

UNITED STATES  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 20-F/A**  
**(Amendment No. 1)**

**(Mark One)**

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

**OR**

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

**For the fiscal year ended December 31, 2019**

**OR**

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

**OR**

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

Date of event requiring this shell company report.....

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission File Number 001-33129



**ALLOT LTD**

(Exact Name of Registrant as specified in its charter)

**N/A**

(Translation of Registrant's name into English)

**ISRAEL**

(Jurisdiction of incorporation or organization)

**22 Hanagar Street**  
**Neve Ne'eman Industrial Zone B**  
**Hod-Hasharon 45240**  
**Israel**  
(Address of principal executive offices)

**Rael Kolevsohn, Adv.**  
**VP Legal Affairs & General Counsel**  
**Allot Ltd.**  
**22 Hanagar Street**  
**Hod-Hasharon 4501317, Israel**  
**Tel/Fax: +972 (9) 762-8419**

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

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Ordinary Shares, par value ILS 0.10 per share	ALLT	The NASDAQ Stock Market, LLC

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2019:  
**34,520,728 ordinary shares, ILS 0.10 par value per share**

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

Yes  No

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

Yes  No

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

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

Yes  No

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

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

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

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

Indicate by check mark 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 statement item the registrant has elected to follow.

Item 17

Item 18

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

Yes

No

## EXPLANATORY NOTE

This Amendment No. 1 on Form 20-F/A (the “Amendment No. 1”) amends Allot Ltd.’s (the “Company”) Annual Report on Form 20-F for the fiscal year ended December 31, 2019 (the “Form 20-F”), as filed with the Securities and Exchange Commission on March 26, 2020, and is being filed solely to correct a typographical error in the date of the Report of Independent Registered Public Accounting Firm from March 26, 2019 to March 26, 2020.

Pursuant to Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, the Company has repeated the entire text of Item 8 and Item 18 of the Form 20-F in this Amendment No.1. There have been no changes to the text of such items other than the change in the date of the auditor’s report.

In addition, this Amendment No. 1 includes currently dated certifications by our Principal Executive Officer and Principal Financial Officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, attached as Exhibits 12.1, 12.2 and 13.1 hereto, and a currently dated consent of Kost Forer Gabbay & Kasierer, attached as Exhibit 15.1 hereto.

Except as expressly set forth above, this Amendment No. 1 does not, and does not purport to, amend, update or restate the information in any other item of the Form 20-F or reflect any events that have occurred after the filing of the Form 20-F.

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## **PART I**

### **ITEM 8: Financial Information**

#### **A. Consolidated Financial Statements and Other Financial Information.**

##### **Consolidated Financial Statements**

For our audited consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, please see pages F-4 to F-46 of this report.

##### **Export Sales**

See "ITEM 4: Operating and Financial Review and Prospects" under the caption "Customers" for certain details of export sales for the last three fiscal years.

##### **Legal Proceedings**

We may, from time to time in the future be involved in legal proceedings in the ordinary course of business. Such matters are generally subject to many uncertainties and outcomes are not predictable with assurance. We accrue for contingencies when the loss is probable and it can reasonably estimate the amount of any such loss. Except as set forth in Note 11 to our consolidated financial statements for the fiscal year ended December 31, 2019 included elsewhere in this report, we are currently not a party to any material legal or administrative proceedings for which an appropriate accrual has not been made, and is not aware of any pending or threatened material legal or administrative proceedings against us.

##### **Dividends**

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

#### **B. Significant Changes**

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

## **PART III**

### **ITEM 18: Financial Statements**

See Financial Statements included at the end of this report.

### **ITEM 19: Exhibits**

See exhibit index incorporated herein by reference.

## SIGNATURES

The registrant certifies that it meets all of the requirements for filing on Form 20-F/A and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

Allot Ltd

By: /s/ Erez Antebi  
*Erez Antebi*  
*Chief Executive Officer and*  
*President*

Dated: July 1, 2020



## INDEX OF EXHIBITS

<b>Number</b>	<b>Description</b>
<a href="#">1.1</a>	<a href="#">Articles of Association of the Registrant (2)</a>
<a href="#">1.2</a>	<a href="#">Certificate of Name Change (9)</a>
<a href="#">1.3</a>	<a href="#">Memorandum of Association of the Registrant (10)</a>
<a href="#">2.1</a>	<a href="#">Specimen share certificate (1)</a>
<a href="#">2.2</a>	<a href="#">Description of Registrant's Securities (12)</a>
<a href="#">4.1</a>	<a href="#">Non-Stabilized Lease Agreement, dated February 13, 2006, by and among, Aderet Hod Hasharon Ltd., Miritz, Inc., Leah and Israel Ruben Assets Ltd., Tamar and Moshe Cohen Assets Ltd., Drish Assets Ltd., S. L. A. A. Assets and Consulting Ltd., Iris Katz Ltd., Y. A. Groder Investments Ltd., Ginotel Hod Hasharon 2000 Ltd. and Allot Ltd (1)</a>
<a href="#">4.2</a>	<a href="#">2016 Incentive Compensation Plan, as amended and restated (6)</a>
<a href="#">4.3</a>	<a href="#">Israeli Subplan (Appendix A) of the 2016 Incentive Compensation Plan, as amended and restated (7)</a>
<a href="#">4.4</a>	<a href="#">US Subplan (Appendix B) of the 2016 Incentive Compensation Plan, as amended and restated (8)</a>
<a href="#">4.5</a>	<a href="#">Manufacturing Agreement, dated July 19, 2007, by and between Flextronics (Israel) Ltd. and the Registrant (4)</a>
<a href="#">4.6</a>	<a href="#">Amendment No. 1, dated September 1, 2012, to the Manufacturing Agreement, dated July 19, 2007, by and between Flextronics (Israel) Ltd. and the Registrant (11)</a>
<a href="#">4.7</a>	<a href="#">Asset Purchase Agreement, dated February 19, 2015, by and between Optenet S.A. and the Registrant. (3)</a>
<a href="#">4.8</a>	<a href="#">Compensation Policy for Executive Officers and Directors (5)</a>
<a href="#">8.1</a>	<a href="#">List of Subsidiaries of the Registrant (12)</a>
<a href="#">12.1</a>	<a href="#">Certification of Principal Executive Officer required by Rule 13a-14(a) and Rule 15d-14(a) (Section 302 Certifications), filed herewith</a>
<a href="#">12.2</a>	<a href="#">Certification of Principal Financial Officer required by Rule 13a-14(a) and Rule 15d-14(a) (Section 302 Certifications), filed herewith</a>
<a href="#">13.1</a>	<a href="#">Certification of Principal Executive Officer and Principal Financial Officer required by Rule 13a-14(b) and Rule 15d-14(b) (Section 906 Certifications), furnished herewith</a>
<a href="#">15.1</a>	<a href="#">Consent of Kost Forer Gabbay &amp; Kasierer, filed herewith</a>

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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- (1) Previously filed with the Securities and Exchange Commission on October 31, 2006 pursuant to a registration statement on Form F-1 (File No. 333-138313) and incorporated by reference herein.
  - (2) Previously included in Exhibit 99.3 to the report of foreign private issuer on Form 6-K furnished to the Securities and Exchange Commission on November 1, 2018 and incorporated by reference herein.
  - (3) Previously filed with the Securities and Exchange Commission on March 26, 2015 as Exhibit 4.8 to the annual report on Form 20-F for the year ended December 31, 2014 and incorporated by reference herein.
  - (4) Previously filed with the Securities and Exchange Commission on March 28, 2016 as Exhibit 5.1 to the annual report on Form 20-F for the year ended December 31, 2015 and incorporated by reference herein.
  - (5) Previously included in Exhibit A-1 to Proxy statement included in Exhibit 99.1 to the report of foreign private issuer on Form 6-K furnished to the Securities and Exchange Commission on August 15, 2016 and incorporated by reference herein.
  - (6) Previously filed with the Securities and Exchange Commission on March 23, 2017 as Exhibit 4.2 to the annual report on Form 20-F for the year ended December 31, 2016 and incorporated by reference herein.
  - (7) Previously filed with the Securities and Exchange Commission on March 23, 2017 as Exhibit 4.3 to the annual report on Form 20-F for the year ended December 31, 2016 and incorporated by reference herein.
  - (8) Previously filed with the Securities and Exchange Commission on March 23, 2017 as Exhibit 4.4 to the annual report on Form 20-F for the year ended December 31, 2016 and incorporated by reference herein.
  - (9) Previously included in Exhibit 99.1 to the report of foreign private issuer on Form 6-K furnished to the Securities and Exchange Commission on November 1, 2018 and incorporated by reference herein.
  - (10) Previously included in Exhibit 99.2 to the report of foreign private issuer on Form 6-K furnished to the Securities and Exchange Commission on November 1, 2018 and incorporated by reference herein.
  - (11) Previously filed with the Securities and Exchange Commission on March 22, 2018 as Exhibit 4.6 to the annual report on Form 20-F for the year ended December 31, 2017 and incorporated by reference herein.
  - (12) Previously filed with the Securities and Exchange Commission on March 26, 2020 with the annual report on Form 20-F for the year ended December 31, 2019 and incorporated by reference herein.

**ALLOT LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2019**

**U.S. DOLLARS IN THOUSANDS**

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ALLOT LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019

U.S. DOLLARS IN THOUSANDS

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

**ALLOT LTD.**

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Allot Ltd. (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of comprehensive loss, changes in stockholders’ equity and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2019 and 2018, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with US generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 26, 2020 expressed an unqualified opinion thereon.

