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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER**

**Pursuant to Rule 13a-16 or 15d-16 of the  
Securities Exchange Act of 1934**

**For the month of September 2011**

**Commission File Number: 001-33129**

**Allot Communications Ltd.**

(Translation of registrant's name into English)

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

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ☒

Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ☐

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ☐

No ☒

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-\_\_\_\_\_

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## EXPLANATORY NOTE

Filed herewith are Condensed Interim Consolidated Financial Statements of Allot Communications Ltd. and its subsidiaries as of June 30, 2011 (Unaudited) and Management's Discussion and Analysis of Financial Condition and Results of Operations for the six months ended June 30, 2011.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALLOT COMMUNICATIONS LTD.

Date: September 27, 2011

By: /s/ Nachum Falek  
Name: Nachum Falek  
Title: Chief Financial Officer

## EXHIBIT INDEX

The following exhibit is filed as part of this Form 6-K:

<u>Exhibit</u>	<u>Description</u>
99.1	Condensed Interim Consolidated Financial Statements of Allot Communications Ltd. and its subsidiaries as of June 30, 2011 (Unaudited).
99.2	Management's Discussion and Analysis of Financial Condition and Results of Operations for the six months ended June 30, 2011

ALLOT COMMUNICATIONS LTD. AND ITS SUBSIDIARIES  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011  
UNAUDITED

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ALLOT COMMUNICATIONS LTD.  
AND ITS SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2011

UNAUDITED

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## CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
	<u>Unaudited</u>	<u>Audited</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 46,116	\$ 42,858
Restricted cash and deposit	1,547	1,060
Available for sale marketable securities	15,835	15,531
Trade receivables (net of allowance for doubtful accounts of \$370 and \$374 as of June 30, 2011 (unaudited) and December 31, 2010 respectively.)	11,142	10,739
Other receivables and prepaid expenses	6,763	4,958
Inventories	9,724	10,830
<b>Total current assets</b>	<b>91,127</b>	<b>85,976</b>
<b>NON-CURRENT ASSETS:</b>		
Severance pay fund	188	162
Other assets	341	340
<b>Total non-current assets</b>	<b>529</b>	<b>502</b>
<b>PROPERTY AND EQUIPMENT, NET</b>	<b>5,115</b>	<b>5,193</b>
<b>GOODWILL AND INTANGIBLE ASSETS, NET</b>	<b>3,455</b>	<b>3,516</b>
<b>Total assets</b>	<b>\$ 100,226</b>	<b>\$ 95,187</b>

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

## CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

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

	June 30, 2011 <u>Unaudited</u>	December 31, 2010 <u>Audited</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade payables	\$ 2,094	\$ 5,140
Employees and payroll accruals	5,189	5,798
Deferred revenues	11,384	10,828
Other payables and accrued expenses	6,051	4,369
<u>Total</u> current liabilities	24,718	26,135
<b>LONG-TERM LIABILITIES:</b>		
Deferred revenues	4,381	3,873
Accrued severance pay	223	191
<u>Total</u> long-term liabilities	4,604	4,064
<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 June 30, 2011 (unaudited) and December 31, 2010; Issued: 24,242,981 (unaudited) and 23,806,313 shares at June 30, 2011 and December 31, 2010, respectively; Outstanding: 24,242,981 (unaudited) and 23,806,313 shares at June 30, 2011 and December 31, 2010, respectively	540	527
Additional paid-in capital	136,000	133,483
Accumulated other comprehensive income	583	434
Accumulated deficit	(66,219)	(69,456)
<u>Total</u> shareholders' equity	70,904	64,988
<u>Total</u> liabilities and shareholders' equity	\$ 100,226	\$ 95,187

