \$707 in 2013 and 2012, respectively, and related tax effects.

	<u>Year ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
	<u>Unaudited</u>	
Revenues	\$ 28,381	\$ 29,030
Net loss	\$ (1,240)	\$ (320)
Basic and diluted loss per share	\$ (0.11)	\$ (0.03)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 3:- ACQUISITIONS (Cont.)

Acquisition in 2011:

On September 19, 2011, the Company completed the acquisition of 100% of the shares of RepliWeb Inc. ("RepliWeb"), a U.S.-based provider of enterprise file replication and managed file transfer technologies, for a total consideration of \$11,129. The total consideration included a milestone-based contingent cash payment of up to \$2,000 payable in April 2013. Total assets acquired and liabilities assumed was \$2,267, of which \$6,941 was allocated to goodwill, \$3,201 was allocated to identifiable intangible assets, and \$1,280 to deferred tax liability.

In April 2013, the Company paid the contingent payment to RepliWeb's former shareholders in the amount of \$2,000.

NOTE 4:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2013	2012
Prepaid expenses	\$ 213	\$ 146
Government authorities	26	56
Receivables on account of share capital	278	54
Deferred tax assets, net	148	-
Forward and cylinder contracts	-	31
Other	20	36
	<u>\$ 685</u>	<u>\$ 323</u>

NOTE 5:- PROPERTY AND EQUIPMENT, NET

	December 31,	
	2013	2012
Cost:		
Computers and peripheral equipment	\$ 3,022	\$ 2,810
Office furniture and equipment	492	378
Leasehold improvements	752	366
	<u>4,266</u>	<u>3,554</u>
Accumulated depreciation	<u>3,387</u>	<u>3,131</u>
Property and equipment, net	<u>\$ 879</u>	<u>\$ 423</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 6:- GOODWILL AND OTHER INTANGIBLE ASSETS, NET

a. Goodwill:

Changes in goodwill during the years ended December 31, 2013 and 2012 are as follows:

	December 31,	
	2013	2012
Goodwill, beginning of year	\$ 13,094	\$ 13,011
Revaluation (foreign currency exchange differences)	107	83
Acquisition of Hayes	4,547	-
Goodwill, end of year	<u>\$ 17,748</u>	<u>\$ 13,094</u>

b. Other intangible assets, net:

Net other intangible assets consisted of the following:

	December 31,	
	2013	2012
Original amount:		
Core technology	\$ 5,762	\$ 2,166
Customers relationship	1,599	1,035
Non-Competition agreement	224	-
	<u>7,585</u>	<u>3,201</u>
Accumulated amortization:		
Core technology	1,426	779
Customers relationship	814	552
Non-Competition agreement	-	-
	<u>2,240</u>	<u>1,331</u>
Other Intangible assets ,net:		
Core technology	4,336	1,387
Customers relationship	785	483
Non-Competition agreement	224	-
	<u>\$ 5,345</u>	<u>\$ 1,870</u>

The estimated future amortization expense of other intangible assets as of December 31, 2013 for the years ending:

Year ending December 31,	
2014	\$ 1,184
2015	1,495
2016	1,167
2017	819
Thereafter	680
	<u>\$ 5,345</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 7:- ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	December 31,	
	2013	2012
Government authorities	\$ 40	\$ 101
Accrued expenses	566	478
Tax liabilities	219	498
Others	37	143
	<u>\$ 862</u>	<u>\$ 1,220</u>

NOTE 8:- LIABILITY PRESENTED AT FAIR VALUE

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 8:- LIABILITY PRESENTED AT FAIR VALUE (Cont.)

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

NOTE 9:- CONVERTIBLE DEBT

In April 2004, the Company issued to a group of investors interest-bearing convertible notes in the face amount of \$2,000, initially repayable after five years (as amended and extended from time to time, the "Convertible Notes"). The conversion price of the Convertible Notes was adjusted from time to time. The Company recorded a bifurcated conversion feature embedded in the convertible debt, and marked it to market based on its fair value each reporting period.

During the years ended December 31, 2012 and 2011, the Convertible Notes were converted into ordinary shares and the outstanding associated bifurcated conversion feature was accordingly allocated to equity. As of December 31, 2013, substantially all of the principal amount and accrued interest were repaid in full by way of conversion of the Convertible Notes into ordinary shares.

In accordance with ASC No. 470-20-40-16, "Debt with conversion and other options", the Company recognized inducement expense of \$108 and \$202 in 2012 and 2011, respectively, against additional paid-in-capital, related to the conversions.

The holders of the Convertible Notes have also exercised their rights (see Note 12) to acquire an aggregate of 39,407 and 315,256 additional ordinary shares at \$0.48 per share during 2012 and 2011, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10:- CHARGES (ASSETS PLEDGED)

- a. As collateral for certain liabilities of the Company to others, fixed charges have been recorded on certain equipment of the Company.
- b. In August 2012, the Company secured a line of credit of \$ 1,000 from an Israeli bank. In order to secure its obligations to the bank, the Company pledged and granted the bank a first priority floating charge on all of its assets and a fixed charge on certain other assets (namely, rights for unpaid shares, securities and deposits deposited with the bank from time to time, and rights for property insurance). The credit line is scheduled to expire in April 2014 and the Company has determined not to renew such facility.

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES

- a. Lease commitments:

The Company leases its operating facilities under non-cancelable operating lease agreements, which expire on various dates, the latest of which is in June 2019. In addition, the Company leases computers and motor vehicles under non-cancelable operating leases. Future minimum commitments under these leases as of December 31, 2013, are as follows:

<u>Year ended December 31,</u>	<u>Operating leases</u>
2014	\$ 1,224
2015	1,020
2016	831
2017	832
2018 and after	417
	<u>\$ 4,324</u>

- b. Rent expenses under facilities operating leases for the years ended December 31, 2013, 2012 and 2011 were (net of sublease income in the amount of \$ 0, \$ 30 and \$ 125, respectively) \$ 850, \$ 812 and \$ 636, respectively.
- c. The Company has an outstanding bank guarantee in the amount of \$ 442 to its Israeli office lessor to secure its obligations under the office lease agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- SHAREHOLDERS' EQUITY

- a. On November 26, 2013, the Company closed a firm commitment underwritten public offering of 2,852,000 ordinary shares (including 372,000 ordinary shares issued to the underwriter upon full exercise of its over-allotment option), at a public offering price of \$7.00 per share. The net proceeds for the Company were approximately \$18,000.
- b. The ordinary shares confer upon the holders the right to receive notice to participate and vote in general meetings of the Company, and the right to receive dividends, if declared.
- c. Stock Option Plans:

Under the Company's 2001 Stock Option Plan and 2003 Israeli Stock Option, the Company has granted options to purchase ordinary shares to employees, directors and officers as an incentive to attract and retain qualified personnel. The 2001 Plan does not have a specific expiration date whereas the 2003 Plan was terminated in December 2013. In December 2012, the Company adopted the 2012 Stock Incentive Plan (together with the 2001 and 2003 plans, the "Plans"), under which stock options as well as other equity-based awards, including restricted stock units and performance units, may be granted to employees, directors and consultants of the Company or its affiliates. The 2012 Stock Incentive Plan has a term of ten years and will terminate in December 2022.

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

Under the Plans, 2,450,625 ordinary shares of the Company were reserved for issuance. Any options that are canceled or forfeited before expiration become available for future grants. As of December 31, 2013, there were no options available for future grants. In January 2014, the Company's Board of Directors approved an increase of 800,000 shares of the Company reserved for issuance under the Plans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

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

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

	Year ended December 31, 2013		
	Number of options (thousands)	Weighted average exercise price (per share)	Aggregate intrinsic value (1)
Outstanding at beginning of year	1,670	\$ 2.44	
Granted	366	8.28	
Exercised	(269)	3.43	
Cancelled or forfeited	(52)	4.42	
Outstanding at end of year	1,715	\$ 3.47	\$ 11,809
Vested and expected to vest at end of year	1,663	\$ 3.35	\$ 11,667
Exercisable at end of year	1,186	\$ 2.13	\$ 9,762

- (1) Calculation of aggregate intrinsic value for options outstanding and exercisable is based on the share price of the Company's ordinary shares as of December 31, 2013 which was \$10.36 per share.

The total intrinsic value of options exercised for the years ended, December 31, 2013, 2012, and 2011 was \$ 1,244, \$ 1,170, and \$ 13, respectively.

As of December 31, 2013, there was \$ 1,657 of total unrecognized compensation cost related to non-vested share-based compensation that are expected to be recognized over a period of up to three years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

The options outstanding as of December 31, 2013, have been separated into ranges of exercise price per share as follows:

Exercise price \$	Outstanding			Exercisable		
	Number outstanding (thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable (thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price \$
\$0.32-\$0.56	170	1.09	0.49	170	1.09	0.49
\$1.00-\$1.20	303	0.43	1.16	303	0.43	1.16
\$1.48-\$1.52	163	2.08	1.48	163	2.08	1.48
\$2.00-\$2.32	69	0.49	2.15	69	0.49	2.15
\$2.60-\$2.76	121	3.71	2.62	88	3.71	2.62
\$2.80-\$3.44	488	3.84	3.04	345	3.75	3.03
\$5.68-\$8.76	202	5.50	7.31	13	2.67	8.55
\$8.92-\$10.41	199	5.00	9.57	35	0.70	9.79
	1,715	2.95	3.47	1,186	1.96	2.13

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

	Year ended December 31,					
	2013		2012		2011	
	Weighted average fair value	Weighted average exercise price	Weighted average fair value	Weighted average exercise price	Weighted average fair value	Weighted average exercise price
Equals market price at date of grant	\$ 4.66	\$ 8.19	\$ 3.92	\$ 3.09	\$ 2.32	\$ 2.88
Less than market price at date of grant	\$ 5.46	\$ 8.55	\$ -	\$ -	\$ 2.44	\$ 2.6
More than market price at date of grant	\$ -	\$ -	\$ -	\$ -	\$ 1.88	\$ 2.76

The allocation of the stock-based compensation is as follows:

	Year Ended December 31,		
	2013	2012	2011
Research and development	\$ 237	\$ 306	\$ 122
Selling and marketing	325	241	100
General and administrative	184	189	137
Total stock-based compensation	\$ 746	\$ 736	\$ 359

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

d. Warrants:

As of December 31, 2013 there were outstanding warrants to purchase an aggregate of 106,410 ordinary shares at an exercise price of \$0.48 per share, which expire in various dates until July 2015.

During 2013, 530,879 warrants were exercised for proceeds of approximately \$255. For 167,841 warrants exercised during 2013, the ordinary shares were issued only in 2014 and are accounted for in the Company's financial statements as of December 31, 2013 as "receipt on account of shares".

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- INCOME TAXES

- a. Income tax benefits are comprised as follows:

	Year ended December 31,		
	2013	2012	2011
Deferred tax benefit	\$ (432)	\$ (321)	\$ (774)
Current taxes	376	112	375
	<u>\$ (56)</u>	<u>\$ (209)</u>	<u>\$ (399)</u>
Domestic	\$ (6)	\$ 201	\$ 218
Foreign	(50)	(410)	(617)
	<u>\$ (56)</u>	<u>\$ (209)</u>	<u>\$ (399)</u>
Domestic taxes:			
Current	\$ (6)	\$ 201	\$ 218
Deferred	-	-	-
	<u>(6)</u>	<u>201</u>	<u>218</u>
Foreign taxes - US:			
Current	382	(89)	157
Deferred	(432)	(321)	(774)
	<u>(50)</u>	<u>(410)</u>	<u>(617)</u>
Income tax benefit	<u>\$ (56)</u>	<u>\$ (209)</u>	<u>\$ (399)</u>

The components of income (loss) before income taxes attributable to domestic and foreign operations are as follows:

	Year ended December 31,		
	2013	2012	2011
Domestic	\$ (688)	\$ 1,147	\$ (789)
Foreign	3	130	(424)
	<u>\$ (685)</u>	<u>\$ 1,277</u>	<u>\$ (1,213)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- INCOME TAXES (Cont.)

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

The main reconciling items of the statutory tax rate of the Company for the year 2011 to the effective tax rate are valuation allowances provided for deferred tax assets. Tax expenses mainly represent business taxes in certain foreign locations.

A reconciliation between the theoretical tax expenses for the years ended December 31, 2013 and 2012, assuming all income is taxed at the statutory tax rate applicable to income of the Company and the actual tax expense as reported in the statement of income is as follows:

	December 31,	
	2013	2012
Income (loss) before taxes, as reported in the consolidated statements of income	\$ (685)	\$ 1,277
Statutory tax rate	25%	25%
Theoretical tax expense (benefit) on the above amount at the Israeli statutory tax rate	\$ (171)	\$ 319
Tax adjustment in respect of different tax rate of foreign subsidiaries	(6)	21
Non-deductible expenses and other permanent differences	226	233
Losses and timing differences for which valuation allowance was provided	760	934
Utilization of tax losses for which valuation allowance was provided for in prior years	(816)	(1,538)
Taxes with respect to prior years and other	(49)	(178)
Actual tax benefit	\$ (56)	\$ (209)

- c. Israeli taxation:

Taxable income of the Israeli companies is subject to the Israeli corporate tax at the rate as follows: 2011 - 24%, 2012 - 25%, 2013 – 25%.

On July 30, 2013, the Israeli Parliament passed a law, which, among other things, was designated to increase the tax levy for years 2013 and 2014 (the "New Law"). The New Law increases the Israeli corporate tax rate from 25% to 26.5% in 2014 and onwards.

The Israeli entities have not received final tax assessments since incorporation. However, in accordance with the Israeli tax laws, tax returns submitted up to and including the 2008 tax year can be regarded as final.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- INCOME TAXES (Cont.)

Tax loss carryforward:

The Company's tax losses carryforward were approximately \$ 37,700 as of December 31, 2013. Such losses can be carried forward indefinitely to offset any future taxable income of the Company.

d. Income taxes of non-Israeli subsidiaries:

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

The U.S. tax returns of Attunity Inc. and RepliWeb Inc. remain subject to examination by the U.S. tax authorities for the tax years beginning in January 1, 2008 and January 1, 2006, respectively.

The U.S. subsidiaries' tax loss carry forward amounted to approximately \$ 42 as of December 31, 2013 for federal and state tax purposes. Such losses are available to offset any future U.S taxable income of the U.S subsidiaries and will expire up to year 2021.

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

e. Deferred taxes:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- INCOME TAXES (Cont.)

	December 31,	
	2013	2012
Net operating loss carry forwards	\$ 11,645	\$ 11,425
Temporary differences related to R&D expenses	1,631	1,569
Temporary differences related to accrued employee costs	590	368
Deferred revenue and other	554	525
Total deferred tax asset before valuation allowance	14,420	13,887
Less - valuation allowance	(13,836)	(13,191)
Deferred tax asset	584	696
Deferred tax liability - Intangible assets and other	(171)	(717)
Deferred tax assets (liability), net	\$ 413	\$ (21)
Domestic	-	-
Foreign:		
Current deferred tax asset, net	148	33
Non-current deferred tax asset (liability), net	265	(54)
	413	(21)
	\$ 413	\$ (21)

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- INCOME TAXES (Cont.)

- f. Accounting for uncertainty in income taxes:

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

	December 31,	
	2013	2012
Opening balance	\$ 201	\$ 222
Additions for prior years' tax position	26	14
Additions for current year's tax position	-	-
Reduction of prior years' tax position due to lapse of statute of limitation	(124)	(35)
Closing balance	<u>\$ 103</u>	<u>\$ 201</u>
Included in accrued expenses and other current liabilities	\$ 21	\$ 110
Included in other long term liabilities	<u>\$ 82</u>	<u>\$ 91</u>

As of December 31, 2013, the entire amount of the unrecognized tax benefits could affect the Company's income tax provision and the effective tax rate.

During the years ended December 31, 2013 and 2012, the Company recorded \$ 26 and \$ 14 for interest expense related to uncertain tax positions, respectively. The Company has elected to include interest and penalties as a component of income tax expense. As of December 31, 2013 and 2012, the Company had accrued interest liability related to uncertain tax positions in the amounts of \$ 48 and \$ 33, respectively, which is included in the liability balance. In the next 12 months, the statute of limitation with respect to the 2009 tax year will lapse, which will impact the unrecognized tax position liability balance with respect to the 2009 tax year.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14:- ENTITY-WIDE DISCLOSURES

Revenues by geographical areas were as follows:

	Year ended December 31,		
	2013	2012	2011
United States	\$ 17,529	\$ 16,568	\$ 10,729
Europe	3,265	3,646	2,191
Israel	1,818	2,234	948
Far East	1,774	1,478	869
Other	811	1,553	432
	<u>\$ 25,197</u>	<u>\$ 25,479</u>	<u>\$ 15,169</u>

For the year ended December 31, 2013, no single customer accounted more than 10% of the Company's total revenues. For the year ended December 31, 2012, one of the Company's OEM partners accounted for approximately 10.9% of its revenues (13.4% in 2011). For the year ended December 31, 2012, another OEM partner accounted for approximately 2.4% of the Company's revenues (10.7% in 2011).

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

NOTE 15:- FINANCIAL EXPENSE, NET

	Year ended December 31,		
	2013	2012	2011
Financial income:			
Interest	\$ (1)	\$ (2)	\$ (9)
Hedging	(21)	(53)	-
	<u>(22)</u>	<u>(55)</u>	<u>(9)</u>
Financial expenses:			
Interest and bank charges	45	124	286
Hedging	-	-	70
Exchange rate differences, net	146	94	22
Revaluation of liabilities presented at fair value	363	705	589
Convertible debt inducement expenses	-	108	202
Fair value of guarantee associated with short term loan	-	-	49
Accretion of contingent payment obligations	95	265	75
	<u>649</u>	<u>1,296</u>	<u>1,293</u>
	<u>\$ 627</u>	<u>\$ 1,241</u>	<u>\$ 1,284</u>

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

ATTUNITY LTD

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

Dated: April 8, 2014

Summary – Directors Compensation**General**

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

	Salaries, fees, commissions and bonuses	Pension, retirement and similar benefits
All non-employee directors as a group, consisting of 5 persons* for the year ended December 31, 2013	\$ 72,000	--

* Excluding Shimon Alon, our Chairman and Chief Executive Officer. For details, see Item 6B of the annual report.

In accordance with the approval of our shareholders, all non-employee directors, including outside directors, receive an annual fee of \$9,000 and an attendance fee of NIS 1,650 (equivalent to approximately \$475) per meeting attended, linked to the Israeli Consumer Price Index ("CPI"). Following the approval of our shareholders in December 26, 2013 the annual fee of all non-employee directors, including outside directors, was increased to \$15,000, starting with 2014.

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

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

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

IMPORTANT NOTE: This Share Purchase Agreement (the "Purchase Agreement") has been included to provide investors with information regarding its terms. It is not intended to provide any other factual information about Attunity (including Hayes). The representations, warranties, covenants and agreements contained in the Purchase Agreement were made only for purposes of such agreement and as of the specific dates therein, were solely for the benefit of the parties to such agreement, and may be subject to limitations agreed upon by the contracting parties, including being qualified by confidential disclosures exchanged between the parties in connection with the execution of the Purchase Agreement. The representations and warranties have been made for the purposes of allocating contractual risk between the parties to the agreement instead of establishing those matters as facts, and may be subject to standards of materiality applicable to the contracting parties that differ from those applicable to investors. Investors are not third party beneficiaries under the Purchase Agreement and should not rely on the representations, warranties, covenants and agreements or any descriptions thereof as characterizations of the actual state of facts or condition of Attunity, any other party to the Purchase Agreement or any of their respective subsidiaries or affiliates. Moreover, information concerning the subject matter of the representations and warranties may change after the date of the Purchase Agreement, which subsequent information may or may not be fully reflected in Attunity's public disclosures.

SHARE PURCHASE AGREEMENT

BY AND AMONG

ATTUNITY LTD.,

ATTUNITY INC.,

HAYES TECHNOLOGY GROUP, INC.,

THE SHAREHOLDERS OF HAYES TECHNOLOGY GROUP, INC.

AND

MATTHEW HAYES, AS SHAREHOLDERS' REPRESENTATIVE

DATED AS OF DECEMBER 18, 2013

SHARE PURCHASE AGREEMENT

THIS SHARE PURCHASE AGREEMENT, dated as of December 18, 2013 (this "Agreement"), by and among Attunity Ltd., a company organized under the laws of the State of Israel ("Parent"), Attunity Inc., a corporation organized under the laws of the State of Massachusetts and a wholly owned subsidiary of Parent ("Buyer"), Hayes Technology Group, Inc., a corporation organized under the laws of the State of Illinois (the "Company"), the shareholders of the Company listed in Schedule A of this Agreement (each, a "Seller" and, collectively, "Sellers") and Matthew Hayes, as the Shareholders' Representative (as defined below).

WITNESSETH:

WHEREAS, the Company is engaged in the business of providing SAP data management solutions (the "Business");

WHEREAS, Sellers hold, beneficially and of record, all of the issued and outstanding Company Common Shares, which represent the entire issued and outstanding Company Share Capital (on a fully diluted basis);

WHEREAS, Buyer desires to purchase from Sellers, and Sellers desire to sell to Buyer, all of the outstanding Company Share Capital, subject to the terms and conditions set forth in this Agreement (the "Share Purchase");

WHEREAS, concurrently with the execution of this Agreement, and as a condition and inducement to Parent's and Buyer's willingness to enter into this Agreement, the CTO of the Company (the "Key Employee") has entered into an employment agreement, substantially in the form attached hereto as Exhibit A, which contains, among other things, provisions relating to compensation, non-competition and non-solicitation, to be effective as of the Closing (the "Key Employee Agreement");

WHEREAS, each Seller has independently negotiated with Buyer the consideration to be received by such Seller in exchange for such Seller's shares of Company Share Capital under this Agreement, and the allocation of the Closing Cash Consideration, the Closing Share Consideration, the Holdback Shares and the Earnout Payment Amount between the Sellers is a result of such independent negotiations; and

WHEREAS, as a condition and inducement to Parent and Buyer to enter into this Agreement, the Company and Sellers desire to make certain representations, warranties, covenants (including those pertaining to non-competition and indemnification obligations) and other agreements (including waiver of certain rights) in connection with the Share Purchase and the other transactions contemplated hereby.

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth herein, and other valuable consideration, the sufficiency and receipt of which is hereby acknowledged, and intending to be legally bound hereby, Parent, Buyer, the Company, the Sellers and the Shareholders' Representative (each, a "Party" and collectively, the "Parties"), agree as follows:

ARTICLE I

The Share Purchase

Section 1.1 The Share Purchase. Upon the terms and subject to the conditions of this Agreement, at the Closing, each Seller shall sell, transfer and deliver to Buyer, and Buyer shall purchase and accept from Sellers, all of the Company Common Shares owned by the Sellers, free and clear of all Liens.

Section 1.2 Closing. On the terms and subject to the conditions set forth in this Agreement, the closing of the Share Purchase (the "Closing") shall take place at 3:30 p.m., EST on the date hereof, or such later Business Day immediately after satisfaction or waiver (by the applicable Party) of all of the conditions set forth in Article V of this Agreement (other than the conditions which, by their nature, are intended to be satisfied at the Closing, but subject to the satisfaction or waiver by the applicable Party of those conditions at the Closing) (the "Closing Date"), at the offices of Reinhart Boerner Van Deuren s.c. Milwaukee, WI, or such other time, date or place as agreed to in writing by Parent and the Company. All deliveries to be made or other actions to be taken at the Closing shall be deemed to occur simultaneously, and no such delivery or action shall be deemed complete until all such deliveries and actions have been completed or the relevant Parties have agreed to waive such delivery or action.

Section 1.3 Consideration.

(a) Aggregate Consideration. Upon the terms and subject to the conditions of this Agreement, the total consideration (the "Aggregate Consideration") payable by Buyer in connection with the Share Purchase shall be payable to, and will consist of:

- (i) Sixty One Thousand and Five Hundred (61,500) Parent Ordinary Shares (the "Holdback Shares"), which Holdback Shares shall be held back by Buyer for one year following the Closing to secure indemnification obligations of Sellers under this Agreement and paid to Sellers (or Bonus Holders designated in the Final Payment Spreadsheet) in accordance with, and subject to, Article VIII. The allocation of the Holdback Shares, if and when released to Sellers and Bonus Holders, shall be as set forth in the Final Payment Spreadsheet;
- (ii) the Closing Cash Consideration, payable on the Closing Date pursuant to the wire instructions and allocation set forth in the Final Payment Spreadsheet;
- (iii) the Closing Share Consideration *less* the Holdback Shares, issued for the benefit of the Sellers (or Bonus Holders designated in the Final Payment Spreadsheet), which shall be delivered by Parent as follows: on the Closing Date, Parent shall deliver to the Parent's transfer agent (with a copy to the Company) duly executed irrevocable instructions, in a form reasonably acceptable to the Company, instructing the transfer agent to deliver, on an expedited basis, certificates evidencing a number of Parent Ordinary Shares equal, in the aggregate, to the Closing Share Consideration, registered in the name of the Sellers or Bonus Holders in accordance with the provisions of this Agreement and the allocation set forth in the Final Payment Spreadsheet; and
- (iv) the Earn-Out Payment Amount, if any, payable to the Sellers and Bonus Holders (in accordance with the provisions of this Agreement and the allocation set forth in the Final Payment Spreadsheet) subject to, and in accordance with, Section 1.3(b) below.

For the sake of clarity, any Company Indebtedness, Company Transaction Expenses or Bonus Closing Consideration, if and solely to the extent actually deducted from the Closing Cash Consideration payable to Sellers hereunder, shall be paid by the Buyer in accordance with the Final Payment Spreadsheet.