### **Basis for Opinion**

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

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

We have served as the Company’s auditor since 2006.  
Tel Aviv, Israel  
March 26, 2020



**Kost Forer Gabbay & Kasierer**  
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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

**ALLOT LTD.**

### **Opinion on Internal Control over Financial Reporting**

We have audited Allot Ltd. (the "Company") internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the "COSO Criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018 and the related consolidated statements of comprehensive loss, Changes in Stockholders' Equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes of the Company and our report dated March 26, 2020 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

Tel-Aviv, Israel  
March 26, 2020

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**CONSOLIDATED BALANCE SHEETS U.S.**
**U.S. dollars in thousands**

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 16,930	\$ 16,336
Restricted deposits	23,183	465
Short-term bank deposits	5,557	22,543
Available-for-sale marketable securities	61,012	64,290
Trade receivables (net of allowance for doubtful accounts of \$ 1,867 and \$ 1,415 at December 31, 2019 and 2018, respectively)	29,008	26,093
Other receivables and prepaid expenses	6,528	3,647
Inventories	10,668	11,345
<b>Total</b> current assets	<b>152,886</b>	<b>144,719</b>
<b>NON-CURRENT ASSETS:</b>		
Restricted deposits	10,913	257
Severance pay fund	387	345
Operating lease right-of-use assets	6,368	-
Deferred taxes	517	281
Other assets	926	600
Property and equipment	8,135	6,249
Intangible assets, net	3,354	4,961
Goodwill	31,683	32,432
<b>Total</b> non-current assets	<b>62,283</b>	<b>45,125</b>
<b>Total</b> assets	<b>\$ 215,169</b>	<b>\$ 189,844</b>

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



## CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2019	2018
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade payables	\$ 11,676	\$ 7,813
Employees and payroll accruals	12,041	7,357
Deferred revenues	36,360	13,855
Short-term operating lease liabilities	3,151	-
Other payables and accrued expenses	10,214	13,695
<b>Total current liabilities</b>	<b>73,442</b>	<b>42,720</b>
<b>LONG-TERM LIABILITIES:</b>		
Deferred revenues	5,262	4,247
Long-term operating lease liabilities	3,820	-
Accrued severance pay	794	806
Other long-term liability	-	6,168
<b>Total long-term liabilities</b>	<b>9,876</b>	<b>11,221</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Share capital -		
Ordinary shares of NIS 0.1 par value - Authorized: 200,000,000 shares at December 31, 2019 and 2018; Issued: 35,336,728 and 34,712,261 shares at December 31, 2019 and 2018, respectively; Outstanding: 34,520,728 and 33,896,261 shares at December 31, 2019 and 2018, respectively	871	853
Additional paid-in capital	276,112	271,765
Treasury stock at cost - 816,000 shares at December 31, 2019 and 2018.	(3,998)	(3,998)
Accumulated other comprehensive income (loss)	(525)	(767)
Accumulated deficit	(140,609)	(131,950)
<b>Total shareholders' equity</b>	<b>131,851</b>	<b>135,903</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 215,169</b>	<b>\$ 189,844</b>

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**
**U.S. dollars in thousands, except share and per share data**

	Year ended December 31,		
	2019	2018	2017
<b>Revenues:</b>			
Products	\$ 67,440	\$ 56,169	\$ 48,727
Services	42,660	39,668	33,265
<b>Total revenues</b>	<b>110,100</b>	<b>95,837</b>	<b>81,992</b>
<b>Cost of revenues:</b>			
Products	22,743	20,061	19,258
Services	11,091	9,288	9,272
<b>Total cost of revenues</b>	<b>33,834</b>	<b>29,349</b>	<b>28,530</b>
<b>Gross profit</b>	<b>76,266</b>	<b>66,488</b>	<b>53,462</b>
<b>Operating expenses:</b>			
Research and development (net of grant participations of \$ 378, \$ 374 and \$ 392 for the years ended December 31, 2019, 2018 and 2017, respectively)	31,461	25,418	21,852
Sales and marketing	47,105	40,849	38,316
General and administrative	6,678	10,416	10,696
<b>Total operating expenses</b>	<b>85,244</b>	<b>76,683</b>	<b>70,864</b>
<b>Operating loss</b>	<b>(8,978)</b>	<b>(10,195)</b>	<b>(17,402)</b>
<b>Financial income, net</b>	<b>1,960</b>	<b>2,208</b>	<b>894</b>
<b>Loss before income tax expense</b>	<b>(7,018)</b>	<b>(7,987)</b>	<b>(16,508)</b>
<b>Income tax expense</b>	<b>1,641</b>	<b>2,428</b>	<b>1,564</b>
<b>Net loss</b>	<b>\$ (8,659)</b>	<b>\$ (10,415)</b>	<b>\$ (18,072)</b>
<b>Unrealized gain (loss) on available-for-sale marketable securities</b>	<b>670</b>	<b>(226)</b>	<b>(35)</b>
<b>Unrealized gain (loss) on foreign currency cash flow hedges transactions</b>	<b>(332)</b>	<b>(1,480)</b>	<b>1,016</b>
<b>Net amount reclassified to earnings</b>	<b>(96)</b>	<b>903</b>	<b>(796)</b>
<b>Total comprehensive loss from hedge transactions</b>	<b>(428)</b>	<b>(577)</b>	<b>220</b>
<b>Total comprehensive loss</b>	<b>\$ (8,417)</b>	<b>\$ (11,218)</b>	<b>\$ (17,887)</b>
<b>Net loss per share:</b>			
Basic and diluted	<b>\$ (0.25)</b>	<b>\$ (0.31)</b>	<b>\$ (0.54)</b>
<b>Weighted average number of shares used in per share computations of net loss:</b>			
Basic and diluted	<b>34,250,582</b>	<b>33,710,507</b>	<b>33,253,158</b>

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	Treasury stock	Accumulated other comprehensive income (loss)	Accumulated deficit	Total shareholders' equity
	Outstanding shares	Amount					
Balance at January 1, 2017	33,057,719	843	264,782	(3,998)	(149)	(104,175)	157,303
Exercise of stock options	425,543	8	354	-	-	-	362
Stock-based compensation	-	-	3,351	-	-	-	3,351
Other comprehensive income	-	-	-	-	185	-	185
Net loss	-	-	-	-	-	(18,072)	(18,072)
Balance at December 31, 2017	33,483,262	851	268,487	(3,998)	36	(122,247)	143,129
Cumulative effect of new accounting standard (See Note 1)	-	-	-	-	-	712	712
Exercise of stock options	412,999	2	416	-	-	-	418
Stock-based compensation	-	-	2,862	-	-	-	2,862
Other comprehensive income	-	-	-	-	(803)	-	(803)
Net loss	-	-	-	-	-	(10,415)	(10,415)
Balance at December 31, 2018	33,896,261	853	271,765	(3,998)	(767)	(131,950)	135,903
Exercise of stock options	624,467	18	974	-	-	-	992
Stock-based compensation	-	-	3,373	-	-	-	3,373
Other comprehensive income	-	-	-	-	242	-	242
Net loss	-	-	-	-	-	(8,659)	(8,659)
Balance at December 31, 2019	34,520,728	871	276,112	(3,998)	(525)	(140,609)	131,851

Accumulated other comprehensive loss:

	Year ended December 31,		
	2019	2018	2017
Accumulated unrealized gain (loss) on available-for-sale marketable securities	\$ 321	\$ (349)	\$ (123)
Accumulated unrealized loss on foreign currency cash flows hedge transactions gain (loss)	(846)	(418)	159
Accumulated other comprehensive gain (loss)	<u>\$ (525)</u>	<u>\$ (767)</u>	<u>\$ 36</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,		
	2019	2018	2017
<u>Cash flows from operating activities:</u>			
Net loss	\$ (8,659)	\$ (10,415)	\$ (18,072)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,359	3,834	3,668
Stock-based compensation	3,420	2,862	3,366
Capital loss	-	39	27
Increase (decrease) in accrued severance pay, net	(54)	16	105
Decrease in other assets	(326)	535	1
Decrease in accrued interest and amortization of premium on available-for sale marketable securities	343	804	913
Changes in operating lease right-of-use asset	(6,368)	-	-
Changes in operating leases liability	6,971		
Decrease (increase) in trade receivables	(2,915)	(3,356)	1,421
Decrease (increase) in other receivables and prepaid expenses	(3,168)	(1,101)	1,350
Increase in inventories	(253)	(3,448)	(662)
Decrease (increase) in long-term deferred taxes, net	(236)	20	(34)
Increase in trade payables	3,863	1,945	2,582
Increase (decrease) in employees and payroll accruals	4,635	(1,178)	1,140
Increase in deferred revenues	23,520	3,566	518
Increase (decrease) in other payables and accrued expenses	(9,040)	6,906	3,449
Net cash provided by (used in) operating activities	16,092	1,029	(228)
<u>Cash flows from investing activities:</u>			
Investment in restricted deposits	(33,374)	(294)	(428)
Redemption of (Investment in) short-term deposits	16,986	8,500	(1,222)
Purchase of property and equipment	(3,708)	(3,485)	(2,833)
Investment in available-for sale marketable securities	(39,950)	(34,777)	(30,123)
Proceeds from redemption or sale of available-for sale marketable securities	43,555	32,651	26,488
Acquisition of Netonomy, net of cash	-	(3,048)	-
Net cash used in by investing activities	(16,491)	(453)	(8,118)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**U.S. dollars in thousands**

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<u>Cash flows from financing activities:</u>			
Proceeds from exercise of stock options	993	418	362
Net cash provided by financing activities	993	418	362
Increase (decrease) in cash and cash equivalents	594	994	(7,984)
Cash and cash equivalents at the beginning of the year	16,336	15,342	23,326
Cash and cash equivalents at the end of the year	<u>\$ 16,930</u>	<u>\$ 16,336</u>	<u>\$ 15,342</u>
<u>Supplementary cash flow information:</u>			
<u>Cash paid during the year for:</u>			
Taxes	<u>\$ 473</u>	<u>\$ 347</u>	<u>\$ 342</u>
<u>Non cash activity:</u>			
Changes in operating lease right-of-use singed during 2019	\$ (1,208)		
Changes in operating leases liability singed during 2019	\$ 1,208		

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

- a. Allot Ltd. (the "Company") was incorporated in November 1996 under the laws of the State of Israel. The Company is engaged in developing, selling and marketing network intelligence and security solutions for mobile, fixed and cloud service providers, as well as enterprises, and helping them enhance value to their customers. The Company's flexible and highly scalable hardware platforms and software applications are deployed globally for network and application analytics, traffic control and shaping, network-based security including mobile security, DDoS protection, IoT security and more. The Company's main platforms include Allot Service Gateway service delivery platform and Allot Secure. Allot SG enables network operators to learn about users and network behaviors to improve quality of service and reduce costs; and Allot Secure enables customers to detect security breaches and protect networks and network users from attacks. These platforms and the solutions they provide empower service providers and enterprises to get more out of their networks, to secure and to manage them better, to clearly see and understand their networks from within, and to innovate, optimize, and capitalize on every opportunity, all the while deploying new services faster and constantly increasing value to their customers.

The Company's Ordinary Shares are listed in the NASDAQ Global Select Market under the symbol "ALLT" from its initial public offering in November 2006. Since November 2010, the Company's Ordinary Shares have been listed for trading in the Tel Aviv Stock Exchange as well.