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



## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Six months ended June 30,		Year ended December 31,
	2011	2010	2010
	Unaudited		Audited
Revenues:			
Products	\$ 26,137	\$ 18,543	\$ 40,852
Services	9,500	7,554	16,120
<b>Total revenues</b>	<b>35,637</b>	<b>26,097</b>	<b>56,972</b>
Cost of revenues:			
Products	9,003	6,337	14,015
Services	1,154	933	1,970
<b>Total cost of revenues</b>	<b>10,157</b>	<b>7,270</b>	<b>15,985</b>
Gross profit	25,480	18,827	40,987
Operating expenses:			
Research and development (net of grants participations in the amount of \$1,925, \$1,494 (unaudited) and \$2,774 (audited) for the six months ended June 30, 2011 and 2010, and for the year ended December 31 2010, respectively )	6,064	5,316	11,264
Sales and marketing	12,701	10,664	22,021
General and administrative	3,406	2,637	5,473
<b>Total operating expenses</b>	<b>22,171</b>	<b>18,617</b>	<b>38,758</b>
Operating income	3,309	210	2,229
Financial and other income (expenses), net	29	(7,977)	7,907
Income (loss) before income tax expenses	3,338	(7,767)	(5,678)
Income tax expenses	101	96	84
<b>Net income (loss)</b>	<b>\$ 3,237</b>	<b>\$ (7,863)</b>	<b>\$ (5,762)</b>
Basic profit ( loss) per share	\$ 0.14	\$ (0.35)	\$ (0.25)
Diluted profit ( loss) per share	\$ 0.12	\$ (0.35)	\$ (0.25)
Weighted average number of shares used in computing basic net earnings per share	23,948,546	22,572,070	22,831,014
Weighted average number of shares used in computing diluted net earnings per share	25,963,671	22,572,070	22,831,014

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

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Six months ended June 30,		Year ended December 31,
	2011	2010	2010
	Unaudited		Audited
<u>Cash flows from operating activities:</u>			
Net income (loss)	\$ 3,237	\$ (7,863)	\$ (5,762)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	1,336	1,301	2,577
Stock-based compensation related to options granted to employees and non-employees	1,064	1,055	1,990
Amortization of intangible assets	61	62	123
Capital loss (gain)	9	(2)	70
Increase (decrease) in accrued severance pay, net	6	(65)	75
Decrease (increase) in other assets	(1)	6	41
Decrease in accrued interest and amortization of premium on marketable securities	47	-	(189)
Decrease (increase) in trade receivables	(403)	746	(2,897)
Decrease (increase) in other receivables and prepaid expenses	(1,334)	390	(1,495)
Decrease (increase) in inventories, net	1,106	(2,485)	(5,784)
Decrease in long-term deferred taxes	-	-	49
Increase (decrease) in trade payables	(3,046)	1,512	1,998
Increase (decrease) in employees and payroll accruals	(609)	(491)	1,868
Increase in deferred revenues	1,064	3,088	7,188
Increase (decrease) in other payables and accrued expenses	1,323	3	(213)
Loss from sale and other than temporary loss on marketable securities, net	-	7,712	7,712
Net cash provided by operating activities	3,860	4,969	7,351
<u>Cash flows from investing activities:</u>			
Increase in restricted cash and deposits	(487)	-	-
Investment in marketable securities	(1,914)	-	(16,765)
Redemption (investment) of short-term deposits		(3,644)	1,264
Purchase of property and equipment	(1,298)	(1,461)	(2,334)
Proceeds from sale of property and equipment	30	38	168
Proceeds from redemption of marketable securities	1,600	12,252	13,652
Net cash used in (provided by) investing activities	\$ (2,069)	\$ 7,185	\$ (4,015)

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

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Six months ended June 30,		Year ended December 31,
	2011	2010	2010
	Unaudited		Audited
<u>Cash flows from financing activities:</u>			
Exercise of stock options	\$ 1,467	\$ 767	3,052
Net cash provided by financing activities	1,467	767	3,052
Increase in cash and cash equivalents	3,258	12,921	6,388
Cash and cash equivalents at the beginning of the year	42,858	36,470	36,470
Cash and cash equivalents at the end of the year	\$ 46,116	\$ 49,391	\$ 42,858
<u>Supplementary cash flow information:</u>			
(a) <u>Cash paid during the year for:</u>			
Taxes	\$ 38	\$ 143	\$ 168

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

**NOTE 1:- GENERAL**

Allot Communications 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 intelligent IP service optimization solutions for mobile, DSL and wireless broadband carriers, cable operator service providers, and enterprises. The Company's portfolio of hardware platforms and software applications utilizes advanced deep packet inspection technology to transform broadband pipes into smart networks that can rapidly and efficiently manage data over mobile and wireline networks and deploy value added Internet services. The Company's products consist of the Service Gateway and NetEnforcer traffic management systems, the NetXplorer and Subscribe Management Platform application management suites and value added services such as the Service Protector network protection solution, the MediaSwift video caching solution and the WebSafe network service.