(b) Earn-Out Payment Amount. Subject to Article VIII hereof, Buyer shall pay additional contingent payments to Sellers of up to a maximum aggregate amount of Four Million, Two Hundred Thousands U.S. Dollars (\$4,200,000) (subject to downward adjustments as provided herein, the "Earn-Out Payment Amount") upon the following terms:

- (x) if the revenues from the sale of the Company Products by the Parent and its Affiliates, including the Company, as determined in accordance with GAAP consistently applied by Parent in its applicable audited consolidated financial statements (the "Qualified Sales") that are recognized for the period between the Closing Date and December 31, 2014 (the "2014 Revenues") are at least \$5,000,000 (the "2014 Target"), then Buyer shall pay an additional Two Million One Hundred Thousand U.S. Dollars (\$2,100,000) (subject to the adjustments set forth herein, the "2014 Payment"); *provided that* if the 2014 Revenues represent between 75% to 100% of the 2014 Target, then the 2014 Payment shall be equal to the product obtained by (A) a fraction, the numerator of which is equal to the 2014 Revenues and the denominator is the 2014 Target multiplied by (B) the 2014 Payment; and
- (y) if the Qualified Sales that are recognized for the calendar year 2015 (the "2015 Revenues", and together with the 2014 Revenues, the "2014/2015 Revenues") are at least \$6,000,000 (the "2015 Target"), then Buyer shall pay an additional Two Million One Hundred Thousand U.S. Dollars (\$2,100,000) (subject to the adjustments set forth herein, the "2015 Payment"); *provided that* if the 2015 Revenues represent between 75% to 100% of the 2015 Target, then the 2015 Payment shall be equal to the product obtained by (A) a fraction, the numerator of which is equal to the 2015 Revenues and the denominator is the 2015 Target multiplied by (B) the 2015 Payment;

provided however, that if the 2014/2015 Revenues are at least \$11,000,000 (the "2014/2015 Target"), then Buyer shall pay (without duplication of any other amounts paid under this Section 1.3(b)) a sum equal to the full Earn-Out Payment Amount (the "2014/2015 Payment"); *provided that* if the 2014/2015 Revenues represent between 75% to 100% of the 2014/2015 Target, then the 2014/2015 Payment shall be equal (without duplication of any other amounts paid under this Section 1.3(b)) to the product obtained by the fraction the numerator of which is equal to the 2014/2015 Revenues and the denominator is the 2014/2015 Target multiplied by the 2014/2015 Payment. For the avoidance of doubt, in no event shall the total payments under this Section 1.3(b) exceed \$4,200,000.

The procedures for the calculation and payment of the Earn-Out Payment Amount shall be as follows:

(i) The Buyer and the Parent agree to operate the Business following the Closing in a good faith manner not designed to frustrate the ability of the Sellers to achieve the conditions required to receive the Earn-Out Payment Amount. To that end, it is hereby agreed that (A) Parent shall make a good faith effort to support the Business, including in terms of funding, sales, marketing and R&D of the Business, at least as favorable to the Business as conducted by the Company prior to Closing, as well as allowing the Business to benefit from the sales and marketing resources of Parent, (B) if Buyer sells the Company to any third party (i.e., not an Affiliate of Parent) at any time following the Closing, the full Earnout Payment Amount (less any payments previously paid to Seller) shall be deemed earned and payable hereunder, and (C) if, following the Closing but prior to December 31, 2015, Buyer (or its Affiliates) implements a significant change in the Business of the Company, such as the changes specified in Schedule 1.3(b) hereto, that is reasonably likely to have a material adverse effect on the 2014/2015 Revenues (an "Adverse Change"), then, unless (a) Buyer obtained the Shareholders' Representative's prior consent to such an Adverse Change (not to be unreasonably withheld) or such consent has been specified in Schedule 1.3(b) hereto, or (b) such an Adverse Change is required under any applicable Legal Requirement, then an equitable downward adjustment shall be made to the 2014 Target and/or the 2015 Target, as applicable, so that the Earn-Out Payment Amount shall be deemed earned and payable, in part or in whole, as a result of such equitable adjustment. For the sake of clarity, nothing herein shall prevent Buyer, Parent and/or their Affiliates, including the Company, to take any action that would constitute an Adverse Change. In the event that an Adverse Change is required under any applicable Legal Requirement, the Buyer and the Shareholders' Representative shall work together in good faith to provide the Sellers, if reasonably practicable in light of such Legal Requirement, with a comparable opportunity to achieve the Earn-Out Payment Amount.

(ii) Within 90 days following the end of each of the calendar years of 2014 and 2015 (i.e., until March 31, 2015 and March 31, 2016, respectively), Buyer shall send the Shareholders' Representative a statement (each, an "Earnout Statement") specifying (a) with respect to the Earnout Statement sent on or before March 31, 2015 (the "2014 Earnout Statement"), a calculation in commercially reasonable detail of the 2014 Revenues to allow the Shareholders' Representative to verify such calculations, and (b) with respect to the Earnout Statement sent on or before March 31, 2016 (the "2015 Earnout Statement"), a calculation in commercially reasonable detail of the 2015 Revenues to allow the Shareholders' Representative to verify such calculations, as applicable, as well as the calculation of the Earn-Out Payment Amount (including, if applicable, the 2014/2015 Payment), if any, payable hereunder.

(iii) The Shareholders' Representative may object to the Earnout Statement, no later than twenty (20) Business Days following delivery thereof, by way of delivering a written notice, executed by the Shareholders' Representative, to that effect to Buyer, providing details for the grounds for such objection (the "Earnout Objection Notice"). If the Shareholders' Representative does not timely deliver such Earnout Objection Notice, then the Earnout Statement shall be deemed final and binding for all intents and purposes and Buyer shall transfer the Earn-Out Payment Amount, if any, specified in such Earnout Statement within ten (10) Business Days thereafter, to the Sellers (in accordance with the provisions of this Agreement and the allocation set forth in the Final Payment Spreadsheet).

(iv) However, if the Shareholders' Representative timely delivers such Earnout Objection Notice, then, notwithstanding Section 9.12 hereof, the dispute regarding such amount shall be resolved in the manner set forth in Schedule B hereto; it being clarified that such dispute resolution procedure shall not apply to clause (i) above (which shall be governed by Section 9.12 hereof).

(v) At any time between January 1 - January 31, 2015, each Seller may provide Parent and Buyer with a written notice of its election (to be specified in percentages) to receive up to 50% of such Seller's applicable portion of the 2014 Payment, if any, and the 2014/2015 Payment (if such payment will be earned and payable based on the 2014 Earnout Statement) in Parent Ordinary Shares (the "2014 Earnout Shares"), the number of which shall equal to the product obtained by dividing (x) the portion elected to be received in Parent Ordinary Shares by (y) the average closing market price per Parent Ordinary Share on the NASDAQ Stock Market for the 30 trading days prior to the delivery of such written notice.

(vi) At any time between January 1 - January 31, 2016, each Seller may provide Parent and Buyer with a written notice of its election (to be specified in percentages) to receive up to 50% of such Seller's applicable portion of the 2015 Payment, if any, and the 2014/2015 Payment (if such payment will be earned and payable based on the 2015 Earnout Statement) in Parent Ordinary Shares (the "2015 Earnout Shares" and, together with the 2014 Earnout Shares, the "Earnout Shares"), the number of which shall equal to the product obtained by dividing (x) the portion elected to be received in Parent Ordinary Shares by (y) the average closing market price per Parent Ordinary Share on the NASDAQ Stock Market for the 30 trading days prior to the delivery of such written notice.

(vii) Notwithstanding anything to the contrary hereunder, (a) the Earn-Out Payment Amount (i.e., the 2014 Payment, the 2015 Payment and/or the 2014/2015 Payment), if any, shall be reduced, dollar-for-dollar, by an amount equal to the Bonus Contingent Consideration (together with employment related Taxes borne by the Company for payment thereof) payable to Bonus Holders in connection with the applicable payment of such Earn-Out Payment Amount (but, if such amount was eventually not paid to the Bonus Holders, Buyer will reimburse Sellers for such amount previously deducted), and (b) due to NASDAQ Marketplace Rules, the number of Earnout Shares together with the Closing Share Consideration shall not exceed, in any event, 19.99% of the issued and outstanding Parent Ordinary Shares as of immediately prior to the Closing.

(viii) Any Bonus Closing Consideration shall be paid by the Buyer to the Company at Closing, and the Company shall pay the designated amounts to the Bonus Holders on the Closing Date; provided that that the Company may, in the Final Payment Spreadsheet, direct the Buyer to pay any Bonus Closing Consideration directly to Bonus Holders for and on behalf of the Company. Any Bonus Contingent Consideration, if any, shall be paid by the Company (or Buyer) directly to the applicable Bonus Holders.

(c) Payment Spreadsheet.

(i) Attached hereto as Exhibit B, is a spreadsheet, certified by the CEO and/or President of the Company (each, an "Authorized Person") showing (i) the Company's good faith estimate (based on reasonable assumptions) of the Company's financial position as of November 30, 2013 and December 31, 2013, prepared in US dollars, in accordance with GAAP and applying the "Revenue Recognition Items" set forth on Section 2.4(a) of the Company Disclosure Schedule (the "Closing Balance Sheet"), (ii) the Company Indebtedness and Company Transaction Expenses, if any; and (iii) for each holder of Company Share Capital, as of the date thereof: (A) the name, the street address, email address, and residency of such holder, telephone number, bank information (the respective bank name and number, the branch name, number and address, swift number and account number), (B) the number and class of shares of Company Share Capital held, and (C) a calculation of the portion of the Aggregate Consideration (including the number of Parent Ordinary Shares each Seller and Bonus Holder will be entitled to receive out of the Closing Share Consideration) payable to such Seller, pursuant to this Agreement (the "Final Payment Spreadsheet").

(ii) Neither Parent, nor Buyer, or any of their respective Representatives shall be responsible for the determination of the Aggregate Consideration allocation. The Aggregate Consideration allocation will be presented in the Final Payment Spreadsheet, which will be deemed a Specified Representation of the Company. Sellers and the Company also represent that the information and calculations set forth in the Final Payment Spreadsheet shall be made in accordance with the terms and conditions of this Agreement, the Company's Organizational Documents, and other relevant existing contractual arrangements among the Company and the holders of Company Share Capital. In no event shall Parent or Buyer be required to make any payments pursuant to this Agreement unless and until the Final Payment Spreadsheet has been duly certified and delivered by the Company. Parent and Buyer shall be entitled to rely entirely upon the Final Payment Spreadsheet in connection with making the payments pursuant to this Agreement and neither the Shareholders' Representative nor any Seller shall be entitled to make any claim in respect of the allocation of the payments made by Parent or Buyer to or for the benefit of any of them to the extent that the payments are made in a manner consistent with the Final Payment Spreadsheet and this Agreement.

(d) Reserved.

(e) Fractional Shares. No fractional shares of Parent Ordinary Shares will be issued pursuant to this Agreement, and any fractional share that would otherwise be due to a Person hereunder (after aggregating all fractional shares of Parent Ordinary Shares to be received by such Person) shall be rounded down to the nearest whole share.

(f) Tax Withholding.

(i) While the parties do not believe any tax withholding is applicable, each of Parent and Buyer shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement, such amounts as they determine, in their reasonable discretion upon the advice of counsel or tax advisor, are required to be deducted or withheld therefrom under applicable Legal Requirements. Any withholding in respect of the Parent Ordinary Shares issued to a Seller may be made out of such Person's portion of the Closing Cash Consideration, provided, however, that in the event that the portion of the Closing Cash Consideration payable to a Person at Closing is not sufficient to cover the amount required to be withheld under this Agreement with respect to such Person, then such Person shall, as a condition to the receipt of any portion of its Aggregate Consideration to which it is entitled, remit to Parent or to the Buyer such amount as demanded by them in order to satisfy such tax withholding shortfall. Any amounts so withheld shall be remitted by Parent or Buyer to the appropriate Governmental Entity and shall be treated for all purposes as having been paid to a Seller or other Person entitled to receive any portion of the Aggregate Consideration pursuant to the terms of this Agreement in respect of whom such deduction and withholding was made.

(ii) In the case of any amounts withheld in accordance with the provisions hereof, the withholding party shall promptly provide to the Seller from which such amounts were withheld written confirmation of the amount so withheld.

(g) Transfer Taxes. All transfer, documentary, sales, use, stamp, registration and such other Taxes and fees (including any penalties and interest), if any, imposed on any Seller or other Person entitled to receive any portion of the Aggregate Consideration pursuant to the terms of this Agreement shall be borne and paid by such Seller or Person.

ARTICLE II

Representations and Warranties Concerning the Company

Except as set forth in the disclosure schedule delivered by the Company to Buyer and Parent concurrently with the execution of this Agreement, setting forth specific exceptions to the Company's representations and warranties set forth herein (the "Company Disclosure Schedule"; which shall be arranged in paragraphs corresponding to the numbered and lettered paragraphs contained in this Article II; it being understood that each such disclosures shall qualify (i) the corresponding paragraph in this Article II and (ii) the other paragraphs in this Article II to the extent reasonably apparent from a reading of such disclosure that it also qualifies or applies to such other paragraphs), the Company and the Sellers hereby represent and warrant to Buyer and Parent, on the date hereof and as of the Closing Date, as follows:

Section 2.1 Organization and Standing: Subsidiaries. a) The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Illinois, has the requisite power and authority to own, lease, license, use and operate its assets and properties and to carry on its business as now being conducted. The Company is duly qualified, licensed or admitted to do business and, in jurisdictions where such concept is recognized, is in good standing in each jurisdiction in which the nature of its business or the ownership, leasing, license, use or operation of its assets and properties makes such qualification, licensing or admission necessary, except where the failure to be so qualified, licensed or admitted would not have a Material Adverse Effect. Section 2.1(a) of the Company Disclosure Schedule sets forth each jurisdiction where the Company is so qualified, licensed or admitted to do business and each other state, province or country in which the Company owns, uses, licenses or leases its assets and properties, or has Employees or engages independent contractors and/or freelances on a full-time basis. The copies of the articles of incorporation and bylaws or other similar organization documents of the Company (the "Organizational Documents") that were previously furnished or made available to Parent are true, complete and correct copies of such documents as in effect on the date of this Agreement and have not been amended since the date hereof, and the Company is not in violation of any provision of any of its Organizational Documents.

(b) The Company does not have and has not ever had a Subsidiary and the Company does not own or control and has never owned or controlled, directly or indirectly, any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for any equity or similar interest in, or have any commitment or obligation to invest in, purchase any securities or obligations of, fund, guarantee, contribute or maintain the capital of or otherwise financially support any, corporation, partnership, joint venture or other business association or entity.

(c) The names of each director and officer of the Company and his or her position with the Company on the date hereof are listed in Section 2.1(c) of the Company Disclosure Schedule.

Section 2.2 Authority: No Conflicts. b) The Company has all requisite corporate power and authority to (i) execute and deliver this Agreement and the other agreements set forth in the exhibits hereto (collectively, the "Ancillary Agreements") to be executed and delivered by the Company as contemplated hereby; and (ii) consummate and perform the transactions contemplated hereby and thereby. The execution, delivery and performance of this Agreement, and the Ancillary Agreements executed and delivered by the Company as contemplated hereby, and the consummation of the transactions contemplated hereby and thereby, have been duly authorized by the Company's Board of Directors (the "Company Board") and shareholders, and no other corporate action on the part of the Company or its shareholders is necessary to authorize the performance of this Agreement and the Ancillary Agreements by the Company and the consummation of the transactions contemplated hereby and thereby. This Agreement and the Ancillary Agreements to be executed and delivered by the Company as contemplated hereby, when delivered in accordance with the terms hereof, assuming the due execution and delivery of this Agreement and each other Ancillary Agreements by the other parties hereto and thereto, shall have been duly executed and delivered by the Company and shall be valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, except to the extent that their enforceability may be subject to applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and to general equitable principles.

(b) The execution and delivery of this Agreement by the Company does not, the execution and delivery by the Company of the Ancillary Agreements to be executed and delivered by the Company as contemplated hereby will not, and the consummation and performance by the Company of the transactions contemplated hereby and thereby will not, result in a violation or breach of, conflict with, constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, modification, cancellation, payment or acceleration) under, or result in the creation of any Lien on any of the properties or assets of the Company under ("Conflict"): (i) any provision of the Organizational Documents of the Company; (ii) any Legal Requirement applicable to the Company or by which any of its properties or assets may be bound; or (iii) any of the terms, conditions or provisions of any Contract to which the Company is a party or by which it is bound; except, in the case of clauses (ii) or (iii), any Conflict that would not reasonably be expected to be material.

(c) The Company Board has unanimously (i) adopted and approved this Agreement, the Ancillary Agreements and the Share Purchase, and (ii) determined that the transactions contemplated herein and therein are advisable and in the best interests of the Sellers and on terms that are fair to such Sellers, and none of the aforesaid actions by the Company Board has been amended, rescinded or modified.

Section 2.3 Capitalization. c) As of the date hereof, the authorized share capital of the Company consists of 1,000 Company Common Shares.

(b) As of the date hereof and as of the Closing Date, the outstanding share capital of the Company (on a fully diluted basis) consists of 200 Company Common Shares. No shares of Company Share Capital are issued or held in the treasury of the Company.

(c) All outstanding shares of capital stock of the Company have been duly authorized and validly issued and are fully paid and non assessable. No shares of capital stock of the Company are entitled to or have been issued in violation of any preemptive rights. All outstanding shares of Company Share Capital have been issued in compliance with all applicable Legal Requirements. The shares of Company Share Capital are not subject to any right of first refusal or similar right or limitation, whether under the Organizational Documents or otherwise. There are no declared or accrued but unpaid dividends with respect to any Company Share Capital. The Company does not own any share capital of the Company.

(d) The Final Payment Spreadsheet contains a complete and correct list of the holders of all outstanding Company Share Capital, the number and class/series of shares of Company Share Capital held by each such holder and the number of the applicable stock certificates representing such shares.

(e) The Company is not a party to any outstanding or authorized option, warrant, right (including any preemptive right), subscription, claim of any character, agreement, obligation, convertible or exchangeable securities, Contract or other commitments contingent or otherwise, relating to the share capital or other equity or voting interests in the Company, pursuant to which the Company is or may become obligated to issue, deliver or sell or cause to be issued, delivered or sold, share capital of or other equity or voting interests in, the Company or any securities convertible into, exchangeable for, or evidencing the right to subscribe for or acquire, any share capital of or other equity or voting interests in the Company. There are no outstanding or authorized stock appreciation, phantom stock, profit participation or similar rights with respect to the share capital of, or other equity or voting interests in, the Company. The Company does not have any authorized or outstanding bonds, debentures, notes or other indebtedness the holders of which have the right to vote (or convertible into, exchangeable for, or evidencing the right to subscribe for or acquire securities having the right to vote) with the shareholders of the Company on any matter. There are no irrevocable proxies and no voting agreements with respect to any share capital of, or other equity or voting interests in, the Company.

Section 2.4 Financial Statements: Undisclosed Liabilities. d) Attached hereto as Section 2.4(a) of the Company Disclosure Schedule are true, correct and complete copies of (i) the unaudited balance sheet of the Company as at December 31, 2012 (the "Balance Sheet Date"), including the related unaudited statement of income for the fiscal years ended December 31, 2012 and December 31, 2011, and (ii) the interim unaudited consolidated balance sheet of the Company as of September 30, 2013 (the "Interim Balance Sheet" and the "Interim Balance Sheet Date"), and the related interim unaudited consolidated statement of income for the nine (9) months then ended (collectively the "Financial Statements"). The Financial Statements have been prepared in accordance with GAAP consistently followed throughout the periods indicated and been compiled by Dwayne Johnson & Associates, s.c.

(b) The Financial Statements fairly present the consolidated financial condition of the Company, in all material respects, including the results of its operations, for the periods covered thereby (subject to normal year-end adjustments in the case of any unaudited interim financial statements and except that any unaudited interim financial statements do not contain all required footnotes).

(c) Since the Interim Balance Sheet Date, except for Liabilities (i) incurred in the ordinary course of business and consistent with past practice, and (ii) Liabilities which, in the aggregate, do not exceed \$100,000, the Company has not incurred any Liabilities that would be required by GAAP to be reflected on a balance sheet of the Company. The Closing Balance Sheet shows the Company's good faith estimate (based on reasonable assumptions) of the Company's financial position as of November 30, 2013 and December 31, 2013, prepared in US dollars, in accordance with GAAP. There are no off balance sheet arrangements that have or are reasonably likely to have a current or future effect on the financial condition, including results of operations and liquidity, of the Company.

(d) The Company (i) makes and keeps accurate books and records that fairly reflect in all material respects the transactions and dispositions of assets of the Company, and (ii) maintains internal accounting controls which provide reasonable assurance that transactions are recorded as necessary to permit preparation of its financial statements in conformity with GAAP. In the past three years, there has been no disagreement with the Company's independent auditors in connection with any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure and no dismissal of independent auditors in connection therewith.

(e) Section 2.4(e) of the Company Disclosure Schedule sets forth a true, complete and correct list of all Company Indebtedness as of the date of this Agreement.

(f) Section 2.4(f) of the Company Disclosure Schedules sets forth a true, complete and correct list of all accounts receivable of the Company as of the close of business on the business day preceding the date of this Agreement. Subject to any reserves reflected in the Closing Balance Sheet, all accounts receivable of the Company represent current and valid obligations arising from bona fide transactions entered into in the ordinary course of business and the Company has no Knowledge of the same not being collectible from such third parties.

(g) Section 2.4(g) of the Company Disclosure Schedules sets forth a true, complete and correct list of all accounts payable of the Company as of the close of business on the business day preceding the date of this Agreement.

Section 2.5 Absence of Certain Changes. Since the Interim Balance Sheet Date, (a) there has not been any event, circumstance, development, state of facts, occurrence, change or effect which has had a Material Adverse Effect and no event, circumstance, development, state of facts, occurrence, change or effect exists or has occurred which could reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect, and (b) the Company has conducted its business in the ordinary course consistent with past practice. Without limiting the generality of the foregoing and, since the Balance Sheet Date, there has not been any (i) damage, destruction or other casualty loss with respect to any material asset or property owned, leased or otherwise used by the Company, whether or not covered by insurance; (ii) declaration, setting aside or payment of any dividend or other distribution in respect of the share capital of the Company or make any other payment to the Sellers or their Affiliates; (iii) amendment of any term of any outstanding security of the Company; (iv) incurrence, assumption or guarantee by the Company of any Company Indebtedness; (v) creation or assumption by the Company of any Lien on any asset other than Permitted Liens or Liens incurred in the ordinary course of business consistent with past practices; (vi) loan, advance or capital contribution to, or investment in, any person made by the Company; (vii) transaction or commitment made, or any contract or agreement entered into, by the Company relating to its assets or business or any relinquishment by the Company of any Contract or other right, in each case, other than in the ordinary course of business consistent with past practice; (viii) change by the Company in its accounting principles, practices or methods, except as required by concurrent changes in GAAP; (ix) any increase of, or an undertaking for, any increase in the compensation payable or that could become payable by the Company to any of their respective employees, officers or directors; or (x) insurance claim made by or against the Company.

Section 2.6 Compliance with Laws. e) The Company has complied, and is currently conducting its operations in accordance with, in all material respects, with applicable Legal Requirements. The Company has not received any written notice that any violation of such Legal Requirements is being or may be alleged.

(b) Without derogating from the generality of the foregoing, the Company is in compliance in all respects with (i) the Foreign Corrupt Practices Act (15 U.S.C. §§78dd 1 et seq.) and any other international anti bribery conventions and local anti corruption and anti bribery laws in jurisdictions in which the Company does business, (ii) Export Control and Import Laws, and (iii) Legal Requirements in any country in which the Company Products are now sold, provided or licensed for use, relating to development, or engagement in, encryption technology (including, data encryption, key management, password protection, or authentication), technology with military applications, or other technology whose development, commercialization or export is subject to any applicable Legal Requirements.

Section 2.7 Permits. The Company has obtained all permits, approvals, licenses, consents, authorizations, certificates, grants, rights, exemptions, orders or other authorizations from Governmental Entities that are material or necessary for the operation of the business of the Company, or that are material or necessary for the lawful ownership or operation of its properties and assets (collectively, the "Permits"). A true and complete list of such Permits is set forth in Section 2.7 of the Company Disclosure Schedule. The Company has delivered or made available to Parent for inspection a true and correct copy of each Permit listed in Section 2.7 of the Company Disclosure Schedule. The Company has been and is in compliance in all material respects with all such Permits and all such Permits are valid and in full force and effect and have not lapsed, been cancelled, terminated or withdrawn. No proceeding to modify, suspend, revoke, withdraw, terminate or otherwise limit any such Permit is pending, or, to the Knowledge of the Company, threatened and, to the Knowledge of the Company, there are no facts or circumstances that, either alone or in together with other facts and circumstances, could reasonably be expected to provide valid basis for any such claims. No administrative or governmental action or proceeding has been taken, or, to the Knowledge of the Company, threatened, in connection with the expiration, continuance or renewal of any such Permit.

Section 2.8 Litigation. There is no private or governmental action, suit, proceeding, inquiry, claim, charge, arbitration, investigation or any administrative or other proceeding (each, a "Legal Proceeding") pending before, against or by any Governmental Entity or any other Person, or, to the Knowledge of the Company, threatened, against or affecting the Company, or any of its respective properties, assets or rights. Neither the Company nor to the Knowledge of the Company, any of their respective directors or officers (in their capacities as such), is subject to any Order (i) restricting the operation of the business of the Company, or (ii) that could prevent, enjoin, alter or delay any of the transactions contemplated by this Agreement or the Ancillary Agreements. There is no litigation that the Company has pending or is currently planning to commence against any other party. Section 2.5 of the Company Disclosure Schedule sets forth a list of all Legal Proceedings and cease-and-desist letters involving the Company (with respect to those that have been resolved, information since January 1, 2010.)