The Company holds fourteen wholly-owned subsidiaries (the Company together with said subsidiaries shall collectively be referred to as "Allot"): Allot Communications, Inc. in Burlington, Massachusetts, United-States (the "U.S. subsidiary"), which was incorporated in 1997 under the laws of the State of California, Allot Communication Europe SARL in Sophia, France (the "European subsidiary"), which was incorporated in 1998 under the laws of France, Allot Communications Japan K.K. in Tokyo, Japan (the "Japanese subsidiary"), which was incorporated in 2004 under the laws of Japan, Allot Communication (UK) Limited (the "UK subsidiary"), which was incorporated in 2006 under the laws of England and Wales, Allot Communications (Asia Pacific) Pte. Ltd. ("the Singaporean subsidiary"), which was incorporated in 2006 under the laws of Singapore, Allot Communications (New Zealand) Limited. (the "NZ subsidiary"), which was incorporated in 2007 under the laws of New Zealand, Allot India Private Limited. (the "Indian subsidiary"), which was incorporated in 2012 under the laws of India and commenced its activity in 2013, Allot Communications Africa (PTY) Ltd. (the "African subsidiary"), which was incorporated in 2013 under the laws of South Africa, Allot Communications (Hong Kong) Limited (the "HK subsidiary"), which was incorporated in 2013 under the laws of Hong-Kong, Allot Communications Spain, S.L. Sociedad Unipersonal (the "Spanish subsidiary"), which was incorporated in 2015 under the laws of Spain, Allot Communications (Colombia) S.A.S (the "Colombian subsidiary"), which was incorporated in 2015 under the laws of Colombia and Allot MexSub (the "Mexican subsidiary"), which was incorporated in 2015 under the laws of Mexico, Allot Turkey Komunikasion Hizmetleri limited (the "Turkish subsidiary"), which was incorporated in 2018 under laws of Turkey, Allot Australia (PTY) LTD (the "Australian subsidiary"), which was incorporated in 2018 under the laws of Australia.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

The U.S., Spanish, Colombian and Indian subsidiaries are engaged in the sale, marketing and technical support services of the Company's products in the Americas, Colombia and India, respectively. The European (excluding Spanish), Japanese, NZ, UK, Singaporean, HK, African, Turkish and Australian subsidiaries are engaged in marketing and technical support services of the Company's products in Europe, Japan, Oceania, UK, Asia and Africa, respectively.

The Spanish and Mexican subsidiaries commenced operations in 2015 and are engaged in the marketing, technical support and development activities of one of the Company's product lines.

**b. Acquisition:**

On January 14, 2018 (the "Netonomy acquisition date"), the Company entered into a purchase agreement with the shareholders of Netonomy LTD ("Netonomy"), a developer of software-based cybersecurity solutions for the connected home.

The total consideration for the acquisition was \$ 3,765, which consisted of \$ 3,180 paid in cash, holdback amount summing to \$ 303 and additional contingent consideration at a fair value of \$ 282 at the Netonomy acquisition date. As of December 31, 2019, the contingent consideration is estimated at a fair value of \$ 1,081. The change in fair value of the contingent consideration was recorded to operating expenses.

The holdback amount ("Holdback Amount") summing to \$ 1,100 would be held to partially satisfy any claims for indemnification. Such amount shall be paid in three installments consisting each one 40%, 40% and 20% of the Holdback amount following the first, second and 30-months anniversaries of the Closing Date, respectively. Notwithstanding the aforementioned, a sum of \$ 797 thousand out of the Holdback Amount shall be paid provided that certain employees keep working in the Company during the here mentioned periods ("the Restricted Holdback Amount").

The contingent consideration is payable over a two-and-a-half-year term, starting April 1, 2018 and ending September 30, 2020 depending on the Company's revenues from Netonomy's technology, and has payments cap of \$ 1,100. A sum of \$ 797 thousand out of the contingent consideration Amount shall be paid provided that certain employees keep working in the Company during the mentioned periods under the "Restricted Holdback Amount". The obligations in respect of the holdback amount and the contingent consideration are presented under Other payables and accrued expenses.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 1:- GENERAL (Cont.)

The acquisition was accounted for using the purchase method of accounting in accordance with ASC No. 805, "Business Combinations" ("ASC No. 805"). Accordingly, the purchase price was allocated according to the estimated fair values of the assets acquired and liabilities assumed and the excess of the purchase price over the net tangible and identified intangible assets was assigned to goodwill. The fair value of intangible assets was determined by management with the assistance of a third-party valuation.

On July 2018, the merger of Netonomy with the Company was approved by the Israeli tax authorities with Allot as the receiving company and Netonomy as the transferring company and March 31, 2018 as the Merger Date.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date:

	<u>Fair value</u>
Non-current assets	\$ 4
Account Payable	(11)
Other Payables	(142)
IPR&D	3,659
Goodwill	<u>121</u>
Net assets acquired	<u>\$ 3,631</u>

The acquired assets are net of cash balance of \$ 132.

IPR&D is related to new technology that is still under development. Netonomy's solution provides a simple, reliable and secure network for connected homes through a minimal footprint agent installed on the home router, which provides visibility into the network and blocks external and internal attacks. Acquisition costs in a total amount of \$49 were recorded to operating expenses. The Company started to depreciate the IPR&D asset from Q3 2019 as the R&D phase was completed and the product was ready to sell.

Unaudited pro forma condensed results of operations:

Pro forma results of operations related to this acquisition have not been prepared because they are not material to the Company's consolidated statements of income.

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP").



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

## a. Use of estimates:

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions. 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.

## b. Financial statements in U.S. dollars:

The majority of the revenues of the Company and its subsidiaries are generated in U.S. dollars ("dollar") or linked to the dollar. In addition, a major portion of the Company's and certain of its subsidiaries' costs are incurred or determined in dollars. The Company's management believes that the dollar is the currency of the primary economic environment in which the Company and its subsidiaries operate. Thus, the functional and reporting currency of the Company and its subsidiaries is the dollar.

Accordingly, monetary accounts maintained in currencies other than the dollar are remeasured into U.S. dollars in accordance with Accounting Standards Codification No. 830, "Foreign Currency Matters" ("ASC No. 830"). All transactions gains and losses from the remeasurement of monetary balance sheet items are reflected in the statements of operations as financial income or expenses as appropriate.

## c. Principles of consolidation:

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

## d. Cash and cash equivalents:

The Company considers all unrestricted highly liquid investments which are readily convertible into cash, with a maturity of three months or less at the date of acquisition, to be cash equivalents.

## e. Restricted deposits:

The restricted deposits are held in favor of financial institutions in respect of fulfillment of forward contracts and operating obligations. As of December 31, 2019, a major prepayment received from a client was classified as a restricted deposit due to the contractual terms with the client.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

## f. Short-term bank deposits:

Short-term bank deposits are deposits with maturities of more than three months but less than one year at the balance sheet date. The deposits are in dollars and bear interest at an annual weighted average rate of 2.33% and 2.82% at December 31, 2019 and 2018, respectively. In connection with the Company's hedging transactions, the Company is required to maintain compensating deposits balances in the bank. Out of the short-term bank deposits, a total of \$2,500 is due to the hedging transactions as of December 31, 2019 and 2018.

## g. Marketable securities:

The Company accounts for investments in marketable securities in accordance with ASC 320, "Investments - Debt and Equity Securities". Management determines the appropriate classification of its investments in debt securities at the time of purchase and re-evaluates such determinations at each balance sheet date.

Marketable securities classified as "available-for-sale" are carried at fair value, based on quoted market prices. Unrealized gains and losses are reported in a separate component of shareholders' equity in accumulated other comprehensive income (loss). Gains and losses are recognized when realized, on a specific identification basis, in the Company's consolidated statements of comprehensive loss.

The Company's securities are reviewed for impairment in accordance with ASC 320-10-35. If such assets are considered to be impaired, the impairment charge is recognized in earnings when a decline in the fair value of its investments below the cost basis is judged to be Other-Than-Temporary Impairment (OTTI). Factors considered in making such a determination include the duration and severity of the impairment, the reason for the decline in value, the potential recovery period and the Company's intent to sell, including whether it is more likely than not that the Company will be required to sell the investment before recovery of cost basis. Based on the above factors, the Company concluded that unrealized losses on its available-for-sale securities, for the years ended 2019, 2018 and 2017, were not OTTI.

## h. Inventories:

Inventories are stated at the lower of cost or net realizable value. Inventory write-offs are provided to cover risks arising primarily from end of life products and from slow-moving items, technological obsolescence, and excess inventory. Inventory write-offs during the years ended December 31, 2019, 2018 and 2017 amounted to \$ 629, \$ 2,231 and \$ 1,260, respectively, and were recorded in cost of revenues.

Inventory write-off provision as of December 31, 2019 and 2018 amounted to \$ 2,839 and \$ 2,818, respectively.

Inventory cost is determined using the weighted average cost method.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

## i. Property and equipment, net:

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

	%
Lab equipment	16 - 25
Computers and peripheral equipment	33
Office furniture	6
Leasehold improvements	Over the shorter of the term of the lease or the useful life of the asset

## j. Goodwill impairment:

Goodwill represents the excess of the purchase price over the fair value of net assets of purchased businesses. Under Accounting Standards Codification No. 350, "Intangibles-Goodwill and Other" ("ASC No. 350"), goodwill is not amortized, but rather subject to an annual impairment test, or more often if there are indicators of impairment present. In accordance with ASC No. 350 the Company performs an annual impairment test at December 31 each year.

ASC 350 allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. If the qualitative assessment does not result in a more likely than not indication of impairment, no further impairment testing is required. If it does result in a more likely than not indication of impairment, the two-step impairment test is performed. Alternatively, ASC 350 permits an entity to bypass the qualitative assessment for any reporting unit and proceed directly to performing the first step of the goodwill impairment test.

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. 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.

The Company operates in one operating segment, and this segment comprises its only reporting unit. The Company has performed an annual impairment analysis as of December 31, 2019 and determined that the carrying value of the reporting unit was less than the fair value of the reporting unit. Fair value is determined using market capitalization. During years 2019, 2018 and 2017, no impairment losses were recorded.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

- k. Impairment of long-lived assets and intangible assets subject to amortization:

Property and equipment and intangible assets subject to amortization are reviewed for impairment in accordance with ASC No. 360, "Accounting for the Impairment or Disposal of Long-Lived Assets," whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

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

During the years ended December 31, 2019, 2018 and 2017, no impairment losses were recorded.

- l. Revenue recognition:

The Company generates revenues mainly from selling its products along with related maintenance and support services. At times, these arrangements may also include professional services, such as installation services or training. Some of the Company's product sells is done through resellers, distributors, OEMs and system integrators, all of whom are considered end-users.

The Company adopted accounting standards codification 606, "Revenue from Contracts with Customers" ("ASC 606"), effective on January 1, 2018. The Company recognizes revenue under the core principle that transfer of control to the Company's customers should be depicted in an amount reflecting the consideration the Company expects to receive. As such, the Company identifies a contract with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to each performance obligation in the contract and recognizes revenues when (or as) the Company satisfies a performance obligation.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The Company enters into contracts that can include combinations of products and services, that are capable of being distinct and accounted for as separate performance obligations. The products are distinct as the customer can derive the economic benefit of it without any professional services, updates or technical support. The Company allocates the transaction price to each performance obligation based on its relative standalone selling price out of the total consideration of the contract. For support, the Company determines the standalone selling prices based on the price at which the Company separately sells a renewal contract on a stand-alone basis. For professional services, the Company determines the standalone selling prices based on the price at which the Company separately sells those services on a stand-alone basis. If the SSP is not observable, the Company estimates the SSP taking into account available information such as geographic or regional specific factors, internal costs, profit objectives, and internally approved pricing guidelines related to the performance obligation.

