Mellanox Technologies, Ltd.
Form 10-K
February 28, 2012

Use these links to rapidly review the document
TABLE OF CONTENTS
PART IV

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the Fiscal Year Ended: December 31, 2011

OR

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

For the transition period from to
Commission File Number 001-33299

MELLANOX TECHNOLOGIES, LTD.

(Exact name of registrant as specified in its charter)

Israel	**98-0233400**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

Mellanox Technologies, Ltd.
Beit Mellanox, Yokneam, Israel 20692
(Address of principal executive offices, including zip code)

+972-4-909-7200
(Registrant's telephone number, including area code)

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

Title of Each Class:	**Name of Each Exchange on Which Registered:**
Ordinary shares, nominal value NIS 0.0175 per share	The NASDAQ Stock Market, Inc.

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes o No ý

The aggregate market value of the registrant's ordinary shares, nominal value NIS 0.0175 per share, held by non-affiliates of the registrant on June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $880.2 million (based on the closing sales price of the registrant's ordinary shares on that date). Ordinary shares held by each director and executive officer of the registrant, as well as shares held by each holder of more than 10% of the ordinary shares known to the registrant, have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not a determination for other purposes.

The total number of shares outstanding of the registrant's ordinary shares, nominal value NIS 0.0175 per share, as of February 17, 2012, was 40,046,048.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the 2012 Annual General Meeting of Shareholders of Mellanox Technologies, Ltd. (hereinafter referred to as the "Proxy Statement") are incorporated by reference in Part III of this report. Such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the conclusion of the registrant's fiscal year ended December 31, 2011.

MELLANOX TECHNOLOGIES, LTD.

Table of Contents

PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by which, such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

- the impact of worldwide economic conditions on us, our customers and our vendors;
- the impact of any acquisitions or investments in other companies;
- our ability to maintain adequate revenue growth;
- market adoption of InfiniBand;
- our ability to accurately forecast customer demand;
- our dependence on a relatively small number of customers;
- competition and competitive factors;
- our ability to successfully introduce new products and enhance existing products;
- our dependence on third-party subcontractors;
- our ability to carefully manage the use of "open source" software in our products; and
- other risk factors included under "Risk Factors" in this report.

In addition, in this report, the words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "predict," "potential" and similar expressions, as they relate to us, our business and our management, are intended to identify forward-looking statements. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable laws. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

When used in this report, "Mellanox," the "Company," "we," "our" or "us" refers to Mellanox Technologies, Ltd. and its consolidated subsidiaries unless the context requires otherwise.

ITEM 1 *BUSINESS*

Overview

We are a fabless semiconductor company that produces and supplies high-performance interconnect products that facilitate efficient data transmission between servers, storage systems and communications infrastructure equipment and other embedded systems. Our end-to-end solutions, including adapter, gateway and switch ICs, adapter cards, switch systems, gateway systems, software,

Table of Contents

services and cables are an integral part of a total interconnect solution focused on computing, storage and communication applications used in multiple markets, including high-performance computing, or HPC, Web 2.0, storage, financial services, database and cloud. We have established significant expertise with high-performance interconnect solutions through successful development and implementation of multiple generations of our products.

As a leader in developing multiple generations of high-speed interconnect solutions, we have established strong relationships with our customers. Our products are incorporated in servers and associated networking solutions produced by the five largest server vendors, Hewlett-Packard, IBM, Dell, Oracle and Fujitsu, which collectively shipped the majority of servers in 2011, according to industry research firm International Data Corporation. We supply our products to leading storage and communications infrastructure equipment vendors such as Data Direct Networks, Hewlett-Packard, IBM, Isilon/EMC, NetApp, Oracle and Xyratex. Additionally, our products are used as embedded solutions by companies such as GE Fanuc, Toshiba Medical and Sea Change International.

We are one of the pioneers of InfiniBand: an industry-standard architecture that provides specifications for high-performance interconnects. We believe we are the leading supplier of InfiniBand interconnect solutions that deliver industry-leading performance and features, which is demonstrated by the performance, efficiency and scalability of clustered computing and storage systems that incorporate our products. In addition to supporting InfiniBand, our products also support industry-standard Ethernet transmission protocols providing unique product differentiation and connectivity flexibility. Our products serve as building blocks for creating reliable and scalable InfiniBand and Ethernet solutions with leading performance. We also believe that we are one of the early suppliers of 40 Gigabit Ethernet to the market, which allows us the opportunity to gain additional share in the Ethernet market as users upgrade from one or 10 Gigabit directly to 40 Gigabit.

On February 7, 2011, we completed the acquisition of Voltaire Ltd., or Voltaire, a leading provider of scale-out computing fabrics for data centers, high performance computing and cloud environments. Our primary reasons for the Voltaire acquisition were to enhance our position in providing end-to-end interconnect solutions and to expand our software and hardware offerings. The acquisition also enhanced our engineering team and sales force through the addition of Voltaire employees. The acquisition of Voltaire has allowed us to offer a broader product portfolio, provided us with the opportunity to expand our customer base and allowed us to go to market with end-to-end hardware and software solutions for both InfiniBand and Ethernet.

We have been shipping our InfiniBand products since 2001 and our Ethernet products since 2007. During 2008, we introduced Virtual Protocol Interconnect, or VPI, into our ConnectX family of adapter ICs and cards, and in April 2011, we introduced the SwitchX family of switch ICs which incorporates VPI technology. VPI provides the ability for an adapter or switch to automatically sense whether a communications port is connected to Ethernet or InfiniBand, and in some cases, Fibre Channel.

In order to accelerate adoption of our high-performance interconnect solutions and our products, we work with leading vendors across related industries, including:

- processor vendors such as Intel, AMD, IBM and Oracle;
- operating system vendors such as Microsoft, Novell and Red Hat; and
- software applications vendors such as Oracle, IBM and VMware.

We are a Steering Committee member of the InfiniBand Trade Association, or IBTA, and the OpenFabrics Alliance, or OFA, both of which are industry trade organizations that maintain and promote InfiniBand technology. Additionally, OFA supports and promotes Ethernet solutions. We are also a participating member of the Institute of Electrical and Electronic Engineers, or IEEE, an

Table of Contents

organization which facilitates the advancement of the Ethernet standard, Ethernet Alliance and other industry organizations advancing various networking and storage related standards.

Our business headquarters are in Sunnyvale, California, and our engineering headquarters are in Yokneam, Israel. Our total assets for the years ended December 31, 2009, 2010 and 2011 were approximately $275.4 million, $315.8 million, and $530.0 million respectively. During the years ended December 31, 2009, 2010 and 2011, we generated approximately $116.0 million, $154.6 million, and $259.3 million in revenues, respectively, and approximately $12.9 million, $13.5 million, and $10.0 million in net income, respectively.

We measure our business based on one reportable segment: the development, manufacturing, marketing and sales of inter-connect semiconductor products. Additional information required by this item is incorporated herein by reference to Note 13, "Geographic information and revenues by product group," of the Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this report.

Industry Background

High-Performance Interconnect Market Overview and Trends

Computing and storage systems such as servers, supercomputers and storage arrays in today's data centers face a critical challenge of handling exponentially expanding volumes of transactions and data while delivering improved application performance, high scalability and reliability within economic and power constraints. High-performance interconnect solutions remove bottlenecks in communications between resources through fast transfer of data, latency reduction, improved central processing unit, or CPU, utilization and efficient sharing of resources. The result is higher efficiency and utilization of resources that deliver stronger performance using less infrastructure with lower capital expenditures and operating expenses. Large scale applications delivered by leading companies in HPC, Web 2.0, cloud, database and financial services utilize these technologies to deliver their products and services.

Demand for computing power and data storage capacity is rising, fueled by the increasing reliance on enterprises on information technology, or IT, for everyday operations. The increase in compute resources for virtual product design, the increase in online banking and electronic medical records for healthcare and government regulations requiring digital records retention require increased IT capacity. Due to greater amounts of information to be processed, stored and retrieved, data centers rely on high-performance computing and high-capacity storage systems to optimize price/performance, minimize total cost of ownership, utilize power efficiently and simplify management. We believe that several IT trends impact the demand for interconnect solutions and the performance required from these solutions. These trends include:

- Transition to clustered computing and storage using connections among multiple standard components;
- Transition to multiple and multi-core processors in servers;
- Use of solid state memory drives for data storage;
- Enterprise data center infrastructure consolidation;
- Increasing deployments of mission critical, latency, or response time sensitive applications;
- Increasing deployment of virtualized computing resources to improve server utilization;
- Requirements by cloud providers to perform system provisioning, workload migrations and support multiple users' requests faster and more efficiently;
- Requirements by Web 2.0 data centers to increase their hardware utilization and to instantly scale up to large capacities; and

Table of Contents

- Big Data Analytics problems are increasingly looking to HPC type architectures to solve intensive compute requirements.

A number of semiconductor-based interconnect solutions have been developed to address different applications requirements. These solutions include proprietary technologies as well as standard technologies, including Fibre Channel, Ethernet and most recently InfiniBand, which was specifically created for high-performance computing, storage and embedded applications.

Challenges Faced by High-Performance Interconnect

The trends described above indicate that high-performance interconnect solutions will play an increasingly important role in IT infrastructures and will drive strong growth in unit demand. Performance requirements for interconnect solutions, however, continue to evolve and lead to high demand for solutions that are capable of resolving the following challenges to facilitate broad adoption:

- *Performance limitations.* In clustered computing, cloud computing and storage environments, high bandwidth and low latency are key requirements to capture the full performance capabilities of a cluster. With the usage of multiple multi-core processors in server, storage and embedded systems, I/O bandwidth has not been able to keep pace with processor advances, creating performance bottlenecks. Fast data access has become a critical requirement to accommodate microprocessors' increased compute power. In addition, interconnect latency has become a limiting factor in a cluster's overall performance.

- *Increasing complexity.* The increasing usage of clustered servers and storage systems as a critical IT tool has led to an increase in complexity of interconnect configurations. The number of configurations and connections have also proliferated in enterprise data centers, or EDC, making them increasingly complicated to manage and expensive to operate. Additionally, managing multiple software applications utilizing disparate interconnect infrastructures has become increasingly complex.