The Company holds six wholly-owned subsidiaries (the Company together with said subsidiaries shall collectively be referred to as "Allot"): Allot Communications, Inc. in Woburn, 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.

The U.S. subsidiary commenced operations in 1997. It is engaged in the sale, marketing and technical support services in the Americas of products manufactured and imported by the Company. The European, Japanese, UK and Singaporean subsidiaries are engaged in marketing and technical support services of the Company's products in Europe, Japan, UK and Asia Pacific, respectively. The NZ subsidiary commenced its operations in 2008 and is engaged in research and development activities related to the Service Protector and technical support services for this product.

During the six months ended June 30, 2011 and 2010 and the year ended December 31, 2010, approximately 26%, 25% and 30% of the Company's revenues derived from a single customer, respectively.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

- a. The significant accounting policies applied in the financial statements of the Company as of December 31, 2010, are applied consistently in these financial statements.
- b. New Accounting Standards or Updates Recently Adopted

In October 2009, the FASB issued ASU 2009-13, "Multiple-Deliverable Revenue Arrangements, (amendments to ASC Topic 605, Revenue Recognition)" (ASU 2009-13) and ASU 2009-14, "Certain Arrangements That Include Software Elements, (amendments to ASC Topic 985, Software)" (ASU 2009-14). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance.

Under historical accounting principles, the Company was required to account for sales of its products in accordance with ASC 985-605. ASC 985-605 generally required revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative objective fair value of the elements. Accordingly, revenues were allocated to the different elements in the arrangement under "the residual method" when Vendor Specific Objective Evidence ("VSOE") of fair value exists for all undelivered elements and no VSOE exists for the delivered elements. Under the residual method, at the outset of the arrangement with a customer, the Company deferred revenues for the VSOE of its undelivered elements (maintenance and support) and recognized revenue for the remainder of the arrangement fee attributable to the elements initially delivered in the arrangement (hardware and software products). Any discount in the arrangement was allocated to the delivered element.

ASU 2009-13 modifies the requirements that must be met for an entity to recognize revenue from the sale of a delivered item that is part of a multiple-element arrangement when other items have not yet been delivered. ASU 2009-13 establishes a selling price hierarchy that allows for the use of an estimated selling price to determine the allocation of arrangement consideration to a deliverable in a multiple element arrangement.

Under the relative-selling-price-method, the selling price for each deliverable is determined using VSOE of selling price, if it exists; otherwise selling price is determined based on third-party evidence (TPE) of selling price. If neither VSOE nor TPE of selling price exist, the vendor uses its best estimate of the selling price ("ESP") for that deliverable.

In the absence of VSOE or TPE of the standalone selling price for one or more delivered or undelivered elements in a multiple-element arrangement, entities are required to estimate the selling prices of those elements. Overall arrangement consideration is allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity's estimated selling price.

ESP is based upon all reasonably available information including both market data and conditions and entity-specific factors. These factors include market trends and competitive conditions, product maturity, differences related to geography, distribution channel, and deal size, cumulative customer purchases, and profit goals. The residual method of allocating arrangement consideration has been eliminated.

ASU 2009-14 change the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing software components and nonsoftware components that function together to deliver the tangible product's essential functionality are no longer within the scope of the software revenue guidance in Subtopic 985-605 of the Codification.

The Company adopted ASU 2009-13 and ASU 2009-14 effectively on a prospective basis for revenue arrangements entered into in fiscal years beginning on or after June 15, 2010, which for the Company was January 1, 2011, the first day of the Company's 2011 fiscal year.

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

The adoption of these standards did not have a material impact on the Company's Consolidated Results of Operations and Financial Condition.