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

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

Transaction price allocated to remaining performance obligations represents non-cancelable contracts that have not yet been recognized that include deferred revenue and amounts not yet received that will be recognized as revenue in future periods. The aggregate amount of the transaction price allocated to remaining performance obligations that the Company expects to recognize after the year ending December 31, 2020 is approximately \$37,875.

The Company pays sales commissions to sales and marketing personnel based on their certain predetermined sales goals. Sales commissions are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions earned by its employees are capitalized and amortized in over the revenue recognition period. Amortization expenses related to these costs are included in sales and marketing expenses in the consolidated statements of operations. For the year ended December 31, 2019, the amortization of deferred commission was \$1,351. The Company uses the practical expedient and does not assess the existence of a significant financing component when the difference between payment and revenue recognition is a year or less.

The Company estimated variable consideration related to product returns based on its experience with historical product returns and other known factors. Such provisions amounted to \$163 and \$191 as of December 31, 2019 and 2018, respectively. Following the adoption of ASC 606, As of December 31, 2019 and 2018, this provision was recorded as part of other payables and accrued expenses.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Following the adoption of ASC 606 in January 1, 2018, the Company recognizes for term-based license agreements at the point in time when control transfers and the associated maintenance revenues over the contract period. Adoption of the standard has resulted in a reduction of deferred revenues of \$712 that was recorded in accumulated deficit due to upfront recognition of license revenues from term licenses.

The cumulative effect of the changes made to the consolidated balance sheet as of January 1, 2018 for the adoption of Topic 606-10 was as follows:

	<b>December 31, 2017</b>	<b>Adjustments (in thousands)</b>	<b>January 1, 2018</b>
Deferred revenue, short term	11,370	(311)	11,059
Deferred revenue, long term	3,878	(75)	3,803
Trade receivables	22,737	326	23,063
Accumulated deficit	122,247	(712)	121,535

In accordance with Topic 606-10, the disclosure of the impact of adoption on the consolidated balance sheet as of December 31, 2018 was as follows:

	<b>Amounts under Topic 605</b>	<b>Impact of Adoption (in thousands)</b>	<b>As Reported</b>
<b>Consolidated Balance Sheet</b>			
Deferred revenue, short term	14,152	(297)	13,855
Deferred revenue, long term	4,264	(17)	4,247
Trade receivables	25,603	490	26,093
Accumulated deficit	132,754	(804)	131,950

In addition, following the adoption of ASC 606, the Company's consolidated statement of operations for the year ended December 31, 2018, included an increase of revenue in the amount of \$ 92, net, compared to the accounting treatment under ASC 605.

m. Cost of revenues:

Cost of revenues consists primarily of costs of materials and the cost of maintenance and services, resulting from costs associated with support, customer success and professional services.

n. Advertising expenses:

Advertising expenses are charged to the statement of comprehensive loss, as incurred. Advertising expenses for the years ended December 31, 2019, 2018 and 2017 amounted to \$ 1,274, \$ 1,270 and \$ 1,236, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

- o. Research and development costs:

Accounting Standards Codification No. 985-20, requires capitalization of certain software development costs subsequent to the establishment of technological feasibility.

Based on the Company's product development process, technological feasibility is established upon the completion of a working model. The Company does not incur material costs between the completion of a working model and the point at which the products are ready for general release. Therefore, research and development costs are charged to the consolidated statement of comprehensive loss as incurred.

- p. Severance pay:

The liability in Israel for substantially all of the Company's employees in respect of severance pay liability is calculated in accordance with Section 14 of the Severance Pay Law -1963 (herein- "Section 14"). Section 14 states that Company's contributions for severance pay shall be in line of severance compensation and upon release of the policy to the employee, no additional obligations shall be conducted between the parties regarding the matter of severance pay and no additional payments shall be made by the Company to the employee.

Furthermore, the related obligation and amounts deposited on behalf of such obligation under Section 14, are not stated on the balance sheet, because pursuant to the current ruling, they are legally released from the obligation to employees once the deposits have been paid.

There are a limited number of employees in Israel, for whom the Company is liable for severance pay. The Company's liability for severance pay for its Israeli employees was calculated pursuant to Section 14, based on the most recent monthly salary of its Israeli employees multiplied by the number of years of employment as of the balance sheet date for such employees.

The Company's liability was partly provided by monthly deposits with severance pay funds and insurance policies and the remainder by an accrual.

Severance expense for the years ended December 31, 2019, 2018 and 2017, amounted to \$ 2,249, \$ 1,950 and \$ 1,801, respectively.

- q. Accounting for stock-based compensation:

The Company accounts for stock-based compensation in accordance with Accounting Standards Codification No. 718, "Compensation - Stock Compensation" ("ASC No. 718") that requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statement of comprehensive loss. 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Company accounted for changes in award terms as a modification in accordance with ASC 718. A modification to the terms of an award should be treated as an exchange of the original award for a new award with total compensation cost equal to the grant-date fair value of the original award plus the incremental value measured at the same date. Under ASC 718, the calculation of the incremental value is based on the excess of the fair value of the new (modified) award based on current circumstances over the fair value of the original award measured immediately before its terms are modified based on current circumstances.

The Company estimated the forfeiture rate based on historical forfeitures of equity awards and adjusted the rate to reflect changes in facts and circumstances if any. The Company adopted ASU 2016-09 in the first quarter of the fiscal year 2017 and elected to retain its existing accounting policy and estimate expected forfeitures. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

The following table sets forth the total stock-based compensation expense resulting from stock options, restricted share units ("RSUs") and Phantoms granted to employees included in the consolidated statements of comprehensive loss, for the years ended December 31, 2019, 2018 and 2017:

	Year ended December 31,		
	2019	2018	2017
Cost of revenues	\$ 264	\$ 316	\$ 362
Research and development	847	678	648
Sales and marketing	1,257	928	1,166
General and administrative	1,052	940	1,190
Total stock-based compensation expense	<u>\$ 3,420</u>	<u>\$ 2,862</u>	<u>\$ 3,366</u>

The Company selected the binomial option pricing model as the most appropriate fair value method for its stock-based compensation awards with the following assumptions for the years ended December 31, 2018 and 2017:

	Year ended December 31,	
	2018	2017
Suboptimal exercise multiple	2.9-3.5	2.9-3.5
Risk free interest rate	2.09%-3.05%	0.80%-2.20%
Volatility	26%-47%	27%-49%
Dividend yield	0%	0%

The expected annual post-vesting and pre-vesting forfeiture rates affects the number of exercisable options. Based on the Company's historical experience, the annual pre-vesting and post-vesting are in the range of 0%-33% and 0%-41%, respectively, in the years 2018 and 2017. During 2019 no options were granted by the Company.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The computations of expected volatility and suboptimal exercise multiple is based on the average of the Company's realized historical stock price. The computation of the suboptimal exercise multiple and the forfeiture rates are based on the grantee's expected exercise prior and post vesting termination behavior. The interest rate for a period within the contractual life of the award is based on the U.S. Treasury Bills yield curve in effect at the time of grant.

The Company currently has no plans to distribute dividends and intends to retain future earnings to finance the development of its business.

The expected life of the stock options represents the weighted-average period the stock options are expected to remain outstanding and is a derived output of the binomial model. The expected life of the stock options is impacted by all of the underlying assumptions used in the Company's model.

r. Treasury stock:

The Company repurchases its Ordinary shares from time to time on the open market and holds such shares as treasury stock. The Company presents the cost to repurchase treasury stock as a reduction of shareholders' equity.

s. Concentration of credit risks:

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, short-term bank deposits, trade receivables and derivative instruments.

The majority of cash and cash equivalents and short-term deposits of the Company are invested in dollar deposits in major U.S. and Israeli banks. Such investments in the United States may be in excess of insured limits and are not insured in other jurisdictions. Generally, the cash and cash equivalents and short-term bank deposits may be redeemed upon demand, and therefore, bear minimal risk.

Marketable securities include investments in dollar linked corporate and municipal bonds. Marketable securities consist of highly liquid debt instruments with high credit standing. The Company's investment policy, approved by the Board of Directors, limits the amount the Group may invest in any one type of investment or issuer, thereby reducing credit risk concentrations. Management believes that the portfolio is well diversified and, accordingly, minimal credit risk exists with respect to these marketable debt securities

The Company's trade receivables are primarily derived from sales to customers located mainly in EMEA, as well as in APAC, Latin America and the United States. Concentration of credit risk with respect to trade receivables is limited by credit limits, ongoing credit evaluation and account monitoring procedures. The Company performs ongoing credit evaluations of its customers and establishes an allowance for doubtful accounts on a specific basis. Allowance for doubtful accounts amounted to \$ 1,867 and \$ 1,415 as of December 31, 2019 and 2018, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**U.S. dollars in thousands, except share and per share data**
**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The Company utilizes foreign currency forward contracts to protect against the risk of overall changes in exchange rates. The derivative instruments hedge a portion of the Company's non-dollar currency exposure. Counterparties to the Company's derivative instruments are all major financial institutions and its exposure is limited to the amount of any asset resulting from the forward contracts.

The Company has no significant off-balance sheet concentrations of credit risk.

t. Grants from the Israel Innovation Authority:

Participation grants from the Israel Innovation Authority (Previously known as the Office of the Chief Scientist) for research and development activity are recognized at the time the Company is entitled to such grants on the basis of the costs incurred and included as a deduction of research and development costs. Research and development non royalty bearing grants recognized amounted to \$ 378, \$ 374 and \$ 392 in 2019, 2018 and 2017, respectively.

u. Income taxes:

The Company accounts for income taxes in accordance with Accounting Standards Codification No. 740, "Income Taxes" ("ASC No. 740"). ASC No. 740 prescribes the use of the liability method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value if it is more likely than not that some portion or all of the deferred tax assets will not be realized. The deferred tax assets and liabilities are classified to non-current assets and liabilities, respectively.

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 classifies interest related to unrecognized tax benefits in taxes on income

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

Basic net income (loss) per share is computed based on the weighted average number of Ordinary Shares outstanding during each year. Diluted net income (loss) per share is computed based on the weighted average number of Ordinary Shares outstanding during each year, plus dilutive potential Ordinary Shares considered outstanding during the year, in accordance with FASB ASC 260 "Earnings Per Share".

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

For the years ended December 31, 2019, 2018 and 2017, all outstanding options and RSUs have been excluded from the calculation of the diluted net loss per share since their effect was anti-dilutive. See Note 16. The amount of those options and RSU's was : 3,105,801, 2,998,174, 2,902,387 respectively.