- *Interconnect inefficiency.* The deployment of clustered computing and storage has created additional interconnect implementation challenges. As additional computing and storage systems, or nodes, are added to a cluster, the interconnect must be able to scale in order to provide the expected increase in cluster performance. Additionally, government attention on data center energy efficiency is causing IT managers to look for ways to adopt more energy-efficient implementations.

- *Limited reliability and stability of connections.* Most interconnect solutions are not designed to provide reliable connections when utilized in a large clustered environment, which can cause data transmission interruption. As more applications in EDCs share the same interconnect, advanced traffic management and application partitioning become necessary to maintain stability and reduce system down time. Such capabilities are not offered by most interconnect solutions.

- *Poor price/performance economics.* In order to provide the required system bandwidth and efficiency, most high-performance interconnects are implemented with complex, multi-chip semiconductor solutions. These implementations have traditionally been extremely expensive.

In addition to InfiniBand, proprietary and other standards-based, high-performance interconnect solutions, including Fibre Channel and Ethernet, are currently used in EDC, HPC and embedded markets. Performance and usage requirements, however, continue to evolve and are now challenging the capabilities of these interconnect solutions.

- Proprietary interconnect solutions have been designed for use in supercomputer applications by supporting low latency and increased reliability. These solutions are only supported by a single vendor for product and software support, and there is no standard organization maintaining and

Table of Contents

facilitating improvements and changes to the technology. The number of supercomputers that use proprietary interconnect solutions has been declining largely due to the availability of industry standards-based interconnects that offer superior price/performance, a lack of compatible storage systems, and the required use of proprietary software solutions.

Fibre Channel is an industry standard interconnect solution limited to storage applications. The majority of Fibre Channel deployments support 2, 4 and 8Gb/s. Fibre Channel lacks a standard software interface, does not provide server cluster capabilities and remains more expensive relative to other standards-based interconnects. There have been industry efforts to support the Fibre Channel data transmission protocol over interconnect technologies including Ethernet (Fibre Channel over Ethernet) and InfiniBand (Fibre Channel over InfiniBand).

Ethernet is an industry-standard interconnect solution that was initially designed to enable basic connectivity between a local area network of computers or over a wide area network, where latency, connection reliability and performance limitations due to communication processing are non-critical. While Ethernet has a broad installed base at 1Gb/s and lower data rates, its overall efficiency, scalability and reliability have been less optimal than certain alternative interconnect solutions in high-performance computing, storage and communication applications. An increase to 10 and 40Gb/s, a significant reduction in application latency and more efficient software solutions have improved Ethernet's capabilities to address specific high-performance applications that do not demand the highest scalability.

In the HPC market the predominant interconnects today are 1Gb/s Ethernet, InfiniBand and 4Gb/s Fibre Channel. In the EDC and embedded markets, the predominant interconnects today are 1Gb/s Ethernet and 4Gb/s Fibre Channel. Based on our knowledge of the industry, we believe there is significant demand for interconnect products that provide high bandwidth and better overall performance in these markets.

Advantages of InfiniBand

We believe that InfiniBand-based solutions have advantages compared to solutions based on alternative interconnect architectures. InfiniBand addresses the significant challenges within IT infrastructures created by more demanding requirements of the high-performance interconnect market. More specifically, we believe that InfiniBand has the following advantages:

Superior performance. In comparison to other interconnect technologies that were architected to have a heavy reliance on communication processing, InfiniBand was designed for implementation in an IC that relieves the central processing unit, or CPU, of communication processing functions. InfiniBand is able to provide superior bandwidth and latency relative to other existing interconnect technologies and has maintained this advantage with each successive generation of products. For example, our current InfiniBand adapters and switches provide bandwidth up to 56Gb/s, with end-to-end latency lower than a microsecond. In addition, InfiniBand fully leverages the I/O capabilities of PCI Express, a high-speed system bus interface standard.

The following table provides a bandwidth comparison of the various high performance interconnect solutions.

	Proprietary	**Fibre Channel**	**Ethernet**	**InfiniBand**
Supported bandwidth of available solutions	2Gb/s - 10Gb/s	2Gb/s - 8Gb/s	1Gb/s - 40Gb/s	10Gb/s - 56Gb/s server-to-server 10Gb/s - 56Gb/s switch-to-switch

Performance in terms of latency varies depending on system configurations and applications. According to independent benchmark reports, latency of InfiniBand solutions was less than half of that of tested Ethernet and proprietary solutions. Fibre Channel, which is used only as a storage interconnect, is typically not benchmarked on latency performance. HPC typically demands low latency interconnect solutions. In addition, there are increasing numbers of latency-sensitive applications in the EDC and embedded markets, and, therefore, there is a trend towards using industry-standard InfiniBand and 10/40Gb/s Ethernet solutions that deliver lower latency than Gigabit Ethernet, which is predominantly used today.

Reduced complexity. While other interconnects require use of individual cables to connect servers, storage and communications infrastructure equipment, InfiniBand allows for the consolidation of multiple I/Os on a single cable or backplane interconnect, which is critical for blade servers and embedded systems. InfiniBand also consolidates the transmission of clustering, communications and storage and management data types over a single connection.

Highest interconnect efficiency. InfiniBand was developed to provide efficient scalability of multiple systems. InfiniBand provides communication processing functions in hardware, relieving the CPU of this task, and enables the full resource utilization of each node added to the cluster.

Reliable and stable connections. InfiniBand is one of the only industry standard high-performance interconnect solutions which provide reliable end-to-end data connections within the silicon hardware. In addition, InfiniBand facilitates the deployment of virtualization solutions, which allow multiple applications to run on the same interconnect with dedicated application partitions. As a result, multiple applications run concurrently over stable connections, thereby minimizing down time.

Superior price/performance economics. In addition to providing superior performance and capabilities, standards-based InfiniBand solutions are generally available at a lower cost than other high-performance interconnects.

Our InfiniBand Solution

We provide comprehensive solutions based on InfiniBand, including HCA, switch and gateway ICs, adapter cards, switch and gateway systems, cables and software. InfiniBand enables us to provide products that we believe offer superior performance and meet the needs of the most demanding applications, while also offering significant improvements in total cost of ownership compared to alternative interconnect technologies. As part of our comprehensive solution, we perform validation and interoperability testing from the physical interface to the applications software. Our expertise in performing validation and testing reduces time to market for our customers and improves the reliability of the fabric solution.

Our Ethernet Solution

Advances in server virtualization, network storage and compute clusters have driven the need for faster network throughput to address application latency and availability problems in the Enterprise. To service this need, we provide a competitive and complete 10/40 Gigabit Ethernet solution for use in Enterprise Data Centers, High-Performance Computing, Embedded environments, and hyperscale web 2.0 and cloud data centers. These solutions remove I/O bottlenecks in mainstream servers that are limiting application performance and support hardware-based I/O virtualization, providing dedicated adapter resources and guaranteed isolation and protection for virtual machines within the server.

Table of Contents

VPI: Providing Connectivity to InfiniBand and Ethernet

In addition to supporting InfiniBand, our latest generation adapter products also support the industry standard Ethernet interconnect specification at 1Gb/s, 10Gb/s and 40Gb/s, and can provide performance up to 56Gb/s. In developing this dual interconnect support, we created VPI. VPI enables us to offer fabric-flexible products that concurrently support both Ethernet and InfiniBand with network ports having the ability to auto sense the type of switch to which it is connected and then take on the characteristics of that fabric. In addition, these products extend certain InfiniBand advantages to Ethernet fabrics, such as reduced complexity and superior price/performance, by utilizing existing, field-proven InfiniBand software solutions.

Our Strengths

We apply our strengths to enhance our position as a leading supplier of semiconductor-based, high-performance interconnect products. We consider our key strengths to include the following:

We have expertise in developing high-performance interconnect solutions. We were founded by a team with an extensive background in designing and marketing semiconductor solutions. Since our founding, we have been focused on high-performance interconnect and have successfully launched several generations of InfiniBand and Ethernet products. We believe we have developed strong competencies in integrating mixed-signal design and developing complex ICs. We have used these competencies along with our knowledge of InfiniBand to design our innovative, next generation, high-performance products that also support the Ethernet interconnect standard. We also consider our software development capability as a key strength, and we believe that our software allows us to offer complete solutions. We have developed a significant portfolio of intellectual property, or IP, and have 51 issued patents. We believe our experience, competencies and IP will enable us to remain a leading supplier of high-performance interconnect solutions.

We believe we are the leading merchant supplier of InfiniBand ICs with a multi-year competitive advantage. We have gained in-depth knowledge of the InfiniBand standard through active participation in its development. We were first to market with InfiniBand products (in 2001) and InfiniBand products that support the standard PCI Express interface (in 2004), PCI Express 2.0 interface (in 2007) and PCI Express 3.0 (in 2011). We have sustained our leadership position through the introduction of several generations of products. Because of our market leadership, vendors have developed and continue to optimize their software products based on our semiconductor solutions. We believe that this places us in an advantageous position to benefit from continuing market adoption of our products.

We have a comprehensive set of technical capabilities to deliver innovative and reliable products. In addition to designing our ICs, we design standard adapter card products and custom adapter card and switch products, providing us a deep understanding of the associated circuitry and component characteristics. We believe this knowledge enables us to develop solutions that are innovative and can be efficiently implemented in target applications. We have devoted significant resources to develop our in-house test development capabilities, which enables us to rapidly finalize our mass production test programs, thus reducing time to market. We have synchronized our test platform with our outsourced testing provider and are able to conduct quality control tests with minimal disruption. We believe that because our capabilities extend from product definition, through IC design, and ultimately management of our high-volume manufacturing partners, we have better control over our production cycle and are able to improve the quality, availability and reliability of our products.

We have extensive relationships with our key OEM customers and many end users. Since our inception we have worked closely with major OEMs, including leading server, storage,

Table of Contents

communications infrastructure equipment and embedded systems vendors, to develop products that accelerate market adoption of our InfiniBand and Ethernet products. During this process we have obtained valuable insight into the challenges and objectives of our customers, and gained visibility into their product development plans. We also have established end-user relationships with influential IT executives who allow us access to firsthand information about evolving EDC, HPC and embedded market trends. We believe that our OEM customer and end-user relationships allow us to stay at the forefront of developments and improve our ability to provide compelling solutions to address their needs.