Section 2.9 Benefit Plans. f) Set forth in Section 2.9(a) of the Company Disclosure Schedule is an accurate and complete list of each Benefit Plan. For purposes of this Agreement, "Benefit Plans" include each employee benefit plan (within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and each equity based compensation, incentive, bonus, profit sharing, savings, deferred compensation, health, medical, dental, life insurance, disability, accident, supplemental unemployment or retirement or fringe benefit plan or program maintained by the Company thereof or to which the Company thereof (including for purposes of this Section 2.9 all employers that would be treated together with the Company as a single employer within the meaning of Section 414 of the Code) contributes (or has any obligation to contribute), has or could have any liability or is a party.

(b) Each Benefit Plan is in material compliance with all applicable Legal Requirements and has been administered and operated in all material respects in accordance with its terms. The Company has no knowledge of the occurrence of any non-exempt prohibited transaction, as defined in section 4975 of the Code or section 406 of ERISA, with respect to any Benefit Plan.

(c) Each Benefit Plan which is intended to be “qualified” within the meaning of Section 401(a) of the Code has received a favorable determination or opinion letter from the IRS as to such qualified status, and no event has occurred and no condition exists which could be reasonably expected to result in the revocation of the qualified status of any such plan.

(d) Each Benefit Plan and each employment agreement has been administered in good faith compliance with Section 409A of the Code to the extent applicable.

(e) No Benefit Plan has assets that include securities issued by the Company.

(f) No Benefit Plan is covered by Title IV of ERISA or subject to Section 412 of the Code or Section 302 of ERISA.

(g) No Benefit Plan is a “multiple employer plan” (within the meaning of the Code or ERISA).

(h) Full payment has been timely made of all amounts which the Company is required under applicable Legal Requirements or under any Benefit Plan or related agreement to have paid, and the Company have timely deposited all amounts withheld from Employees into the appropriate trusts, funds or accounts. The Company have made adequate provisions, in accordance with GAAP in their books and records for all Liabilities under all Benefit Plans that have accrued but have not been paid because they are not yet due under the terms of any such Benefit Plan or any related agreement or applicable Legal Requirement. Since the Interim Balance Sheet Date, no event has occurred or condition exists that would reasonably be expected to result in a material increase in the level of such amounts paid or accrued for the most recently ended fiscal year.

(i) No Benefit Plan provides for post-employment or retiree health, life insurance or other welfare benefits, except as required by COBRA.

(j) The execution of this Agreement and the consummation of the transactions contemplated hereby do not constitute a triggering event under any Benefit Plan or agreement with any current or former Employee and/or consultant of the Company (a “Consultant”), which (either alone or upon the occurrence of any additional or subsequent event) will or may result in any payment, “parachute payment” (as such term is defined in Section 280G of the Code), severance, bonus, retirement or job security or similar type benefit, or increase any benefits or accelerate the payment, vesting or funding of any benefits to any Employee and/or Consultant.

(k) No Employee and/or Consultant will be entitled to any payment, benefit or right or any accelerated, vested or increased payment, benefit or right as a result of such Employee’s, former Employee’s or director’s or Consultant’s termination, in direct connection to the execution of this Agreement or the consummation of the transactions contemplated hereby. No Benefit Plan provides for the payment of change in control or similar type payments or benefits. Neither the execution of this Agreement nor the consummation of the transactions contemplated hereby will require accelerated funding by the Company of any Benefit Plan or give rise to any liability of the Company in connection with any Benefit Plan.

(l) No liability, claim, action, litigation, audit, examination, investigation or proceeding has been made, commenced or, to the Knowledge of the Company, threatened with respect to any Benefit Plan which could result in a material liability of the Company or any Affiliate thereof.

(m) Except as required to maintain the tax qualified status of any Benefit Plan intended to qualify under Section 401(a) of the Code, no condition or circumstance exists that would prevent the amendment or termination of any Benefit Plan.

(n) The Company and its Subsidiaries have classified correctly all individuals who perform services for them under all applicable Legal Requirements as common law employees, independent contractors or leased employees.

(o) The Company has delivered or made available to Parent true and complete copies of each Benefit Plan, together with all amendments thereto, and all contracts and agreements relating to each Benefit Plan, as well as the most recent actuarial reports, reviewed financial statements and annual report on Form 5500 filed with the Internal Revenue Service with respect to such Benefit Plans for which such report was required by applicable Legal Requirement.

Section 2.10 Labor Matters. g) The Company is currently conducting and has conducted its operations in compliance, in all material respects, with any Legal Requirement, agreement (whether written or oral, including Collective Bargaining Agreements), plan, custom and program applicable to the Company relating to labor or employment relations and practices (including terms and conditions of employment, wage and payment for overtime, immigration and occupational safety and health).

(b) The Company is not a member of any employers' organization, nor is the Company a party or subject to any Collective Bargaining Agreement. No Employee is represented by any Employee Representatives or is subject to any Collective Bargaining Agreement and/or any extension orders. No Collective Bargaining Agreement is currently being negotiated. The Company is not subject to any pending, or, to the Knowledge of the Company, threatened or anticipated demand for recognition or certification, and there are no representation or certification proceedings, petitions seeking a representation proceeding or Employee Representatives' elections with respect to the Company presently pending or, to the Knowledge of the Company, threatened or anticipated to be brought or filed with the National Labor Relations Board or any other labor relations tribunal or authority.

(c) There are no pending or, to the Knowledge of the Company, threatened or anticipated and there have been no strikes, lockouts, Employee Representative organization activities (including Employee Representative organization campaigns or requests for representation), pickets, slowdowns or stoppages in respect of the business of the Company.

(d) There are no pending or, to the Knowledge of the Company, threatened, legal actions, lawsuits, arbitrations, administrative or other proceedings, charges, complaints, investigations, inspections, audits or notices of violations brought by or on behalf of, or otherwise involving, any Employee, any Person alleged to be a an Employee, any applicant for employment, or any class of the foregoing, or any Governmental Entity, that involve the labor or employment relations and practices of the Company (collectively, "Labor Actions"). To the Knowledge of the Company, there are no facts or circumstances that, either alone or together with other facts and circumstances, could reasonably be expected to provide valid basis for any such Labor Actions.

(e) The Company has not been affected by any transaction or engaged in layoffs or employment terminations sufficient in number to trigger application of the federal Worker Adjustment and Retraining Notification Act or any similar Legal Requirement (including, but not limited to, any state Legal Requirement relating to plant closings or mass layoffs or any non-U.S. Legal Requirement dealing with collective dismissals, mass terminations, reductions in force, plant closings or mass layoffs) (collectively, "WARN") during the last six (6) years. The Company is and has been in material compliance with WARN, and the Company has not incurred any liability or obligation under WARN which remains unsatisfied.

(f) Section 2.10(f) of the Company Disclosure Schedule is a complete and accurate list of the current Employees as of the date hereof and showing with respect to each such Employee the following terms: name, position/title, location, salary, commissions (if any), company car, entitlement of vacation days and accrual, notice of termination period, any outstanding loans, and all terms of any bonus and/or commission (including upon termination). No Employee has any equity incentives (including any options to purchase Company Share Capital) and none of them is entitled to any sales commission or bonus following termination (for whatever reason) of employment or engagement, as the case may be, except for sales commission and/or bonus earned, if any, by such Employee for the period until termination date.

(g) The Company has delivered or made available to Parent (i) copies of all written Contracts (or true and complete written summaries with respect to oral Contracts) with Employees, including any independent contractors; and (ii) copies of written manuals and written policies relating to the employment of Employees, as may be applicable.

Section 2.11 Tax Matters.

(a) The Company is in compliance with all applicable Legal Requirements related to Taxes. The Company has timely filed (or will timely file) or caused (or will cause) to be filed all material returns, statements, forms and reports (including, elections, declarations, disclosures, schedules, estimates and informational tax returns) for Taxes (each, a "Return") that are required to be filed by, or with respect to, the Company on or prior to the Closing Date (taking into account any applicable extension of time within which to file). The Returns are (or will be) in all material respects true, correct and complete, have accurately reflected (or will accurately reflect) all liability for Taxes of the Company for the periods covered thereby.

(b) All Taxes and Tax Liabilities of the Company that are due and payable with respect to Tax periods ending on or before the Closing Date have been (or will be) timely paid or reserved for in the Financial Statements by the Company on or prior to the Closing Date.

(c) The Company is not currently nor has the Company been during the last seven (7) years the subject of an audit or other examination relating to the payment of Taxes of the Company by the Tax authorities of any nation, state or locality nor has the Company received during the last seven (7) years any written notices from any Taxing authority that such an audit or examination is pending.

(d) The Company (i) has not entered into an agreement or waiver extending any statute of limitations relating to the payment or collection of Taxes of the Company that has not expired and (ii) is not presently contesting any Tax liability of the Company before any Governmental Entity.

(e) The Company has not been included in any "consolidated", "unitary" or "combined" Return provided for under the Legal Requirement of the U.S., any non U.S. jurisdiction or any state or locality with respect to Taxes for any taxable period for which the statute of limitations has not expired.

(f) All Taxes that the Company is (or was) required by Legal Requirement to withhold or collect in connection with amounts paid or owing to any current or former Employee, creditor, shareholder, member or other Person have been duly withheld or collected, and have been timely paid over to the proper authorities to the extent due and payable.

(g) No written claim has ever been made by any Taxing authority in a jurisdiction where the Company does not file Returns that the Company is or may be subject to taxation by that jurisdiction.

(h) The Company was not a "United States real property holding corporation" within the meaning of Section 897(c)(2) of the Code at any time during the five (5) year period ending on the Closing Date.

(i) There are no Tax sharing, allocation, indemnification or similar Contracts in effect as between the Company and any other party under which the Company, the Parent or any of the Parent's Subsidiaries could be liable for any Taxes or other claims of any other party.

(j) The Company has delivered or made available to Parent true and complete copies, including all amendments thereto, of each of the Returns for income Taxes filed by or on behalf of the Company since January 1, 2010.

(k) The Company will not be required to include any material item of income in, or exclude any material item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any of the following that occurred or exists on or prior to the Closing Date: (A) a "closing agreement" as described in Section 7121 of the Code (or any corresponding or similar provision of state, local or non U.S. income Tax Legal Requirement); (B) an installment sale or open transaction; (C) a prepaid amount; (D) an intercompany item under Treasury Regulation Section 1.1502-13 or an excess loss account under Treasury Regulation Section 1.1502-19; (E) a change in the accounting method of the Company pursuant to Section 481 of the Code or any similar provision of the Code or the corresponding Tax Legal Requirements of any nation, state or locality or (F) installment sale or open transaction disposition made on or prior to the Closing Date.

(l) During the five (5) year period ending on the date of this Agreement, the Company was not a distributing corporation or a controlled corporation in a transaction intended to be governed by Section 355 of the Code.

(m) No indebtedness of the Company consists of "corporate acquisition indebtedness" within the meaning of Section 279 of the Code.

(n) The Company has not engaged in a "reportable transaction" within the meaning of Treasury Regulations Section 1.6011-4(b).

(o) There has not been any substantial omission or a substantial understatement of United States federal income Tax within the meaning of Section 6501(e) or Section 6662 of the Code, respectively.

(p) The Company has not made or filed an election under Section 108(i) of the Code.

(q) The Company does not have any liabilities for unpaid Taxes which have not been accrued or reserved on the Financial Statements in accordance with GAAP, whether asserted or unasserted, contingent or otherwise, and the Company has not incurred any liability for Taxes since the Balance Sheet Date other than in the ordinary course of business.

(r) The Company is and has at all times been resident for Tax purposes in its country of incorporation or formation and is not and has not at any time been a resident in any other country for any income Tax purpose (including any arrangement for the avoidance of double taxation). The Company is not nor was it subject to net income Tax in any jurisdiction other than its place of incorporation or formation by virtue of having a branch, permanent establishment, place of control and management or other place of business or by virtue of having a source of income in that jurisdiction.

(s) The Company is not a party to any Tax exemption, Tax incentive, Tax holiday or other Tax reduction agreement or order (a "Tax Incentive"), if any, of a territorial or non-U.S. government with respect to the Company.

(t) The Company has not requested or received a ruling from any Tax authority or signed a closing or other agreement with any Tax authority.

(u) All records which the Company is required under applicable Legal Requirements to keep for Tax purposes have been duly kept (in accordance with all applicable statutory requirements) and are available for inspection at the premises of the Company.

(v) The Company (and any predecessor of the Company) has been a valid "S Corporation" within the meaning of Sections 1361 and 1362 of the Code (and any analogous provisions of state and local laws) continuously since its formation and will continue to be a valid S Corporation until the Closing Date (the period from formation through the Closing Date is referred to herein as the "Recognition Period") and, accordingly, the Company has never been subject to any corporate income tax by reason of being a "C Corporation" (as that term is defined in the Code). The Company has delivered or made available to Parent true and complete copies, of each election filed with a Tax authority in which the Company and/or the Sellers elected for the Company to be treated as an S Corporation. No facts or circumstances exist, or have ever existed, which would cause, or would have caused, the status of the Company as an "S Corporation" under federal, state or local law to be subject to termination or revocation. All shareholders of the Company during the Recognition Period have been and will continue to be qualified S Corporation shareholders. The Company has not acquired and will not acquire any property during the Recognition Period from a "C Corporation" within the meaning of Section 1361 of the Code, the basis of which in the hands of the acquirer was determined by reference to the basis in the hands of a C Corporation.

(w) The Company shall not be liable for any Tax under Code Section 1374 in connection with the deemed sale of the Company's assets caused by the Section 338(h)(10) Election. The Company has not, in the past five years, (A) acquired assets from another corporation in a transaction in which the Company's Tax basis for the acquired assets was determined, in whole or in part, by reference to the Tax basis of the acquired assets (or any other property) in the hands of the transferor or (B) acquired the stock of any corporation which is a qualified subchapter S subsidiary.

Section 2.12 Intellectual Property.

(a) No Infringement. The operation of the business of the Company did not and does not infringe, misappropriate or otherwise violate, and, to the Company's Knowledge, when conducted by Parent following the Closing in a manner that is consistent with the manner in which it was conducted prior to Closing, will not infringe, misappropriate or otherwise violate, any Intellectual Property Rights of any Person.

(b) Notice. The Company has not received any written notice, claim or demand from, nor is it aware of, any Person (i) challenging the scope, ownership, validity or enforceability of any Company Intellectual Property or (ii) claiming that the Company, any Company Product or Company Intellectual Property infringes, misappropriates or otherwise violates any Intellectual Property Rights of any Person (nor does the Company have Knowledge of any basis therefore).

(c) No Third Party Infringers. To the Knowledge of the Company, no Person is infringing, misappropriating or otherwise violating any Company Intellectual Property. The Company has not asserted or threatened in writing any claim against any Person alleging any infringement, misappropriation or violation of any Company Intellectual Property.

(d) No Order. There are no Orders that restrict the rights of the Company to use, transfer, license or enforce any Company Intellectual Property owned by the Company or, to the Knowledge of the Company, any Intellectual Property or Intellectual Property Rights licensed to the Company; or which grant any third party any right in or to any Company Intellectual Property.

(e) Transaction. Neither this Agreement nor the transactions contemplated by this Agreement, whether by operation of law or otherwise, will result in: (i) Buyer or any of its Affiliates granting to any third party any incremental right to or with respect to, or non-assertion under, any Intellectual Property Rights owned by, or licensed to, any of them, (ii) Buyer or any of its Affiliates, being bound by, or subject to, any incremental non-compete or other incremental restriction on the operation or scope of their respective businesses, (iii) Buyer or any of its Affiliates being obligated to pay any incremental royalties or other fees, or offer any incremental discounts, to any third party or (iv) the Company being required under a Contract to procure or attempt to procure from Buyer or any of its Affiliates a license grant to or covenant not to assert in favor of any Person; *provided, however*, that the foregoing representation shall not apply or relate to any Contracts to which Buyer is a party or to which Buyer or its assets or properties are bound other than by reason of this Agreement and the consummation of the Share Purchase. As used in this Section, an "incremental" right, non-compete, restriction, royalty or discount refers to a right, non-compete, restriction, royalty or discount, as applicable, in excess, whether in terms of contractual term, contractual rate or scope, of those that would have been required to be offered or granted by the Company had the parties to this Agreement not entered into this Agreement or consummated the transactions contemplated hereby.

(f) Development and Assignment of Company Intellectual Property. The Company has taken commercially reasonable steps to obtain, maintain and protect the ownership of, or rights in, as applicable, all Company Intellectual Property. Without limiting the foregoing, the Company has, and has enforced, a policy requiring each Employee to execute a valid and binding written agreement Intellectual Property assignment and confidentiality agreement in the form delivered to Parent prior to the date of this Agreement (a "Company Assignment and Confidentiality Agreement"). All current or former Employees contracted by, or on behalf of, the Company that have created any Intellectual Property for the Company have executed a Company Assignment and Confidentiality Agreement, and, to the Knowledge of the Company, no party to any such agreement is in breach thereof. To the extent the Company has acquired ownership of any Intellectual Property or Intellectual Property Rights from any Person not subject to a Company Assignment and Confidentiality Agreement, the Company has obtained a written assignment instrument sufficient to irrevocably transfer all rights in such Intellectual Property or Intellectual Property Rights (including the right to seek past and future damages with respect to such Intellectual Property or Intellectual Property Rights) to the Company and, to the extent reasonably required or appropriate to protect the Company's ownership rights in and to such Intellectual Property and Intellectual Property Rights in accordance with all applicable laws, the Company has recorded each such assignment of Intellectual Property or Intellectual Property Rights with the relevant Governmental Entity, including, to the extent applicable, the United States Patent and Trademark Office ("PTO"), or its equivalents in all relevant non-U.S. jurisdictions.

(g) Standards Bodies and Similar Entities. The Company is not obligated to license or otherwise make available any Company Intellectual Property in connection with the activities of or any participation in any forum, consortium, standards body or similar entity. The Company has not made any submission or contribution to, and is not subject to any license or other Contract with, any forum, consortium, standards body or similar entity for a determination of essentiality to or inclusion in an industry standard that would obligate the Company to grant licenses or other rights with respect to any Company Intellectual Property.

(h) Governmental Entities and Institutions. No Company Intellectual Property or Company Product is subject to any order, action, settlement, or “march in” right or similar right of any Governmental Entity that restricts, or that could reasonably be expected to restrict, in any manner the use, transfer or licensing of any Company Intellectual Property by the Company or that may affect the validity, use or enforceability of such Company Intellectual Property or any Company Product. No Company Intellectual Property or Company Product is subject to any restriction, constraint, control, supervision or limitation as a result of (i) the receipt or use by the Company or any of its respective current or former directors, employees, independent contractors and consultants of any funding, facilities, personnel or support from any Governmental Entity, any foundation or any public or private university, college, or other educational institution or research center in the development of any Company Intellectual Property or Company Product (collectively, “Grants”), or (ii) the involvement in, contribution to, or creation or development of any Company Intellectual Property or Company Product by any current or former director, officer, or independent contractor of the Company who performed services for or held any position with any Governmental Entity, foundation or any public or private university, college, or other educational institution or research center.

(i) Open Source and Copyleft Materials. The Company has never used (and does not use) any Open Source Software in any Company Product, including in development or testing thereof.

(j) Source Code and Other Technology. Section 2.12(j) of the Company Disclosure Schedule identifies each Contract pursuant to which the Company has deposited, or is or may be required to deposit, with an escrow agent or any other Person, any source code or other Technology that is Company Intellectual Property. No event has occurred, and no circumstance or condition exists, that (with or without notice or lapse of time, or both) will, or would reasonably be expected to, result in the disclosure or delivery by the Company or any Person acting on their behalf to any Person of any source code or other Technology that is Company Intellectual Property under any Contract, and no such source code or other Technology has been disclosed, delivered or licensed to a third party.

(k) Software. The Software included in any Company Products or in the operation of the business of the Company is free of: (i) any material defects and (ii) any disabling codes or instructions and any “back door,” “time bomb,” “Trojan horse,” “worm,” “drop dead device,” “virus” or other software routines or hardware components that permit unauthorized access or the unauthorized disruption, impairment, disablement or erasure of such Software or related Company Products or Company Intellectual Property (or all parts thereof) or data.

(l) Proprietary Information and Trade Secrets. The Company has taken reasonable steps consistent with industry standard practices to safeguard and maintain the secrecy and confidentiality of their Trade Secrets, and any Trade Secrets of third parties provided thereto, according to the laws of the applicable jurisdictions where such Trade Secrets are developed, practiced or disclosed. The Company is not in breach of any written, binding confidentiality obligations or undertakings to safeguard and maintain the secrecy and confidentiality of any Trade Secrets of third parties provided thereto.

(m) Privacy. There has been no unauthorized access to, unauthorized disclosure of, or other misuse of any personally identifiable information collected by the Company and the Company has at all times complied in all respects with applicable Legal Requirements relating to privacy and data retention.

(n) Company Intellectual Property. Section 2.12(n) of the Company Disclosure Schedule separately sets forth with respect to each item of owned Company Registered Intellectual Property, if any: (i) for each patent and patent application, the patent number or application serial number for each jurisdiction in which filed, date issued and filed, and present status thereof; (ii) for each registered trademark, trade name, service mark or service name or application for registration of any of the foregoing, the application serial number or registration number, by country, province and state, and the class of goods covered, the nature of the goods or services, as well as a list of all common law trademarks, trade names, trade dress, service marks and service names used by the Company, including a list of applicable jurisdictions; (iii) for any URL or domain name, the registration date, any renewal date and name of registry; (iv) for each copyright registration or application, the number and date of such registration or application by country, province and state, as well as a list of all material copyrights for which a copyright application has not been filed; and (v) for each registered mask work, the registration number and date of registration, for each by country, province and state. The Company exclusively owns all right, title, and interest (including the right to enforce), free and clear of all Liens, in and to all Company Registered Intellectual Property specified in Section 2.12(n) of the Company Disclosure Schedule or any other Company Intellectual Property that the Company purports to own, and with respect to Company Registered Intellectual Property, is listed in the records of the appropriate United States, state or non-U.S. authority as the sole owner for each item thereof.

(o) Rights to Use Intellectual Property. The Company owns, or has a valid and enforceable right or license to use, all Intellectual Property used in the conduct of the Company's business as presently conducted.

(p) Validity and Enforceability. (i) The Company Intellectual Property is subsisting, in full force and effect, and is valid and enforceable, (ii) no Company Registered Intellectual Property has expired (other than in accordance with applicable statutory terms) or been cancelled or abandoned, and (iii) all necessary registration, maintenance and renewal fees currently due have been paid, and all necessary documents, recordations and certificates have been filed, for the purposes of maintaining the Company Registered Intellectual Property, and (iv) each of the patents and patent applications within the Company Registered Intellectual Property has been prosecuted in compliance with all applicable rules, policies, and procedures of the PTO or applicable non-U.S. patent agencies, and, to the Knowledge of the Company, there is no information that would preclude the Company from having title to such patent applications and to the patents that have issued or that may issue therefrom. Section 2.12(p) of the Company Disclosure Schedule sets forth all actions that must be taken by the Company within ninety (90) days from the date hereof, including the payment of any registration, maintenance, renewal fees, annuity fees and taxes or the filing of any documents, applications or certificates for the purpose of maintaining, perfecting or preserving or renewing any Company Registered Intellectual Property.

(q) Sufficiency. The Company owns or has valid licenses to (and immediately following the Closing will own and will be validly licensed on identical terms and conditions) Intellectual Property Rights and rights to use Intellectual Property sufficient to conduct the business of the Company as presently conducted and as presently proposed to be conducted.

(r) Products. The Company Products conform in all material respects with all applicable contractual commitments and all express and implied warranties, the Company's written product specifications and with all regulations, certification standards and other requirements of any applicable Governmental Entity and do not contain (i) any material defects or errors, (ii) viruses, including any Trojan horse, worm, harmful or disruptive component, or computer programming code intentionally constructed to damage, interfere with or otherwise adversely affect other codes, computer programs, data files or operations, except for technical measures and features that are expressly documented in the source code and that are designated to prevent unauthorized use of software, and (iii) free of any code that would disable or shut down, in whole or in part, any material computer program, including any device or method that permits any person to circumvent the normal security of the Software. There are no, and since January 1, 2013 there were no, (i) warranty claims against the Company which may result in any material expenditure by the Company (including rights to refund or return) and/or (ii) rejection by any customer of a Company Product, and, to the Company's Knowledge, there is no basis for the foregoing. There is not under consideration by the Company, nor has there been, any Company Product recall or post sale warning of a material nature concerning any Company Product.