## w. Comprehensive loss:

The Company accounts for comprehensive loss in accordance with Accounting Standards Codification No. 220, "Comprehensive Income" ("ASC No. 220"). This statement establishes standards for the reporting and display of comprehensive loss and its components in a full set of general purpose financial statements. Comprehensive loss represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to shareholders. The Company determined that its items of comprehensive loss relate to unrealized gains and losses on hedging derivative instruments and unrealized gains and losses on available-for-sale marketable securities.

The following table shows the components and the effects on net loss of amounts reclassified from accumulated other comprehensive loss as of December 31, 2019:

	Year ended December 31, 2019		
	Unrealized gain (losses) on marketable securities	Unrealized gains (losses) on cash flow hedges	Total
Balance as of December 31, 2018	\$ (349)	\$ (418)	\$ (767)
Changes in other comprehensive income (loss) before reclassifications	666	(332)	334
Amounts reclassified from accumulated other comprehensive income (loss) to:			
Cost of revenues	-	(7)	(7)
Operating expenses	-	(89)	(89)
Financial income, net	4	-	4
Net current-period other comprehensive income (loss)	670	(428)	242
Balance as of December 31, 2019	\$ 321	\$ (846)	\$ (525)

## x. Fair value of financial instruments:

The Company measures its cash and cash equivalents, marketable securities, derivative instruments, short-term bank deposits, trade receivables, other receivables, trade payables and other payables at fair value. The carrying amounts of short-term bank deposits, trade receivables, other receivables, trade payables and other payables approximate their fair value due to the short-term maturities of such instruments.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Fair value is an exit price, representing the amount that would be received if the Company were to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability.

The Company uses 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, other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets with insufficient volume or infrequent transactions, or other inputs that are observable (model-derived valuations in which significant inputs are observable), or can be derived principally from or corroborated by observable market data; and

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

The Company categorized each of its fair value measurements in one of those three levels of hierarchy. 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.

The Company's earn-out considerations are classified within Level 3. The valuation methodology used by the Company to calculate the fair value consideration is the discounted cash flow using the Monte-Carlo simulation method by taking into account, forecast future revenues, expected volatility of 42.5% for Optenet and 20.7% for Netonomy and the weighted average cost of debt of 2%. As of December 31, 2019 the fair value of the consideration was determined according to discounted cash flow since the earn-out will be completely paid by the third quarter of 2020.

y. Derivatives and hedging:

The Company accounts for derivatives and hedging based on Accounting Standards Codification No. 815, "Derivatives and Hedging" ("ASC No. 815").

The Company accounts for its derivative instruments as either assets or liabilities and carries them at fair value. Derivative instruments that are not designated and qualified as hedging instruments must be adjusted to fair value through earnings.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

For derivative instruments that hedge the exposure to variability in expected future cash flows that are designated as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income (loss) in shareholders' equity and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. As a result of adopting new accounting guidance discussed in Note 2, "Recently adopted accounting pronouncements," beginning January 1, 2019, gains and losses on the derivatives instruments that are designated and qualify as a cash flow hedge are recorded in accumulated other comprehensive income (loss) and reclassified into in the same accounting period in which the designated forecasted transaction or hedged item affects earnings. Prior to January 1, 2019, cash flow hedge ineffectiveness was separately measured and reported immediately in earnings. Cash flow hedge ineffectiveness was immaterial during 2018 and 2017. To apply hedge accounting treatment, cash flow hedges must be highly effective in offsetting changes to expected future cash flows on hedged transactions.

z. Business combinations:

The Company accounts for business combinations in accordance with 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 the purchase price is recorded as goodwill and any subsequent changes in estimated contingencies are to be recorded in earnings. In addition, changes in valuation allowance related to acquired deferred tax assets and acquired income tax positions are to be recognized in earnings.

aa. Lease:

On January 1, 2019, the Company adopted ASU No. 2016-02, Leases (ASC 842). The Company determines if an arrangement is a lease and the classification of that lease at inception based on: (1) whether the contract involves the use of a distinct identified asset, (2) whether the Company obtains the right to substantially all the economic benefits from the use of the asset throughout the period, and (3) whether the Company has a right to direct the use of the asset. The Company elected to not recognize a lease liability and a right-of-use ("ROU") asset for leases with a term of twelve months or less. The Company also elected the practical expedient to not separate lease and non-lease components for its leases.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make minimum lease payments arising from the lease. ROU assets are initially measured at amounts, which represents the discounted present value of the lease payments over the lease, plus any initial direct costs incurred. The lease liability is initially measured at lease commencement date based on the discounted present value of minimum lease payments over the lease term. The implicit rate within the operating leases is generally not determinable, therefore the Company uses the Incremental Borrowing Rate ("IBR") based on the information available at commencement date in determining the present value of lease payments. The Company's IBR is estimated to approximate the interest rate for collateralized borrowing with similar terms and payments and in economic environments where the leased asset is located. Certain leases include options to extend or terminate the lease.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

An option to extend the lease is considered in connection with determining the ROU asset and lease liability when it is reasonably certain that the Company will exercise that option. An option to terminate is considered unless it is reasonably certain that the Company will not exercise the option.

Payments under our lease arrangements are primarily fixed, however, certain lease agreements contain variable payments, which are expensed as incurred and not included in the operating lease right-of-use assets and liabilities. Variable lease payments are primarily comprised of payments affected by common area maintenance and utility charges.

ab. Warranty costs:

The Company generally provides three months software and a one-year hardware warranty for all of its products. A provision is recorded for estimated warranty costs at the time revenues are recognized based on the Company's experience. Warranty expenses for the years ended December 31, 2019, 2018 and 2017 were immaterial.

ac. Recently Adopted Accounting Pronouncements:

In February 2016, the FASB issued ASU No. 2016-02, Leases (ASC 842). The standard requires the recognition of ROU assets and lease liabilities for all leases. The standard requires a modified retrospective transition approach to recognize and measure leases at the initial application.

The Company adopted the standard as of January 1, 2019, using a modified retrospective transition approach and elected to use the effective date as the date of initial application. The Company adopted the "package of practical expedients", which permits it not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. As a result, the consolidated balance sheets as of December 31, 2018 were not restated, continue to be reported under ASC 840, which did not require recognition of operating lease assets and liabilities on the balance sheets, and are not comparative.

The standard had a material impact on the Company's consolidated balance sheets which resulted in the recognition of ROU assets and lease liabilities of \$6.7 million and \$6.7 million, respectively, on January 1, 2019, which included reclassifying deferred rent and rent prepayments as components of the ROU assets. The standard did not have a material impact on the Company's consolidated statements of comprehensive income. See also Note 11a.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The Company adopted Accounting Standards Update (“ASU”) No. 2017- 12, “Derivatives and Hedging” (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which amended the eligibility criteria for hedged items and transactions to expand an entity’s ability to hedge nonfinancial and financial risk components. The new guidance eliminates the requirement to separately measure and present hedge ineffectiveness and aligns the presentation of hedge gains and losses with the underlying hedge item. The new guidance also simplifies the hedge documentation and hedge effectiveness assessment requirements. The amended presentation and disclosure requirements were adopted on a prospective basis, while any amendments to cash flow and net investment hedge relationships which existed on the date of adoption were applied on a “modified retrospective” basis, meaning a cumulative effect adjustment to the opening balance of retained earnings as of the beginning of the year of adoption. The new guidance was effective for the Company on January 1, 2019 and the adoption did not have a material impact on the Company’s consolidated financial statements.

In June 2018, the FASB issued Accounting Standards Update No. 2018-07, "Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting" (ASU 2018-07). ASU 2018-07 was issued to simplify several aspects of the accounting for nonemployee share-based payment transactions resulting from expanding the scope of Topic 718, Compensation – Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor’s own operations by issuing share-based payment awards. The Company adopted this standard as of December 31, 2019 and did not have material effect on its consolidated financial statements.

ad. Recently Issued Accounting Pronouncement Not Yet Adopted:

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). The standard changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. ASU 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company will adopt this standard as of January 1, 2020 and does not expect this to have a material effect on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). ASU 2017-04 eliminates the requirement to measure the implied fair value of goodwill by assigning the fair value of a reporting unit to all assets and liabilities within that unit (the "Step 2 test") from the goodwill impairment test. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited by the amount of goodwill in that reporting unit. ASU 2017-04 will become effective for the Company beginning January 1, 2020 and must be applied to any annual or interim goodwill impairment assessments after that date. Early adoption is permitted. The new guidance was effective for the Company on January 1, 2020. The adoption did not have a material impact on the Company’s consolidated financial statements.

In December 2019, the FASB issued Accounting Standards Update (“ASU”) No. 2019-12, Income Taxes (Topic 740): “Simplifying the Accounting for Income Taxes” (ASU 2019-12), which simplifies the accounting for income taxes. This guidance will be effective for us in the first quarter of 2021 on a prospective basis, and early adoption is permitted. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 3:- AVAILABLE-FOR-SALE MARKETABLE SECURITIES

The following is a summary of available-for-sale marketable securities:

	December 31, 2019				December 31, 2018			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
Available-for-sale - matures within one year:								
Governmental debentures	\$ 449	\$ 1	\$ -	\$ 450	\$ 1,799	\$ -	\$ (2)	\$ 1,797
Corporate debentures	30,928	79	(8)	30,999	37,808	6	(98)	37,716
	<u>31,377</u>	<u>80</u>	<u>(8)</u>	<u>31,449</u>	<u>39,607</u>	<u>6</u>	<u>(100)</u>	<u>39,513</u>
Available-for-sale - matures after one year through three years:								
Governmental debentures	855	1	-	856	476	-	(4)	472
Corporate debentures	23,653	197	(7)	23,843	24,455	4	(253)	24,206
	<u>24,508</u>	<u>198</u>	<u>(7)</u>	<u>24,699</u>	<u>24,931</u>	<u>4</u>	<u>(257)</u>	<u>24,678</u>
Available-for-sale - matures after three years through five years:								
Corporate debentures	4,806	58	-	4,864	101	-	(2)	99
	<u>4,806</u>	<u>58</u>	<u>-</u>	<u>4,864</u>	<u>101</u>	<u>-</u>	<u>(2)</u>	<u>99</u>
	<u>\$ 60,691</u>	<u>\$ 336</u>	<u>\$ (15)</u>	<u>\$ 61,012</u>	<u>\$ 64,639</u>	<u>\$ 10</u>	<u>\$ (359)</u>	<u>\$ 64,290</u>

As of December 31, 2019, the Company had no investments with a significant unrealized losses for more than 12 months.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 4:- FAIR VALUE MEASUREMENTS

In accordance with ASC No. 820, the Company measures its marketable securities and foreign currency derivative instruments at fair value. Cash equivalents and available for sale marketable securities are classified within Level 1 or Level 2. This is because these assets are valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs.