In April 2010, FASB issued ASU 2010-13 "Compensation-Stock Compensation (Topic 718) Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades" (ASU 2010-13). Topic 718 is amended to clarify that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades shall not be considered to contain a market, performance, or service condition. Therefore, such an award is not to be classified as a liability if it otherwise qualifies as equity classification. The amendments in this standard are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010, which for us was January 1, 2011, the first day of our 2011 fiscal year. The guidance should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings for all outstanding awards as of the beginning of the fiscal year in which the amendments are initially applied. The adoption of the standard did not have a material impact on our Consolidated Results of Operations and Financial Condition.

In December 2010, FASB issued ASU 2010-28 "Intangibles - Goodwill and Other (Topic 350)" (ASU 2010-28). Topic 350 is amended to clarify the requirement to test for impairment of goodwill. Topic 350 has required that goodwill be tested for impairment if the carrying amount of a reporting unit exceeds its fair value. Under ASU 2010-28, when the carrying amount of a reporting unit is zero or negative an entity must assume that it is more likely than not that a goodwill impairment exists, perform an additional test to determine whether goodwill has been impaired and calculate the amount of that impairment. The modifications to ASC Topic 350 resulting from the issuance of ASU 2010-28 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2010, which for us was January 1, 2011, the first day of our 2011 fiscal year. The adoption of the standard did not have a material impact on our Consolidated Results of Operations and Financial Condition.

In December 2010, the FASB issued ASU 2010-29 "Business Combinations (Topic 805) - Disclosure of Supplementary Pro Forma Information for Business Combinations" (ASU 2010-29). This standard update clarifies that, when presenting comparative financial statements, SEC registrants should disclose revenue and earnings of the combined entity as though the current period business combinations had occurred as of the beginning of the comparable prior annual reporting period only. The update also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for material (either on an individual or aggregate basis) business combinations entered into in fiscal years beginning on or after December 15, 2010, which for us was January 1, 2011, the first day of our 2011 fiscal year. The adoption of the standard did not have a material impact on our Consolidated Financial Statements.

**NOTE 3:-      UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six month period ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ended December 31, 2011.

The unaudited interim financial statements should be read in conjunction with the Company's annual financial statements and accompanying notes as of December 31, 2010 included in the Company's Annual Report on Form 20-F for the year ended December 31, 2010.

NOTE 4:- AVAILABLE-FOR-SALE MARKETABLE SECURITIES

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

	June 30, 2011				December 31, 2010			
	Unaudited				Audited			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
<b>Available-for-sale - matures within one year:</b>								
Governmental debentures	\$ 252	\$ -	\$ -	\$ 252	\$ 1,022	\$ 1	\$ --	\$ 1,023
Federal Home Loan Bank	205	-	-	205	807	--	--	807
Corporate debentures	940	2	-	942	210	3	--	213
	<u>1,397</u>	<u>2</u>	<u>-</u>	<u>1,399</u>	<u>2,039</u>	<u>4</u>	<u>--</u>	<u>2,043</u>
<b>Available-for-sale - matures after one year through three years:</b>								
Governmental debentures	8,379	23	-	8,402	8,418	1	(4)	8,415
Federal Home Loan Bank	-	-	-	-	201	--	(1)	200
Corporate debentures	6,022	15	(3)	6,034	4,896	--	(23)	4,873
	<u>14,401</u>	<u>38</u>	<u>(3)</u>	<u>14,436</u>	<u>13,515</u>	<u>1</u>	<u>(28)</u>	<u>13,488</u>
	<u>\$ 15,798</u>	<u>\$ 40</u>	<u>\$ (3)</u>	<u>\$ 15,835</u>	<u>\$ 15,554</u>	<u>\$ 5</u>	<u>\$ (28)</u>	<u>\$ 15,531</u>

**NOTE 5:- FAIR VALUE MEASUREMENTS**

The Company measures its cash and cash equivalents, marketable securities, derivative instruments, restricted cash and deposits, short-term bank deposits, trade receivables, other receivables, trade payables and other payables at fair value.

Fair value is an exit price, representing the amount that would be received 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. A three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

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

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

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

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

Cash equivalents and 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. Foreign currency derivative contracts are classified within Level 2 value hierarchy as the valuation inputs are based on quoted prices and market observable data of similar instruments.