Section 2.13 Material Contracts. h) Section 2.13(a) of the Company Disclosure Schedule sets forth an accurate and complete list (arranged in paragraphs corresponding to the numbered paragraphs contained in this Section 2.13(a)) of the following Contracts (each such Contract required to be set forth, a "Material Contract") to which the Company or is a party:

(i) all customer Contracts, including, without limitation, all license, development, maintenance, support and professional services, and reseller Contracts, that (i) the Company reasonably expects will provide payments to the Company of \$100,000 or more in 2014, or (ii) was executed in 2012 or 2013 and is still in effect;

(ii) all Contracts under which the Company is obligated to provide any maintenance, support or professional services with respect to any Company Products that are no longer marketed by the Company;

(iii) all Contracts with suppliers and service providers of the Company that involve the performance of services for, or delivery of goods or materials to, the Company under which the Company is obligated to make payments of more than \$50,000, excluding Contracts with any employees and independent contractors engaged on a full-time basis;

(iv) all Contracts involving a loan (other than accounts receivable owing from trade debtors in the ordinary course of business) or advance to (other than travel and entertainment advances to the Employees extended in the ordinary course of business), or investment in, any Person or any Contract relating to the making of any such loan, advance or investment;

(v) all Contracts involving Company Indebtedness or granting or evidencing a Lien on any property or asset of the Company;

(vi) all Contracts under which any Person (other than the Company) has directly or indirectly guaranteed Company Indebtedness;

(vii) all Contracts with any Governmental Entity, including all Government Contracts;

- (viii) all Contracts involving the lease of real property ("Lease Agreements");
- (ix) all Contracts for the lease of any machinery, equipment, motor vehicles, office furniture, fixtures or other personal property involving the payment of more than \$25,000 over the term of the Contract;
- (x) all financial advisory or any other similar type Contract and all Contracts with investment or commercial banks;
- (xi) all Contracts (A) limiting or purporting to limit the ability of the Company to engage in any line of business or to compete with any Person or in any geographical area, (B) granting or purporting to grant any exclusive rights to any Person or limiting in any respect the right of the Company to make use of any Company Intellectual Property, including any "covenant not to sue" clauses, (C) containing any exclusive licensing obligations, (D) containing any future royalty payments, or (E) containing any "most favored nation" or "most favored customer" terms;
- (xii) other than employment Contracts, all Contracts between the Company and any shareholder, officer, director, Affiliate of the Company or any family member thereof on the other hand;
- (xiii) all Contracts (including letters of intent) relating to or involving the disposition or acquisition of assets, properties, capital stock or other equity interests of any other Person, or any merger, consolidation or similar business combination transaction, whether or not enforceable, but excluding the purchase of assets in the ordinary course of business for less than \$25,000;
- (xiv) all Contracts involving any joint venture, partnership, strategic alliance, shareholders' agreement or joint development;
- (xv) all Contracts with distributors or representatives of the Company that have generated or expected to generate annual revenues in excess of \$50,000 (excluding Contracts with Employees and independent contractors engaged on a full time basis, in sales on behalf of the Company);
- (xvi) all Contracts involving any resolution or settlement of any actual or threatened litigation or arbitration in the past three (3) years;
- (xvii) all Collective Bargaining Agreements;
- (xviii) all Contracts (including, for the sake of clarity, development Contracts) to which the Company is a party or by which it is bound and under which the Company is granted or provided any rights, or permitted any uses, of Intellectual Property or Intellectual Property Rights by a third party, other than: (i) Contracts for licenses to Shrink-Wrapped Code that are not royalty bearing; and (ii) Open Source Licenses or CopyLeft Software licenses.
- (xix) all Contracts (i) containing a grant by the Company to a Person of any right relating to or under the Company Intellectual Property or any grant to the Company of any right relating to or under the Intellectual Property or Intellectual Property Rights of any Person involving anticipated annual gross revenue or expense in excess of \$20,000, other than agreements with customers for the sale and/or licensing of Products entered into in the ordinary course of business (including Contracts for "off-the-shelf" software) and (ii) regarding development of Intellectual Property or Technology for the Company in excess of \$5,000; and
- (xx) All Contracts containing any provisions which are triggered by, and all Contracts entitling any Person to any right of notice, novation, waiver, authorization, consent or approval, as the case may be, in connection with, a change-in-control of the Company or the consummation of the transactions contemplated by this Agreement.

(b) No Breach. The Company is in compliance in all material respects with its respective obligations under each Contract to which it is party or by which it is bound. Each Material Contract set forth in Section 2.13(a) of the Company Disclosure Schedule (or required to be set forth in Section 2.13(a) of the Company Disclosure Schedule) is valid and binding and in full force and effect and has not been terminated or been repudiated. There exists no event, occurrence, condition or act which, with the giving of notice, the lapse of time or the happening of any other event or condition, would be reasonably expected to become a material default or event of default under the terms of any Contract (whether or not a Material Contract) to which the Company is party or by which it is bound. To the Company's Knowledge, none of the Material Contracts will be totally or partially terminated or suspended prior to its expiration by its terms. To the Knowledge of the Company, all of the material covenants to be performed by any other party to any Contract to which the Company is party or by which it is bound have been performed in all material respects. The Company has delivered or made available to Parent true and complete copies, including all amendments, of each Material Contract set forth in Section 2.13 of the Company Disclosure Schedule (or required to be set forth in Section 2.13 of the Company Disclosure Schedule).

Section 2.14 Consents and Approvals. (a) No notice to, filing with, and no permit, authorization, consent or approval of, any Governmental Entity or any third party is necessary for the consummation by the Company of the transactions contemplated by this Agreement, including as necessary in order to avoid any violation of any Legal Requirements or any third party.

(b) In connection with Contracts that the Company has entered into to provide software and/or services to any Governmental Entity, either directly or indirectly as a subcontractor (collectively, the "Government Contracts"), neither the Company nor its Affiliates hold any security clearance issued by the U.S. government. In entering into and performing under the Government Contracts, the Company has not had access to any U.S. government classified information, and, without derogating from clause (a) above, the consummation of the Share Purchase, including the Company's continued rights to the benefits of the Government Contracts, is not subject to any requirement to notify or receive approval from any Governmental Entity in connection with the Government Contracts.

Section 2.15 Environmental Matters. The Company is in material compliance with all Legal Requirements relating to the environment or occupational health and safety and no material expenditures are or will be required in order to comply with any such existing Legal Requirement.

Section 2.16 Leased Real Property. Section 2.16 of the Company Disclosure Schedule sets forth a complete list of the real property leased by the Company (the "Company Leases"). Each Lease Agreement relating to each Company Lease is valid, binding and enforceable in accordance with its terms and the Company has a valid and binding leasehold interest in the real property for the full term of the Company Lease (including renewal periods). True and correct copies of the Lease Agreements with all amendment thereto have been made available to Parent. There are no disputes, oral agreements, or forbearance programs in effect as to the Company Leases and, other than the Lease Agreements, there are no other Contracts between the Company and any other Person or by and among any other Persons, claiming an interest in the interest of the Company in the real property subject to the Company Leases or otherwise relating to the use and occupancy of the real property subject to the Company Leases. There are no existing material defaults by the Company under any Lease Agreement, and, to the Knowledge of the Company, no event has occurred that (with the giving of notice, lapse of time or both) would constitute a material default by the Company under any Lease Agreement and the Company has no Knowledge of any material default by the other parties to the Company Leases. The Company has not assigned, transferred, conveyed, mortgaged, deeded in trust, or encumbered any interest in the leasehold or any of its rights under any Company Lease, and the leasehold estate created by each such lease is free and clear of all Liens. The Company does not own any real property.

Section 2.17 Interested Party Transactions. No shareholder, officer or director of the Company owns or holds, directly or indirectly, any interest in (except holdings solely for passive investment purposes of securities of publicly held and traded entities constituting less than one percent (1%) of the equity of any such entity), or is an officer, director, Employee or consultant of any Person that is a competitor, lessor, customer or supplier of the Company. No officer, director or shareholder of the Company (a) owns or holds, directly or indirectly, in whole or in part, any Company Intellectual Property, or (b) has any interest in any property, real or personal, tangible or intangible, used in or pertaining to the business of the Company. No shareholder, officer, Employee or director of the Company is indebted to the Company, nor is the Company indebted (or committed to make loans or extend or guarantee credit) to any of them.

Section 2.18 Suppliers and Customers. Section 2.18 of the Company Disclosure Schedule sets forth an accurate and complete list of (i) the ten (10) largest customers (including OEMs and resellers) of the Company, taken as a whole, by revenues (the "Key Customers") for each of year 2012 and the nine-month period ended September 30, 2013; and (ii) the key strategic partners (and, only if such exist, key suppliers, other than, for the sake of clarity, real estate lease) of the Company, including SAP AG or its Affiliates (the "Key Partners"). None of the Key Customers and Key Partners has indicated to the Company in writing (nor does the Company have any Knowledge of) any intent to discontinue or alter in any manner adverse to the Company the terms of such Key Customer or Partner's relationship with the Company (including with respect to non-renewal of maintenance agreements and whether as a result of the Share Purchase or otherwise) or make any claim that would be reasonably expected to give rise to a material breach by the Company of its obligations to such Key Customer or Partner.

Section 2.19 Accounts, Powers of Attorney. Set forth in Section 2.19 of the Company Disclosure Schedule is an accurate and complete list showing (a) the name and address of all banks, trust companies, securities brokers and other financial institutions in which the Company has an account or safe deposit box, or maintains a banking, custodial, trading or other similar relationship, whether or not such accounts are held in the name of the Company, and lists the number of any such account or any such box and the names of all Persons authorized to draw thereon or to have access thereto, (b) the names of all Persons, if any, holding powers of attorney from the Company.

Section 2.20 Insurance. Section 2.20 of the Company Disclosure Schedule contains a complete list of the policies and Contracts of insurance maintained by the Company. All such policies and bonds are in full force and effect, all premiums due and payable to date under all such policies and bonds have been paid and the Company are otherwise in compliance in all material respects with the terms of such policies and bonds. There is no claim pending under any such policies and Contracts as to which coverage has been questioned, denied or disputed by the insurance carriers of such policies or Contracts. The Company has not received any written notice of cancellation or non renewal of any such policies or Contracts from any of its insurance carriers or agents, nor to the Knowledge of the Company, is the termination of any such policies or Contracts threatened.

Section 2.21 Tangible Assets; Title to Property. The Company has good and valid title or, in the case of leased assets, a valid leasehold interest, free and clear of all Liens, except for Permitted Liens, to all of their respective tangible property and assets. The property and equipment of the Company that are used in the operations of the business of the Company, taken as a whole, are in good operating condition and repair, subject to normal wear and tear, are adequate for the uses to which they are being put and have been maintained and serviced in accordance with prudent practice and in material compliance with all applicable Legal Requirements. The tangible property and assets owned or leased by the Company, together with all leased real property of the Company, are sufficient for the operation of the business of the Company as currently conducted.

Section 2.22 Minute Books. The minute books of the Company contain an accurate summary in all material respects of all resolutions adopted at any meetings of directors, committees and shareholders and all actions by written consent and such minute books have been delivered to Parent.

Section 2.23 Broker's or Finder's Fees; Transaction Expenses. i) The Company has not incurred, nor will it incur, directly or indirectly, any liability for brokerage or finders' fees or agents' commissions or investment bankers' fees or any similar charges in connection with this Agreement or any transaction contemplated hereby.

(b) Section 2.23(b) of the Company Disclosure sets forth a true and correct itemized list of the Company Transaction Expenses paid through the date hereof by the Company and the Company's current reasonable estimation of such Company Transaction Expenses from the date hereof through the Closing.

Section 2.24 State Takeover Statutes. No "fair price" or "control share acquisition" or other similar U.S. federal, state or local antitakeover statutes, laws or regulations is applicable to the Company with respect to the Share Purchase, including the execution, delivery or performance of this Agreement and the consummation of the Share Purchase and the other transactions contemplated hereby.

Section 2.25 Full Disclosure. To the Knowledge of the Company, there is no material fact or information relating to the Company, its business, prospects, condition (financial or otherwise), affairs, operations, or assets that has not been disclosed to the Buyer. To the Knowledge of the Company, none of the representations or warranties made by the Company herein or any certificate furnished by the Company pursuant to this Agreement (as qualified and modified by the Company Disclosure Schedule), when all such documents are read together in their entirety, contains or will contain at the Closing Date any untrue statement of a material fact, or omits or will omit at the Closing Date to state any material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which made, not misleading.

Section 2.26 No Additional Representations or Warranties.

Buyer acknowledges that the Company and the Sellers have not made, and Buyer has not relied on, any representation or warranty, express or implied, as to the accuracy or completeness of any information regarding the Sellers or the Company, except for the representations and warranties of the Sellers and the Company expressly set forth in this Agreement. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND THE SELLERS EXPRESSLY SET FORTH IN ARTICLES II AND III HEREOF, NONE OF SUCH PARTIES MAKES ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AT LAW OR IN EQUITY, IN RESPECT OF THE SELLERS, THE COMPANY OR ANY OF THEIR RESPECTIVE ASSETS, LIABILITIES OR OPERATIONS.

ARTICLE III

Representations and Warranties Concerning the Sellers

Except as set forth in the Company Disclosure Schedule, each of the Sellers, severally and not jointly, represents and warrants, to and for the benefit of Buyer and Parent, on the date hereof and as of the Closing Date, as follows:

Section 3.1 Ownership of Company Share Capital. Such Seller is the sole record and beneficial owner of the Company Share Capital designated as being owned by such Seller opposite such Seller's name in the Final Payment Spreadsheet. Except as provided under the Company Organizational Documents, such Company Share Capital owned by such Seller is not subject to any Liens or to a right of first refusal of any kind, and such Seller has not granted any rights or options to purchase such Company Share Capital to any other Person. Such Seller has the sole right to transfer such Company Share Capital to Buyer. Such Company Share Capital constitutes all of the Company Share Capital owned, beneficially or of record, by such Seller, and such Seller has no other options, warrants or other rights to acquire Company Share Capital other than those set forth in Section 2.3 of the Company Disclosure Schedule.

Section 3.2 Litigation. Such Seller does not have any claim against the Company whether present or future, contingent or unconditional, fixed or variable under any Contract or on any other basis whatsoever, whether in equity or at law. There is no claim of any nature pending, or to the Knowledge of such Seller, threatened, against such Seller, arising out of or relating to (a) such Seller's beneficial ownership of Company Share Capital or rights to acquire Company Share Capital, (b) such Seller's capacity as a holder of Company Share Capital, (c) the transactions contemplated by this Agreement, (d) any contribution of assets (tangible and intangible) by such Seller (or any of its Affiliates) to the Company (or any of its Affiliates), or (e) any other agreement between such Seller (or any of its Affiliates) and the Company (or any of its Affiliates), nor to the Knowledge of such Seller, is there any reasonable basis therefor. There is no investigation or other proceeding pending or, to the Knowledge of such Seller, threatened, against such Seller arising out of or relating to the matters noted in clauses (a) through (e) of the preceding sentence by or before any Governmental Entity, nor to the Knowledge of such Seller, is there any reasonable basis therefor. There is no action, suit, claim or proceeding pending or, to the Knowledge of such Seller, threatened, against such Seller with respect to which such Seller has a contractual right or a right pursuant to applicable Legal Requirement to indemnification from the Company related to facts and circumstances existing prior to the Closing, nor are there any facts or circumstances that would give rise to such an action, suit, claim or proceeding.

Section 3.3 Authority. Such Seller has capacity to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement have been duly authorized by such Seller, and no further action is required on the part of such Seller to authorize the Agreement. This Agreement has been duly executed and delivered by such Seller, and assuming the due authorization, execution and delivery by the other parties hereto and thereto, constitute the valid and binding obligations of such Seller, enforceable against each such party in accordance with their respective terms.

Section 3.4 No Conflict The execution and delivery by such Seller of this Agreement and the consummation of the transactions hereby and thereby will not conflict with (a) any contract to which such Seller or any of its properties or assets is subject, or (b) any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to such Seller or its properties or assets.

Section 3.5 Securities Laws.

(a) Such Seller is aware of Parent's business affairs and financial condition and has acquired sufficient information about Parent to reach an informed and knowledgeable decision to acquire the Closing Share Consideration and Earnout Shares, if any (the "Consideration Shares"). Such Seller is acquiring (or will acquire) the Consideration Shares for such Seller's own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended (the "Securities Act").

(b) Such Seller (i) is an "accredited investor" (as defined under Rule 506 promulgated under Regulation D of the Securities Act), (ii) can afford to bear the economic risk of holding the Consideration Shares for an indefinite period and can afford to suffer the complete loss of such Seller's investment in the Consideration Shares, (iii) its knowledge and experience in financial and business matters is such that such Seller is capable of evaluating the risks of the investment in the Consideration Shares; and (iv) only to the extent that such Seller is not an individual, it has not been organized for the purpose of acquiring the Consideration Shares.

(c) By executing this Agreement, each of the Sellers represents and warrants that he, she or it are not an Israeli resident (and, to that end, has completed the tax declaration attached as Schedule 3.5(c) hereto) nor has received the offer to purchase the Consideration Shares while in Israel.

(d) Such Seller understands that the Consideration Shares have not been registered under the Securities Act and the Consideration Shares are being issued in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of its investment intent as expressed herein. Moreover, such Seller understands that Parent is under no obligation to register the Consideration Shares with the SEC other than as required by this Agreement.

(e) Such Seller understands that the Consideration Shares are "restricted securities" under the United States federal securities laws and may be resold without registration under the Securities Act only in very limited circumstances and are also subject to the lock-up restrictions set forth in Section 5.17 hereof. In this regard, each Seller is aware of the provisions of Rule 144, promulgated under the Securities Act, which in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly from the issuer thereof (or from an affiliate of such issuer), in a non public offering subject to the satisfaction of certain conditions. In order to prevent any transfer from taking place in violation of this Agreement or applicable Legal Requirement, each Seller hereby agrees that Parent may cause a stop transfer order to be placed with its transfer agent with respect to the Consideration Shares. Parent will not be required to transfer on its books any Consideration Shares that have been sold or transferred in violation of any provision of this Agreement or applicable Legal Requirement. Such Seller acknowledges and agrees that each Parent Ordinary Share that forms part of the Consideration Shares shall bear the following legend:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE LAW, AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED OR HYPOTHECATED UNLESS THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT COVERING SUCH SECURITIES, OR THE COMPANY RECEIVES AN OPINION OF ITS COUNSEL REASONABLY SATISFACTORY TO THE COMPANY STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF THE SECURITIES ACT.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE RESTRICTIONS SET FORTH IN THE SHARE PURCHASE AGREEMENT DATED DECEMBER 18, 2013 (THE "AGREEMENT"). THE SHARES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD OR OTHERWISE TRANSFERRED EXCEPT IN COMPLIANCE WITH THE AGREEMENT, A COPY OF WHICH IS AVAILABLE AT NO COST UPON REQUEST FROM THE SECRETARY OF THE COMPANY."

Section 3.6 Intellectual Property. Such Seller does not have any ownership interest in Company Intellectual Property or has any Liens against Company Intellectual Property. Neither the Company Products, nor the past, current or reasonably contemplated future conduct or operations of the business of the Company has, is or will, infringe or misappropriate the Intellectual Property Rights of the Seller, or has, is or will, violate any right of the Seller (including any right to privacy or publicity). With respect to any Seller who contributed to, the creation or development of any material Company Intellectual Property, such Seller has not performed services for the government, a university, college or other educational institution, research center, or organization whose primary purpose is to create or foster the creation of Open Source Material during a period of time during which such Seller was also performing services for the Company.

Section 3.7 Taxes. Each Seller has timely filed all Tax Returns with respect to Taxes required to be paid attributable to items of income, gain, deductions, losses and credits of the Company, and has timely paid all such Taxes (whether or not shown on such Tax Returns). There has not been any audit of any Tax Return filed by such Seller with respect to, or which may relate to, items of income, gain, deduction, loss or credit of the Company, and no such audit of such Seller is in progress, and Seller has not been notified by any taxing authority that any such audit is contemplated or pending.

ARTICLE IV

Representations and Warranties of Buyer and Parent

Except as set forth in the Parent SEC Documents (as defined below), Buyer and Parent hereby represent and warrant to the Company and Sellers, on the date hereof and as of the Closing Date, as follows:

Section 4.1 Organization and Standing. Parent is a corporation duly organized and validly existing under the laws of the State of Israel and has all requisite power and authority to own, lease, license, use and operate its assets and properties and to carry on its business as now being conducted. Buyer is a company duly organized, validly existing and in good standing under the laws of the State of Massachusetts.

Section 4.2 Authority; No Conflicts. j) Each of Parent and Buyer has all requisite corporate power and authority to execute and deliver this Agreement and the Ancillary Agreements to be executed and delivered by them as contemplated hereby and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of this Agreement, and the Ancillary Agreements executed and delivered by Parent and Buyer as contemplated hereby, and the consummation of the transactions contemplated hereby and thereby, have been duly authorized by the Board of Directors of each of Parent and Buyer, and no other corporate or shareholder action on the part of Parent or Buyer or their respective shareholders is necessary to authorize the execution, delivery and performance of this Agreement and the Ancillary Agreements by either Parent or Buyer and the consummation of the transactions contemplated hereby and thereby. This Agreement and the Ancillary Agreements to be executed and delivered by Parent and Buyer as contemplated hereby, when delivered in accordance with the terms hereof, assuming the due execution and delivery of this Agreement and each other Ancillary Agreements by the other parties hereto and thereto, shall have been duly executed and delivered by each of Parent and Buyer and shall be valid and binding obligations of Parent and Buyer, enforceable against each of them in accordance with their terms, except to the extent that their enforceability may be subject to applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and to general equitable principles.

(b) The execution and delivery of this Agreement and of the Ancillary Agreements to be executed and delivered by Parent and Buyer as contemplated hereby will not, and the consummation by Parent and Buyer of the transactions contemplated hereby and thereby will not, result in a violation or breach of, conflict with, constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation, payment or acceleration) under, or result in the creation of any Lien on any of the properties or assets of Parent under: (i) any provision of the organizational documents of Parent and/or Buyer; or (ii) any Legal Requirement applicable to Parent and/or Buyer or by which any of its respective properties or assets may be bound.

Section 4.3 Consents and Approvals. No notice to, filing with, and no permit, authorization, consent or approval of, any Governmental Entity or any private third party is necessary for the consummation by Parent and/or Buyer of the transactions contemplated by this Agreement.

Section 4.4 SEC Filings.

(a) Parent has timely filed with or otherwise furnished to the SEC all forms, reports, schedules, statements and other documents required to be filed or furnished by it under the Securities Exchange Act of 1934, as amended (the "Exchange Act") since January 1, 2013 together with all certifications required pursuant to the Sarbanes-Oxley Act (these documents, as supplemented or amended since the time of filing, and together with all information incorporated by reference therein and schedules and exhibits thereto, the "Parent SEC Documents"). Parent has delivered or made available to the Company (including through the SEC EDGAR system) accurate and complete copies of the Parent SEC Documents.

(b) As of their respective filing dates, the Parent SEC Documents and all Parent SEC Documents filed after the date hereof but before the Closing complied (or, if filed after the date hereof and before the Closing, will comply) in all material respects with the requirements of the Exchange Act and the rules and regulations of the SEC thereunder, as the case may be, and none of the Parent SEC Documents contained or will contain any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading, except to the extent such Parent SEC Documents have been corrected, updated or superseded by a document subsequently filed with or furnished to the SEC. The financial statements of Parent, including the notes thereto, included in the Parent SEC Documents (the "Parent Financial Statements") comply as to form in all material respects with the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with GAAP consistently applied (except as may be indicated in the notes thereto or, in the case of unaudited financial statements, as permitted by the Exchange Act) and present fairly, in all material respects, the consolidated financial position of Parent and its consolidated subsidiaries at the dates thereof and the consolidated results of its operations, changes in shareholders' equity and cash flows for the periods then ended (subject, in the case of unaudited financial statements, to normal year-end adjustments).

Section 4.5 Issuance of Parent Ordinary Shares. The Parent Ordinary Shares to be issued to Sellers pursuant to this Agreement have been duly authorized, and when issued in accordance with this Agreement, will be validly issued, fully paid and nonassessable and not subject to any preemptive or similar rights (subject to this Agreement, Parent's organizational requirements and applicable Legal Requirements).

Section 4.6 Broker's or Finder's Fees. Except for Roth Capital Partners LLC, neither Parent nor Buyer has incurred, nor will it incur, directly or indirectly, any liability for brokerage or finders' fees or agents' commissions or investment bankers' fees or any similar charges in connection with this Agreement or any transaction contemplated hereby.

Section 4.7 Material Adverse Effect. Since September 30, 2013, there has not been any event, circumstance, development, state of facts, occurrence, change or effect which has had a Material Adverse Effect on Buyer or Parent and no event, circumstance, development, state of facts, occurrence, change or effect exists or has occurred which could reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect on Buyer or Parent. Buyer and Parent have each complied, and are currently conducting their operations in accordance, with applicable Legal Requirements, except in each case as could not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect on Buyer or Parent.

Section 4.8 Financial Capability; Solvency. Buyer will have at the Closing sufficient immediately available funds in cash to pay the Closing Cash Consideration described in this Agreement and to perform its obligations hereunder and to pay its related fees and expenses. Buyer is not insolvent, nor will the Buyer be rendered insolvent by any of the transactions contemplated herein. As used in this Section, "insolvent" means that the sum of the debts and other probable Liabilities of Buyer exceeds the present fair saleable value of the assets of Buyer.

Section 4.9 No Additional Representations or Warranties.

Each of the Company and Sellers acknowledge that the Parent and Buyer have not made, and the Company and Sellers have not relied on, any representation or warranty, express or implied, as to the accuracy or completeness of any information regarding the Parent or the Buyer, except for the representations and warranties of the Buyer and Parent expressly set forth in this Agreement. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES OF THE BUYER AND PARENT EXPRESSLY SET FORTH IN ARTICLE IV HEREOF, NONE OF SUCH PARTIES MAKES ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AT LAW OR IN EQUITY, IN RESPECT OF THE BUYER, PARENT OR ANY OF THEIR RESPECTIVE ASSETS, LIABILITIES OR OPERATIONS.

ARTICLE V

Covenants

Section 5.1 Access to Information. During the period commencing on the date hereof and ending on the earlier of the date of valid termination of this Agreement or the Closing (such earlier date, the "Expiration Date"), the Company shall afford Buyer, Parent and their respective Representatives during normal working hours upon reasonable prior notice reasonable access to the properties, books and records of the Company and, during such period, the Company shall furnish as soon as practical to Buyer and Parent all true, correct and complete financial and operating data and other information concerning the Company's businesses, properties and personnel as Buyer and Parent may reasonably request.