Our Strategy

Our goal is to be the leading supplier of end-to-end interconnect solutions for servers and storage that optimize data center performance for computing, storage and communications applications. To accomplish this goal, we intend to:

Continue to develop leading, high-performance interconnect products. We will continue to expand our technical expertise and customer relationships to develop leading interconnect products. We are focused on extending our leadership position in high-performance interconnect technology and pursuing a product development plan that addresses emerging customer and end-user demands and industry standards. In order to expand our market opportunity, we have added products that are compatible with the Ethernet interconnect standard in addition to InfiniBand. These products will allow our customers to capture certain advantages of InfiniBand while providing connectivity to Ethernet-based infrastructure equipment. Our unified software strategy is to use a single software stack to support connectivity to InfiniBand and Ethernet with the same VPI enabled hardware adapter device.

Facilitate and increase the continued adoption of InfiniBand. We will facilitate and increase the continued adoption of InfiniBand in the high-performance interconnect marketplace by expanding our partnerships with key vendors that drive high-performance interconnect adoption, such as suppliers of processors, operating systems and other associated software. In conjunction with our OEM customers, we will expand our efforts to promote the benefits of InfiniBand and VPI directly to end users to increase demand for high performance interconnect solutions.

Expand our presence with existing server OEM customers. We believe the leading server vendors are influential drivers of high-performance interconnect technologies to end users. We plan to continue working with and expanding our relationships with server OEMs to increase our presence in their current and future product platforms.

Broaden our customer base with storage, communications infrastructure and embedded systems OEMs. We believe there is a significant opportunity to expand our global customer base with storage, communications infrastructure and embedded systems OEMs. In storage solutions specifically, we believe our products are well suited to replace existing technologies such as Fibre Channel. We believe our products are the basis of superior interconnect fabrics for unifying disparate storage interconnects, including back-end, clustering and front-end connections, primarily due to their ability to be a unified fabric and superior price/performance economics.

Leverage our fabless business model to deliver strong financial performance. We intend to continue operating as a fabless semiconductor company and consider outsourced manufacturing of our ICs, adapter cards and switches to be a key element of our strategy. Our fabless business model offers flexibility to meet market demand and allows us to focus on delivering innovative solutions to our customers. We plan to continue to leverage the flexibility and efficiency offered by our business.

Table of Contents

Our Products

We provide complete solutions which are based on and meet the specifications of the InfiniBand standard in addition to products that also support the Ethernet standard. Our InfiniBand products include adapter ICs and cards (InfiniHost® product family) and switch ICs (InfiniScale® product family) and systems, gateway ICs (BridgeX® product family) and gateway systems, software and cables. Our latest 4^{th}, 5^{th} and 6^{th} generation adapters and cards (ConnectX®, ConnectX-2 and ConnectX-3 product families) also support the Ethernet interconnect standard in addition to InfiniBand. Our SwitchX family of silicon and systems supports both Ethernet and InfiniBand, and includes gateways to Fibre Channel. Our gateway devices support bridging capabilities from InfiniBand to Ethernet.

We have registered "Mellanox", "BridgeX", "ConnectX", "CORE-Direct", "InfiniBridge", "InfiniHost", "InfiniScale", "PhyX", "SwitchX", "Virtual Protocol Interconnect" and "Voltaire" as trademarks in the United States. We have a trademark application pending to register "FabricIT", "MLNX-OS" and "Unbreakable-Link".

We provide adapters to server, storage, communications infrastructure and embedded systems OEMs as ICs or standard card form factors with PCI-X or PCI Express interfaces. Adapter ICs or cards are incorporated into OEM server and storage systems to provide InfiniBand and/or Ethernet connectivity. All of our adapter products interoperate with standard programming interfaces and are compatible with previous generations, providing broad industry support. We also support server operating systems including Linux, Windows, AIX, HPUX, Solaris and VxWorks.

We also provide our switch ICs to server, storage, communications infrastructure and embedded systems OEMs to create switching equipment. To deploy an InfiniBand or Ethernet fabric, any number of server or storage systems that contain an adapter can be connected to a communications infrastructure system such as an InfiniBand or Ethernet switch. Our 5^{th} generation switch IC (SwitchX) supports up to 56Gb/s InfiniBand and Ethernet throughput. We have also introduced switch systems that include 8-port, 18-port, 36-port, 108-port, 216-port, 324-port and 648-port.

Our products generally vary by the number and performance of InfiniBand and/or Ethernet ports supported.

We also offer custom products that incorporate our ICs to select server and storage OEMs that meet their special system requirements. Through these custom product engagements we gain insight into the OEMs' technologies and product strategies.

We also provide our OEM customers software and tools that facilitate the use and management of our products. Developed in conjunction with the OFA, our Linux- and Windows-based software enables applications to efficiently utilize the features of the interconnect. We have expertise in optimizing the performance of software that spans the entire range of upper layer protocols down through the lower level drivers that interface to our products. We provide a suite of software tools and a comprehensive management software solution, Unified Fabric Manager, for managing, optimizing, testing and verifying the operation of InfiniBand and Ethernet switch fabrics. We also provide gateway management software, FabricIT BridgeX Manager, which runs on top of our BridgeX gateway systems to manage I/O consolidation from an InfiniBand network to Ethernet and Fibre Channel for cluster, cloud and virtual environments. In addition, we provide a full suite of acceleration software (Virtual Messaging Accelerator, or VMA, Fabric Collective Accelerator, or FCA, Virtual Storage Accelerator, or VSA, and Unstructured Data Accelerator, or UDA) that further reduce latency, increase throughput, and offload CPU cycles, enhancing the performance of applications in multiple markets while eliminating the need for large investments in hardware infrastructure.

We provide an extensive selection of passive and optical cabling and modules to enable InfiniBand and Ethernet connectivity.

Table of Contents

Technology

We have technological core competencies in the design of high-performance interconnect ICs that enable us to provide a high level of integration, efficiency, flexibility and performance for our adapter and switch ICs. Our products integrate multiple complex components onto a single IC, including high-performance mixed-signal design, specialized communication processing functions and advanced interfaces.

High-performance mixed-signal design

One of the key technology differentiators of our ICs is our mixed-signal data transmission SerDes technology. SerDes I/O directly drives the interconnect interface, which provides signaling and transmission of data over copper interconnects and cables or fiber optic interfaces for longer distance connections. We are the only company that has shipped field-proven integrated controller ICs that operate with a 14Gb/s SerDes over a ten meter InfiniBand copper cable Additionally, we are able to integrate several of these high-performance SerDes onto a single, low-power IC, enabling us to provide the highest bandwidth, merchant switch ICs based on an industry-standard specification. We have developed a 14Gb/s SerDes I/O that is used in our 5th generation ConnectX adapter that supports both InfiniBand and Ethernet, as well as our 5th generation SwitchX switch IC that supports InfiniBand and Ethernet. Our 14Gb/s SerDes enables our ConnectX adapters to support 56Gb/s bandwidth (four 14Gb/s SerDes operating in parallel) in addition to providing a direct 10Gb/s connection to standard XFP and SFP+ fiber modules to provide long range Ethernet connectivity without the requirement of additional components, which saves power, cost and board space.

Specialized communication processing and switching functions

We also specialize in high-performance, low-latency design architectures that incorporate significant memory and logic areas requiring proficient synthesis and verification. Our adapter ICs are specifically designed to perform communication processing, effectively offloading this very intensive task from server and storage processors in a cost-effective manner. Our switch ICs are specifically designed to switch cluster interconnect data transmissions from one port to another with high bandwidth and low latency, and we have developed a packet switching engine and non-blocking crossbar switch fabric to address this.

We have developed a custom embedded Reduced Instruction Set Computer processor called InfiniRISC® that specializes in offloading network processing from the host server or storage system and adds flexibility, product differentiation and customization. We integrate a different number of these processors in a device depending on the application and feature targets of the particular product. Integration of these processors also shortens development cycles as additional features can be added by providing new programming packages after the ICs are manufactured, and even after they are deployed in the field.

Advanced interfaces

In addition to InfiniBand and Ethernet interfaces, we also provide other industry-standard, high-performance advanced interfaces such as PCI Express, PCI Express 2.0 and PCI Express 3.0 which also utilize our mixed-signal SerDes I/O technology. PCI Express is a high-speed, chip-to-chip interface which provides a high-performance interface between the adapter and processor in server and storage systems. PCI Express and our high-performance interconnect interfaces are complementary technologies that facilitate optimal bandwidth for data transmissions along the entire connection starting from a processor of one system in the cluster to another processor in a different system.

Table of Contents

System hardware technology

In addition to silicon technology, we also provide system hardware technology that enables us to build high-density high-performance network adapters and switch systems. Our technology delivers end-to-end solutions that maximize data throughput through a given media at minimal hardware or power cost at very low Bit Error Rate (BER).

Software technology

In addition to hardware products, we develop and provide software stacks to expose standard IO interfaces to the consumer applications on the host and to network management applications within the network. We also provide advanced interfaces and capabilities to enable application acceleration, efficient resource management and utilization in data centers, factoring cost, power and performance into the efficiency equation.

Customers

EDC, HPC and embedded end-user markets for systems utilizing our products are mainly served by leading server, storage and communications infrastructure OEMs. In addition, our customer base includes leading embedded systems OEMs that integrate computing, storage and communication functions that use high-performance interconnect solutions contained in a chassis which has been optimized for a particular environment.

Representative OEM customers in these areas include:

Server	Storage	Communications Infrastructure Equipment	Embedded Systems
Dell	HP	Oracle	GE Fanuc
HP	Network Appliance	Xsigo	Toshiba Medical
IBM	Isilon/EMC		Sea Change International
Oracle	Xyratex		
Fujitsu			

We sold products to more than 269 customers worldwide in the year ended December 31, 2011.