The Company's financial assets measured at fair value on a recurring basis consisted of the following types of instruments as of June 30, 2011 and December 31, 2010, respectively:

	As of June 30, 2011				
	Fair value measurements using input type				
	Level 1	Level 2	Level 3	Total	
	Unaudited				
Money market Funds	\$ 2,229	\$ -	\$ -	\$ 2,229	
Available-for-sale marketable securities (See note 4)	-	15,835	-	15,835	
Foreign currency derivative contracts	-	546	-	546	
Total financial assets	\$ 2,229	\$ 16,381	\$ -	\$ 18,610	



NOTE 5:- FAIR VALUE MEASUREMENTS

As of December 31, 2010						
Fair value measurements using input type						
Level 1	Level 2		Level 3		Total	
Audited						
Treasury Bills	\$	12,548	\$	-	\$ -	\$ 12,548
Money Market Funds		2,426		-	-	2,426
Available for sale marketable securities (See note 4)		-		15,531	-	15,531
Foreign currency derivative contracts		-		457	-	457
Total financial assets	\$	14,974	\$	15,988	\$ -	\$ 30,962

NOTE 6:- FAIR VALUE MEASUREMENTS

	June 30, 2011	December 31, 2010
	Unaudited	Audited
Raw materials	\$ 1,268	\$ 1,071
Finished products	8,456	9,759
	\$ 9,724	\$ 10,830

NOTE 7:- COMMITMENTS AND CONTINGENT LIABILITIES

Lawsuit:

On May 1, 2007, a securities class action complaint, *Brickman Investment Inc. v. Allot Communications Ltd. et al.*, was filed in the United States District Court for the Southern District of New York. At least three substantially similar complaints were filed in the same court after the original action was filed. The Company's and certain of its directors and officers are named as defendants. The securities class action complaints allege that the defendants violated Sections 11 and 15 of the Securities Act of 1933 by making false and misleading statements and omissions in the Company's registration statement for the Company's initial public offering in November 2006. The claims are purportedly brought on behalf of persons who purchased the Company's stock pursuant to and/or traceable to the initial public offering on or about November 15, 2006 through April 2, 2007. The plaintiffs sought unspecified compensatory damages against the defendants, as well as attorney's fees and costs. The parties reached on March 31, 2010 an agreement in principle to settle this litigation. Pursuant to the terms of the agreement, the Company will pay to the plaintiffs, for the benefit of the class members, \$1.3 million in cash, which amount is to be funded by the Company's insurance carrier. The Court held the final approval hearing on April 29, 2011. At the hearing, the Court granted final approval of the settlement.

**NOTE 7:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)**

Under the terms of the Stipulation of Settlement, the agreement's Effective Date was May 31, 2011. The Company has recorded a liability in its financial statements for the proposed amount of the settlement. In addition, because the insurance carrier has agreed to pay the entire settlement amount and recovery from the insurance carrier is probable, a receivable has also been recorded for the same amount. Accordingly, there is no impact to the Company's statements of operations or cash flows because the amounts of the settlement and the insurance recovery fully offset each other.

**NOTE 8:- SHAREHOLDERS' EQUITY**

## a. Stock option plan:

The Company accounts for stock based compensation in accordance with Accounting Standards Codification No. 718 (formerly, FASB Statement No. 123R), "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 operations.

The Company applies ASC No. 718 and Accounting Standards Codification No. 505-50 (formerly, EITF No. 96-18), "Equity-Based Payments to Non-Employees" ("ASC No. 505-50") with respect to options and warrants issued to non-employees. Accordingly, option valuation models to measure the fair value of the options and warrants at the measurement date as defined in ASC No. 505-50.

The Company recognizes compensation expenses for the value of its awards granted based on the straight-line method over the requisite service period of each of the awards, net of estimated forfeitures. ASC No. 718 requires forfeitures to be estimated at the time of the grant and revised in subsequent periods if actual forfeitures differ from those estimates.