Section 5.2 Confidentiality. The parties hereto agree that the terms of that certain Mutual Confidentiality and Non-Disclosure Agreement between Parent and the Company, dated October 16, 2013 (the "Confidentiality Agreement"), shall continue in full force and effect, and apply to any exchange of Proprietary Information (as defined in the Confidentiality Agreement) hereunder; it being understood that notwithstanding anything to the contrary in the Confidentiality Agreement, neither Party shall disclose the existence of this Agreement and/or any of the terms and conditions of this Agreement and the transactions contemplated hereby unless such disclosure is required by applicable Legal Requirement or otherwise permitted in accordance with Section 5.7 hereof.

Section 5.3 Conduct of the Business of the Company Pending the Closing Date.

(a) The Company agrees that during the period commencing on the date hereof and ending on the Expiration Date, the Company shall conduct its operations only in the ordinary course of business consistent with past practice and to use its commercially reasonable efforts to preserve intact its business organization, keep available the services of its Employees and maintain satisfactory relationships with licensors, suppliers, distributors, clients and others having business relationships with them.

(b) In furtherance and not in limitation of Section 5.3(a), the Company agrees that during the period commencing on the date hereof and ending on the Expiration Date, the Company shall not effect any of the following except with the prior written consent of Buyer (which shall not be unreasonably withheld):

- (i) amend or restate any of its Organizational Documents or form any Subsidiary;
- (ii) authorize for issuance, issue, sell or deliver (A) any share stock of, or other equity or voting interest in the Company, or (B) any securities convertible into, exchangeable for, or evidencing the right to subscribe for or acquire any (1) shares of capital stock of, or other equity or voting interest in the Company, (2) securities convertible into, exchangeable for, or evidencing the right to subscribe for or acquire, any shares of the share capital of, or other equity or voting interest in the Company including rights, warrants or options, or (3) phantom stock or similar equity based payment option;
- (iii) declare, pay or set aside any dividend or make any distribution (whether in cash, stock or other property) with respect to, or split, combine, redeem, reclassify, purchase or otherwise acquire directly, or indirectly, any shares of share capital of, or other equity or voting interest in the Company or make any other change in the capital structure of the Company or make any other payment to the Sellers or their Affiliates (other than as set forth, if any, in Section 5.3(b)(iii) of the Company Disclosure Schedule);
- (iv) establish, adopt, enter into, fund or accelerate payment under, amend or terminate any Benefit Plan;
- (v) establish, adopt, enter into, fund or accelerate payment under, amend or terminate any agreement, or arrangement for the benefit of any directors, officers or Employees;
- (vi) hire any new Employee or terminate the employment of any Employee;
- (vii) pay or enter into any agreement, or otherwise promise, to pay any bonus, retention or special remuneration to any current or former Employee or increase the compensation payable (including wages, salaries, bonuses, benefits or any other remuneration) or to become payable to any current or former Employee, but other than as required under Contracts existing as of the date hereof;
- (viii) grant, accelerate, amend or change the period of exercisability or vesting of any equity award of the Company, or authorize any cash payment in exchange for any equity award of the Company;
- (ix) enter into, materially amend, become subject to, violate, terminate or otherwise modify or waive any of the material terms of any Material Contract (including, for the sake of clarity, any Contract that would constitute a Material Contract) or any Company Leases, except for entering into Contracts for the sale of the Company Products in the ordinary course of business, consistent with past practice with a value per contract that does not exceed \$50,000;
- (x) mortgage, pledge or encumber any assets or otherwise permit any of its properties or assets to be subject to any Lien;
- (xi) (i) dispose of, license or transfer to any Person any rights to Company Intellectual Property other than pursuant to non exclusive licenses of binary code in connection with the sale of the Company Products in the ordinary course of business, consistent with past licensing practice, (ii) abandon, permit to lapse or otherwise dispose of any Company Intellectual Property, or (iii) make any material change in any Company Intellectual Property;
- (xii) sell, transfer, lease, license or otherwise dispose of any material assets or properties, except for the sale of Company Products in the ordinary course of business and consistent with past practice;

- (xiii) acquire any business, line of business or Person by merger or consolidation, purchase of substantial assets or equity interests, or by any other manner, in a single transaction or a series of related transactions, or enter into any Contract, letter of intent or similar arrangement (whether or not enforceable) with respect to the foregoing;
- (xiv) enter into or amend any agreements pursuant to which any other Person is granted exclusive rights of any type or scope with respect to any Company Products;
- (xv) make any capital expenditure or commitment therefor or enter into any operating lease in excess of \$10,000 individually and \$20,000 in the aggregate or otherwise deviate from the Company's short-term budget/forecast attached in Section 5.3(xy) to the Company Disclosure Schedule;
- (xvi) (A) take any action reasonably likely to (i) accelerate the payment of customer accounts receivables (including shortening payment terms, providing incentives for early payment or otherwise) or (ii) delay the payment on accounts payable to suppliers, vendors or others beyond due dates; (B) make any changes to the cash management policies of the Company; or (C) vary any inventory purchasing practices in any material respect from past practices;
- (xvii) terminate or waive any right of the Company of material value;
- (xviii) except as required by GAAP, make any change in any method of accounting or auditing method, principle, policy, procedure or practice;
- (xix) (A) make any Tax election or settle and/or compromise any Tax liability; (B) prepare any Returns in an inappropriate manner; incur any liability for Taxes, other than in the ordinary course of business consistent with past practice; or (C) file an amended Return or a claim for refund of Taxes with respect to the income, operations or property of the Company, other than in the ordinary course of business;
- (xx) incur, repay, assume, guarantee or modify any Company Indebtedness;
- (xxi) make any loans, advances or capital contributions to, or investments in, any other Person;
- (xxii) initiate or settle any litigation;
- (xxiii) agree to take (i) any of the actions described above, or (ii) any other action that would prevent the Company from performing, or cause the Company not to perform, any of its covenants and agreements under this Agreement or under any of Ancillary Agreements.

Section 5.4 Exclusive Dealing. k) Without derogating from the Sellers' and the Company's other obligations hereunder, during the period commencing on the date hereof and continuing until the Expiration Date, the Sellers and the Company shall continue to comply with their undertakings under Section 8 of the Parent LOI (except that the term "Exclusivity Period" in the Parent LOI shall have the meaning set forth herein for "Expiration Date").

- (b) The Sellers and the Company acknowledge that this Section 5.4 is a significant inducement for Parent and Buyer to enter into this Agreement.

Section 5.5 Commercially Reasonable Efforts; Consents. Subject to the terms and conditions contained in this Agreement, during the period commencing on the date hereof and continuing until the Expiration Date, the Parties shall cooperate and use their respective commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other Parties in doing, all things necessary, proper or advisable in order to consummate and make effective, in the most expeditious manner practicable, the Share Purchase and the other transactions contemplated by this Agreement, including the following: (i) the taking of all commercially reasonable acts necessary to cause the conditions precedent set forth in Article V to be satisfied, (ii) the obtaining of all necessary actions, waivers, consents, approvals, orders and authorizations from Governmental Entities and from any other third parties as are necessary for consummation of the transactions contemplated by this Agreement, (iii) the defending of any suits, claims, actions, investigations or proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the transactions contemplated hereby, and (iv) the execution or delivery of any additional instruments reasonably necessary to consummate the transactions contemplated by, and to fully carry out the purposes of, this Agreement, but subject in all cases to the compliance by the Parties with their respective covenants under this Agreement. Such consents, waivers and approvals hereof shall be in a form reasonably acceptable to Buyer and Parent.

Section 5.6 Certain Closing Certificates and Documents. Sellers shall cause, and the Company shall, (i) prepare and deliver to Buyer and Parent, a draft of the Closing Balance Sheet and the Final Payment Spreadsheet not later than three (3) Business Days prior to the Closing Date (unless otherwise agreed by Buyer); and (ii) prepare and deliver the final Closing Balance Sheet and the Final Payment Spreadsheet to Buyer and Parent at or prior to the Closing. Without limiting the generality or effect of the foregoing or the provisions of Section 5.1, Sellers shall cause, and the Company shall, provide to Parent, promptly after Parent's request, copies of the documents or instruments evidencing the amounts set forth on any such draft or final certificate, as well as the draft of the Final Payment Spreadsheet and the Final Payment Spreadsheet delivered pursuant to this Section.

Section 5.7 Public Announcements. Neither Party shall issue any press release or otherwise make any public statement with respect to the transactions contemplated by this Agreement, unless required under applicable Legal Requirements, in which case, the disclosing party shall consult with the other Parties prior thereto. Notwithstanding the foregoing, Parent may issue a press release announcing the execution of this Agreement on, or promptly following, the date hereof and, thereafter, may make, from time to time, any public disclosure with respect to the transactions contemplated by this Agreement and as and to the extent Parent deems, following consultation with its legal advisors, required or advisable under applicable Legal Requirements (including, for the sake of clarity, stock exchange rules).

Section 5.8 Notification of Certain Matters. During the period commencing on the date hereof and continuing until the Expiration Date, Sellers and the Company shall promptly notify Buyer of (a) any actions, suits, claims or proceedings in connection with the transactions contemplated by this Agreement commenced or, to the Knowledge of the Company, threatened, against the Company or Sellers, as the case may be, (b) the occurrence or non occurrence of any fact or event which would be reasonably likely to cause any condition set forth in Article V not to be satisfied, (c) the occurrence or existence of any fact, circumstance or event which could result in any representation or warranty made by Sellers and the Company in this Agreement or in any schedule, exhibit or certificate or delivered herewith, to be untrue or inaccurate, (d) any notice or other communication from any Person alleging that the consent of such Person is or may be required in connection with the transactions contemplated by this Agreement, or (e) the occurrence of any event, circumstance, development, state of facts, occurrence, change or effect which has had a Material Adverse Effect or the occurrence or non occurrence of any event, circumstance, development, state of facts, occurrence, change or effect which would reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect.

Section 5.9 Reserved.

Section 5.10 Resignation of Officers and Directors. Except as otherwise instructed in writing by Buyer, the Company shall cause any so requested officer and member of the Company Board to tender his/her resignation from such position (for the avoidance of doubt, not resignation from a position as an employee) effective immediately prior to the Closing Date and in the event any such individual does not tender his/her resignation, the Sellers and the Company shall take such actions necessary to remove such individuals from such positions.

Section 5.11 FIRPTA Certificate. The Company shall, on or prior to the Closing Date, provide Buyer with a properly executed Foreign Investment and Real Property Tax Act of 1980 notification letter (the "FIRPTA Certificate"), in a form reasonably acceptable to Buyer, which states that shares of the Company do not constitute "United States real property interests" under Section 897(c) of the Code, for purposes of satisfying Buyer's obligations under Treasury Regulation Section 1.1445-2(c)(3). In addition, simultaneously with delivery of such FIRPTA Certificate, the Company shall have provided to Buyer, as agent for the Company, a signed notice to the IRS in accordance with the requirements of Treasury Regulation Section 1.897-2(h)(2) and in the customary form along with written authorization for Buyer to deliver such notice form to the IRS on behalf of the Company upon the Closing, in a form reasonably acceptable to Buyer.

Section 5.12 SEC Compliant Financial Statements. Sellers shall cooperate with Parent and take all reasonable action, at their expense, in order to prepare and provide to Parent, as promptly as possible following the Closing Date, such financial information, as required by Parent to comply with Parent's applicable SEC regulations, including the delivery of such representations from the Company's independent accountants as may be reasonably requested by Parent or its accountants.

Section 5.13 Tax Matters; Section 338(h)(10) Election. The following provisions shall govern the allocation of responsibility as between Buyer and the Sellers for certain tax matters following the Closing Date:

(a) Tax Indemnification. The Sellers shall indemnify the Buyer Indemnitees (including the Company) and hold them harmless from and against any Losses attributable to (i) all Taxes (or the non-payment thereof) of the Company for all taxable periods ending on or before the Closing Date and the portion through the end of the Closing Date for any taxable period that includes (but does not end on) the Closing Date (any such period described in this subsection (i) is referred to herein as a "Pre-Closing Tax Period"), (ii) all Taxes of any member of an affiliated, consolidated, combined, or unitary group of which the Company (or any of its predecessors) is or was a member on or prior to the Closing Date, including pursuant to Treasury Regulation Section 1.1502-6 under the Code or any analogous or similar state, local, or foreign Legal Requirements, (iii) any and all Taxes of any Person (other than the Company) imposed on the Company as a transferee or successor, by contract or pursuant to any Legal Requirements, which Taxes relate to an event or transaction occurring before the Closing, and (iv) the matters set forth on Section 2.11 of the Company Disclosure Schedule. In connection with Item 3 of Section 2.11 of the Company Disclosure Schedule, and without derogating from the generality of the foregoing and clause (d) below, Sellers undertake to file, as soon as practicable, an amended Tax Return for 2012 to correct the previously filed Tax Return in that respect, as well as a short-form Tax Return for 2013 that will reflect such correction before the due date (after ordinary extensions) for such 2013 return.

(b) Buyer agrees to give written notice to Shareholders' Representative of the receipt of any written notice by the Company, Parent, or Buyer which involves the assertion of any claim, or the commencement of any action, in respect of which an indemnity may be sought by Buyer pursuant to this Section 5.13 (a "Tax Claim"); *provided, that* failure to comply with this provision shall not affect Buyer's right to indemnification hereunder. Buyer shall control the contest or resolution of any Tax Claim; *provided, however,* that Shareholders' Representative shall be entitled to participate in the defense of such claim and to employ counsel of its choice for such purpose, the fees and expenses of which separate counsel shall be borne solely by the Sellers.

(c) Straddle Period. In the case of any taxable period that includes (but does not end on) the Closing Date (a “Straddle Period”), the amount of any Taxes based on or measured by income or receipts of the Company for the Pre-Closing Tax Period shall be determined based on an interim closing of the books as of the close of business on the Closing Date and the amount of other Taxes of the Company for a Straddle Period that relates to the Pre-Closing Tax Period shall be deemed to be the amount of such Tax for the entire taxable period multiplied by a fraction the numerator of which is the number of days in the taxable period ending on the Closing Date and the denominator of which is the number of days in such Straddle Period.

(d) Responsibility for Filing Tax Returns. Sellers shall prepare or cause to be prepared and file or cause to be filed all income Tax Returns for the Company for any taxable period ending on or prior to the Closing Date if the due date of such Income Tax Return (taking into account valid extensions of time to file) is after the Closing Date, but only if not filed on or prior to the Closing Date (the “Seller Returns”). All Seller Returns shall be prepared in accordance with the past practice of the Company except as required by applicable law. Sellers shall provide Buyer with a copy of each Seller Return at least thirty (30) days prior to the deadline for filing such Seller Return (or, if required to be filed within thirty (30) days of the Closing Date, as soon as reasonably practicable following the Closing). During the period prior to the filing deadline, Buyer shall be permitted to review and comment on each Seller Return and to communicate with Sellers regarding any questions or comments to such Seller Return. Following the Closing, Sellers and Buyer agree to use good faith efforts to resolve any dispute relating to any such Seller Return sufficiently in advance of the applicable filing deadline to permit the timely filing of such Seller Return. Buyer shall prepare or cause to be prepared and file or cause to be filed all Tax Returns for the Company that are filed after the Closing Date other than the Tax Returns referenced in the preceding sentence.

(e) Cooperation on Tax Matters.

(i) Buyer, the Company, and the Sellers shall cooperate fully, as and to the extent reasonably requested by the other party, in connection with the filing of Tax Returns pursuant to Section 5.13(c) above, and any audit, litigation or other proceeding with respect to Taxes. Such cooperation shall include the retention and (upon the other party’s request) the provision of records and information that are reasonably relevant to any such audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. The Company and Sellers agree (A) to retain all books and records with respect to Tax matters pertinent to the Company relating to any taxable period beginning before the Closing Date until the expiration of the statute of limitations (and, to the extent notified by Buyer or the Sellers, any extensions thereof) of the respective taxable periods, and to abide by all record retention agreements entered into with any taxing authority, and (B) to give the other party reasonable written notice prior to transferring, destroying or discarding any such books and records and, if the other party so requests, the Company or the Sellers, as the case may be, shall allow the other party to take possession of such books and records.

(ii) Buyer and the Sellers further agree, upon request, to use their reasonable efforts to obtain any certificate or other document from any Governmental Entity or any other Person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed (including, but not limited to, with respect to the transactions contemplated hereby).

(iii) Buyer and the Sellers further agree, upon request, to provide the other party with all information that either party may be required to report pursuant to Section 6043 or Section 6043A, or Treasury Regulations promulgated thereunder.

(f) Certain Taxes and Fees. All transfer, documentary, sales, use, stamp, registration and other such Taxes, and all conveyance fees, recording charges and other fees and charges (including any penalties and interest) incurred by the Company or the Sellers in connection with consummation of the transactions contemplated by this Agreement shall be paid by the Sellers when due, and the Sellers will, at their own expense, file all necessary Tax Returns and other documentation with respect to all such Taxes, fees and charges, and, if required by applicable Legal Requirement, Buyer will, and will cause its Affiliates to, join in the execution of any such Tax Returns and other documentation.

(g) Section 338(h)(10) Election.

(i) Sellers and Buyer shall join in making (and, subject to Sellers' compliance herewith, Buyer undertakes to make) an election under Section 338(h)(10) of the Code (and any corresponding equivalent elections under state, local, or foreign law, including an election under the equivalent to Section 338(g) of the Code in those jurisdictions where an election under Section 338(h)(10) is not permitted) (collectively, a "Section 338(h)(10) Election") with respect to the Share Purchase to treat such purchase and sale as a deemed sale of assets for federal income Tax and state and/or franchise Tax purposes. Sellers shall include any income, gain, loss, deduction, or other Tax item resulting from the Section 338(h)(10) Election on their Tax Returns to the extent required by applicable Legal Requirement. Sellers shall also pay any Taxes imposed on the Company attributable to the making of the Section 338(h)(10) Election, including (i) any Tax imposed under Section 1374 of the Code, (ii) any Tax imposed under Treasury Regulations Section 1.338(h)(10)-1(d)(2), or (iii) any state, local, or non-U.S. Tax imposed on Company's gain, and Sellers shall indemnify Buyer Indemnitees (including Company) against any adverse consequences arising out of any failure to pay any such Taxes. In connection with the Section 338(h)(10) Election, Buyer will be responsible for preparation and filing of each IRS Form 8023, and Sellers shall cooperate with such preparation and filing as requested by Buyer, including signing and executing such forms. Buyer and Sellers shall make any additional required filings and take any and all other actions necessary or appropriate to effect and preserve the Section 338(h)(10) Election. Sellers shall include in Sellers' income Tax Returns for the taxable period which includes the Closing Date any forms that are required to be so included on account of the Section 338(h)(10) Election. Sellers and Buyer shall cooperate fully, and in good faith, with each other in making the Section 338(h)(10) Election.

(ii) Upon any Section 338(h)(10) Election, the parties hereto agree that the Aggregate Consideration and the Liabilities of the Company (plus other relevant items) will be allocated to the assets of the Company for all purposes (including Tax and financial accounting purposes) in the manner determined by Buyer in its reasonable discretion; *provided, however*, that the portion of the Aggregate Consideration allocated to the Company's fixed assets shall not be greater than the fair market value of the fixed assets as of the Closing Date. Buyer shall notify Sellers of such allocation within one hundred twenty (120) days following the Closing Date. Buyer and Seller, shall file all Tax Returns (including amended returns and claims for a refund) and information reports in a manner consistent with such allocation. The parties shall exchange mutually acceptable Internal Revenue Service forms (and any equivalent local, state and foreign tax forms) reflecting such allocations which are to be filed with the Internal Revenue Service and/or any applicable state, local or foreign Tax authority.

(iii) Promptly following the making of the Section 338(h)(10) Election, the Buyer shall pay to the Sellers an amount (the "Grossed-Up Payment Amount") which, after deduction of all U.S. federal, state, local, and non-U.S. Taxes required to be paid by the Sellers as a result of the receipt of such amount, equals an amount (the "Additional Tax Amount") equal to the excess, if any, of (A) the total amount of all U.S. federal, state, local, and non-U.S. Taxes imposed upon the Sellers by reason of the deemed sale of the Company's assets and the deemed liquidation of the Company as a result of the Section 338(h)(10) Election (ignoring for this purpose the payment of the Grossed-Up Payment Amount) over (B) the total amount of all U.S. federal, state, local, and non-U.S. Taxes which would have been required to have been paid by the Sellers upon any gain the Sellers would have recognized if the Section 338(h)(10) Election had not been made and the Sellers had sold the Common Shares in a fully taxable transaction to the Buyer as reflected in the remaining portions of this Agreement. The parties acknowledge that certain payments under this Agreement may be made to the Sellers in periods following the period in which the Section 338(h)(10) Election is made, and the Buyer's obligations under this Section shall remain in effect with respect to such future payments.

(iv) The Shareholders' Representative shall initially calculate the Grossed-Up Payment Amount, and a written notice (the "Gross-Up Notice") of the results of such calculation shall be delivered by the Shareholders' Representative to the Buyer not later than 20 days after the date the Section 338(h)(10) Election is filed, together with a statement describing in reasonable detail the manner in which such computation was made. Within 15 days after the delivery of such Gross-Up Notice, the Buyer will propose to the Shareholders' Representative in writing any reasonable changes to the Gross-Up Notice (and in the event no such changes are so proposed to the Shareholders' Representative within such time period, the Buyer will be deemed to have accepted and agreed to the calculation in the form provided). The Shareholders' Representative and the Buyer will attempt in good faith to resolve any timely-raised issues arising as a result of the Buyer's review of such Gross-Up Notice within ten (10) days after the Shareholders' Representative's receipt of a timely written notice of objection from the Buyer. If the Shareholders' Representative and the Buyer are unable to agree on the calculation of the Grossed-Up Payment Amount within such time period, such dispute shall be resolved, notwithstanding Section 9.12 hereof, in the manner set forth in Schedule B. Any Grossed-Up Payment Amount payable to the Sellers as set forth in the Gross-Up Notice as so finalized shall be paid to the Sellers not later than 15 days after the date such calculation is so finalized.

(h) Refunds. Any income Tax refunds that are received by Buyer or the Company within one year following the Closing and that relate to income Tax periods of the Company or portions thereof ending on or before the Closing Date shall be for the account of Sellers, and Buyer shall pay over to Sellers (in accordance with the allocation set forth in the Final Payment Spreadsheet) any such refund within 15 Business Days after actual receipt thereof; provided that, in any event, such additional payment to Sellers shall not exceed, in the aggregate, \$50,000.

(i) Bonus Contingent Consideration. The parties recognize that the fact that the Company, rather than Sellers, shall be the one making the payments, if any, to the Bonus Holders in respect of the Bonus Contingent Consideration, may allow the Company to recognize a tax benefit (the "Bonus Tax Benefit"). Buyer shall pay to Sellers (in accordance with the allocation set forth in the Final Payment Spreadsheet) an amount equal to 50% of the Bonus Tax Benefit promptly, and in any event, within 10 Business Days, following the time at which such Bonus Tax Benefit is actually realized by the Company; provided that, in any event, such additional payment to Sellers shall not exceed, in the aggregate, \$75,000. For purposes hereof, a Bonus Tax Benefit will only exist to the extent that it results in, or with commercially reasonable steps capable of being taken by the Company (following the Closing) as to result in, a refund of or actual reduction in Tax for any taxable period, or on any Tax Return with respect thereto.

(j) Overlap. To the extent that any right, obligation, or responsibility pursuant to this Section 5.13 may overlap with a right, obligation, or responsibility contained elsewhere in this Agreement, the provisions of this Section 5.13 shall govern.

Section 5.14 Non-Competition; Non-Solicitation.

(a) Non-Competition. (i) Each Seller agrees and acknowledges that in order to assure Buyer that the Business will retain its value as a going concern, it is necessary that such Seller undertake not to utilize its special confidential knowledge of the Business, the Company and its relationship with clients or customers to compete with Buyer or its Affiliates. Each Seller further agrees and acknowledges that the Business could be irreparably damaged if such party were to engage in a business that develops, sells, manufactures, distributes or otherwise commercialize products and/or services that are similar to the Business and/or the Company Products (a "Competing Business"). Therefore, as a significant inducement to Buyer and Parent to enter into and perform their obligations under this Agreement and to acquire the Company, each Seller agrees that for a period of four (4) years after the Closing Date (the "Restricted Period"), no such party nor any of its successors, assigns or Affiliates shall, anywhere in the world, directly or indirectly, either for themselves or any other person, engage in, own, operate, manage, control, invest in or participate in any manner or permit their names to be used by, act as a consultant or advisor to, render services for (alone or in association with any person), or otherwise assist in any manner any person that engages in or owns, operates, manages or controls any Competing Business.

(ii) Notwithstanding the foregoing, each Seller shall be permitted to invest in stock, bonds, or other securities of any public corporation so long as it is not involved in the business of such corporation and provided (i) such stock, bonds, or other securities are listed on any national or required exchange; and (ii) its investment does not exceed, in the case of any class of capital stock of any issuer, one (1%) percent of the issued and outstanding shares, or in the case of bonds or other securities, three (3%) percent of the aggregate principal amount thereof issued and outstanding.

(b) Non-Solicitation. (i) Each Seller agrees that, during the two-year period following Closing, neither it nor any of its successors, assigns or Affiliates will directly or indirectly engage, recruit, solicit for employment or engagement, offer employment to or hire, or otherwise seek to influence or alter any relationship with, without the prior written consent of Buyer, any person who is (or was within one hundred eighty (180) days of the Closing Date) an employee or consultant of the Company or any of its Affiliates immediately prior to the Closing.

(ii) Without limiting the generality of the provisions of Section 5.14(a), each Seller hereby agrees that during the Restricted Period, neither it nor any of its successors, assigns or Affiliates shall, directly or indirectly, without the prior written consent of Buyer (i) induce any Person which is a customer of the Business or the Company to patronize any Competing Business; (ii) canvass, solicit or accept from any Person who is a customer of the Business or the Company, any such competitive business; or (iii) request or advise any Person who is a customer or vendor of the Business or the Company or their successors to withdraw, curtail or cancel any such customer's or vendor's business with any such entity.