A small number of customers account for a significant portion of our revenues. In the year ended December 31, 2011, sales to Hewlett-Packard accounted for 19% of our total revenues and sales to IBM accounted for 17% of our total revenues. In the year ended December 31, 2010, sales to Hewlett-Packard accounted for 15% of our total revenues and sales to Dell accounted for 12% of our total revenues. In the year ended December 31, 2009, sales to Hewlett-Packard accounted for 15% of our total revenues, sales to IBM accounted for 11% of our total revenues and sales to Supermicro Computer Inc. accounted for 10% of our total revenues.

Sales and Marketing

We sell our products worldwide through multiple channels, including our direct sales force, our network of domestic and international sales representatives and independent distributors. We have strategically located sales personnel in the United States, Europe, China, Japan, India, Taiwan and South America. Our sales directors focus their efforts on leading OEMs and target key decision makers. We are also in frequent communication with our customers' and partners' sales organizations to jointly promote our products and partner solutions into end-user markets. We have expanded our sales and business development teams to engage directly with end users promoting the benefits of our products which we believe creates additional demand for our customers' products that incorporate our products.

Table of Contents

Our sales support organization is responsible for supporting our sales channels and managing the logistics from order entry to the delivery of products to our customers. In addition, our sales support organization is responsible for customer and revenue forecasts, customer agreements and program management for our large, multi-national customers. Customers within North America are supported by our staff in California and customers outside of North America are supported by our staff in Israel.

To accelerate design and qualification of our products into our OEM customers' systems, and ultimately the deployment of our technology by our customers to end users, we have a field applications engineering, or FAE, team and an internal support engineering team that provide direct technical support. In certain situations, our OEM customers will also utilize our expertise to support their end-user customers jointly. Our technical support personnel have expertise in hardware and software, and have access to our development team to ensure proper service and support for our OEM customers. Our FAE team provides OEM customers with design and review capabilities of their systems in addition to technical training on the technology we have implemented in our products.

Our marketing team is responsible for product strategy and management, future product plans and positioning, pricing, product introductions and transitions, competitive analysis, marketing communications and raising the overall visibility of our company. The marketing team works closely with both the sales and research and development organizations to properly align development programs and product launches with market demands.

Our marketing team leads our efforts to promote our interconnect technology and our products to the entire industry by:

- assuming leadership roles within IBTA, OFA and other industry trade organizations;
- participating in tradeshows, press and analyst briefings, conference presentations and seminars for end-user education; and
- building and maintaining active partnerships with industry leaders whose products are important in driving InfiniBand and Ethernet adoption, including vendors of processors, operating systems and software applications.

Research and Development

Our research and development team is composed of experienced semiconductor designers, software developers and system designers. Our semiconductor design team has extensive experience in all phases of complex, high-volume design, including product definition and architecture specification, hardware code development, mixed-signal and analog design and verification. Our software team has extensive experience in development, verification, interoperability testing and performance optimization of software for use in computing and storage applications. Our systems design team has extensive experience in all phases of high-volume adapter card and custom switch designs including product definition and architectural specification, product design, design verification and transfer to production.

We design our products with careful attention to quality, reliability, cost and performance requirements. We utilize a methodology called Customer Owned Tooling, or COT, where we control and manage a significant portion of timing, layout design and verification in-house, before sending the semiconductor design to our third-party manufacturer. Although COT requires a significant up-front investment in tools and personnel, it provides us with greater control over the quality and reliability of our IC products as opposed to relying on third-party verification services, as well as better product cost and time to market.

We choose first tier technology vendors for our design tools and continue to maintain long-term relationships with our vendors to ensure timely support and updates. We also select a mainstream silicon manufacturing process only after it has proven its production worthiness. We verify that actual silicon characterization and performance measurements strongly correlate to models that were used to simulate the device while in design, and that our products meet frequency, power and thermal targets with good margins. Furthermore, we insert Design-for-Test circuitry into our IC products which increases product quality, provides expanded debugging capabilities and ultimately enhances system-level testing and characterization capabilities once the device is integrated into our customers' products.

Frequent interaction between our silicon, software and systems design teams gives us a comprehensive view of the requirements necessary to deliver quality, high-performance products to our OEM customers. Our research and development expense was $92.5 million in 2011, $56.8 million in 2010 and $42.2 million in 2009.

Manufacturing

We depend on third-party vendors to manufacture, package, assemble and production test our products as we do not own or operate a semiconductor fabrication, packaging or production testing facility or boards and system assembly. By outsourcing manufacturing, we are able to avoid the high cost associated with owning and operating our own facilities while managing flexible capacity. This allows us to focus our efforts on the design and marketing of our products.

Manufacturing and Testing. We use Taiwan Semiconductor Manufacturing Company, or TSMC, to manufacture and Advanced Semiconductor Engineering, or ASE, to assemble, package and production test our IC products. We use Flextronics International Ltd., Sanmina-SCI Corporation and A.L Electronics Engineering and Production Services Ltd. to manufacture our standard and custom adapter card products and switch systems. In addition, we also use Comtel Electronics to manufacture some of our switch systems. We maintain close relationships with our suppliers, which improves the efficiency of our supply chain. We focus on mainstream processes, materials, packaging and testing platforms, and have a continuous technology assessment program in place to choose the appropriate technologies to use for future products. We provide all of our suppliers a 6-month rolling forecast, and generally receive their confirmation that they are able to accommodate our needs on a monthly basis. We have access to online production reports that provide up-to-date status information of our products as they flow through the manufacturing process. On a quarterly basis, we generally review lead-time, yield enhancements and pricing with all of our suppliers to obtain the optimal cost for our products.

Quality Assurance. We maintain an ongoing review of product manufacturing and testing processes. Our IC products are subjected to extensive testing to assess whether their performance exceeds the design specifications. We own an in-house Teradyne Tiger IC tester which provides us with immediate test data and the ability to generate characterization reports that are made available to our customers. Our adapter cards and custom switch system products are subject to similar levels of testing and characterization, and are additionally tested for regulatory agency certifications such as Safety and EMC (radiation test) which are made available to our customers. We only use components on these products that are qualified to be on our approved vendor list.

Requirements Associated with the OCS. Israeli law requires that we manufacture our products developed with government grants in Israel unless we otherwise obtain approval from the Office of the Chief Scientist of Israel's Ministry of Industry Trade and Labor, or the OCS. This approval, if provided, is generally conditioned on an increase in the total amount to be repaid to the OCS, ranging from 120% to 300% of the amount of funds granted. The specific increase would depend on the extent of the manufacturing to be conducted outside of Israel. The restriction on manufacturing outside of Israel does not apply to the extent that we disclosed our plans to manufacture outside of Israel when we filed the application for funding (and provided the application was approved based on the information disclosed in the application). We have indicated our intent to manufacture outside of Israel on some of our grant applications, and the OCS has approved the manufacture of our IC products outside of Israel, subject to our undertaking to pay the OCS royalties from the sales of these products up to 120%

of the amount of OCS funds granted. The manufacturing of our IC products outside of Israel, including those products manufactured by TSMC and ASE, is in compliance with the terms of our grant applications and applicable provisions of Israeli law. Under applicable Israeli law, Israeli government consent is required to transfer technologies developed under projects funded by the government to third parties outside of Israel. Transfer of OCS-funded technologies outside of Israel is permitted with the approval of the OCS and in accordance with the restrictions and payment obligations set forth under Israeli law. Israeli law further specifies that both the transfer of know-how as well as the transfer of IP rights in such know-how are subject to the same restrictions. These restrictions do not apply to exports from Israel or the sale of products developed with these technologies. The Company does not anticipate the need to transfer any of its intellectual property rights outside of Israel at this time.

Employees

As of December 31, 2011, we had 778 full-time employees and 63 part-time employees, including 601 in research and development, 145 in sales and marketing, 61 in general and administrative and 34 in operations. 648 of our full-time employees and all of our 63 part-time employees are located in Israel.

Certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (including the Industrialists' Associations) are applicable to our employees in Israel by order of the Israeli Ministry of Industry, Trade and Labor. These provisions primarily concern the length of the workday and pension fund benefits for all employees. We generally provide our employees with benefits and working conditions above the required minimums.

We have never experienced any employment-related work stoppages and believe our relationship with our employees is good.

Intellectual Property

One of the key values and drivers for future growth of our high-performance interconnect IC, system hardware and software products is the IP we develop and use to improve them. We believe that the main value proposition of our high-performance interconnect products and success of our future growth will depend on our ability to protect our IP. We rely on a combination of patent, copyright, trademark, mask work, trade secret and other IP laws, both in the United States and internationally, as well as confidentiality, non-disclosure and inventions assignment agreements with our employees, customers, partners, suppliers and consultants to protect and otherwise seek to control access to, and distribution of, our proprietary information and processes. In addition, we have developed technical knowledge, which, although not patented, we consider to be significant in enabling us to compete. The proprietary nature of such knowledge, however, may be difficult to protect and we may be exposed to competitors who independently develop the same or similar technology or gain access to our knowledge.

The semiconductor industry is characterized by frequent claims of infringement and litigation regarding patent and other IP rights. We, like other companies in the semiconductor industry, believe it is important to aggressively protect and pursue our IP rights. Accordingly, to protect our rights, we may file suit against parties whom we believe are infringing or misappropriating our IP rights. These measures may not be adequate to protect our technology from third party infringement or misappropriation, and may be costly and may divert management's attention away from day-to-day operations. We may not prevail in these lawsuits. If any party infringes or misappropriates our IP rights, this infringement or misappropriation could materially adversely affect our business and competitive position.

Table of Contents

As of December 31, 2011, we had 37 issued patents and 47 patent applications pending in the United States, five issued patents in Taiwan, five issued patents in Israel, two issued patents in the United Kingdom, one patent issued each in Germany and France, and two patent applications pending in China which cover aspects of the technology in our products. The term of any issued patent in the United States and Israel is 20 years from its filing date and if our applications are pending for a long time period, we may have a correspondingly shorter term for any patent that may be issued. Our present and future patents may provide only limited protection for our technology and may not be sufficient to provide competitive advantages to us. Furthermore, we cannot assure you that any patents will be issued to us as a result of our patent applications.

The risks associated with patents and intellectual property are more fully discussed under the section entitled "Risk Factors" under Item 1A of this report.