The following table sets forth the total stock-based compensation expense resulting from stock options granted to employees and non-employees included in the consolidated statements of operations, for the six months periods ending June 30, 2011 and 2010 and for the year ended December 31, 2010:

	<b>Six months ended June 30,</b>		<b>Year ended December 31,</b>
	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>Unaudited</b>		
Cost of revenues	\$ 50	\$ 51	\$ 95
Research and development	188	186	352
Sales and marketing	459	442	851
General and administrative	367	376	692
<u>Total</u> stock-based compensation expense	<u>\$ 1,064</u>	<u>\$ 1,055</u>	<u>\$ 1,990</u>

**NOTE 8:- SHAREHOLDERS' EQUITY (Cont.)**

b. Stock option plan (cont.):

The Company selected the binomial option pricing model as the most appropriate fair value method for its stock-based compensation awards (except for restricted-stack units, which are valued based on the market value of the underlying share at the date of grant) with the following weighted-average assumptions for the six month ended June 30, 2011 and for the year ended December 31, 2010:

	Six months ended June 30, 2011 Unaudited	Year ended December 31, 2010 Audited
Suboptimal exercise multiple	2.5-3.5	2.5-3.5
Interest rate	0.18%-5.46%	0.25%-5.54%
Volatility	50%-52%	50%-52%
Dividend yield	0	0
Weighted-average fair value at grant date	5.33	5.36

The computations of expected volatility and suboptimal exercise multiple are based on the average of the Company's realized historical stock price volatility and certain peer companies that the Company considered to be comparable based on market capitalization and type of technology platform. The computation of the suboptimal exercise multiple and the forfeiture rates are based on the employees expected exercise prior and post vesting termination behavior. The interest rate for 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.

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

	Number of options	Weighted- average exercise price	Weighted- average remaining contractual term (in years)	Aggregate intrinsic value
			Unaudited	
Outstanding at December 31, 2010	3,427,870	\$ 3.81	7.67	
Granted	373,500	\$ 15.27	9.51	
Exercised	(436,668)	\$ 3.27	6.02	
Forfeited	(40,266)	\$ 7.34	8.53	
Outstanding at June 30, 2011 (unaudited)	3,324,436	\$ 5.10	7.58	\$ 43,870
Exercisable at June 30, 2011 (unaudited)	1,608,053	\$ 3.56	6.44	\$ 23,685
Vested and expected to vest (unaudited)	2,415,054	\$ 4.30	7.15	\$ 33,798

**NOTE 8:- SHAREHOLDERS' EQUITY (Cont.)**

b. Stock option plan (cont.):

The aggregate intrinsic value represents the total intrinsic value (the difference between the Company's closing stock price on June 30, 2011 (the last trading day of the second quarter of fiscal 2011) and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2011. This amount changes based on the fair market value of the Company's Ordinary Shares.

As of June 30, 2011, there was \$4,497,860 (unaudited) of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's equity incentive plans. This cost is expected to be recognized over a period of 4 years with weighted average period of 1.62 years.

The options outstanding as of June 30, 2011 (unaudited), have been classified by exercise price, as follows:

Exercise price	Shares upon exercise of options outstanding as of June 30, 2011	Weighted average remaining contractual life Years Unaudited	Shares upon exercise of options exercisable as of June 30, 2011
\$ 15.2-15.43	358,250	9.69	-
\$ 9.7-11.34	50,460	5.62	50,460
\$ 7.25-9.25	321,651	9.18	45,601
\$ 5.7-6.593	19,851	6.17	19,425
\$ 4.02-5.25	661,827	8.46	219,134
\$ 3.00-4.00	1,027,996	6.27	768,226
\$ 1.922-2.97	783,842	7.20	453,511
\$ 1.205-1.56	41,160	5.40	27,971
\$ 0.0021-0.0293	59,399	7.88	23,725
	<u>3,324,436</u>		<u>1,608,053</u>

**NOTE 9:- 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) in currencies other than U.S. dollar, and forecasted revenues denominated in Euro. The net losses recognized in "financial and other expenses, net" during the six months period ended June 30, 2011 and the year ended December 31, 2010 were \$ 812 (unaudited) and \$ 471, respectively.

The Company currently hedges such future exposures for a maximum period of one year. 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 820 at level 2. The effective portions of cash flow hedges are recorded in other comprehensive income until the hedged item is recognized in earnings. The ineffective portions of cash flow hedges are adjusted to fair value through earnings in financial other income or expense. The Company does not enter into derivative transactions for trading purposes.