(c) Limitations in Scope. Each Seller recognizes that the territorial, time and scope limitations set forth in this Section 5.14 are reasonable and are properly required for the protection of the Company's, the Business' and Buyer's legitimate interests in client relationships, goodwill and trade secrets, and in the event that any such territorial, time or scope limitation is deemed to be unreasonable by a court of competent jurisdiction, Buyer and Sellers agree to submit to the reduction of any or all of said territorial, time or scope limitations to such an area, period or scope as said court shall deem reasonable under the circumstances, and in its reduced form, such provision shall then be enforceable and shall be enforced.

(d) Equitable Remedies. Each Seller acknowledges and agrees that the covenants set forth in this Section 5.14 are reasonable and necessary for the protection of the Business and Buyer's and its Affiliate's business interests, its failure to comply with any of the provisions of this Section 5.14 will cause irreparable harm to Buyer (including its Affiliates), the Company and the Business and that in the event of any Seller's or its Affiliate's actual or threatened breach of any of the provisions contained in this Section 5.14, Buyer and Parent will have no adequate remedy at law. As a result, each Seller agrees that in the event of any actual or threatened breach of any of the covenants set forth in this Section 5.14, Buyer and Parent may seek equitable relief against such party and its Affiliates, including restraining orders and injunctions, without having to show actual monetary damages or posting a bond. Nothing contained herein shall be construed as prohibiting Buyer or Parent from pursuing any other remedies available to them for such breach or threatened breach, including the right to monetary damages.

(e) Impact of Non-Payment of Earn-out Payment Amount. In the event that an Earn-Out Payment Amount becomes due in 2015 or 2016, and Buyer fails to make the Earn-Out Payment Amount when due, then, in addition to any other available remedies of Sellers hereunder, upon prior written notice thereof of at least 60 days sent by the Shareholders' Representative to Buyer, the covenants set forth in this Section 5.14 shall thereafter automatically be void and of no further force or effect.

(f) Kristen Hayes. Notwithstanding the foregoing, nothing in this Section 5.14 shall prevent Kristen Hayes from providing business (i.e., not technology related) consulting services related to the Business to any Person or from hiring or engaging (i) any person that is not an employee or contractor of the Company on the date hereof, or (ii) other than as a result of a breach of this Section 5.14, any person whose employment or engagement is terminated by the Company, Buyer or Parent (or their respective Affiliates) after the date hereof. The Restricted Period with respect to Kristen Hayes shall be 2 years following the Closing.

Section 5.15 Waiver of Claims.

(i) Effective for all purposes as of the date hereof, each Seller acknowledges and agrees on behalf of itself and each of its agents, estate, successors and assigns (each, a "Releasing Party") that each hereby releases and forever discharges the Company, each other Seller, Parent and Buyer (each a "Beneficiary") and each of such Beneficiary's respective subsidiaries, Affiliates, directors, officers, employees, Representatives, agents, members, successors, predecessors and assigns (each, a "Released Party" and collectively, the "Released Parties") from any and all Seller Claims such Releasing Party may have or assert it has against any of the Released Parties, from the beginning of time through the time of the Closing and following the Closing, in each case whether known or unknown, or whether or not the facts that could give rise to or support a Seller Claim are known or should have been known. In this Agreement, a "Seller Claim" shall mean: (i) any claim or right to receive any Company Equitysecurities, other than the Company Equitysecurities set forth opposite his, her or its name in the Final Payment Spreadsheet; (ii) any claim or right to receive any portion of the Aggregate Consideration, other than as specifically set forth in the Final Payment Spreadsheet and applicable to such Seller; (iii) any claim with respect to the authority to enter into the transactions and the enforceability of the transactions contemplated hereby; and (iv) any claim of Seller under any employment/consultant agreement, arrangement or relationship of Seller with the Company arising at any time through the Closing, including any claims for salary, bonuses, accrued vacation, any other employee or consultant compensation and/or benefits, and unreimbursed expenses to such Seller, or other claims arising out of or relating to employment or consultancy of Seller with the Company prior to Closing, except to the extent expressly set forth in Section 5.15 of the Company Disclosure Schedule.

(ii) Each Seller hereby confirms, acknowledges, represents and warrants that he, she or it: (A) (i) is the holder of the number of Company Equitysecurities set forth opposite his, her or its name in the Final Payment Spreadsheet; (ii) other than the number and class of Company Share Capital set forth opposite his, her or its name in the Final Payment Spreadsheet, it is not entitled to any additional Company Equitysecurities (including as a result of any anti-dilution rights, preemptive rights, conversion rights, rights of first offer, co-sale and no-sale rights, any other participation, first refusal or otherwise); and (B) (i) examined the Final Payment Spreadsheet and is entitled only to the distribution set forth in such a spreadsheet (subject to any changes contemplated in this Agreement and which will be reflected in the Final Payment Spreadsheet); (ii) waives any right to receive consideration other than as set forth in the Final Payment Spreadsheet (including, without limitation, for any interest payments, the method of calculation of any of the values set forth in this Agreement or the method of determination of the Proportionate Indemnification Shares, or any other rights of any nature under the Company's Articles of Incorporation, or any other Shareholders Agreement (which, for purposes of this clause, will be defined as any investors rights agreement, registration rights agreement or shareholders agreement entered into by such Seller with respect to the Company Share Capital), which the Seller and/or its successors and assignees ever had, now have or hereafter can, shall or may have, at any time, due to actions or events that occurred prior to Closing which do not conform or are not consistent with the terms of this Agreement and the consideration attributed to such Seller in the Final Payment Spreadsheet); (C) hereby terminates and waives any rights, powers and privileges such Seller has or may have pursuant to any Shareholders Agreement or any right to make a claim or demand for any discrepancy between any Shareholders Agreement and the provisions of this Agreement; (D) for as long as this Agreement has not been terminated, agrees not to sell, transfer, assign or convert any of its Company Equitysecurities, or subject such Company Equitysecurities to any Liens; and (E) has not heretofore assigned or transferred, or purported to have assigned or transferred, to any Person any claim, debt, liability, demand, obligation, cost, expense, action or cause of action herein released.

(iii) Each Seller, on behalf of each Releasing Party, further covenants and agrees that such Releasing Party has not heretofore sold, transferred, hypothecated, conveyed or assigned, and shall not hereafter sue any Released Party upon, any Seller Claim released under this Section 5.15, and that each Releasing Party shall indemnify and hold harmless the Released Parties against any loss or liability on account of any actions brought by such Releasing Party or such Releasing Party's assigns or prosecuted on behalf of such Releasing Party and relating to any Seller Claim released under this Section 5.15.

(iv) Notwithstanding anything in this Section 5.15, the foregoing releases and covenants of any Seller shall not apply to any claims relating to Parent's or Buyer's failure to perform any of its obligations, undertakings or covenants set forth in this Agreement or any of the other transactional agreements, including failure to pay to such Seller any portion of the Aggregate Consideration.

(v) Anything to the contrary notwithstanding: (i) the foregoing release is conditioned upon the Closing and shall become null and void, and shall have no effect whatsoever, without any action on the part of any person or entity, upon termination of this Agreement in accordance with its terms; and (ii) should any provision of this release be found, held, declared, determined, or deemed by any court of competent jurisdiction to be void, illegal, invalid or unenforceable under any applicable statute or controlling law, the legality, validity, and enforceability of the remaining provisions will not be affected and the illegal, invalid, or unenforceable provision will be deemed not to be a part of this Release.

Section 5.16 Reserved.

Section 5.17 Lock-Up; Piggyback Registration Rights.

(a) The Parties further acknowledge and agree that the Sellers will not, during the period ending 180 days following the Closing (the "Lock-Up Period"), offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any of the Parent Ordinary Shares; *provided that* (i) nothing in the foregoing shall prohibit the Sellers from transferring the Parent Ordinary Shares to any Affiliate where the Seller and such Affiliate each agree to be bound by the covenants applicable to the Seller in this Agreement, and (ii) any such Affiliate shall make for the benefit of Parent the representations and warranties set forth in Section 3.5 hereof. In furtherance of the foregoing, Parent and any duly appointed transfer agent for the registration of transfer of the securities described herein are hereby authorized to decline to register any transfer of securities if such transfer would constitute a violation or breach of this Agreement.

(b) If, at any time within three (3) years following the Closing, the Parent proposes to register any of the Parent Ordinary Shares under the Securities Act (other than pursuant to a registration on Form F-4 in connection with an acquisition of a third party or a reorganization, a registration on Form S-8 or any successor or similar forms, registration relating to the offer and sale of debt securities; or a registration on any registration form that does not permit secondary sales) for the account of any of its directors and executive officers (the "Insiders"), whether or not in conjunction with the sale of Parent Ordinary Shares for Parent's own account, and the registration form to be used may be used for the registration of the Registrable Securities, the Parent will give prompt written notice to all Sellers (and not, for the sake of clarity, any Bonus Holders, unless otherwise determined by Parent) (the " Holders") of its intention to effect such a registration and will use commercially reasonable efforts to include in such registration all outstanding Registrable Securities held by such holders at such time with respect to which the Parent has received written requests for inclusion therein within 10 business days after the receipt of the Parent's notice. Such right to have the Registrable Securities included in a registration statement shall terminate if the Holders do not exercise their election to have their Registrable Shares included in such registration (unless they are restricted from doing so due to clause (c) below).

(c) Notwithstanding the foregoing, if the Parent Ordinary Shares being covered by the aforesaid registration will be distributed by means of an underwriting, then the right of any Holder to include all or any portion of his, her or its Registrable Securities in such registration pursuant to this Section 5.17 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities to the extent provided herein and their acceptance of the terms and conditions associated with such underwriting, including executing an underwriting agreement in customary form with the representative of the underwriter or underwriters selected for such underwriting by the Company. In addition, if the underwriters advise the Company or the Insiders that marketing factors require a limitation on the number of shares to be underwritten, the number of Registrable Securities that may be so included shall be limited as follows: first, to the Company for shares sold for its own account; second, to any other holders if any, which have or may have in the future, priority over sales by the Insiders; and, third, to the Insiders and the Holders (on a pro rata basis).

ARTICLE VI

Conditions Precedent

Section 6.1 Conditions to the Obligations of Each Party. The respective obligations of the Company and Sellers, on one hand, and Parent and Buyer, on the other hand, to consummate the transactions contemplated hereby are subject to the satisfaction or waiver in writing by the Shareholders' Representative and Buyer, at or before the Closing Date, of the following condition:

(a) No Prohibitions. No Legal Requirement issued, enacted, entered, promulgated or enforced by any Government Entity (and with respect to court or administrative orders, whether temporary, preliminary or permanent) restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement or had the effect or making the Share Purchase illegal or otherwise prevent its occurrence, be in effect.

Section 6.2 Conditions to the Obligations of Parent and Buyer. The obligations of Parent and Buyer to consummate the transactions contemplated hereby are subject to the satisfaction on or prior to the Closing Date of the following further conditions, any of which may be waived in writing by Buyer:

(a) Performance. Each of the agreements and covenants of the Company and Sellers to be performed prior to the Closing pursuant to this Agreement shall have been duly performed in all material respects.

(b) Representations and Warranties. (i) Each of the representations and warranties of the Company and Sellers contained in the Specified Representations, shall have been true and correct as of the date hereof and shall be true and correct in all respects as of the Closing Date with the same force and effect as if made at and as of such time (other than those representations and warranties made as of a specified date, which such representations and warranties shall be true and correct in all respects as of such specified date), and (ii) each of the other representations and warranties of the Company and Sellers contained in this Agreement and each other Ancillary Agreement to which it is a party shall have been true and correct as of the date hereof and shall be true and correct in all material respects (except for those heretofore qualified by any materiality standard, in which case, no duplicate standard of materiality shall be applied) as of the Closing Date with the same force and effect as if made at and as of such time (other than those representations and warranties made as of a specified date, which such representations and warranties shall be true and correct in all material respects as of such specified date).

(c) No Material Adverse Effect. Since the date hereof there shall not have occurred any event, circumstance, development, state of facts, occurrence, change or effect that has had or would reasonably be expected to have a Material Adverse Effect.

(d) No Litigation Threatened. No suit, action or proceedings shall be pending or shall have been instituted or threatened against any of the Parties before a court or other Governmental Entity challenging or seeking to restrain or prohibit the consummation of the Share Purchase or to otherwise materially delay or invalidate any of the transactions contemplated hereby.

(e) Closing Certificate. Parent shall have received a certificate of the Company executed by the Authorized Persons, in substantially the form of Exhibit C attached hereto (the "Closing Certificate"), certifying, among others, fulfillment of certain of the conditions set forth in this Section 6.2 and the Final Payment Spreadsheet to be enclosed thereto.

(f) Third Party Consents. The Company shall have obtained, and Buyer and Parent shall have been furnished with, the consents, waivers or approvals set forth on Section 6.2(f) of the Company Disclosure Schedule, each of which shall be in full force and effect as of the Closing Date and in form and substance reasonably satisfactory to Parent.

(g) Company Bonus. At or prior to the Closing, all of the bonus related to Company Bonus held by the Bonus Holders shall have been duly paid, terminated or canceled in accordance with the Bonus Letters or Services Agreement, as applicable.

(h) Key Employee. The Key Employee has executed and delivered to Parent the Key Employee Agreement, which shall continue to be in full force and effect and no action shall have been taken by the Key Employee to rescind such agreement, and the Key Employee shall not have given any notice or other indication that he will not continue to be willing to be so employed following the Closing.

(i) Signatory Rights etc. The Company shall have taken all actions reasonably requested by Buyer, including the adoption of appropriate resolutions as set forth in Section 6.2(i) of the Company Disclosure Schedule.

(j) Indebtedness. There shall not be any outstanding Company Indebtedness nor Liens (other than Permitted Liens) on any assets of the Company.

(k) IP Assignment. All of the Employees listed in Section 6.2(k) of the Company Disclosure Schedule shall have executed a Non-Competition, Non-Solicitation, Proprietary and Confidential Information and Developments Agreement, substantially in the form of Exhibit D hereto.

(l) Bonus Letters; Services Agreement. Each of the Bonus Holders has executed a letter agreement with the Company regarding, among others, such Bonus Holder's entitlement to a transaction bonus in connection with this Agreement, substantially in the form of Exhibit E hereto (the "Bonus Letters"), except that, with respect to the consultant identified in Section 2.3(e) of the Company Disclosure Schedule, he shall have executed a Services/Development Agreement with the Company regarding, among others, his service with the Company and his entitlement to a transaction bonus in connection with this Agreement, substantially in the form of Exhibit F hereto (the "Services Agreement").

(m) Other Closing Deliverables. The Company and the Sellers shall deliver, or cause the delivery, the following to Buyer: (1) stock certificates (if any) evidencing the Company Common Shares owned by Sellers, accompanied by stock powers or other instruments of transfer duly executed and in proper form for transfer to Buyer under applicable Law; (2) the stock ledgers of the Company reflecting the transfer of the Company Common Shares to Buyer; (3) all of the books and records of the Company; (4) certificate of good standing of the Company dated as of not more than two (2) Business Days prior to Closing; (5) an IRS Form 8023, substantially in the form attached hereto as Exhibit G, executed by each Seller and any other forms and documents which Buyer reasonably deems necessary to make the Section 338(h)(10) Election; (6) the FIRPTA Certificate referenced in Section 5.11; and (7) such other customary documents, instruments or certificates as shall be reasonably requested by Buyer and as shall be consistent with the terms of this Agreement.

Section 6.3 Conditions to the Obligations of the Company. The obligations of the Company and Sellers to consummate the transactions contemplated hereby are subject to the satisfaction or waiver by the Shareholders' Representative, on or prior to the Closing Date, of the following further conditions:

(a) Performance. Each of the respective agreements and covenants of Parent and Buyer to be performed prior to the Closing pursuant to this Agreement shall have been duly performed in all material respects.

(b) Representations and Warranties. Each of the representations and warranties of Parent and Buyer contained in this Agreement and each other Ancillary Agreement to which any of them is a party shall have been true and correct as of the date hereof and shall be true and correct in all material respects (except for those heretofore qualified by any materiality standard, in which case, no duplicate standard of materiality shall be applied) as of the Closing Date with the same force and effect as if made at and as of such time (other than those representations and warranties made as of a specified date, which such representations and warranties shall be true and correct in all material respects as of such specified date).

(c) Closing Certificate. At the Closing, Parent shall deliver or cause to be delivered to the Company a certificate signed by an authorized officer of Parent, dated as of the Closing Date, confirming the matters set forth in Sections 6.3(a) through 6.3(b).

ARTICLE VII

Termination

Section 7.1 Termination. This Agreement may be terminated and the transactions contemplated hereby may be abandoned, at any time prior to the Closing:

- (a) by mutual written consent of the Company and Buyer;
- (b) by either the Shareholders' Representative or Buyer, if:

(i) any Governmental Entity shall have issued, enacted, entered, promulgated or enforced any Legal Requirement or Order, permanently enjoining or prohibiting the transactions contemplated by this Agreement; or

(ii) the Closing shall not have occurred by December 31, 2013 (the "End Date"); provided, that a Party may not terminate this Agreement pursuant to this Section 7.1(b)(ii) if such Party's action or failure to act has been a principal cause of or resulted in the failure of the Closing to occur on or before the End Date and such action or failure to act constitutes breach of this Agreement.

(c) by Buyer, if the Company and/or any Seller shall breach any representation, warranty, obligation or agreement hereunder, such that the conditions set forth in Section 6.2 would not be satisfied as of the time of such breach or as of the time such representation or warranty shall have become untrue, and such breach shall not have been cured, or by its nature cannot be cured, within seven (7) days of receipt by the Shareholders' Representative of written notice of such breach; provided that Buyer has not breached any of its representations, warranties, obligations or agreements hereunder, such that the conditions set forth in Section 6.3 would not be satisfied as of the time of the Company's or any of Seller's breach or as of the time such representations or warranty of the Company and/or any Seller shall have become untrue;

(d) by the Shareholders' Representative, if Parent or Buyer shall breach any representation, warranty, obligation or agreement hereunder, such that the conditions set forth in Section 6.3 would not be satisfied as of the time of such breach or as of the time such representation or warranty shall have become untrue, and such breach shall not have been cured, or by its nature cannot be cured, within seven (7) days following receipt by Buyer of written notice of such breach; provided that neither the Company nor any Seller has breached any of its representations, warranties, obligations or agreements hereunder, such that the conditions set forth in Section 6.2 would not be satisfied as of the time of Parent's or Buyer's breach or as of the time such representations or warranty of Parent and Buyer shall have become untrue; or

(e) by Buyer if any action taken, or any Legal Requirement enacted, promulgated or issued or deemed applicable to the Share Purchase, by any Governmental Entity, which would: (i) prohibit Parent's (through Buyer) ownership or operation of all or any portion of the business of the Company or (ii) compel Parent or Buyer to dispose of or hold separate all or any portion of the assets and properties of the Company, or limit its operation of the Company's business, as a result of the Share Purchase.

Section 7.2 Effect of Termination. Any termination of this Agreement under Section 7.1 above will be effective immediately upon written notice of the terminating Party to the other Parties hereto specifying the provision of this Agreement on which such termination is based. In the event of the termination, this Agreement shall become void and have no effect and there shall be no liability hereunder on the part of either Party, except that (i) Section 5.2 (Confidentiality); Section 7.1 (Termination), this Section 7.2, and Article IX shall survive any termination of this Agreement, and (ii) nothing in this Section 7.2 shall relieve any Party of liability for any willful breach of this Agreement.

ARTICLE VIII

Hold-Back; Set-Off; Survival; Indemnification

Section 8.1 Holdback; Set-Off.

(a) The parties have agreed that the Holdback Shares shall not be issued at Closing and, subject to this Article VIII, shall be issued to the Sellers and the Bonus Holders in accordance with the allocation set forth in the Final Payment Spreadsheet on the date that is the first anniversary of the Closing Date.

(b) Notwithstanding anything to the contrary in this Agreement, if the Buyer Indemnitees have any claims in good faith for indemnification against the Sellers pursuant to this Article VIII and send a Claim Certificate (as defined below), the Buyer Indemnitees may, in addition to any other right or remedy they may have hereunder, (i) continue to withhold a portion of the Holdback Shares with a then-current fair market value (determined at the time the Claim Certificate is delivered) equal to the amount of the indemnification claim set forth in the Claim Certificate, and (ii) withhold a portion of the Earnout Payment Amount, if any, equal to the amount of the indemnification claim set forth in the Claim Certificate (but without duplication of any amount withheld with respect to Holdback Shares for the same claim under the preceding sentence). For the sake of clarity, the Buyer may withhold such portion of the Holdback Shares and/or of the Earnout Payment Amount until the parties fully and finally resolve such indemnity claims (or are deemed to be resolved pursuant to this Agreement) or a court of competent jurisdiction has issued a final judgment on the matter (a "Final Resolution"). If, upon a Final Resolution, a Buyer Indemnitee is entitled to all or a portion of the indemnification claim, then the amount of such claim shall be satisfied, without duplication (i) from a portion of the Holdback Shares with a then-current fair market value equal to the amount to which the Buyer Indemnitee is entitled, and the Parent's obligation to issue such portion of the Holdback Shares shall terminate, and/or, at Buyer's full discretion, (ii) from a portion of the Earnout Payment Amount then due equal to the amount to which the Buyer Indemnitee is entitled, and the Buyer's obligation to pay such portion of the Earnout Payment Amount shall terminate (the "Earnout Set-Off Right").

(c) Buyer Indemnitees must first proceed against the Holdback Shares and/or, at Buyer's full discretion, the Earnout Amount to seek to recover the amount of any claims for indemnification that Buyer Indemnitees may have hereunder against the Sellers before proceeding directly against the Sellers to recover the amount of such claims. However, if Buyer Indemnitees proceed against the Holdback Shares and exercise their rights hereunder with respect to the Earnout Amount, if any is available at that time, in order to recover the amount of such claims it or they have against the Sellers, and if the then fair-market value of the Holdback Shares and the Earnout Amount available are insufficient to fully satisfy such claims, then Buyer Indemnitees shall have the right to proceed directly against the Sellers to recover any deficiency, subject to the limitations hereunder. It is hereby clarified that Buyer Indemnitees shall not be required to await with proceeding directly against Sellers until the time that the Earnout Amount is earned.

(d) If and to the extent any indemnity claim is payable from the Holdback Shares, then the number of Parent Ordinary Shares which shall satisfy such claim (and, consequently, not to be issued to Sellers) shall be determined by dividing (x) the amount of indemnity payable and being satisfied from the Holdback Shares by (y) the average closing market price per Parent Ordinary Share on the NASDAQ Stock Market for the 30 trading days prior to the Final Resolution.

(e) Parent and Buyer acknowledge and undertake that, to the extent that a Parent Change of Control occurs prior to the issuance and release to Sellers of all the Holdback Shares, if any, then, in lieu of issuing such Holdback Shares (i.e., if and to the extent that any such Holdback Shares would be issuable to the Sellers in accordance with this Article VIII had the Parent Change of Control occur after the issuance of such Holdback Shares), Buyer will pay Sellers (in accordance with the same allocation of the Holdback Shares in the Final Payment Spreadsheet) an amount in cash equal to the value of such Holdback Shares, which value shall be determined in accordance with the value assigned to the Parent Ordinary Shares in such Parent Change of Control.

(f) Notwithstanding anything to the contrary herein, including the recitals hereto, the internal allocation of the Aggregate Consideration (including the contribution of each Seller to the Holdback Shares and/or the Earn-out Payment Amount) as set forth in the Final Payment Spreadsheet shall not serve, in and by itself, to limit the ability of Buyer Indemnitees to seek recovery of indemnification claims hereunder from the Holdback Shares and Earn-out Payment Amount in accordance with the Seller's Proportionate Indemnification Share of the indemnifiable Loss. *By way of example only*, if Buyer Indemnitees have a valid indemnity claim for Losses of \$500,000, then Buyer Indemnitees may withhold and recover such Losses in full from the Holdback Shares, even if, according to the Final Payment Spreadsheet, one of the Sellers contributed (and was allocated) less than 50% of the Holdback Shares.

Section 8.2 Survival of Representations, Warranties and Covenants. l) The representations and warranties of the Parties contained in this Agreement or in any instrument, certificate or writing delivered pursuant to this Agreement or any other agreement contemplated hereby shall survive the Closing until 5:00 p.m., EST on the twenty four (24) month anniversary of the Closing; *provided that* the Specified Representations shall survive the Closing until 5:00 p.m., EST, on the date that is sixty (60) days after the expiration of the statutes of limitations (including extensions thereof) applicable to the matters referenced therein, if any (as applicable, the "Survival Period"). Covenants shall survive indefinitely, unless provided otherwise by their respective terms.

(b) For clarification purposes, in no case shall the termination of the covenants or of the representations and warranties as provided in clause (a) above affect any claim for indemnification if written notice of such claim in accordance with this Article VIII is delivered to the applicable indemnifying party prior to such termination.

(c) The representations, warranties and covenants contained in this Agreement or in any certificate or other writing delivered in connection with this Agreement shall in no event be affected by any investigation, inquiry or examination made for or on behalf of any Party, or the knowledge of any Party's Representatives or the acceptance by any Party of any certificate or other writing delivered hereunder.