Competition

The markets in which we compete are highly competitive and are characterized by rapid technological change, evolving industry standards and new demands on features and performance of interconnect solutions. We compete primarily on the basis of:

- price/performance;
- time to market;
- features and capabilities;
- wide availability of complementary software solutions;
- reliability;
- power consumption;
- customer and application support;
- product roadmap;
- intellectual property; and
- reputation.

We believe that we compete favorably with respect to each of these criteria. Many of our current and potential competitors, however, have longer operating histories, significantly greater resources, greater economies of scale, stronger name recognition and a larger base of customers than we do. This may allow them to respond more quickly than we are able to respond to new or emerging technologies or changes in customer requirements. Many of our competitors also have significant influence in the semiconductor industry. They may be able to introduce new technologies or devote greater resources to the development, marketing and sales of their products than we can. Furthermore, in the event of a manufacturing capacity shortage, these competitors may be able to manufacture products when we are unable to do so.

We compete with other providers of semiconductor-based high performance interconnect products based on InfiniBand, Ethernet, Fibre Channel and proprietary technologies. With respect to InfiniBand products, we compete with QLogic Corporation. On January 23, 2012, QLogic announced that Intel Corporation agreed to acquire the product lines and certain assets associated with the QLogic's InfiniBand business and assume certain liabilities related thereto. The acquisition is expected to close in the first quarter of 2012. In EDCs, products based on the

InfiniBand standard primarily compete with two different industry-standard interconnect technologies, namely Ethernet and Fibre Channel. For Ethernet technology, the leading IC vendors include Emulex, Intel and Broadcom Corporation. The leading IC vendors that provide Ethernet and Fibre Channel products to the market include Marvell Technology Group, Emulex Corporation and QLogic Corporation. The leading Ethernet switch system vendors include Cisco and Arista. In HPC, products based on the InfiniBand standard primarily

Table of Contents

compete with the industry-standard Ethernet and Fibre Channel interconnect technologies. In embedded markets, we typically compete with interconnect technologies that are developed in-house by system OEM vendors and created for specific applications.

Acquisition of Voltaire Ltd.

In February, 2011, we acquired Voltaire Ltd. ("Voltaire"). Voltaire designs and develops scale-out computing fabrics for data centers, high performance computing and cloud computing environments. Voltaire's family of scale-out fabric switches, application acceleration software and advanced fabric management software improves the performance of mission-critical applications, increases efficiency and reduces costs through infrastructure consolidation, and lower power consumption. Our primary reasons for the Voltaire acquisition were to enhance our position in providing end-to-end interconnect solutions and to expand our software and hardware offerings. The acquisition also enhanced our engineering team and sales force through the addition of Voltaire employees. The acquisition of Voltaire has allowed us to offer a broader product portfolio, provided us with the opportunity to expand our customer base and allowed us to go to market with end-to-end hardware and software solutions for both InfiniBand and Ethernet.

Additional Information

We were incorporated under the laws of Israel in March 1999. Our ordinary shares began trading on the NASDAQ Global Market as of February 8, 2007 under the symbol "MLNX" and on the Tel-Aviv Stock Exchange as of July 9, 2007 under the symbol "MLNX." Prior to February 8, 2007, our ordinary shares were not traded on any public exchange.

Our principal executive offices in the United States are located at 350 Oakmead Parkway, Suite 100, Sunnyvale, California 94085, and our principal executive offices in Israel are located at Beit Mellanox, Yokneam, Israel 20692. The majority of our assets are located in the United States. Our telephone number in Sunnyvale, California is (408) 970-3400, and our telephone number in Yokneam, Israel is +972-4-909-7200. Michael Gray is our agent for service of process in the United States, and is located at our principal executive offices in the United States. Our website address is www.mellanox.com. Information contained on our website is not a part of this report and the inclusion of our website address in this report is an inactive textual reference only.

Available Information

We file reports with the Securities and Exchange Commission, or SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any other filings required by the SEC. We post on the Investor Relations pages of our website, ir.mellanox.com, links to our filings with the SEC, our Code of Business Conduct and Ethics, our Complaint and Investigation Procedures for Accounting, Internal Accounting Controls, Fraud or Auditing Matters and the charters of our Audit, Compensation and Nominating and Corporate Governance Committees of our board of directors and the charter of our Disclosure Committee. Our filings with the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any other filings required by the SEC, are posted on our website as soon as reasonably practical after they are electronically filed with, or furnished to, the SEC. You can also obtain copies of these documents, without charge to you, by writing to us at: Investor Relations, c/o Mellanox Technologies, Inc., 350 Oakmead Parkway, Suite 100 Sunnyvale, California 94085 or by emailing us at: ir@mellanox.com. All these documents and filings are available free of charge. Please note that information contained on our website is not incorporated by reference in, or considered to be a part of, this report. Further, a copy of this report on Form 10-K is located at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding our filings at www.sec.gov.

Table of Contents

ITEM 1A *RISK FACTORS*

Investing in our ordinary shares involves a high degree of risk. You should carefully consider the following risk factors, in addition to the other information set forth in this report, before purchasing our ordinary shares. Each of these risk factors could harm our business, financial condition or operating results, as well as decrease the value of an investment in our ordinary shares.

Risks Related to Our Business

The semiconductor industry may be adversely impacted by worldwide economic uncertainties which may cause our revenues and profitability to decline.

We operate primarily in the semiconductor industry, which is cyclical and subject to rapid change and evolving industry standards. From time to time, the semiconductor industry has experienced significant downturns characterized by decreases in product demand and excess customer inventories. Economic volatility can cause extreme difficulties for our customers and vendors to accurately forecast and plan future business activities. This unpredictability could cause our customers to reduce spending on our products and services, which would delay and lengthen sales cycles. Furthermore, during challenging economic times our customers and vendors may face issues gaining timely access to sufficient credit, which could affect their ability to make timely payments to us. As a result, we may experience growth patterns that are different than the end demand for products, particularly during periods of high volatility.

We cannot predict the timing, strength or duration of any economic slowdown or recovery or the impact of such events on our customers, our vendors or us. The combination of our lengthy sales cycle coupled with challenging macroeconomic conditions could have a compound impact on our business. The impact of market volatility is not limited to revenue but may also affect our product gross margins and other financial metrics. Any downturn in the semiconductor industry may be severe and prolonged, and any failure of the industry to fully recover from downturns could seriously impact our revenue and harm our business, financial condition and results of operations.

We may pursue acquisitions of other companies or new or complementary products, technologies and businesses, which could harm our operating results, may disrupt our business and could result in unanticipated accounting charges.

In February, 2011, we acquired Voltaire and we may pursue acquisitions of other companies or new or complementary products, technologies and businesses in the future. Acquisitions, like our acquisition of Voltaire, create additional, material risk factors for our business that could cause our results to differ materially and adversely from our expected or projected results. Such risk factors include the effects of possible disruption to the continued expansion of our product lines, potential changes in our customer base and changes to the total available market for our products, reduced demand for our products, the impact of any such acquisition on our financial results, negative customer reaction to any such acquisition and our ability to successfully integrate an acquired company's operations with our operations.

Acquisitions, such as our acquisition of Voltaire, present a number of other potential risks and challenges that could disrupt our business operations. For example, we may not be able to successfully negotiate or finance the acquisition on favorable terms. If an acquired company also has inventory that we assume, we will be required to write up the carrying value of that inventory to its fair value. When that inventory is sold, the gross margins for those products are reduced and our gross margins for that period are negatively affected. Furthermore, the purchase price of any acquired businesses may exceed the current fair values of the net tangible assets of such acquired businesses. As a result, we would be required to record material amounts of goodwill, acquired in-process research and development and other intangible assets, which could result in significant impairment and acquired in-process research

Table of Contents

and development charges and amortization expense in future periods. These charges, in addition to the results of operations of such acquired businesses and potential restructuring costs associated with an acquisition, could have a material adverse effect on our business, financial condition and results of operations. We cannot forecast the number, timing or size of future acquisitions, or the effect that any such acquisitions might have on our operating or financial results. Furthermore, potential acquisitions, whether or not consummated, will divert our management's attention and may require considerable cash outlays at the expense of our existing operations. In addition, to complete future acquisitions, we may issue equity securities, incur debt, assume contingent liabilities or have amortization expenses and write-downs of acquired assets, which could adversely affect our profitability.

We have made and may in the future pursue investments in other companies, which could harm our operating results.

We have made, and could make in the future, investments in technology companies, including privately-held companies in a development stage. Many of these private equity investments are inherently risky because the companies' businesses may never develop, and we may incur losses related to these investments. In addition, we may be required to write down the carrying value of these investments to reflect other-than-temporary declines in their value, which could have a material adverse effect on our financial position and results of operations.

We do not expect to sustain our historical revenue growth rate, which may reduce our share price.

Our revenues increased by 8%, 33% and 68% in 2009, 2010 and 2011, respectively. Our revenues increased from $107.7 million to $116.0 million to $154.6 million to $259.3 million for the years ended December 31, 2008, 2009, 2010 and 2011, respectively. Our revenue growth rate has fluctuated during recent years and we may not be able to sustain this growth rate in future periods. You should not rely on the revenue growth of any prior quarterly or annual periods as an indication of our future performance. If we are unable to maintain adequate revenue growth, we may not have adequate resources to execute our business objectives and our share price may decline.

InfiniBand may not be adopted at the rate or extent that we anticipate, and adoption of InfiniBand is largely dependent on third-party vendors and end users.

While the usage of InfiniBand has increased since its first specifications were completed in October 2000, continued adoption of InfiniBand is dependent on continued collaboration and cooperation among information technology, or IT, vendors. In addition, the end users that purchase IT products and services from vendors must find InfiniBand to be a compelling solution to their IT system requirements. We cannot control third-party participation in the development of InfiniBand as an industry standard technology. We rely on server, storage, communications infrastructure equipment and embedded systems vendors to incorporate and deploy InfiniBand integrated circuits, or ICs, in their systems. InfiniBand may fail to effectively compete with other technologies, which may be adopted by vendors and their customers in place of InfiniBand. The adoption of InfiniBand is also affected by the general replacement cycle of IT equipment by end users, which is dependent on factors unrelated to InfiniBand. These factors may reduce the rate at which InfiniBand is incorporated by our current server vendor customers and impede its adoption in the storage, communications infrastructure and embedded systems markets, which in turn would harm our ability to sell our InfiniBand products.