The earn-out liability related to the acquisitions of Optenet and Netonomy are classified within Level 3 because these liabilities are based on present value calculations and an external valuation model whose inputs include market interest rates, estimated operational capitalization rates and volatilities. As of December 31, 2019 the fair value of the consideration was determined according to discounted cash flow since the earn-out will be completely paid by the third quarter of 2020.

The Company's financial net assets measured at fair value on a recurring basis, including accrued interest components, consisted of the following types of instruments as of December 31, 2019 and 2018, respectively:

	As of December 31, 2019			
	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
Available-for-sale marketable securities	\$ -	\$ 61,012	\$ -	\$ 61,012
Foreign currency derivative contracts	-	(871)	-	(871)
Earn-out liability	-	-	(1,100)	(1,100)
<b>Total financial net assets</b>	<b>\$ -</b>	<b>\$ 60,141</b>	<b>\$ (1,100)</b>	<b>\$ 59,041</b>

	As of December 31, 2018			
	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
Available-for-sale marketable securities	\$ -	\$ 64,290	\$ -	\$ 64,290
Foreign currency derivative contracts	-	(324)	-	(324)
Earn-out liability	-	-	(6,051)	(6,051)
<b>Total financial net assets</b>	<b>\$ -</b>	<b>\$ 63,966</b>	<b>\$ (6,051)</b>	<b>\$ 57,915</b>

Fair value measurements using significant unobservable inputs (Level 3):

Balance at January 1, 2019	\$ 6,051
Earn Out liability adjustments due to exchange rates	(113)
Adjustment due to change in forecast and time value of earn-out consideration	(4,838)
<b>Balance at December 31, 2019</b>	<b>\$ 1,100</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**U.S. dollars in thousands, except share and per share data**
**NOTE 5:- DERIVATIVE INSTRUMENTS**

The Company enters into hedge transactions with a major financial institution, using derivative instruments, primarily forward contracts and options to purchase and sell foreign currencies, in order to reduce the net currency exposure associated with anticipated expenses (primarily salaries and related expenses that are designated as cash flow hedges), trade receivables and forecasted revenues denominated in currencies other than U.S. dollar.

The Company currently hedges such future exposures for a maximum period of two years. However, the Company may choose not to hedge certain foreign currency exchange exposures for a variety of reasons, including but not limited to immateriality, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign currency exchange rates.

The Company records all derivatives on the consolidated balance sheets at fair value in accordance with ASC No. 820 at Level 2. Cash flow hedges are recorded in other comprehensive income (loss) until the hedged item is recognized in earnings. The Company does not enter into derivative transactions for trading purposes. The net income (loss) recognized in "Financial income (expense), net" during the years ended December 31, 2019, 2018 and 2017 was \$534, \$1,480 and \$(1,801), respectively.

The Company had a net unrealized loss associated with cash flow hedges of \$845 and \$418 recorded in other comprehensive loss as of December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, the Company had outstanding hedge transactions in the net amount of \$ 36,139 and \$ 20,816, respectively.

The fair value of the outstanding foreign exchange contracts recorded by the Company on its consolidated balance sheets as of December 31, 2019 and 2018, as assets and liabilities is as follows:

Foreign exchange forward and options contracts	Balance sheet	December 31,	
		2019	2018
Fair value of foreign exchange hedge transactions	Other receivables and prepaid expenses	\$ 158	\$ 56
Fair value of foreign exchange hedge transactions	Other payables and accrued expenses	(1,041)	(474)
Total derivatives designated as hedging instruments	Other Comprehensive loss	\$ (846)	\$ (418)

Gain or loss on the derivative instruments, which partially offset the foreign currency impact from the underlying exposures, reclassified from other comprehensive loss to operating expenses and cost of revenues for the years ended December 31, 2019, 2018 and 2017 were \$ (96), \$ 903 and \$ (796), respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 5:- DERIVATIVE INSTRUMENTS (Cont.)

Non-designated hedges:

The Company also uses foreign currency forward contracts to mitigate variability in gains and losses generated from the re-measurement of certain monetary assets and liabilities denominated in foreign currencies. These derivatives do not qualify for special hedge accounting treatment. These derivatives are carried at fair value with changes recorded in financial income, net. Changes in the fair value of these derivatives are largely offset by the re-measurement of the underlying assets and liabilities. The derivatives have maturities of approximately twelve months. As of December 31, 2019 and 2018, the Company's outstanding non-hedge transactions were \$ 15,741 and \$ 16,023, respectively.

The fair value of the outstanding non-designated foreign exchange contracts recorded by the Company on its consolidated balance sheets as of December 31, 2019 and 2018, as assets and liabilities are as follows:

Foreign exchange forward and options contracts	Balance sheet	December 31,	
		2019	2018
Fair value of foreign exchange non-designated hedge transactions	Other receivables and prepaid expenses	\$ 12	\$ 94
Total derivatives non-designated as hedging instruments		12	94

## NOTE 6:- OTHER RECEIVABLES AND PREPAID EXPENSES

	December 31,	
	2019	2018
Prepaid expenses	\$ 3,957	\$ 1,635
Government authorities	1,773	1,327
Short-term lease deposits	195	159
Foreign currency derivative contracts	170	150
Others	433	376
	\$ 6,528	\$ 3,647

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 7:- INVENTORIES

	December 31,	
	2019	2018
Raw materials	\$ 1,264	\$ 551
Finished goods	9,404	10,794
	<u>\$ 10,668</u>	<u>\$ 11,345</u>

As of December 31, 2019 and 2018, the finished products line item above includes deferral of the cost of goods sold for which revenue was not yet recognized in the amount of approximately \$ 1,335 and \$ 1,336, respectively.

## NOTE 8:- PROPERTY AND EQUIPMENT, NET

	December 31,	
	2019	2018
<b>Cost:</b>		
Lab equipment	\$ 17,548	\$ 16,038
Computers and peripheral equipment	22,374	20,680
Office furniture and equipment	1,356	1,197
Leasehold improvements	2,557	2,212
Lease equipment	930	-
	<u>44,765</u>	<u>40,127</u>
<b>Accumulated depreciation:</b>		
Lab equipment	14,548	13,273
Computers and peripheral equipment	20,145	19,039
Office furniture and equipment	659	598
Leasehold improvements	1,162	968
Lease equipment	116	-
	<u>36,630</u>	<u>33,878</u>
Depreciated cost	<u>\$ 8,135</u>	<u>\$ 6,249</u>

Depreciation expense for the years ended December 31, 2019, 2018 and 2017 was \$ 2,752, \$ 2,203 and \$ 2,191, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 9:- INTANGIBLE ASSETS, NET

- a. The following table shows the Company's intangible assets for the periods presented:

	Weighted Average Useful life (Years)	December 31,	
		2019	2018
Original Cost:			
Technology	3.8	\$ 9,111	\$ 9,111
Backlog	2.8	1,877	1,877
Customer relationships	4.4	3,592	3,592
IP R&D	6	3,659	3,659
		<u>\$ 18,239</u>	<u>\$ 18,239</u>
Accumulated amortization:			
Technology		\$ 9,111	\$ 8,563
Backlog		1,877	1,877
Customer relationships		3,592	2,838
IP R&D		305	-
		<u>\$ 14,885</u>	<u>\$ 13,278</u>
Amortized cost		<u>\$ 3,354</u>	<u>\$ 4,961</u>

- b. Amortization expense for the years ended December 31, 2019, 2018 and 2017 were \$ 1,607, \$ 1,631 and \$ 1,477, respectively.
- c. Estimated amortization expense for the years ending:

<u>Year ending December 31,</u>	
2020	610
2021	610
2022	610
Thereafter	<u>1,524</u>
Total	<u><u>3,354</u></u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 10:- OTHER PAYABLES AND ACCRUED EXPENSES

	December 31,	
	2019	2018
Advances from customers	\$ 253	\$ 5,700
Accrued expenses	3,887	3,346
Government authorities	3,061	3,356
Holdback and contingent earnout	1,575	484
Foreign currency derivative contracts	1,041	474
Provision for returns	163	191
Others	234	144
	<u>\$ 10,214</u>	<u>\$ 13,695</u>

## NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES

## a. Lease commitments:

The Group's facilities are leased under several lease agreements for periods ending up to 2023, with options to extend the leases ending up to 2025.

In addition, the Company has various operating lease agreements with respect to motor vehicles.

Lease expenses of office rent and vehicles for the years ended December 31, 2019, 2018 and 2017 were approximately \$3,129, \$2,934 and \$3,126, respectively. Expenses for short- term leases in 2019 were \$ 278.

The following table represents the weighted-average remaining lease term and discount rate:

	<u>Year ended December 31, 2019</u>
Weighted average remaining lease term	2.52 years
Weighted average discount rate	1.54%

The discount rate was determined based on the estimated collateralized borrowing rate of the Company, adjusted to the specific lease term and location of each lease.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**U.S. dollars in thousands, except share and per share data**
**NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)**

Maturities of operating lease liabilities were as follows:

Year ending December 31,	
2020	\$ 3,170
2021	2,641
2022	1,019
2023	211
2024 and thereafter	78
	Total lease payments
	\$ 7,119
	Less - imputed interest
	\$ (148)
	Present value of lease liabilities
	\$ 6,971

As of December 31, 2019 maturities of operating lease liabilities which were not recognized under ASU No. 2016-02, Leases (ASC 842) were \$ 225.

b. Major subcontractor:

The Company currently depends on one subcontractor to manufacture and provide certain hardware, warranty and support components for its traffic management systems. If the subcontractor experiences delays, disruptions, quality control problems or a loss in capacity, shipments of products may be delayed and the Company's ability to deliver such products could be materially adversely affected. In the event that the Company terminates its business connection with the subcontractor, it will have to compensate the subcontractor for certain inventory costs, as specified in the agreement with the subcontractor.

c. Liens and guarantees:

As of December 31, 2019, the Company has provided bank guarantees in respect of prepayments from customers in an aggregate amount of approximately \$ 26 million, in addition to bank guarantees in favor of leases agreements in an aggregate amount of approximately \$ 501 .

d. Litigations:

On February 18, 2016, a former employee filed a claim against the Company alleging that he is entitled to compensation for unlawful dismissal by the Company. In September 2019, the parties filed a request to approve a settlement agreement which the Court approved in October 2019.