Section 8.3 Indemnification. m) Subject to the other provisions of this Article VIII, the Sellers shall, severally and not jointly, based on such Seller's Proportionate Indemnification Share of each Loss covered by this Section 8.3, indemnify and hold harmless Buyer, Parent, its Affiliates (including, following the Closing, the Company) and their respective officers, directors, agents, employees, Representatives, successors and permitted assigns (the "Buyer Indemnitees") from and against any damages, losses, Liabilities, actions, costs, Taxes, deficiencies, assessments, judgments, awards, claim of any kind, interest, penalties, fines or expenses (including reasonable attorneys', consultants and experts' fees and expenses), arising out of any claims by or on behalf of any party to this Agreement or any Third Party Claims asserted (collectively, "Losses"), suffered, incurred or paid, in connection with or arising out of (i) any inaccuracy in or breach of any of the Company's or Sellers' representations or warranties in this Agreement or in any instrument, certificate or writing delivered pursuant to this Agreement (other than with respect to inaccuracies in or breaches of any of the Specified Representations); (ii) any inaccuracy in or breach of any of the Specified Representations as well as any inaccuracy contained in the Final Payment Spreadsheet; (iii) any breach of any of the Company's or Seller's covenants or agreements (including indemnity obligations under Sections 5.13 hereof) in this Agreement or in any instrument, certificate or writing delivered pursuant to this Agreement; (iv) any claim by (A) a current or former Company Equityholder or employees entitled to Company Bonus, or by (B) any other Person or entity, seeking to assert, or based upon, ownership or rights to ownership of any shares of the Company Share Capital or that he, she or it is entitled to any consideration pursuant to this Agreement and/or any transaction contemplated hereby, including any portion of the Aggregate Consideration, that is not listed in the Final Payment Spreadsheet; (v) any and all Taxes of any Person (other than the Company) imposed on the Company, as a transferee or successor, by Contract or pursuant to any applicable Legal Requirement, which Taxes relate to an event or transaction occurring before the Closing Date; and (vi) any Legal Proceeding relating to clauses (1)-(v) above for the purpose of enforcing any of Buyer Indemnitees' rights under this Article VIII.

(b) Subject to the other provisions of this Article VIII, Parent and Buyer shall, severally and jointly, indemnify and hold harmless the Sellers and their respective officers, directors, Affiliates, agents, employees, Representatives, successors and permitted assigns (the "Seller Indemnitees") from and against any Losses suffered, incurred or paid, in connection with or arising out of (i) any inaccuracy in or breach of any of the Parent or Buyer's representations or warranties in this Agreement or in any instrument, certificate or writing delivered pursuant to this Agreement, and (ii) any breach of any of the Parent or Buyer's covenants or agreements in this Agreement or in any instrument, certificate or writing delivered pursuant to this Agreement.

(c) For purposes of this Article VIII, in determining the amount of any Loss attributable to a breach of any representation, warranty or covenant of any Party, any qualifications in the representations, warranties and covenants with respect to a "Material Adverse Effect," "materiality," "material," "in all material respects," or similar terms shall be disregarded, but such qualifications shall be given full effect for purposes of determining whether any representation, warranty or covenant has been breached.

(d) The Sellers acknowledge and agree that, if, following the Closing, the Company suffers, incurs or otherwise becomes subject to any Losses as a result of or in connection with any inaccuracy in or breach of any representation, warranty, covenant or obligation, then (without limiting any of the rights of the Company as a Buyer Indemnitee), Parent and Buyer shall also be deemed, by virtue of their direct or indirect ownership of the shares of the Company, to have incurred such Losses as a result of and in connection with such inaccuracy or breach; however, in no event shall the Buyer Indemnitees be entitled to duplicative recovery for any such Losses.

(e) In the event of a breach by any Seller of any of his, her or its respective representations and warranties set forth in Article III of this Agreement (the "Breaching Seller"): (i) Buyer Indemnitees shall only be entitled to present a demand, bring a claim, or be entitled to any remedy against the Breaching Seller, and none of the other Sellers will be liable for such a breach (without derogating from Buyer Indemnitees to bring a claim, or be entitled to remedy against the other Seller, to the extent the claim also involves breaches by the other Seller or the Company of other provisions of this Agreement); (ii) in the event a Buyer Indemnitee brings a claim against such a Seller, such a claim shall be limited to such Breaching Seller's Proportionate Indemnification Share of the Actual Consideration; and (iii) each Breaching Seller will indemnify and reimburse the Buyer Indemnitees in connection with any Loss, as incurred by them as a result of such a breach.

Section 8.4 Limitations on Indemnification

(a) The maximum liability for indemnity claims pursuant to (i) Section 8.3(a)(i) of all Sellers shall not exceed 25% of the Actual Consideration (the "Cap"), (ii) Section 8.3(a)(i) and 8.3(a)(ii) of all Sellers shall not exceed the Actual Consideration, (iii) Section 8.3(a)(i) of each Seller shall not exceed half (50%) of the Cap, and (iv) Section 8.3(b)(i) of Parent and Buyer shall not exceed \$375,000.

(b) Buyer Indemnitees shall not be entitled to any indemnification for any indemnification obligations of the Sellers pursuant to Section 8.3(a)(i) unless and until the aggregate amount of Losses equals or exceeds \$75,000 (the "Basket"), in which case the Buyer Indemnitees shall be entitled to the entire amount of such Losses and not just the amount of Losses that exceed the Basket. Seller Indemnitees shall not be entitled to any indemnification for any indemnification obligations of Parent and Buyer hereunder unless and until the aggregate amount of Losses equals or exceeds the Basket, in which case the Seller Indemnitees shall be entitled to the entire amount of such Losses and not just the amount of Losses that exceed the Basket.

(c) Notwithstanding anything to the contrary in this Section 8, the limitations set forth in (i) Sections 8.2(a), 8.4(a), 8.4(b) and 8.4(e), shall not apply with respect to any claim for indemnification arising out of or relating to commission of fraud or willful intentional misrepresentation, and (ii) Section 8.4(b) shall not apply with respect to any claim for indemnification arising out of or relating to (A) any inaccuracy in or breach of the Specified Representations or (B) any inaccuracy in the Final Payment Spreadsheet.

(d) None of the parties shall have any liability under any provision of this Agreement for, and the amount of the Losses shall not include, any damages that (subject to the following sentence) are punitive damages, special damages, or consequential damages that are not reasonably foreseeable. Notwithstanding the foregoing sentence, the limitations set forth in this Section 8.4(d) shall not prevent any Buyer Indemnitee from being indemnified for all components of awards against such Buyer Indemnitee in any Third Party Claim.

(e) Notwithstanding anything herein to the contrary, all Losses for which any Buyer Indemnitee would otherwise be entitled to indemnification under this Article VIII shall be reduced by:

- (i) the value of any net Tax benefit actually realized by the Company, Buyer or Parent after the Closing in connection with the Loss which forms the basis of the claim for indemnification hereunder by the Buyer Indemnitee (for the sake of clarity, in no event shall this limitation apply to the parties' undertakings under Section 5.13). For purposes hereof, a Tax benefit will only exist to the extent that it results in, or with commercially reasonable steps capable of being taken by the Company (following the Closing), Buyer or Parent, as to result in, a refund of or actual reduction in Tax with respect to the taxable period in which indemnification claim is paid, or on any Tax Return with respect thereto; and
- (ii) any insurance proceeds (net of deductibles and increase in premiums) actually received by the Buyer Indemnitees in connection with the Loss which forms the basis of the claim for indemnification hereunder by the Buyer Indemnitee.

Section 8.5 Indemnification Procedure. n) Any Buyer Indemnitee or Seller Indemnitee who believes it may be entitled to indemnification pursuant to Section 8.3 (an "Indemnified Party"); provided that in case of Seller Indemnitee, it may act only through the Shareholders' Representative and in such case any reference in this Section 8.5 and in Section 8.8 to Indemnified Party shall be deemed to refer to the Shareholders' Representative acting on behalf of the Seller Indemnitees) may make an indemnification claim by delivering a claim certificate to the Shareholders' Representative (in case of Buyer Indemnitees) or to Buyer (in case of Seller Indemnitees) (in each case, a "Claim Certificate"), which Claim Certificate shall: (i) state the Losses indemnifiable hereunder; (ii) to the extent reasonably capable of estimation, a good faith estimate of the amount of Losses such Indemnified Party claims to have so incurred or suffered or reasonably believes in good faith it may incur or suffer and the Indemnified Party may update such estimate from such to time by written notice; and (iii) specify in reasonable detail (based upon the information then possessed by the Indemnified Party) the nature of the claim for which indemnification is being sought. The sole and exclusive remedy for any defective Claim Certificate shall be a demand for cure of such defect and delivery of a conforming Claim Certificate.

(b) In the event that Parent and Buyer or the Shareholders' Representative, as the case may be, shall object to the indemnification of an Indemnified Party in respect of any claim or claims specified in any Claim Certificate, they shall, within 20 days after receipt by the Indemnifying Party of such Claim Certificate, deliver a notice to such effect, specifying in reasonable detail the basis for such objection, and shall, within the twenty (20) day period beginning on the date of receipt by the Indemnified Party of such objection, attempt in good faith to agree upon the rights of the respective parties with respect to each of such claims. If they shall succeed in reaching agreement on their respective rights with respect to any of such claims, Parent, Buyer and the Shareholders' Representative shall promptly prepare and sign a memorandum setting forth such agreement. Should they be unable to agree as to any particular item or items or amount or amounts within such time period, then the Indemnified Party shall be permitted to submit such dispute to the courts set forth in Section 9.12. Claims for Losses specified in any Claim Certificate to which there is no objection in writing by the applicable Party within 20 days of receipt of such Claim Certificate shall be deemed final and binding.

Section 8.6 Third Party Claims. o) If a claim by a third party (a "Third Party Claim") is made against any Indemnified Party, and if such party intends to seek indemnity with respect thereto under this Article VIII, such Indemnified Party shall promptly notify the Shareholders' Representative or Parent and Buyer, as applicable, of such Third Party Claim (the "Third Party Claim Notice"); provided, that the failure to so notify shall not relieve the indemnifying party of its obligations hereunder, except to the extent that it is actually and materially prejudiced thereby. The notice of Third Party Claim shall include, based on the information then available to the Indemnified Party, a summary in reasonable detail of the basis for the Third Party Claim.

(b) The Shareholders' Representative (on behalf of the Sellers) or Parent and Buyer, as the case may be, shall, at their sole expense, be entitled to assume and control the defense of such Third Party Claim if it notifies in writing the same to the Indemnified Party within fourteen (14) days from receipt of the Third Party Claim Notice, provided that together with such written notice of assumption of defense the applicable party irrevocably agrees that any and all Losses incurred by Buyer Indemnitees or Seller Indemnitees in connection with such Third Party Claim shall be recoverable. If the applicable Party assumes such defense then the Indemnified Party shall have the right to participate in the defense and, at its sole expense, to employ counsel reasonably acceptable to the indemnifying party, separate from the counsel employed by the indemnifying party. If there is a Third Party Claim that, if adversely determined, would give rise to a right of recovery for Losses hereunder, then any amounts incurred by the Indemnified Party in defense of such Third Party Claim, regardless of the outcome of such claim, shall be deemed Losses hereunder. The indemnifying party (which, in the case of the Sellers, the Shareholders' Representative on their behalf) shall not admit any liability with respect to, or settle, compromise or discharge any Third Party Claim without the Indemnified Party's prior written consent (which consent shall not be unreasonably withheld or delayed).

(c) Notwithstanding the foregoing, the Shareholders' Representative shall not be entitled to assume the defense of any Third Party Claim which involves a claim (i) that, in the reasonable judgment of Parent, could result in Losses not arising out of indemnity claims for the matters set forth in Sections 8.3(a)(i) through 8.3(a)(v), or in Losses in excess of the Aggregate Consideration, (ii) relating to, or otherwise in connection with Company Intellectual Property or allegation of infringement of third party Intellectual Property Rights, or (iii) involving or in the reasonable judgment of Parent could involve criminal liability or in which injunction or other equitable relief is sought against any Buyer Indemnitee (each of (i) to (iii), an "Excluded Third Party Claim"). In each such case, the Shareholders' Representative may not elect to retain the defense of such Third Party Claim (or, if such Third Party Claim was previously assumed by the Shareholders' Representative, the Shareholders' Representative shall immediately relinquish control thereof to the Buyer Indemnitees), and the Buyer Indemnitees will be entitled to be indemnified by the Indemnifying Parties for their Losses incurred in such defense (including, without limitation, reasonable attorneys fees), subject to the limitations set forth in this Article VIII.

(d) In the case where a Party shall assume the defense of a Third Party Claim, it will keep the indemnifying person (in the case of the Sellers, the Shareholders' Representative on their behalf) reasonably informed about developments and progress in respect of such Third Party Claim. Other than in the case of an Excluded Third Party Claim, the Indemnified Party shall not admit any liability with respect to, or settle, compromise or discharge any Third Party Claim, without the indemnifying person's prior written consent (which consent shall not be unreasonably withheld or delayed).

Section 8.7 No Right of Contribution. Neither the Shareholders' Representative nor any Seller shall be entitled to, or make any claim for, contribution from the Company with respect to any indemnity claims arising under or in connection with this Agreement, and the Shareholders' Representative, on their own behalf and on behalf of all Sellers, hereby waives any such right of contribution from the Company it has or may have in the future.

Section 8.8 Effect of Investigation; Reliance. The right to indemnification, payment of Losses or any other remedy will not be affected by any investigation conducted with respect to, or any knowledge acquired (or capable of being acquired) at any time, whether before or after the execution and delivery of this Agreement or the Closing Date, with respect to the accuracy or inaccuracy of or compliance with, any representation, warranty, covenant or agreement made by the Company or Sellers or any other matter. The waiver of any condition based on the accuracy of any such representation or warranty, or on the performance of or compliance with any such covenant or agreement, will not affect the right to indemnification, payment of Losses, or any other remedy based on any such representation, warranty, covenant or agreement. No Buyer Indemnitee shall be required to show reliance on any representation, warranty, certificate or other agreement in order for such Buyer Indemnitee to be entitled to indemnification hereunder.

Section 8.9 Treatment of Payments. Any payment under Article VIII of this Agreement shall be treated by the parties for income Tax purposes as an adjustment to the Aggregate Consideration.

Section 8.10 Exclusivity. As of the Closing Date, the indemnification provisions contained in this Article VIII are intended to provide the sole and exclusive remedy as to all Losses any of the Indemnified Persons may incur arising from or relating to this Agreement, the agreements and documents contemplated hereby and the transactions contemplated hereby and thereby, and each of the parties hereby waives (and, in the case of the Sellers Indemnitees, the Shareholders' Representative on their behalf), to the fullest extent provided by applicable Law, any other claims or recourse that may arise under any applicable Legal Requirements, whether such claims are framed in contract, tort, violation of law, including securities laws, or otherwise. Notwithstanding the aforesaid, nothing in the Agreement shall limit any right to specific performance or injunctive relief, or any right or remedy arising by reason of any claim of fraud or willful intentional misrepresentation with the respect to this Agreement or any of the other Ancillary Agreements.

Section 8.11 No Circular Recovery. No Seller shall make any claim for indemnification against the Parent, Buyer or the Company by reason of the fact that such Seller was a controlling person, director, employee or representative of the Company or was serving as such for another Person at the request of the Buyer or the Company (whether such claim is for Losses of any kind or otherwise and whether such claim is pursuant to any statute, organizational document, contractual obligation or otherwise) with respect to any claim brought by a Buyer Indemnitee against any Seller relating to this Agreement or the transactions contemplated hereunder. With respect to any claim brought by a Buyer Indemnitee against any Seller relating to this Agreement or the transactions contemplated hereunder, each Seller shall expressly waive any right of subrogation, contribution, advancement, indemnification or other claim against the Company with respect to any amounts owed by such Seller pursuant to this Article VIII.

Section 8.12 Shareholders' Representative. p) The Sellers, by executing or approving this Agreement and the transactions contemplated hereby, irrevocably agree to appoint and constitute Matthew Hayes (and by the execution of this Agreement as the Shareholders' Representative, Matthew Hayes hereby accept his appointment) for and on behalf of the Sellers as the true, exclusive and lawful agent and attorney-in-fact for and on behalf of each such Seller to act: (i) as the Shareholders' Representative under this Agreement, and to have the right, power and authority to perform all actions (or refrain from taking any actions) the Shareholders' Representative shall deem necessary, appropriate or advisable in connection with, or related to, this Agreement and the transactions contemplated hereby; (ii) in the name, place and stead of each Seller (A) in connection with the Share Purchase and the transactions contemplated by this Agreement and in accordance with the terms and provisions of this Agreement, and (B) in any proceeding involving this Agreement, to do, or refrain from doing, all such further acts and things, necessary, appropriate or advisable in connection with any of the foregoing, including execute and deliver all such documents as the Shareholders' Representative shall deem necessary or appropriate in connection with the Share Purchase, including this Agreement or agreeing to any modification or amendment of this Agreement in accordance with Section 9.10 of this Agreement and executing and delivering an agreement of such modification or amendment. Without derogating from the generality of the foregoing, as of the date hereof the Shareholders' Representative shall have the right, power and authority to: (i) give and receive notices, consents and communications, executed by the Shareholders' Representative, including where this Agreement expressly require an action or consent of the Shareholders' Representative; (ii) authorize delivery to Buyer Indemnitees of the applicable portion of the Aggregate Consideration or supplemental indemnification amounts, if any, in satisfaction of claims by Indemnified Parties, (iii) object to such deliveries, (iv) agree to, negotiate, defend, resolve, enter into settlements and compromises of, any suit, proceeding, claim or dispute under this Agreement on behalf of the Sellers and comply with orders of courts and awards of arbitrators with respect to such claims, (v) agree to, negotiate, enter into and provide amendments and supplements to and waivers in respect of this Agreement, including termination of this Agreement, (vi) retain legal counsel, accountants, consultants, advisors and other experts, and incur any other reasonable expenses, in connection with all matters and things set forth or necessary with respect to this Agreement and the Ancillary Agreements and the transactions contemplated hereby and thereby; and (vii) to take all actions necessary or appropriate in the judgment of the Shareholders' Representative for the accomplishment of any or all of the foregoing. The identity of the Shareholders' Representative may be changed by the joint consent of the Sellers upon not less than fifteen (15) days' prior written notice to all of the Parties. The Shareholders' Representative may resign from his position by providing a 15-day prior written notice to the Sellers and in such case, or in the case of death, disability, or inability of the Shareholders' Representative, the other Seller shall become the replacement Shareholders' Representative and notify the Parties. No bond shall be required of the Shareholders' Representative, and the Shareholders' Representative shall receive no compensation for his services. Notices or communications to or from the Shareholders' Representative shall constitute notice to or from each of the Sellers. Any and all decisions, acts, consents or instructions made or given by the Shareholders' Representative in connection with this Agreement shall constitute a decision of all the Sellers and shall be final, binding and conclusive upon each and every Seller, and Parent and Buyer shall be entitled to rely upon any such decision, act, consent or instruction of the Shareholders' Representative. This power of attorney is coupled with an interest and is irrevocable.

(b) The Shareholders' Representative will not incur any liability with respect to any action taken or suffered by him in reliance upon any notice, direction, instruction, consent, statement or other document believed by him, her or it to be genuine and to have been signed by the proper person (and shall have no responsibility to determine the authenticity thereof), nor for any other action or inaction, except his own willful misconduct. In all questions arising under this Agreement, the Shareholders' Representative may rely on the advice of counsel, and the Shareholders' Representative will not be liable to the Sellers for anything done, omitted or suffered by the Shareholders' Representative based on such advice. Each Seller hereby releases the Shareholders' Representative from any loss (including any losses incurred, as such losses are incurred), liability or expense for, arising out of or in connection with the acceptance or administration of the Shareholders' Representative's duties hereunder or any action taken or not taken by any of them, her or it in his, her or its capacity as such agent (including the legal costs and expenses of defending the Shareholders' Representative against any claim or liability (and all actions, claims, proceedings and investigations in respect thereof) in connection with, caused by or arising out of, directly or indirectly, the performance of the Shareholders' Representative's duties hereunder), except for the liability of the Shareholders' Representative, to a Seller for loss which such holder will suffer from the willful misconduct of the Shareholders' Representative in carrying out his duties hereunder. In addition, and without derogating from the generality of the foregoing, the Sellers shall severally and jointly, indemnify the Shareholders' Representative and hold him harmless against any loss (including any losses incurred, as such losses are incurred), liability or expense for, arising out of or in connection with the acceptance or administration of the Shareholders' Representative's duties hereunder or any action taken or not taken by any of them, her or it in his, her or its capacity as such agent (including the legal costs and expenses of defending the Shareholders' Representative against any claim or liability (and all actions, claims, proceedings and investigations in respect thereof) in connection with, caused by or arising out of, directly or indirectly, the performance of the Shareholders' Representative's duties hereunder), except for the liability of the Shareholders' Representative, to a Seller for loss which such holder will suffer from the willful misconduct of the Shareholders' Representative in carrying out his duties hereunder.

(c) The Shareholders' Representative shall treat confidentially and, subject to any Legal Requirement, not disclose any nonpublic information from or about the Company, Buyer or Parent to anyone (except on a need to know basis to individuals (identified to the Company and Parent in writing in advance) who agree in writing to treat such information confidentially).

(d) Subject to the provisions of this Section 8.12, a decision, act, consent or instruction of the Shareholders' Representative shall constitute a decision of all of the Sellers and shall be final, binding and conclusive upon each and every Seller, and the other Parties may rely upon any decision, act, consent or instruction of the Shareholders' Representative as being the decision, act, consent or instruction of each and every Seller. Each of Parent and Buyer is hereby relieved from any liability to any Person for any acts done by them in accordance with such decision, act, consent or instruction of the Shareholders' Representative.

ARTICLE IX

Miscellaneous

Section 9.1 Definitions. When used in this Agreement, the following terms shall have the respective meanings specified therefor below.

"Actual Consideration" means an amount equal to \$6,000,000 plus the portion of the Earn-Out Payment Amount that has actually been paid or that is reasonably expected to be paid in the future. *For example only*, if \$1,000,000 of the 2014 Payment was actually paid to the Sellers, and on December 1, 2015 it was reasonably expected that only \$1,000,000 of the 2015 Payment would be paid in 2016, then the Actual Consideration as of December 1, 2015 would be \$8,000,000 and, if as of March 31, 2016, the actual 2015 Payment payable to the Sellers is \$2,000,000, then the Actual Consideration as of March 31, 2016 would be \$9,000,000.

"Affiliate" of any Person shall mean any other Person directly or indirectly controlling, controlled by, or under common control with, such Person; provided, that, for the purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by Contract or otherwise.

“Business Day” shall mean any day except a Friday, Saturday, a Sunday or any other day on which commercial banks are required or authorized or obligated by law or executive order to close in Tel Aviv, Israel or Illinois.

“Cash” shall mean cash, cash equivalents and marketable securities of the Company, as determined in accordance with GAAP consistently applied.

“Closing Cash Consideration” shall mean (A) Four Million Five Hundred Thousand U.S. Dollars (\$4,500,000) minus (B) the sum of (i) the Company Transaction Expenses, (ii) the cash portion of the Bonus Closing Consideration payable in accordance with the Final Payment Spreadsheet and (iii) the Company Indebtedness, if any, as of the Closing Date, if any.

“Closing Share Consideration” shall mean One Hundred Eighty Five Thousand (185,000) Parent Ordinary Shares less the portion of the Bonus Closing Consideration payable in Parent Ordinary Shares in accordance with the Final Payment Spreadsheet.

“Code” shall mean the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated and the rulings issued thereunder.

“Collective Bargaining Agreement” shall mean any and all written agreements, arrangements, memorandums of understanding, contracts, letters, side letters and contractual obligations of any kind, nature and description, that have been entered into between the Company or any employers’ organization in which the Company is a member and any employees’ organization.

“Company Share Capital” shall mean the Company Common Shares and any other shares of capital stock of the Company.

“Company Common Shares” shall mean the common shares, no par value per share, of the Company.

“Company Equityholders” shall mean any holder of Company Equitysecurities.

“Company Equitysecurities” shall mean Company Share Capital, or any securities, options or rights that are exchangeable or convertible into Company Share Capital.

“Company Indebtedness” shall mean, as of any specified date, the amount equal to the sum (without any double-counting) of the following obligations (whether or not then due and payable or with recourse or not), to the extent they are of the Company or guaranteed by the Company, including through the grant of a security interest upon any assets of such Person: (i) all outstanding obligations for borrowed money; (ii) obligations evidenced by notes, bonds, debentures or similar instruments, or pursuant to any guaranty or arrangements having the economic effect of a guarantee (excluding trade payables), or that are secured by a Lien on property or assets; (iii) obligations under capital leases; (iv) any reimbursement obligation with respect to letters of credit, bankers’ acceptances or similar facilities issued for the account of such Persons and any obligations issued or assumed as the deferred purchase price of property or services (other than accounts payable incurred in the ordinary course of business); (v) asset retirement obligations and similar obligations; (vi) obligations evidenced by any securitization or factoring arrangements; and (vii) principal, interest (including default interest), premiums, penalties (including prepayment and early termination penalties and default penalties or judgments), breakage fees and other amounts owing in respect of the items described in the foregoing clauses (i) through (vi). For the avoidance of doubt, (a) accounts payable arising in the ordinary course of business and (b) any Company Transaction Expenses, shall not be considered Indebtedness.

“Company Intellectual Property” shall mean any and all Intellectual Property and Intellectual Property Rights that are owned or used by, or purported to be owned by, or licensed to, the Company. “Company Intellectual Property” includes Company Registered Intellectual Property.

“Company Bonus” shall mean any bonuses payable in the event of a change of control transaction involving the Company, including a “capital event” bonus to which certain Employees are entitled.

“Company Products” shall mean all products or service offerings, including maintenance and related services, of the Company that are currently marketed, sold, provided or distributed by the Company (as well as any future releases, enhancements and modifications thereof).

“Company Registered Intellectual Property” shall mean the applications, registrations, patents and other filings for Intellectual Property Rights that have been registered, filed, certified, issued or otherwise perfected or recorded with or by any Governmental Entity by or in the name of the Company.