We have limited visibility into end-user demand for our products and generally have short inventory cycles, which introduce uncertainty into our revenue and production forecasts and business planning and could negatively impact our financial results.

Our sales are made on the basis of purchase orders rather than long-term purchase commitments. In addition, our customers may defer purchase orders. We place orders with the manufacturers of our

Table of Contents

products according to our estimates of customer demand. This process requires us to make multiple demand forecast assumptions with respect to both our customers' and end users' demands. It is more difficult for us to accurately forecast end-user demand because we do not sell our products directly to end users. In addition, the majority of our adapter card business is conducted on a short order fulfillment basis, introducing more uncertainty into our forecasts. Because of the lead time associated with fabrication of our semiconductors, forecasts of demand for our products must be made in advance of customer orders. In addition, we base business decisions regarding our growth on our forecasts for customer demand. As we grow, anticipating customer demand may become increasingly difficult. If we overestimate customer demand, we may purchase products from our manufacturers that we may not be able to sell and may over-budget our operations. Conversely, if we underestimate customer demand or if sufficient manufacturing capacity were unavailable, we would forego revenue opportunities and could lose market share or damage our customer relationships.

In addition, the majority of our revenues are derived from customer orders received and fulfilled in the same quarterly period. If we overestimate customer demand, we could miss our quarterly revenue targets, which could have a material adverse effect on our financial results.

We depend on a small number of customers for a significant portion of our sales, and the loss of any one of these customers will adversely affect our revenues.

A small number of customers account for a significant portion of our revenues. For the year ended December 31, 2011, sales to Hewlett-Packard and IBM accounted for 19% and 17%, respectively, of our total revenues, while sales to our top ten customers accounted for 70% of our revenues. For the year ended December 31, 2010, sales to Hewlett-Packard and Dell accounted for 15% and 12%, respectively, of our total revenues, while sales to our top ten customers accounted for 71% of our revenues. Because the majority of servers, storage, communications infrastructure equipment and embedded systems are sold by a relatively small number of vendors, we expect that we will continue to depend on a small number of customers to account for a significant percentage of our revenues for the foreseeable future. Our customers, including our most significant customers, are not obligated by long-term contracts to purchase our products and may cancel orders with limited potential penalties. If any of our large customers reduces or cancels its purchases from us for any reason, it could have an adverse effect on our revenues and results of operations.

We face intense competition and may not be able to compete effectively, which could reduce our market share, net revenues and profit margin.

The markets in which we operate are extremely competitive and are characterized by rapid technological change, continuously evolving customer requirements and fluctuating average selling prices. We may not be able to compete successfully against current or potential competitors. With respect to InfiniBand products, we compete with QLogic Corporation. On January 23, 2012, QLogic announced that Intel Corporation agreed to acquire the product lines and certain assets associated with the QLogic's InfiniBand business and assume certain liabilities related thereto. The acquisition is expected to close in the first quarter of 2012. In EDCs, products based on the InfiniBand standard primarily compete with two different industry-standard interconnect technologies, namely Ethernet and Fibre Channel. For Ethernet technology, the leading IC vendors include Emulex, Intel and Broadcom Corporation. The leading IC vendors that provide Ethernet and Fibre Channel products to the market include Marvell Technology Group, Emulex Corporation and QLogic Corporation. The leading Ethernet switch system vendors include Cisco and Arista. In HPC, products based on the InfiniBand standard primarily compete with the industry-standard Ethernet and Fibre Channel interconnect technologies. In embedded markets, we typically compete with interconnect technologies that are developed in-house by system OEM vendors and created for specific applications.

Table of Contents

Some of our customers are also integrated circuit and switch suppliers and already have in-house expertise and internal development capabilities similar to ours. Licensing our technology and supporting such customers entails the transfer of intellectual property rights that may enable such customers to develop their own products and solutions to replace those we are currently providing to them. Consequently, these customers may become competitors to us. Further, each new design by a customer presents a competitive situation. In the past, we have lost design wins to divisions within our customers and this may occur again in the future. We cannot predict whether these customers will continue to compete with us, whether they will continue to be our customers or whether they will continue to buy products from us at the same volumes. Competition could increase pressure on us to lower our prices and could negatively affect our profit margins.

Many of our current and potential competitors have longer operating histories, significantly greater resources, greater economies of scale, stronger name recognition and larger customer bases than we have. This may allow them to respond more quickly than we are able to respond to new or emerging technologies or changes in customer requirements. In addition, these competitors may have greater credibility with our existing and potential customers. If we do not compete successfully, our market share, revenues and profit margin may decline, and, as a result, our business may be adversely affected.

If we fail to develop new products or enhance our existing products to react to rapid technological change and market demands in a timely and cost-effective manner, our business will suffer.

We must develop new products or enhance our existing products with improved technologies to meet rapidly evolving customer requirements. We are currently engaged in the development process for next generation products, and we need to successfully design our next generation and other products for customers who continually require higher performance and functionality at lower costs. The development process for these advancements is lengthy and will require us to accurately anticipate technological innovations and market trends. Developing and enhancing these products can be time-consuming, costly and complex. Our ability to fund product development and enhancements partially depends on our ability to generate revenues from our existing products.

There is a risk that these developments or enhancements, such as the migration of our next generation products from 90nm to 40nm to lower geometry process technologies, will be late, will have technical problems, fail to meet customer or market specifications and will not be competitive with other products using alternative technologies that offer comparable performance and functionality. We may be unable to successfully develop additional next generation products, new products or product enhancements. Our next generation products or any new products or product enhancements may not be accepted in new or existing markets. Our business will suffer if we fail to continue to develop and introduce new products or product enhancements in a timely manner or on a cost-effective basis.

We rely on a limited number of subcontractors to manufacture, assemble, package and production test our products, and the failure of any of these third-party subcontractors to deliver products or otherwise perform as requested could damage our relationships with our customers, decrease our sales and limit our growth.

While we design and market our products and conduct test development in-house, we do not manufacture, assemble, package and production test our products, and we must rely on third-party subcontractors to perform these services. We currently rely on Taiwan Semiconductor Manufacturing Company, or TSMC, to produce our silicon wafers, and Flextronics International Ltd. to manufacture and production test our adapter cards and switches. In addition, we also use Comtel, Sanmina-Sci and A.L. Electronics to manufacture some of our switches. We also rely on Advanced Semiconductor Engineering, or ASE, to assemble, package and production test our ICs. If these subcontractors do not provide us with high-quality products, services and production and production test capacity in a timely manner, or if one or more of these subcontractors terminates its relationship with us, we may be unable to obtain satisfactory replacements to fulfill customer orders on a timely basis, our relationships with our customers could suffer, our sales could decrease and our growth could be limited. In particular, there are significant challenges associated with moving our IC production from our existing manufacturer to another manufacturer with whom we do not have a pre-existing relationship.

We currently do not have long-term supply contracts with any of our third-party subcontractors. Therefore, they are not obligated to perform services or supply products to us for any specific period, in any specific quantities or at any specific price, except as may be provided in a particular purchase order. None of our third-party subcontractors has provided contractual assurances to us that adequate capacity will be available to us to meet future demand for our products. Our subcontractors may allocate capacity to the production of other companies' products while reducing deliveries to us on short notice. Other customers that are larger and better financed than we are or that have long-term agreements with these subcontractors may cause these subcontractors to reallocate capacity to those customers, thereby decreasing the capacity available to us.

Other significant risks associated with relying on these third-party subcontractors include:

- reduced control over product cost, delivery schedules and product quality;
- potential price increases;
- inability to achieve sufficient production, increase production or test capacity and achieve acceptable yields on a timely basis;
- increased exposure to potential misappropriation of our intellectual property;
- shortages of materials used to manufacture products;
- capacity shortages;
- labor shortages or labor strikes;
- political instability in the regions where these subcontractors are located; and
- natural disasters impacting these subcontractors.

If we fail to carefully manage the use of "open source" software in our products, we may be required to license key portions of our products on a royalty-free basis or expose key parts of source code.

Some portion of our software may be derived from "open source" software that is generally made available to the public by its authors and/or other third parties. Such open source software is often made available to us under licenses, such as the GNU General Public License, which impose certain obligations on us in the event we were to distribute derivative works of the open source software. These obligations may require us to make source code for the derivative works available to the public and/or license such derivative works under a particular type of license, rather than the forms of licenses customarily used to protect our intellectual property. In the event the copyright holder of any open source software were to successfully establish in court that we had not complied with the terms of a license for a particular work, we could be required to release the source code of that work to the public and/or stop distribution of that work.

The average selling prices of our products have decreased in the past and may do so in the future, which could harm our financial results.

The products we develop and sell are subject to declines in average selling prices. We have had to reduce our prices in the past and we may be required to reduce prices in the future. Reductions in our average selling prices to one customer could impact our average selling prices to other customers. If we are unable to reduce our associated manufacturing costs this reduction in average selling prices would

Table of Contents

cause our gross margin to decline. Our financial results will suffer if we are unable to offset any reductions in our average selling prices by increasing our sales volumes, reducing our costs or developing new or enhanced products with higher selling prices or gross margins.

We expect gross margin to vary over time, and our recent level of product gross margin may not be sustainable.

Our product gross margins vary from quarter to quarter, and the recent level of gross margins may not be sustainable and may be adversely affected in the future by numerous factors, including product mix shifts, product transitions, increased price competition in one or more of the markets in which we compete, increases in material or labor costs, excess product component or obsolescence charges from our contract manufacturers, warranty related issues, or the introduction of new products or entry into new markets with different pricing and cost structures.

Fluctuations in our revenues and operating results on a quarterly and annual basis could cause the market price of our ordinary shares to decline.