**NOTE 12:- SHAREHOLDERS' EQUITY**

a. Company's shares:

As of December 31, 2019, the Company's authorized share capital consists of NIS 20,000,000 divided into 200,000,000 Ordinary Shares, par value NIS 0.1 per share. Ordinary Shares confer on their holders the right to receive notice to participate and vote in general meetings of the Company, the right to a share in the excess of assets upon liquidation of the Company, and the right to receive dividends if declared.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

## b. Stock option plan:

A summary of the Company's stock option activity, pertaining to its option plans for employees and related information is as follows:

	Year ended December 31,					
	2019		2018		2017	
	Number of shares upon exercise	Weighted average exercise price	Number of shares upon exercise	Weighted average exercise price	Number of shares upon exercise	Weighted average exercise price
Outstanding at beginning of year	1,736,143	\$ 7.26	2,189,297	\$ 7.63	1,959,014	\$ 8.24
Granted	-	\$ -	62,200	\$ 5.91	676,550	\$ 4.93
Forfeited	(59,107)	\$ 10.05	(414,617)	\$ 9.79	(346,750)	\$ 7.01
Exercised	(223,295)	\$ 4.36	(100,737)	\$ 4.07	(99,517)	\$ 3.56
Outstanding at end of year	<u>1,453,741</u>	<u>\$ 7.59</u>	<u>1,736,143</u>	<u>\$ 7.26</u>	<u>2,189,297</u>	<u>\$ 7.63</u>
Exercisable at end of year	<u>1,240,005</u>	<u>\$ 8.01</u>	<u>1,281,665</u>	<u>\$ 8.02</u>	<u>1,274,649</u>	<u>\$ 9.26</u>
Vested and expected to vest	<u>1,442,990</u>	<u>\$ 7.61</u>	<u>1,464,802</u>	<u>\$ 7.65</u>	<u>1,607,782</u>	<u>\$ 8.44</u>

The aggregate intrinsic value represents the total intrinsic value (the difference between the Company's closing stock price on the last trading day of the fiscal years 2019, 2018 and 2017 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders if all option holders exercised their options on December 31, 2019, 2018 and 2017, respectively. This amount may change based on the fair market value of the Company's stock. The total intrinsic value of options outstanding at December 31, 2019, 2018 and 2017, were \$ 3,510, \$ 1,518 and \$ 1,063, respectively. The total intrinsic value of exercisable options at December 31, 2019, 2018 and 2017, were approximately \$ 2,791, \$ 1,058 and \$ 684, respectively. The total intrinsic value of options vested and expected to vest at December 31, 2019, 2018 and 2017, were approximately \$ 3,399, \$ 1,246 and \$ 819, respectively.

The total intrinsic value (the difference between the Company's closing stock price on the exercise date and the exercise price) of options exercised during the years ended December 31, 2019, 2018 and 2017 were approximately \$ 769, \$ 201 and \$ 176, respectively. The weighted-average grant-date fair value of the options granted during the years ended December 31, 2018 and 2017 were \$ 2.89 and \$ 2.36, respectively. No options were granted during 2019. The number of options vested during the year ended December 31, 2019 was 226,317. The weighted-average remaining contractual life of the outstanding options as of December 31, 2019 is 3.45 years. The weighted-average remaining contractual life of exercisable options as of December 31, 2019 is 3.25 years.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

The options outstanding as of December 31, 2019, have been classified by exercise price, as follows:

Exercise price	Shares upon exercise of options outstanding as of December 31, 2019	Weighted average remaining contractual life Years	Shares upon exercise of options exercisable as of December 31, 2019
\$ 23.31-27.58	64,500	2.63	64,500
\$ 15.2-17.07	49,936	1.97	49,936
\$ 10.0 -14.68	173,250	3.92	173,250
\$ 5.01-9.7	508,083	2.84	435,487
\$ 0.1-4.95	657,972	4.00	516,832
	<u>1,453,741</u>		<u>1,240,005</u>

The following provides a summary of the restricted stock unit activity for the Company for the two years ended December 31, 2019:

	Year ended December 31,			
	2019		2018	
	Number of shares upon exercise	Weighted average share price	Number of shares upon exercise	Weighted average share price
Outstanding at beginning of year	1,252,031	\$ 5.45	713,090	\$ 6.04
Granted	1,001,000	\$ 7.53	996,200	\$ 5.54
Vested	(401,904)	\$ 7.53	(312,201)	\$ 5.72
Forfeited	(199,067)	\$ 7.61	(145,058)	\$ 5.01
Unvested at end of year	<u>1,652,060</u>	<u>\$ 6.53</u>	<u>1,252,031</u>	<u>\$ 5.45</u>

As of December 31, 2019, \$ 402 and \$ 8,001 unrecognized compensation cost related to stock options and RSUs respectively is expected to be recognized over a weighted average vesting period of 3.01 years.

Under the terms of the above option plans, options may be granted to employees, officers, directors and various service providers of the Company and its subsidiaries. The options vest over a four-year period, subject to the continued employment of the employee. The options generally expire no later than ten years from the date of the grant. The exercise price of the options at the date of grant under the plans may not be less than the nominal value of the shares into which such options are exercised, any options, which are forfeited or cancelled before expiration, become available for future grants. As of December 31, 2019, 34,652 Ordinary shares are available for future issuance under the option plans.

In addition to granting stock options, the Company granted 1,001,000 and 996,200 RSUs in 2019 and 2018, respectively under the 2016 option plan. RSUs vest over a four-year period subject to the continued employment of the employee. RSUs that are cancelled or forfeited become available for future grants.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data****NOTE 13:- TAXES ON INCOME**

## a. Corporate tax rates:

The Israeli corporate income tax rate was 23% in 2019, 23% in 2018 and 24% in 2017.

In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which reduces the corporate income tax rate to 24% (instead of 25%) effective from January 1, 2017 and to 23% effective from January 1, 2018

## b. Foreign Exchange Regulations:

Commencing in taxable year 2012, the Company has elected to measure its taxable income and file its tax return under the Israeli Income Tax Regulations (Principles Regarding the Management of Books of Account of Foreign Invested Companies and Certain Partnerships and the Determination of Their Taxable Income) 1986 ("Foreign Exchange Regulations"). Under the Foreign Exchange Regulations, an Israeli company must calculate its tax liability in U.S. Dollars according to certain rules. The tax liability, as calculated in U.S. Dollars is translated into NIS according to the exchange rate as of December 31st of each year.

## c. Tax benefits under Israel's law for the Encouragement of Capital Investments, 1959 ("the Law"):

In 1998, the production facilities of the Company related to its computational technologies were granted the status of an "Approved Enterprise" under the Law. In 2004, an expansion program was granted the status of "Approved Enterprise". According to the provisions of the Law, the Company has elected the alternative track of benefits and has waived Government grants in return for tax benefits. The period of tax benefits, detailed above, is limited to the earlier of 12 years from the commencement of production, or 14 years from the approval date.

According to the provisions of the Law under the alternative track, the Company's income may be tax-exempt for a period of two years commencing with the year it first earns taxable income, and subject to corporate taxes at the reduced rate of 10% to 25%, for an additional period of five to eight years depending upon the level of foreign ownership of the Company.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data****NOTE 13:- TAXES ON INCOME (Cont.)**

The Law was significantly amended effective April 1, 2005 ("the 2005 - Amendment"). The 2005 - Amendment includes revisions to the criteria for investments qualified to receive tax benefits as a Beneficiary Enterprise and among other things, simplifies the approval process. The Amendment applies to new investment programs. Therefore, investment programs commencing after December 31, 2004, do not affect the approved programs of the Company.

In addition, the Law provides that terms and benefits included in any letter of approval already granted will remain subject to the provisions of the Law as they were on the date of such approval. Therefore, the Company's existing Approved Enterprise will generally not be subject to the provisions of the 2005 - Amendment. The Company elected 2006 and 2009 as "year of election" under the 2005 - Amendment.

The entitlement to the above benefits is contingent upon the fulfillment of the conditions stipulated in the Law, regulations published thereunder and the criteria set forth in the specific letters of approval. In the event of failure to comply with these conditions, the benefits may be canceled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest and linked to changes in the Israeli CPI. As of December 31, 2019, management believes that the Company meets the aforementioned conditions.

If the Company pays a dividend out of exempt income derived from the Approved and Beneficiary Enterprise, it will be subject to corporate tax in respect of the gross amount distributed, including any taxes thereon, at the rate which would have been applicable had it not enjoyed the alternative benefits, generally 10%-25%, depending on the percentage of the Company's Ordinary shares held by foreign shareholders. The dividend recipient is subject to withholding tax at the rate of 15% applicable to dividends from approved enterprises, if the dividend is distributed during the tax exemption period or within twelve years thereafter. The Company currently has no plans to distribute dividends and intends to retain future earnings to finance the development of its business.

As of December 31, 2019, there is no income earned by the Company Israel's "Approved Enterprises" and "Beneficiary Enterprise".

Income from sources other than the "Approved and Beneficiary Enterprise" during the benefit period will be subject to tax at the regular corporate tax rate.

As of January 1, 2011, new legislation amending the Law came into effect (the "2011 Amendment"). The 2011 Amendment introduced a new status of "Preferred Company" and "Preferred Enterprise", replacing the then existing status of "Beneficiary Company" and "Beneficiary Enterprise". Similarly to "Beneficiary Company", a Preferred Company is an industrial company owning a Preferred Enterprise which meets certain conditions (including a minimum threshold of 25% export). However, under this legislation the requirement for a minimum investment in productive assets was cancelled.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**U.S. dollars in thousands, except share and per share data****NOTE 13:- TAXES ON INCOME (Cont.)**

Under the 2011 Amendment, a uniform corporate tax rate will apply to all qualifying income of the Preferred Company, as opposed to the former law, which was limited to income from the Approved Enterprises and Beneficiary Enterprise during the benefits period. The uniform corporate tax rate was 9% in areas in Israel designated as Development Zone A and 16% elsewhere in Israel during 2016 and 2017.

A dividend distributed from income which is attributed to a Preferred Enterprise/Special Preferred Enterprise will be subject to withholding tax at source at the following rates: (i) Israeli resident corporation – 0%, (ii) Israeli resident individual – 20% as of 2014 and thereafter (iii) non-Israeli resident - 20% as of 2014 and thereafter subject to a reduced tax rate under the provisions of an applicable double tax treaty.

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which includes Amendment 73 to the Law for the Encouragement of Capital Investments ("the 2016 - Amendment") was published. According to the 2016 - Amendment, a preferred enterprise located in development area A will be subject to a tax rate of 7.5% instead of 9% effective from January 1, 2017 and thereafter (the tax rate applicable to preferred enterprises located in other areas remains at 16%).

The December 2016 amendment also prescribes special tax tracks for technological enterprises, the new tax tracks under the amendment are as follows:

Technological preferred enterprise - an enterprise whose total consolidated revenues (parent company and all subsidiaries) is less than NIS 10 billion. A technological preferred enterprise, as defined in the Law, which is located in the center of Israel will be subject to tax at a rate of 12% on profits deriving from intellectual property (in development area A - a tax rate of 7.5%).

Special technological preferred enterprise - an enterprise whose total consolidated revenues (parent company and all subsidiaries) exceeds NIS 10 billion. Such enterprise will be subject to tax at a rate of 6% on profits deriving from intellectual property, regardless of the enterprise's geographical location.