“Company Transaction Expenses” shall mean all expenses (including VAT imposed thereon, if any) incurred or to be incurred by the Company prior, through and following the Closing Date in connection with the negotiation, preparation and execution of this Agreement and the consummation of the transactions contemplated hereby and the Closing, including out of pocket costs, fees and disbursements of financial advisors, attorneys, accountants and other advisors and service providers, or any similar charges in connection with this Agreement or any transaction contemplated hereby, including also the costs of any bonuses, retention payments and any other change of control or similar payments payable as a result of or in connection with the transactions contemplated by this Agreement, in each case, as payable by the Company after the Closing.

“Contract” shall mean any note, bond, mortgage, indenture, guarantee, license, franchise, permit, agreement, understanding, arrangement, contract, commitment, letter of intent, or other instrument or obligation (whether oral or written), and any amendments thereto.

“Copyright License” means a Software license that requires, as a condition of use, modification and/or distribution of Software licensed under such license, that other Software or content incorporated into, derived from, used, or distributed with such Software: (i) be made available or distributed in non-binary form, (ii) be licensed for the purpose of preparing derivative works, (iii) be licensed under terms that allow the Company Products or portions thereof or interfaces therefor to be reverse engineered, reverse assembled or disassembled (other than by operation of law), or (iv) be redistributable or used for no license fee. Copyright Licenses include without limitation the GNU General Public License, the GNU Lesser General Public License, the Mozilla Public License, the Common Development and Distribution License, the Eclipse Public License, and all Creative Commons “sharelike” licenses.

“Employee” shall mean any former or current employee or independent contractor.

“Employee Representative” shall mean any labor union, trade union, labor organization, employee organization, works council, European works council, workers’ committee, bargaining representatives, or any other type of employees’ representatives appointed for information, consultation and/or collective bargaining purposes.

“Export Control and Import Laws” shall mean applicable Legal Requirements concerning export and import and governing embargoes, sanctions and boycotts, including the Arms Export Controls Act (22 U.S.C. §2778), the International Emergency Economic Powers Act (50 U.S.C. § 1701 et seq.), the Export Administration Act of 1979 (50 U.S.C. app. 2401 2420), the International Traffic in Arms Regulations (22 C.F.R. § 120 et seq.), the Export Administration Regulations (15 C.F.R. § 730 et seq.) and all Legal Requirements relating to any of the foregoing, and the laws administered by the Office of Foreign Assets Controls of the U.S. Department of the Treasury, and the laws administered by U.S. Customs and Border Protection.

“Foreign Corrupt Practices Act” shall mean the Foreign Corrupt Practices Act of the United States, 15 U.S.C. Sections 78a, 78m, 78dd 1, 78dd 2, 78dd 3, and 78ff, as amended, if applicable, or any similar Legal Requirement of any jurisdiction where one or more properties owned or leased by the Company are located or where the Company transacts business or any other jurisdiction, if applicable.

“GAAP” shall mean generally accepted accounting principles in the United States, consistently applied, as in effect at the time covered by the applicable financial statements.

“Governmental Entity” shall mean any U.S. or non U.S. federal, state, provincial or local court, arbitral tribunal, administrative agency or commission or other governmental or regulatory agency or authority or any securities exchange.

“Intellectual Property” shall mean any or all of the following (i) works of authorship including computer programs, source code, and executable code, whether embodied in Software, or otherwise, architecture, documentation, designs, files, records, and proprietary data, (ii) inventions (whether or not patentable), discoveries and improvements, (iii) proprietary and confidential information and Trade Secrets (iv) databases, data compilations and collections and proprietary technical data, (v) logos, trade names, trade dress, trademarks and service marks, (vi) domain names, web addresses and sites, (vii) tools, methods and processes, (viii) devices, prototypes, schematics, breadboards, netlists, test methodologies, verilog files, emulation and simulation reports, test vectors and hardware development tools and (ix) any and all instantiations of the foregoing in any form and embodied in any media.

“Intellectual Property Rights” shall mean on a worldwide basis, any and all (i) patents, patent applications and inventors’ certificates, (ii) copyrights, copyright registrations and copyright applications and “moral” rights and other rights of authors, (iii) mask works and mask sets, and all applications and registrations of any of the foregoing, (iv) confidential and proprietary information, trade and industrial secrets and non-public discoveries, concepts, ideas, research and development, technology, know-how, formulae, inventions, compositions, processes, techniques, technical data and information, procedures, drawings, specifications, databases and other information, including, without limitation, customer lists, supplier lists, pricing and cost information, and business and marketing plans and proposals (collectively, “Trade Secrets”), (v) other proprietary rights relating to intangible intellectual property, (vi) trademarks, trade names and service marks and domain names, (vii) rights of privacy and rights of publicity, (viii) divisions, continuations, renewals, reissuances and extensions of any of the foregoing (as applicable), (ix) all other common law and statutory intellectual property or industrial property rights recognized under applicable law, and (x) analogous rights to those set forth above, including the right to enforce and recover damages for all past and future infringements, misappropriations or violations of any of the foregoing.

“IRS” shall mean the U.S. Internal Revenue Service.

“Legal Requirement” means, with respect to any Person, any applicable law, extension order, treaty, statute, code, ordinance, decree, Order, constitution, bylaw, permit, directive, rule, regulation, ruling, certificate (including a withholding certificate) and lawful requirements enacted or promulgated by any Governmental Entity and all judicial, quasi-judicial, administrative, quasi-administrative and arbitral judgments, orders (including injunctions) decisions or awards of any Governmental Entity or any arbitrator, including general principles of common law, civil law and equity applicable to such Person, any property (immovable and real or movable and personal, tangible or intangible) of such Person or any activity of such Person, in each case as in effect at the Closing.

“Liabilities” shall mean any and all indebtedness, liabilities and obligations, whether accrued or fixed, known or unknown, absolute or contingent, matured or unmatured or determined or determinable.

“Liens” shall mean any liens, security interests, options, rights of first refusal, claims, easements, mortgages, charges, indentures, deeds of trust, rights of way, restrictions on the use of real property, encroachments, leases to third parties, security agreements, or any other encumbrances and other restrictions or limitations on ownership or use of real or personal property or irregularities in title thereto (including any restriction on (i) the voting of any security or the transfer of any security or other asset, (ii) the receipt of any income derived from any asset, (iii) the use of any asset, and (iv) the possession, exercise or transfer of any other attribute of ownership of any asset).

“Material Adverse Effect” shall mean, any event, circumstance, development, condition, state of facts, occurrence, change or effect that, individually or together with any other event, circumstance, development, condition, state of facts, occurrence, change or effect, (x) is reasonably likely, either individually or in the aggregate, to have a material adverse effect on the financial condition, properties, assets, Liabilities, business, operations or results of operations of such Person, taken as a whole, or (y) would, either individually or in the aggregate, prevent, materially alter or materially delay such Person's ability to consummate the Share Purchase or the other transactions contemplated hereby in accordance with the terms hereof.

“Open Source Software” shall mean all Software that is distributed under (i) any license approved by the Open Source Initiative or any similar license, (ii) any license that meets the Open Source Definition or the Free Software Definition, and (iii) to the extent not included in the foregoing (i) and (ii), any Copyleft Licenses.

“Order” shall mean any judgment, order, injunction, decree, writ, permit or license of any Governmental Entity or any arbitrator.

“Parent Change of Control” shall mean the consummation of a transaction, whether through merger, consolidation, stock purchase, asset purchase, tender offer or the like, whereby all of the outstanding Parent Ordinary Shares are acquired by a third party or a group of persons, whether for cash and/or securities, and, as a result thereof, the Parent Ordinary Shares are no longer traded or quoted on any stock exchange, OTC or similar public market, or substantially all the assets of the Parent and its subsidiaries are acquired by a third party or a group of persons.

“Parent Ordinary Shares” shall mean Ordinary Shares, par value NIS 0.4 each, of Parent.

“Permitted Liens” shall mean (i) statutory liens for Taxes that are not yet due and payable or are being contested in good faith by appropriate proceedings and are disclosed in the Company Disclosure Schedule, (ii) statutory or common law liens to secure obligations to landlords, lessors or renters under leases or rental agreements confined to the premises rented, (iii) deposits or pledges made in connection with, or to secure payment of, workers' compensation, unemployment insurance, old age pension or other social security programs mandated under Legal Requirements, (iv) statutory or common law liens in favor of carriers, warehousemen, mechanics and materialmen, to secure claims for labor, materials or supplies and other like liens and (v) restrictions on transfer of securities imposed by applicable state and federal securities laws.

“Parent LOI” shall mean the letter of intent entered into between the Company, the Sellers and Parent as of November 27, 2013.

Closing. "Bonus Closing Consideration" shall mean the amount payable by the Company to all the Bonus Holders, pursuant to the Bonus Letters or the Services Agreement, as applicable, at the

"Bonus Contingent Consideration" shall mean the amount payable by the Company to all the Bonus Holders, pursuant to the Bonus Letters or Services Agreement, as applicable, as a result of the payment of the Earn-Out Payment Amount.

"Bonus Holders" shall mean the holders of the Company Bonus listed, or that should have been listed, in Section 2.3(e) of the Company Disclosure Schedule.

"Person" shall mean and include an individual, a partnership, a limited partnership, a limited liability partnership, a joint venture, a corporation, a limited liability company, an association, a trust, an unincorporated organization, a group and a Governmental Entity.

"Proportionate Indemnification Share" shall mean with respect to a Seller, 50%.

"Registrable Securities" means: (a) any Parent Ordinary Shares acquired by the Sellers pursuant to this Agreement and (b) any Parent Ordinary Shares issued or issuable directly or indirectly with respect to the securities referred to in clause (a) by way of stock dividend, stock conversion or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization. As to any particular shares constituting Registrable Securities, such shares will cease to be Registrable Securities when they: (i) have been effectively registered under the Securities Act and until the earlier of (a) one year following registration thereof and (b) disposition thereof in accordance with the registration statement covering them, (ii) have been sold to the public through a broker, dealer or market maker pursuant to Rule 144 (or any similar provision then in force) under the Securities Act, (iii) have been otherwise transferred or (iv) have been sold in a private transaction in which the transferor's rights under this Agreement are not assigned.

"Representatives" of any Person shall mean such Person's directors, managers, officers, employees, agents, attorneys, consultants, advisors or other Persons acting on behalf of such Person.

"Shrink-Wrapped Code" means generally commercially available software code (other than development tools and development environments) where available for a cost of not more than \$1,500 for a perpetual license for a single user or work station (or \$5,000 in the aggregate for all users and work stations on an annual basis).

"Software" means computer software, firmware, programs and databases in any form, including Source Code, executable code, tools, developer kits, utilities, graphical user interfaces, and forms, and all versions, updates, corrections, enhancements and modifications thereof, and all related documentation, related thereto.

"Software License Agreement" shall mean the standard software license agreement used by the Company for licensing the Company Products.

"Specified Representations" shall mean those representations and warranties made (i) by the Company and Sellers in Sections 2.1, 2.2(a), 2.2(b)(i), 2.3, 2.11, 2.12(a), and 2.23 and (ii) by Sellers in Article III.

"Subsidiary", with respect to any Person, shall mean (a) any corporation more than fifty percent (50%) of the stock of any class or classes of which having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time stock of any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is owned by such Person directly or indirectly through one or more subsidiaries of such Person and (b) any partnership, association, limited liability company or other entity in which such Person directly or indirectly through one or more subsidiaries of such Person has more than a fifty percent (50%) equity interest.

“Tax” or “Taxes” shall mean all taxes, assessments, charges, duties, fees, levies or other governmental charges including all U.S. federal, state, local, foreign and other income, franchise, profits, gross receipts, capital gains, capital stock, transfer, sales, use, value added, occupation, property, excise, severance, windfall profits, stamp, license, payroll, social security, withholding and other taxes, assessments, charges, duties, fees, levies or other governmental charges of any kind whatsoever (whether payable directly or by withholding and whether or not requiring the filing of a Return), all estimated taxes, deficiency assessments, additions to tax, penalties and interest and linkage and shall include any liability for such amounts as a result of (a) being a transferee or successor or member of a combined, consolidated, unitary or affiliated group, or (b) a Contractual obligation to indemnify any Person.

“Technology” means tangible embodiments of Intellectual Property Rights, whether in electronic, written or other form, including Company Products, Software, technical documentation, specifications, information, process flows, process recipes, test cases, schematics, prototypes, schematics, breadboards, netlists, test methodologies, verilog files, emulation and simulation reports, test vectors and development tools, designs (including any design databases, mask layers, reticles, test vectors, industrial designs and reference designs), formulae, algorithms (and implementations thereof), application programming interfaces, user interfaces, test reports, build instructions, research and development procedures and results, technical data, lab notebooks, studies, programs, routines, subroutines, formulae, recordings, graphs, drawings, reports, analyses and other writings or materials.

“Treasury Regulations” shall mean the Treasury Regulations promulgated pursuant to the Code, as amended from time to time, including the corresponding provisions of any successor regulations.

“U.S.” shall mean the United States of America.

Section 9.2 Construction. In this Agreement, unless the context otherwise requires:

(a) references to “writing” or comparable expressions include a reference to facsimile transmission or comparable means of communication (including electronic mail, provided the sender complies with the provisions of Section 9.7 hereof);

(b) the phrases “delivered” or “made available” shall mean that the information referred to has been physically or electronically delivered to the relevant parties (including, in the case of “made available” to Parent, material that has been posted and thereby made available to Parent through the on line “virtual data room” established by the Company if such material was made available at least two Business Days prior to the date hereof);

(c) words expressed in the singular number shall include the plural and vice versa; words expressed in the masculine shall include the feminine and neuter gender and vice versa;

(d) references to Articles, Sections, Sections of the Company Disclosure Schedule, the Preamble and Recitals are references to articles, sections, disclosure schedules, the preamble and recitals of this Agreement, and the descriptive headings of the several Articles and Sections of this Agreement and the Company Disclosure Schedule (as applicable) are inserted for convenience only, do not constitute a part of this Agreement and shall not affect in any way the meaning or interpretation of this Agreement;

- (e) references to “day” or “days” are to calendar days (subject to the definition of the term “Business Day”);
- (f) the words “hereof”, “herein”, “hereto” and “hereunder”, and words of similar import, shall refer to this Agreement as a whole and not to any provision of this Agreement;
- (g) this “Agreement” or any other agreement or document shall be construed as a reference to this Agreement or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated or supplemented;
- (h) “include”, “includes”, and “including” are deemed to be followed by “without limitation” whether or not they are in fact followed by such words or words of similar import; and
- (i) references to “Dollars”, “dollars” or “\$”, without more are to the lawful currency of U.S.

Section 9.3 Exhibits and the Disclosure Schedules. The Exhibits and the Company Disclosure Schedule are incorporated into and form an integral part of this Agreement.

Section 9.4 Knowledge. When any representation, warranty, covenant or agreement contained in this Agreement is expressly qualified by reference to the “Knowledge” of a Person or words of similar import, it shall mean the actual knowledge of such Person (and, with respect to a corporation other than the Company, the collective knowledge of such matter of each director and executive officers of the applicable Person). With term “Knowledge” with respect to the Company means the actual knowledge of Matthew Hayes and Kristen Hayes, after reasonable and due inquiry.

Section 9.5 Fees and Expenses. Except as specifically set forth herein, all costs and expenses incurred in connection with this Agreement and the consummation of the transactions contemplated hereby shall be paid by the party incurring such costs and expenses (it being understood that all Transaction Expenses will either be paid by the Company prior to Closing or be deducted from the Aggregate Consideration).

Section 9.6 Extension; Waiver. Subject to the express limitations herein, at any time prior to the Closing, the parties hereto, may (a) extend the time for the performance of any of the obligations or other acts of the other party hereto, (b) waive any inaccuracies in the representations and warranties contained herein by the other party or in any document, certificate or writing delivered pursuant hereto by such other party or (c) waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of any party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed by or on behalf of such party. No failure or delay on the part of any party hereto in the exercise of any right hereunder shall impair such right or be construed as a waiver of, or acquiescence in, any breach of any representation, warranty, covenant or agreement herein, nor shall any single or partial exercise of any such right preclude other or further exercise thereof or of any other right.

Section 9.7 Notices. Except as otherwise provided herein, all notices, requests, claims, demands, waivers and other communications hereunder shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopier, facsimile or email transmission (in the case of telecopier, facsimile or email transmission, with copies by overnight courier service or registered mail) to the respective parties as follows (or, in each case, as otherwise notified by any of the parties hereto) and shall be effective and deemed to have been given (i) immediately when sent by telecopier, facsimile or email between 9:00 A.M. and 6:00 P.M. (Israel time) on any Business Day (and when sent outside of such hours, at 9:00 A.M. (Israel time) on the next Business Day), and (ii) when received if delivered by hand or overnight courier service or certified or registered mail on any Business Day:

(a) if to Parent, Buyer or to the Company, to:

Attunity Ltd.
16 Atir Yeda Street, Atir Yeda Industrial Park
Kfar Saba 4464321, Israel
Attention: CFO
Fax: +972-9-8993011
Email: dror.elkayam@attunity.com

Attunity Inc.
70 Blanchard Road, Floor 2
Burlington, MA 01803
Attention: CFO
Fax: (877) 896-2760
Email: dror.elkayam@attunity.com

with a copy (which shall not constitute notice or service of process) to:

Goldfarb Seligman & Co.
98 Yigal Alon Street, Electra Tower
Tel Aviv 6789141, Israel
Attention: Ido Zemach, Adv.
Fax: +972-3-6089909
Email: ido.zemach@goldfarb.com

Zysman, Aharoni, Gayer and Sullivan & Worcester LLP
1633 Broadway
New York, NY 10019
Attention: Oded Har-Even, Esq.
Fax: (212) 660-3001
Email: ohareven@zag-sw.com

(b) if to the Sellers, to:

Matthew Hayes
722 Redwood Lane
Glencoe, Illinois 60022
Email: mhayes@hayestechnology.com

Kristen Hayes
606 Lange Court
Libertyville, Illinois 60048
Email: keh5433@yahoo.com

with a copy (which shall not constitute notice or service of process) to:

Reinhart Boerner Van Deuren s.c.
1000 North Water Street, Suite 1700
Milwaukee, WI 53202
Attention: Lawrence J. Burnett
Fax: (414) 298-8097
Email: lburnett@reinhartlaw.com

(c) if to the Shareholders' Representative, to:

Matthew Hayes
722 Redwood Lane
Glencoe, Illinois 60022
Email: mhayes@hayestechology.com
with a copy (which shall not constitute notice or service of process) to:

Reinhart Boerner Van Deuren s.c.
1000 North Water Street, Suite 1700
Milwaukee, WI 53202
Attention: Lawrence J. Burnett
Fax: (414) 298-8097
Email: lburnett@reinhartlaw.com

Notices sent by multiple means, each of which is in compliance with the provisions of this Agreement will be deemed to have been received at the earliest time provided for by this Agreement.

Section 9.8 Entire Agreement. This Agreement, together with the Exhibits hereto and the Company Disclosure Schedule, contains the entire understanding of the parties hereto with respect to the subject matter contained herein and supersedes all prior agreements and understandings, oral and written, with respect thereto, including the Parent LOI.

Section 9.9 Binding Effect; Benefit; Assignment. This Agreement shall inure to the benefit of and be binding upon the parties hereto. Except as set forth herein, no other Person not party to this Agreement shall be entitled to the benefits of this Agreement. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto without the prior written consent of the other party. Any attempted assignment in violation of this Section 9.9 will be void.

Section 9.10 Amendment and Modification. Subject to applicable Legal Requirements, the parties hereto may cause this Agreement to be amended at any time by execution of an instrument in writing signed on behalf of each of Parent, Buyer, the Company and the Shareholders' Representative.

Section 9.11 Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, and all of which together shall be deemed to be one and the same instrument. Facsimile signatures or signatures exchanged via electronic transmission in pdf format or other comparable format shall be accepted the same as an original signature. A photocopy of this Agreement may be used in any action brought to enforce or construe this Agreement.

Section 9.12 Applicable Law: Jurisdiction. THIS AGREEMENT AND THE LEGAL RELATIONS BETWEEN THE PARTIES HERETO SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICT OF LAWS RULES THEREOF. EACH PARTY HEREBY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS SITTING IN THE CITY OF NEW YORK, BOROUGH OF MANHATTAN FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION HERewith OR WITH ANY TRANSACTION CONTEMPLATED HEREBY OR DISCUSSED HEREIN, AND HEREBY IRREVOCABLY WAIVES, AND AGREES NOT TO ASSERT IN ANY SUIT, ACTION OR PROCEEDING, ANY CLAIM THAT IT IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF ANY SUCH COURT, THAT SUCH SUIT, ACTION OR PROCEEDING IS IMPROPER OR INCONVENIENT VENUE FOR SUCH PROCEEDING. EACH PARTY TO THIS AGREEMENT IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 9.7 ABOVE. NOTHING IN THIS AGREEMENT SHALL AFFECT THE RIGHT OF ANY PARTY TO THIS AGREEMENT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

Section 9.13 Severability. If any term, provision, covenant or restriction contained in this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void, unenforceable or against its regulatory policy, the remainder of the terms, provisions, covenants and restrictions contained in this Agreement shall remain in valid and binding and shall in no way be affected, impaired or invalidated, and this Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable term, provision, covenant or restriction or any portion thereof had never been contained herein.

Section 9.14 Specific Enforcement: Limitation on Damages. q) The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached or threatened to be breached and that an award of money damages might be inadequate in such event. Accordingly, it is acknowledged that the parties shall be entitled to equitable relief, without proof of actual damages, including an Order for specific performance to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement, in addition to any other remedy to which they are entitled at law or in equity as a remedy for any such breach or threatened breach. Each party further agrees that neither the other party nor any other Person shall be required to obtain, furnish or post any bond or similar instrument in connection with or as a condition to obtaining any remedy referred to in this Section 9.14, and each party hereto irrevocably waives any right it may have to require the obtaining, furnishing or posting of any such bond or similar instrument. Each party further agrees that the only permitted objection that it may raise in response to any action for equitable relief is that it contests the existence of a breach or threatened breach of this Agreement.

Section 9.15 Waiver of Jury Trial. EACH OF THE PARTIES TO THIS AGREEMENT HEREBY IRREVOCABLY WAIVES, AND SHALL CAUSE ITS SUBSIDIARIES, IF ANY, AND AFFILIATES TO WAIVE, ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 9.16 Rules of Construction. The parties hereto agree that they have been represented by counsel during the negotiation and execution of this Agreement and have participated jointly in the drafting of this Agreement and, therefore, waive the application of any Law, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

Section 9.17 Further Assurances. After the Closing, each party hereto shall execute and cause to be delivered to each other party hereto such instruments and other documents, and shall take such other actions, as such other party may reasonably request for the purpose of carrying out or evidencing any of the transactions contemplated by this Agreement.

Section 9.18 Headings. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

[Remainder of page intentionally left blank.]

written. IN WITNESS WHEREOF, the Parties have caused this Share Purchase Agreement to be duly executed by their respective officers thereunto duly authorized, all as of the date first above

HAYES TECHNOLOGY GROUP, INC.

By: /s/ Matthew Hayes
Name: Matthew Hayes
Title: President, Chief Technology Officer and Secretary

ATTUNITY LTD.

By: /s/ Dror Harel-Elkayam
Name: Dror Harel-Elkayam
Title: Chief Financial Officer

ATTUNITY LTD.

By: /s/ Dror Harel-Elkayam
Name: Dror Harel-Elkayam
Title: Director

MATTHEW HAYES
(AS SHAREHOLDERS' REPRESENTATIVE)

By: /s/ Matthew Hayes
Name: Matthew Hayes

IN WITNESS WHEREOF, the Parties have caused this Share Purchase Agreement to be duly executed by their respective officers thereunto duly authorized, all as of the date first above written.

SELLERS:

By: /s/ Matthew Hayes
Matthew Hayes

By: /s/ Kristen Hayes
Kristen Hayes

[PLEASE COMPLETE]

FULL NAME: _____

ADDRESS: _____

IF YOU ARE A "U.S. PERSON," YOU ARE THE RESIDENT OF THE STATE OF: _____

TEL: _____

FAX: _____

EMAIL: _____

NUMBER OF COMMON SHARES: As shown in the Final Payment Spreadsheet

BANK ACCOUNT INFORMATION: _____

LIST OF SUBSIDIARIES

We have the following principal operating subsidiaries:

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

CERTIFICATION

pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended

I, Shimon Alon, certify that:

1. I have reviewed this annual report on Form 20-F of Attunity Ltd;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

/s/Shimon Alon
Shimon Alon
Chairman and Chief Executive Officer

Date: April 8, 2014

CERTIFICATION

pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended

I, Dror Harel-Elkayam, certify that:

1. I have reviewed this annual report on Form 20-F of Attunity Ltd;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 8, 2014

/s/ Dror Harel-Elkayam
Dror Harel-Elkayam
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Annual Report of Attunity Ltd (the "Company") on Form 20-F for the period ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Shimon Alon, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 8, 2014

/s/Shimon Alon
Shimon Alon
Chairman and Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Annual Report of Attunity Ltd (the "Company") on Form 20-F for the period ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dror Harel-Elkayam, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 8, 2014

/s/ Dror Harel-Elkayam
Dror Harel-Elkayam
Chief Financial Officer

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form F-3 (Registration No. 333-184139, 333-173205, 333-138044, 333-122937, 333-119157 and 333-142286) and Registration Statements on Form S-8 (Registration No. 033-84180, 333-932, 333-11648, 333-122271, 333-122302, 333-142284, 333-164656, 333-184136 and 333-193783) of Attunity Ltd. of our report dated April 7, 2014 with respect to the consolidated financial statements of Attunity Ltd. and its subsidiaries for the year ended December 31, 2013 included in this Annual Report on Form 20-F for the year ended December 31, 2013.

Tel-Aviv, Israel
April 7, 2014

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