Our quarterly and annual revenues and operating results are difficult to predict and have fluctuated in the past, and may fluctuate in the future, from quarter to quarter and year to year. It is possible that our operating results in some quarters and years will be below market expectations. This would likely cause the market price of our ordinary shares to decline. Our quarterly and annual operating results are affected by a number of factors, many of which are outside of our control, including:

- unpredictable volume and timing of customer orders, which are not fixed by contract but vary on a purchase order basis;
- the loss of one or more of our customers, or a significant reduction or postponement of orders from our customers;
- our customers' sales outlooks, purchasing patterns and inventory levels based on end-user demands and general economic conditions;
- seasonal buying trends;
- the timing of new product announcements or introductions by us or by our competitors;
- our ability to successfully develop, introduce and sell new or enhanced products in a timely manner;
- product obsolescence and our ability to manage product transitions;
- changes in the relative sales mix of our products;
- decreases in the overall average selling prices of our products;
- changes in our cost of finished goods; and
- the availability, pricing and timeliness of delivery of other components used in our customers' products.

We base our planned operating expenses in part on our expectations of future revenues, and a significant portion of our expenses is relatively fixed in the short-term. We have limited visibility into customer demand from which to predict future sales of our products. As a result, it is difficult for us to forecast our future revenues and budget our operating expenses accordingly. Our operating results would be adversely affected to the extent customer orders are cancelled or rescheduled. If revenues for a particular quarter are lower than we expect, we likely would not be able to proportionately reduce our operating expenses.

Table of Contents

We rely on our ecosystem partners to enhance and drive demand for our product offerings. Our inability to continue to develop or maintain such relationships in the future or our partners' inability to timely deliver technology or product offerings to the market may harm our revenues and ability to remain competitive.

We have developed relationships with third parties, which we refer to as ecosystem partners. Such partners provide their technology products, operating systems, tool support, reference designs and other elements necessary for the sale of our products into our markets. In addition, introduction of new products into the market by these partners may increase demand for our products. If we are unable to continue to develop or maintain these relationships, or if our ecosystem partners delay or fail to timely deliver their technology or products or other elements to the market, our revenues may be adversely impacted and we might not be able to enhance our customers' ability to commercialize their products in a timely manner and our ability to remain competitive may be harmed.

We rely primarily upon trade secret, patent and copyright laws and contractual restrictions to protect our proprietary rights, and, if these rights are not sufficiently protected, our ability to compete and generate revenues could suffer.

We seek to protect our proprietary manufacturing specifications, documentation and other written materials primarily under trade secret, patent and copyright laws. We also typically require employees and consultants with access to our proprietary information to execute confidentiality agreements. The steps taken by us to protect our proprietary information may not be adequate to prevent misappropriation of our technology. In addition, our proprietary rights may not be adequately protected because:

- people may not be deterred from misappropriating our technologies despite the existence of laws or contracts prohibiting it;
- policing unauthorized use of our intellectual property may be difficult, expensive and time-consuming, and we may be unable to determine the extent of any unauthorized use; and
- the laws of other countries in which we market our products, such as some countries in the Asia/Pacific region, may offer little or no protection for our proprietary technologies.

Reverse engineering, unauthorized copying or other misappropriation of our proprietary technologies could enable third parties to benefit from our technologies without paying us for doing so. Any inability to adequately protect our proprietary rights could harm our ability to compete, generate revenues and grow our business.

We may not obtain sufficient patent protection on the technology embodied in our products, which could harm our competitive position and increase our expenses.

Our success and ability to compete in the future may depend to a significant degree upon obtaining sufficient patent protection for our proprietary technology. Patents that we currently own do not cover all of the products that we presently sell. Our patent applications may not result in issued patents, and even if they result in issued patents, the patents may not have claims of the scope we seek. Even in the event that these patents are not issued, the applications may become publicly available and proprietary information disclosed in the applications will become available to others. In addition, any issued patents may be challenged, invalidated or declared unenforceable. The term of any issued patent in the United States and Israel would be 20 years from its filing date, and if our applications are pending for a long time period, we may have a correspondingly shorter term for any patent that may be issued. Our present and future patents may provide only limited protection for our technology and may not be sufficient to provide competitive advantages to us. For example, competitors could be successful in challenging any issued patents or, alternatively, could develop similar or more advantageous technologies on their own or design around our patents. Also, patent protection in certain foreign countries may not be available or may be limited in scope and any patents obtained may not be as readily enforceable as in the United States and Israel, making it difficult for us to effectively protect our intellectual property from misuse or infringement by other companies in these countries. Our inability to obtain and enforce our intellectual property rights in some countries may harm our business. In addition, given the costs of obtaining patent protection, we may choose not to protect certain innovations that later on turn out to be important.

Intellectual property litigation, which is common in our industry, could be costly, harm our reputation, limit our ability to sell our products and divert the attention of management and technical personnel.

The semiconductor industry is characterized by frequent litigation regarding patent and other intellectual property rights. We have indemnification obligations to most of our customers with respect to infringement of third-party patents and intellectual property rights by our products. If litigation were to be filed against these customers in connection with our technology, we may be required to defend and indemnify such customers.

Questions of infringement in the markets we serve involve highly technical and subjective analyses. Although we have not been involved in intellectual property litigation to date, litigation may be necessary in the future to enforce any patents we may receive and other intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity, and we may not prevail in any such future litigation. Litigation, whether or not determined in our favor or settled, could be costly, could harm our reputation and could divert the efforts and attention of our management and technical personnel from normal business operations. In addition, adverse determinations in litigation could result in the loss of our proprietary rights, subject us to significant liabilities, and require us to seek licenses from third parties or prevent us from licensing our technology or selling our products, any of which could seriously harm our business.

In the normal course of business, we enter into agreements and terms and conditions that require us to indemnify the other party against third-party claims alleging that one of our products infringes or misappropriates intellectual property rights, as well as against certain claims relating to property damage, personal injury or acts or omissions relating to supplied products or technologies, or acts or omissions made by us or our employees, agents or representatives. In addition, we are obligated pursuant to indemnification undertakings with our officers and directors to indemnify them to the fullest extent permitted by law and to indemnify venture capital funds that were affiliated with or represented by such officers or directors. If we receive demands for indemnification under these agreements and terms and conditions, they will likely be very expensive to settle or defend, and we may incur substantial legal fees in connection with any indemnity demands. Our indemnification obligations under these agreements and terms and conditions may be unlimited in duration and amount, and could have an adverse effect on our business, financial condition and results of operations.

We depend on key and highly skilled personnel to operate our business, and if we are unable to retain our current personnel and hire additional personnel, our ability to develop and successfully market our products could be harmed.

Our business is particularly dependent on the interdisciplinary expertise of our personnel, and we believe our future success will depend in large part upon our ability to attract and retain highly skilled managerial, engineering, finance and sales and marketing personnel. The loss of any key employees or the inability to attract or retain qualified personnel could delay the development and introduction of, and harm our ability to sell our products and harm the market's perception of us. Competition for qualified engineers in the markets, in which we operate, primarily in Israel where our engineering operations are based, is intense and accordingly, we may not be able to retain or hire all of the engineers required to meet our ongoing and future business needs. If we are unable to attract and

Table of Contents

retain the highly skilled professionals we need, we may have to forego projects for lack of resources or be unable to staff projects optimally. We believe that our future success is highly dependent on the contributions of our president and chief executive officer and other senior executives. We do not have long-term employment contracts with our president and chief executive officer or any other key personnel, and their knowledge of our business and industry would be extremely difficult to replace.

In an effort to retain key employees, we may modify our compensation policies by, for example, increasing cash compensation to certain employees and/or modifying existing share options. For example, during 2009, we offered eligible employees and contractors the opportunity to exchange certain outstanding share options for a lesser number of replacement options. In addition, in 2010, we began awarding restricted share units to our employees. These modifications of our compensation policies and the requirement to expense the fair value of share options and restricted share units awarded to employees and officers may increase our operating expenses. We cannot be certain that these and any other changes in our compensation policies will or would improve our ability to attract, retain and motivate employees. Our inability to attract and retain additional key employees and the increase in share-based compensation expense could each have an adverse effect on our business, financial condition and results of operations.

We may not be able to manage our future growth effectively, and we may need to incur significant expenditures to address the additional operational and control requirements of our growth.

We are experiencing a period of company growth and expansion. This expansion has placed, and any future expansion will continue to place, a significant strain on our management, personnel, systems and financial resources. We plan to hire additional employees to support an increase in research and development, as well as increases in our sales and marketing and general and administrative efforts. To successfully manage our growth, we believe we must effectively:

- continue to enhance our customer relationship and supply chain management and supporting systems;
- implement additional and enhance existing administrative, financial and operations systems, procedures and controls;
- expand and upgrade our technological capabilities;
- manage multiple relationships with our customers, distributors, suppliers, end users and other third parties;
- manage the mix of our U.S., Israeli and other foreign operations; and
- hire, train, integrate and manage additional qualified engineers for research and development activities, sales and marketing personnel and financial and IT personnel.

Our efforts may require substantial managerial and financial resources and may increase our operating costs even though these efforts may not be successful. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities, develop new products, satisfy customer requirements, execute our business plan or respond to competitive pressures.

Table of Contents

We may experience defects in our products, unforeseen delays, higher than expected expenses or lower than expected manufacturing yields of our products, which could result in increased customer warranty claims, delay our product shipments and prevent us from recognizing the benefits of new technologies we develop.

Although we test our products, they are complex and may contain defects and errors. In the past, we have encountered defects and errors in our products. Delivery of products with defects or reliability, quality or compatibility problems may damage our reputation and our ability to retain existing customers and attract new customers. In addition, product defects and errors could result in additional development costs, diversion of technical resources, delayed product shipments, increased product returns, including wide-scale product recalls, warranty expenses and product liability claims against us which may not be fully covered by insurance. Any of these could harm our business.

In addition, our production of existing and development of new products can involve multiple iterations and unforeseen manufacturing difficulties, resulting in reduced manufacturing yields, delays and increased expenses. The evolving nature of our products requires us to modify our manufacturing specifications, which may result in delays in manufacturing output and product deliveries. We rely on third parties to manufacture our products and currently rely on one manufacturer for our ICs and one manufacturer for our cards and two primary manufacturers for our switch systems. Our ability to offer new products depends on our manufacturers' ability to implement our revised product specifications, which is costly, time-consuming and complex.