Under the transition provisions of the 2016 Amendment, the Company may decide to irrevocably implement the new law while waiving benefits provided under the current law or to remain subject to the current law.

- d. Tax benefits under the law for the Encouragement of Industry (Taxes), 1969 (the "Encouragement Law"):

The Encouragement Law, provides several tax benefits for industrial companies. An industrial company is defined as a company resident in Israel, at least 90% of the income of which in a given tax year exclusive of income from specified 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 13:- TAXES ON INCOME (Cont.)

Management believes that the Company is currently qualified as an "industrial company" under the Encouragement Law and as such, enjoys tax benefits, including: (1) deduction of purchase of know-how and patents and/or right to use a patent over an eight-year period; (2) the right to elect, under specified conditions, to file a consolidated tax return with additional related Israeli industrial companies and an industrial holding company; (3) accelerated depreciation rates on equipment and buildings; and (4) expenses related to a public offering on the Tel-Aviv Stock Exchange and on recognized stock markets outside of Israel, are deductible in equal amounts over three years.

Eligibility for benefits under the Encouragement Law is not subject to receipt of prior approval from any governmental authority. No assurance can be given that the Israeli tax authorities will agree that the Company qualifies, or, if the Company qualifies, then the Company will continue to qualify as an industrial company or that the benefits described above will be available to the Company in the future.

- e. Pre-tax income (loss) is comprised as follows:

	Year ended December 31,		
	2019	2018	2017
Domestic	\$ (8,934)	\$ (9,877)	\$ (17,539)
Foreign	1,916	1,890	1,031
	<u>\$ (7,018)</u>	<u>\$ (7,987)</u>	<u>\$ (16,508)</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 13:- TAXES ON INCOME (Cont.)

- f. A reconciliation of the theoretical tax expenses, assuming all income is taxed at the statutory tax rate applicable to the income of the Company and the actual tax expenses is as follows:

	Year ended December 31,		
	2019	2018	2017
Loss before taxes on income	\$ (7,018)	\$ (7,987)	\$ (16,508)
Theoretical tax income computed at the Israeli statutory tax rate (23%, 23% and 24% for the years 2019, 2018 and 2017, respectively)	\$ (1,614)	\$ (1,837)	\$ (3,962)
Changes in valuation allowance	951	1,189	8,946
Increase in losses and temporary differences due to change in Israeli corporate and "Approved Enterprise" tax Previous years	-	659	(5,376)
Write off of prepaid and withholding taxes	1,536	1,828	909
Foreign tax rates differences related to subsidiaries	44	50	(48)
Non-deductible expenses and other	327	65	684
Non-deductible share-based compensation expense	397	474	411
Actual tax expense	\$ 1,641	\$ 2,428	\$ 1,564

- g. Income tax expense is comprised as follows:

	Year ended December 31,		
	2019	2018	2017
Current taxes	\$ 341	\$ 580	\$ 689
Deferred taxes expense (benefit)	(236)	20	(34)
Write off of prepaid and withholding taxes	1,536	1,828	909
	\$ 1,641	\$ 2,428	\$ 1,564

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data****NOTE 13:- TAXES ON INCOME (Cont.)**

## h. Net operating losses carry forward:

The Company has accumulated net operating losses for tax purposes as of December 31, 2019, in the amount of approximately \$62,128, which may be carried forward and offset against taxable income in the future for an indefinite period. In December 2014, the Israeli Tax Authorities approved a final tax ruling with respect to the Company's acquisition of Oversi. According to the ruling, the net operating losses on the merger date may be offset against taxable income annually with a limitation of up to 14% of the total accumulated losses but no more than 50% of the Company's taxable income. As of December 31, 2019, the Company recorded a full valuation allowance with respect to its deferred tax assets in Allot Ltd. and wrote-off prepaid and withholding taxes of \$7,182 as the Company does not expect to utilize these tax assets in the near future. In addition, the Company has accumulated capital losses for tax purposes as of December 31, 2019, of approximately \$27,243, which may be carried forward and offset against taxable capital gains in the future for an indefinite period but are limited as stated above with regard to the Oversi merger. Management currently believes that since the Company has a history of losses, and uncertainty with respect to future taxable income, it is more likely than not that the deferred tax assets regarding the loss carry forwards will not be utilized in the foreseeable future. Thus, a valuation allowance was provided to reduce deferred tax assets to their realizable value.

The U.S. subsidiary has accumulated losses for U.S. federal income tax return purposes of approximately \$ 5,524 and \$ 7,438 for state taxes. The federal accumulated losses for tax purposes expire between 2026 and 2037. The state accumulated losses for tax purposes began to expire in 2014. As of December 31, 2019, the Company recorded a partial valuation allowance with respect to its deferred tax assets in the US Subsidiary.

A portion of the losses are subject to limitations of Internal Revenue Code, Section 382, which in general provides that utilization of net operating losses is subject to an annual limitation if an ownership change results from transactions increasing the ownership of certain shareholders or public groups in the stock of a corporation by more than 50 percentage points over a three-year period. The annual limitations may result in the expiration of losses before utilization.

In December 2017 the U.S. Tax Cuts and Jobs Act of 2017 was signed into law. This legislation makes significant changes to the U.S. Internal Revenue Code. Such changes include a reduction in the corporate tax rate, changes in U.S. international taxation and limitations on certain corporate deductions and credits, among other changes. The deferred tax asset at December 31, 2019 reflects the impact of the US Tax reform.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 13:- TAXES ON INCOME (Cont.)

## i. Deferred income 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 income taxes are as follows:

	December 31,	
	2019	2018
Deferred tax assets:		
Operating and capital loss carryforwards	\$ 22,353	\$ 21,348
Reserves and allowances including lease liability	9,071	3,723
Deferred tax asset before valuation allowance	31,424	25,071
Valuation allowance	(25,880)	(24,790)
Deferred tax asset net of valuation allowance	5,544	281
Deferred tax liability including ROU asset	5,027	-
Net deferred tax asset	\$ 517	\$ 281

## j. As of December 31, 2019, the Company's provision in respect of ASC 740-10 is \$243. The accrued interest and penalties related to the provision in income taxes are immaterial.

The Company conducts business globally and, as a result, the Company or one or more of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world, including such major jurisdictions as Israel, France, and the United States. With a few exceptions, the Company is no longer subject to Israeli tax assessment through the year 2013 and the Spanish and U.S. subsidiaries have final tax assessments through 2014 and 2015, respectively. The Company is currently under audit by the Israeli Tax Authorities for the years 2015– 2016.

## NOTE 14:- GEOGRAPHIC INFORMATION

Allot operates in a single reportable segment. Revenues are based on the location of the Company's channel partners which are considered as end customers, as well as direct customers of the Company:

	Year ended December 31,		
	2019	2018	2017
Europe	\$ 36,199	\$ 45,730	\$ 40,394
Asia and Oceania	42,994	22,018	13,936
Americas	16,576	14,363	15,532
Middle East and Africa	14,331	13,726	12,130
	\$ 110,100	\$ 95,837	\$ 81,992



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 14:- GEOGRAPHIC INFORMATION (Cont.)

The following are the Company's major customers:

	Year ended December 31,		
	2019	2018	2017
Customer A	16%	22%	32%
Customer B	11%	-	-
	<u>27%</u>	<u>22%</u>	<u>32%</u>

A total percentage of 76% of the Company's revenues for the year ended December 31, 2019 is attributed to network intelligence solutions, while 24% is attributed to security solutions.

The following presents total long-lived assets as of December 31, 2019 and 2018:

	December 31,	
	2019	2018
Long-lived assets:		
Israel	\$ 7,614	\$ 5,931
Other	521	317
	<u>\$ 8,135</u>	<u>\$ 6,249</u>

## NOTE 15:- FINANCIAL INCOME (EXPENSES), NET

	Year ended December 31,		
	2019	2018	2017
Financial income:			
Interest income	\$ 2,551	\$ 2,696	\$ 2,513
Exchange rate differences and other	-	305	-
Financial expenses:			
Exchange rate differences and other	334	-	602
Amortization/accretion of premium/discount on marketable securities, net	257	793	1,017
	<u>\$ 1,960</u>	<u>\$ 2,208</u>	<u>\$ 894</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 16:- EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted net loss per share:

	Year ended December 31,		
	2019	2018	2017
Numerator:			
Net loss	\$ (8,659)	\$ (10,415)	\$ (18,072)
Denominator:			
Weighted average number of shares outstanding used in computing basic and diluted net loss per share	34,250,582	33,710,507	33,253,158
Basic and diluted net loss per share	\$ (0.25)	\$ (0.31)	\$ (0.54)

## Note 17:- SUBSEQUENT EVENT

- a. In January 2020, inventory stored in the one of the Company's warehouses suffered water damage. The Company is currently evaluating the effect of the event on its inventories value and does not expect it to have a material impact.

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO  
EXCHANGE ACT RULE 13a-14(a)/15d-14(d)  
AS ADOPTED PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Erez Antebi, certify that:

1. I have reviewed this annual report on Form 20-F/A of Allot 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; and
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.

/s/ Erez Antebi  
Erez Antebi  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: July 1, 2020

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**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO  
EXCHANGE ACT RULE 13a-14(a)/15d-14(d)  
AS ADOPTED PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Ziv Leitman, certify that:

1. I have reviewed this annual report on Form 20-F/A of Allot 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; and
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.

/s/ Ziv Leitman  
Ziv Leitman Chief Financial Officer  
(Principal Financial Officer)

Date: July 1, 2020

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**CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL  
FINANCIAL OFFICER PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Allot Ltd (the “Company”) on Form 20-F/A for the period ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Erez Antebi, and I, Ziv Leitman, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Erez Antebi  
Erez Antebi  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: July 1, 2020

/s/ Ziv Leitman  
Ziv Leitman  
Chief Financial Officer  
(Principal Financial Officer)

Date: July 1, 2020

A signed original of this written statement required by Section 906 has been provided to Allot Ltd and will be retained by Allot Ltd and furnished to the Securities and Exchange Commission or its staff upon request.

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements (Form S-8 File Nos. 333-140701, 333-149237, 333-159306, 333-165144, 333-172492, 333-180770, 333-187406, 333-194833, 333-203028, 333-210420, 333-216893, 333-223838, 333-230391 and 333-237405) pertaining to the 2016 Incentive Compensation Plan (formerly 2006 Incentive Compensation Plan) of Allot Ltd, of our report dated March 26, 2020, with respect to the consolidated financial statements of Allot Ltd. and the effectiveness of internal control over financial reporting of Allot Ltd included in this annual report (Form 20-F/A) for the year ended December 31, 2019.

/s/ KOST FORER GABBAY &  
KASIERER  

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

Tel Aviv, Israel

July 1, 2020

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