The Company had a net deferred gain associated with cash flow hedges of \$ 546 (unaudited) and \$ 457 recorded in other comprehensive income as of June 30, 2011 and December 31, 2010, respectively.

As of June 30, 2011 and December 31, 2010, the Company had outstanding foreign exchange forward contracts in the amount of \$16,125 and \$13,868, respectively.

As of June 30, 2011 and December 31, 2010, the Company had outstanding foreign exchange option contract in the amount of \$1,444 and \$6,411, respectively.

The fair value of the open foreign exchange contracts recorded by the Company on its consolidated balance sheets as of June 30, 2011 and December 31, 2010, as an asset or a liability is as follows:

Foreign exchange forward and options contracts	Balance Sheet	June 30, 2011	December 31, 2010
		Unaudited	Audited
Fair Value of foreign exchange option contracts	Other receivables and prepaid expenses	\$ 76	\$ 167
Fair value of foreign exchange forward contracts	(Other current liabilities)	(76)	-
Fair value of foreign exchange forward contracts	Other receivables and prepaid expenses	546	290
Total derivatives designated as hedging instrument		\$ 546	\$ 457
Total derivatives not designated as hedging instrument	(Other current liabilities)	\$ (48)	\$ (45)
Net Fair value		\$ 498	\$ 412

**NOTE 9:- DERIVATIVE INSTRUMENTS (Cont.)**

Gain or loss on the derivative instruments, which partially offset the foreign currency impact from the underlying exposures, reclassified from other comprehensive income to operating expenses for the six months ended June 30, 2011 and for the year ended December 31, 2010 were \$602 (unaudited), and \$841, respectively. The ineffective portion of the change in fair value of a cash flow hedge for the six months ended June 30, 2011, was not material.

**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 interest and other income, net. Changes in the fair value of these derivatives are largely offset by re-measurement of the underlying assets and liabilities. The revaluations from such derivatives are classified as operating activities. The derivatives have maturities of approximately twelve months.

**NOTE 10:- EARNINGS PER SHARE**

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

	<b>Six months ended June 30,</b>		<b>Year ended December 31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2010</b>	
	<b>Unaudited</b>		<b>Audited</b>	
<b>Numerator:</b>				
Net income (loss)	\$ 3,237	\$ (7,863)	\$ (5,762)	
<b>Denominator:</b>				
Weighted-average number of shares outstanding used in computing basic net earnings per share	23,948,546	22,572,070	22,831,014	
Dilutive effect: stock options				
Total weighted-average number of shares used in computing diluted net earnings per share	25,963,671	22,572,070	22,831,014	
Basic net income (loss) per share	\$ 0.14	\$ (0.35)	\$ (0.25)	
Diluted net income (loss) per share	\$ 0.12	\$ (0.35)	\$ (0.25)	

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**SIX MONTHS ENDED JUNE 30, 2011 COMPARED TO SIX MONTHS ENDED JUNE 30, 2010**

***Revenues***

We generate our revenues primarily from sales of hardware platforms and software applications utilizing advanced deep packet inspection, or DPI technology, and to a lesser extent from the sales of related services and maintenance.

*Products.* Product revenues increased by \$7.6 million, or 41%, to \$26.1 million in the six months ended June 30, 2011 from \$18.5 million in the six months ended June 30, 2010. The increase is primarily attributable to increased sales volumes of our high-end products, primarily the Service Gateway platforms, driven by agreements signed with tier 1 operator groups in EMEA and South East Asia, and increased sales of the AC- 3000 series.

*Services.* Service revenues increased by \$1.9 million, or 26%, to \$9.5 million in the six months ended June 30, 2011 from \$7.6 million in the six months ended June 30, 2010. The increase in service revenues is primarily attributable to an increase in our installed base.

During the six months ended June 30, 2011, revenues in EMEA increased by \$6.2 million, or 40%, compared to the six months ended June 30, 2010. This increase is primarily attributable to increased sales to tier 1 operator groups. Revenues in the Americas increased by \$2.0 million, or 39%, compared to the six months ended June 30, 2010. Revenues in Asia and Oceania increased by \$1.4 million, or 25%, compared to the six months ended June 30, 2010.

***Cost of revenues and gross margin***

*Products.* Cost of product revenues increased by \$2.7 million, or 42%, to \$9.0 million in the six months ended June 30, 2011 from \$6.3 million in the six months ended June 30, 2010. Product gross margin for the six months ended June 30, 2011 was 66%, with no change compare to the six months ended June 30, 2010.

*Services.* Service cost of revenues increased by \$0.2 million, or 24%, to \$1.2 million in the six months ended June 30, 2011 from \$0.9 million in the six months ended June 30, 2010. This increase is primarily attributable to higher support personnel expenses. Services gross margin for the six months ended June 30, 2011 was 88 % with no change compare to the six months ended June 30, 2010.

Total gross margin for the six months ended June 30, 2011 was 71% compared to 72% for the six months ended June 30, 2010. The decrease in gross margin is attributable to slight changes in product mix.

***Operating expenses***

*Research and development, net.* Research and development expenses consist primarily of the salary and benefits of engineers, outsourced contractors and depreciation. Gross research and development expenses increased by \$1.2 million, or 17%, to \$8.0 million in the Six months ended June 30, 2011 from \$6.8 million in the Six months ended June 30, 2010. This increase is primarily attributable to increase in salaries and labor costs which principally resulted from new hires, salary raises and the devaluation of the U.S. dollar against the Israeli Shekel.

Grants received from the Office of the Chief Scientist totaled \$1.9 million in the six months ended June 30, 2011 compared to \$1.5 million in the six months ended June 30, 2010.

For the six months ended June 30, 2011, research and development expenses, net, as a percentage of revenues decreased to 17% in 2011 from 20% in 2010.

*Sales and marketing.* Sales and marketing expenses consist primarily of salary and benefits, commissions, travel expenses and expenses related to marketing activities. Sales and marketing expenses increased by \$2.0 million, or 19%, to \$12.7 million in the six months ended June 30, 2011 from \$10.7 million in the six months ended June 30, 2010. This increase is primarily attributable to increased labor and travel costs resulting from an increase in head count and increased commissions resulting from higher sales.

For the six month ended June 30, 2011, sales and marketing expenses, as a percentage of revenues decreased to 36% in 2011 from 41% in 2010.

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*General and administrative.* General and administrative expenses consist primarily of salaries, legal, accounting and other administrative costs. General and administrative expenses increased by \$0.8 million, or 29%, to \$3.4 million in the six months ended June 30, 2011 from \$2.6 million in the six months ended June 30, 2010. This increase is primarily attributable to non-recurring expenses related to merger and acquisition activities that were terminated.

For the six months ended June 30, 2010 and 2011, general and administrative expenses as a percentage of revenues were 10%.

*Financial and other income (expenses), net.* In the six months ended June 30, 2011, we generated financial income of \$29 thousand compared to financial expenses of \$8.0 million in the six months ended June 30, 2010. The decrease in financial and other expenses, net is primarily attributable to the release of an unrealized loss which was recorded as a separate component in Equity and resulted from a net impairment related to auction-rate securities recorded in previous periods which were sold during the six months ended June 30, 2010.

#### **Liquidity and Capital Resources**

As of June 30, 2011, we had \$46.1 million in cash and cash equivalents, and \$17.4 million in marketable securities and restricted deposits.

As of June 30, 2011, our working capital, which we calculate by subtracting our current liabilities from our current assets, was \$66.4 million.

*Operating activities.* Net cash provided by operating activities was \$3.9 million for the six months ended June 30, 2011 compared with net cash provided by operating activities of \$5.0 million for the six months ended June 30, 2010. The decrease in cash flows from operating activities resulted mainly from timing differences with grants received from the Office of the Chief Scientist.

*Investing activities.* Net cash used in investing activities for the six months ended June 30, 2011 was \$2.1 million, compared with net cash provided by investing activities of \$7.2 million, for the six months ended June 30, 2010. The decrease is primarily attributable to the sale of marketable securities (auction-rate securities) in 2010.

*Financing activities.* Net cash provided by financing activities for the six months ended June 30, 2011 was \$1.5 million, compared with net cash provided by financing activities of \$0.8 million, for the six months ended June 30, 2011. The increase is attributable to an increase in proceeds from the exercise of employee stock options.