If we fail to maintain an effective system of internal controls, we may not be able to report accurately our financial results or prevent fraud. As a result, current and potential shareholders could lose confidence in our financial reporting, which could harm our business and the trading price of our ordinary shares.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to report on, and our independent registered public accounting firm to attest to, the effectiveness of our internal control structure and procedures for financial reporting. We have an ongoing program to perform the system and process evaluation and testing necessary to comply with these requirements. We have incurred, and expect to continue to incur significant expenses and to devote significant management resources to Section 404 compliance. In the event that our chief executive officer, chief financial officer or independent registered public accounting firm determine that our internal controls over financial reporting are not effective as defined under Section 404, investor perceptions of our company may be adversely affected and may cause a decline in the market price of our ordinary shares. In addition, future non-compliance with Section 404 could subject us to a variety of administrative sanctions, including the suspension or delisting of our ordinary shares from The NASDAQ Global Select Market, which could reduce our share price.

Unanticipated changes in our tax provisions or adverse outcomes resulting from examination of our income tax returns could adversely affect our results of operations.

We are subject to income taxes in Israel, the United States and various foreign jurisdictions. Our effective income tax could be adversely affected by changes in tax laws or interpretations of those tax laws, by changes in the mix of earnings in countries with differing statutory tax rates, by discovery of new information in the course of our tax return preparation process, or by changes in the valuation of our deferred tax assets and liabilities. In accordance with recent amendments to the Israeli tax laws, the planned reduction of the Israeli corporate income tax rate will be cancelled and instead, as of January 1, 2012, the corporate income tax rate will be increased to 25% in 2012. In addition, the tax rate due on dividends, interest and capital gains applicable to individuals will be increased as well. Our effective income tax rates are also affected by intercompany transactions for sales, services, funding and

Table of Contents

other items. Given the increased global scope of our operations, and the complexity of global tax and transfer pricing rules and regulations, it has become increasingly difficult to estimate earnings within each tax jurisdiction. If actual earnings within a tax jurisdiction differ materially from our estimates, we may not achieve our expected effective tax rate. Additionally, our effective tax rate may be affected by the tax effects of acquisitions, newly enacted tax legislation, share-based compensation and uncertain tax positions. Finally, we are subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities which may result in the assessment of additional income taxes. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. However, unanticipated outcomes from these examinations could have a material adverse effect on our financial condition or results of operations.

Changes to financial accounting standards may affect our results of operations and cause us to change our business practices.

We prepare our financial statements to conform to generally accepted accounting principles, or GAAP, in the United States. These accounting principles are subject to interpretation by the Financial Accounting Standards Board, or FASB, the American Institute of Certified Public Accountants, or AICPA, the SEC and various bodies formed to interpret and create appropriate accounting policies. A change in those policies can have a significant effect on our reported results and may affect our reporting of transactions completed before a change is announced. Changes to those rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business.

Also, the SEC has released a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards, or IFRS. Under the proposed roadmap, we may be required to prepare financial statements in accordance with IFRS. Adoption of IFRS may have a material impact on our results of operations.

We may be subject to disruptions or failures in information technology systems and network infrastructures that could have a material adverse effect on us.

We rely on the efficient and uninterrupted operation of complex information technology systems and network infrastructures to operate our business. We also hold large amounts of data in various data center facilities upon which our business depends. A disruption, infiltration or failure of our information technology systems or any of our data centers as a result of software or hardware malfunctions, system implementations or upgrades, computer viruses, third-party security breaches, employee error, theft or misuse, malfeasance, power disruptions, natural disasters or accidents could cause breaches of data security, loss of intellectual property and critical data and the release and misappropriation of sensitive competitive information and partner, customer and employee personal data. Any of these events could harm our competitive position, result in a loss of customer confidence, cause us to incur significant costs to remedy any damages and ultimately materially adversely affect our business and financial condition.

While we have implemented a number of protective measures, including firewalls, antivirus, patches, log monitors, routine back-ups, system audits, routine password modifications and disaster recovery procedures, such measures may not be adequate or implemented properly to prevent or fully address the adverse effect of such events.

In addition, our third-party subcontractors, including our foundries, test and assembly houses and distributors, have access to certain portions of our sensitive data. In the event that these subcontractors do not properly safeguard our data that they hold, security breaches and loss of our data could result.

Table of Contents

Any such loss of data by our third-party service providers could have a material adverse effect on our business and financial condition.

Our business is subject to the risks of earthquakes, fires, floods and other natural catastrophic events.

Our U.S. corporate offices are located in the San Francisco Bay Area, a region known for seismic activity. A significant natural disaster, such as an earthquake, fire or flood, could have a material adverse impact on our business, operating results and financial condition. In addition, acts of terrorism could cause disruptions in our or our customers' businesses or the economy as a whole. To the extent that such disruptions result in delays or cancellations of customer orders, or the deployment of our products, our business, operating results and financial condition would be adversely affected.

Risks Related to Operations in Israel and Other Foreign Countries

Regional instability in Israel may adversely affect business conditions and may disrupt our operations and negatively affect our revenues and profitability.

We have engineering facilities, corporate and sales support operations located in Israel. A significant number of our employees and material amount of assets are located in Israel. Accordingly, political, economic and military conditions in Israel may directly affect our business. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, as well as incidents of civil unrest. In mid-2006, Israel was engaged in armed conflicts with Hezbollah. The conflict involved missile strikes against civilian targets in northern Israel. From December 2008 through January 2009, Israel engaged in an armed conflict with Hamas, which involved missile strikes against civilian targets in southern Israel. These conflicts negatively affected business conditions in Israel. In addition, Israel and companies doing business with Israel have, in the past, been the subject of an economic boycott. In addition, there has been recent civil unrest in certain areas in the Middle East, including Egypt, Syria and Libya. Although Israel has entered into various agreements with Egypt, Jordan and the Palestinian Authority, Israel has been and is subject to civil unrest and terrorist activity, with varying levels of severity, since September 2000. Any future armed conflicts or political instability in the region may negatively affect business conditions and adversely affect our results of operations. Parties with whom we do business have sometimes declined to travel to Israel during periods of heightened unrest or tension, forcing us to make alternative arrangements when necessary. In addition, the political and security situation in Israel may result in parties with whom we have agreements involving performance in Israel claiming that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions in the agreements.

We can give no assurance that security and political conditions will have no impact on our business in the future. Hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could adversely affect our operations and could make it more difficult for us to raise capital. While we did not sustain damages from the conflicts with Hezbollah or Hamas referred to above, our Israeli operations, which are located in northern Israel, are within range of Hezbollah missiles and we or our immediate surroundings may sustain damages in a missile attack, which could adversely affect our operations.

In addition, our business insurance does not cover losses that may occur as a result of events associated with the security situation in the Middle East. Although the Israeli government currently covers the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained. Any losses or damages incurred by us could have a material adverse effect on our business.

Table of Contents

Our operations may be negatively affected by the obligations of our personnel to perform military service.

Generally, all non-exempt male adult citizens and permanent residents of Israel under the age of 45 (or older, for citizens with certain occupations), including some of our employees, are obligated to perform military reserve duty annually, and are subject to being called to active duty at any time under emergency circumstances. In the event of severe unrest or other conflict, individuals could be required to serve in the military for extended periods of time. In response to increases in terrorist activity, there have been periods of significant call-ups of military reservists, and some of our employees, including those in key positions, have been called upon in connection with armed conflicts. It is possible that there will be additional call-ups in the future. Our operations could be disrupted by the absence for a significant period of one or more of our officers, directors or key employees due to military service. Any such disruption could adversely affect our operations.

Our operations may be affected by labor unrest in Israel.

In the past, there have been several general strikes and work stoppages in Israel affecting all banks, airports and ports. These strikes had an adverse effect on the Israeli economy and on business, including our ability to deliver products to our customers and to receive raw materials from our suppliers in a timely manner. From time to time, the Israeli trade unions threaten strikes or work stoppages, which, if carried out, may have a material adverse effect on the Israeli economy and our business.

We are susceptible to additional risks from our international operations.

We derived 64%, 55% and 47% of our revenues in the years ended December 31, 2009, 2010 and 2011, respectively, from sales outside North America. As a result, we face additional risks from doing business internationally, including:

- reduced protection of intellectual property rights in some countries;
- difficulties in staffing and managing foreign operations;
- longer sales and payment cycles;
- greater difficulties in collecting accounts receivable;
- adverse economic conditions;
- seasonal reductions in business activity;
- potentially adverse tax consequences;
- laws and business practices favoring local competition;
- costs and difficulties of customizing products for foreign countries;
- compliance with a wide variety of complex foreign laws and treaties;
- compliance with the United States' Foreign Corrupt Practices Act and similar anti-bribery laws in other jurisdictions;

compliance with export control and regulations;

licenses, tariffs, other trade barriers, transit restrictions and other regulatory or contractual limitations on our ability to sell or develop our products in certain foreign markets;

foreign currency exchange risks;

fluctuations in freight rates and transportation disruptions;

Table of Contents

- political and economic instability;
- variance and unexpected changes in local laws and regulations;
- natural disasters and public health emergencies; and
- trade and travel restrictions.

Our principal research and development facilities are located in Israel, and our directors, executive officers and other key employees are located primarily in Israel and the United States. In addition, we engage sales representatives in various countries throughout the world to market and sell our products in those countries and surrounding regions. If we encounter any of the above risks in our international operations, we could experience slower than expected revenue growth and our business could be harmed.

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

We are incorporated in Israel. Three of our executive officers and two of our directors, one who is also an executive officer, are non-residents of the United States and are located in Israel, and a significant amount of our assets and the assets of these persons are located outside the United States. Two of our executive officers and five of our directors are located in the United States. Therefore, it may be difficult to enforce a judgment obtained in the United States against us or any of the above persons in Israel.

In addition, it may be difficult for a shareholder to enforce civil liabilities under U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws because Israel is not the most appropriate forum to bring such a claim. Furthermore, an Israeli court recently held that U.S. law is applicable to a claim for misrepresentation in periodic reports made against a public company whose shares are traded both in the United States and on the Tel Aviv Stock Exchange. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved in an Israeli court as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel addressing the matters described above. For shareholders who purchase our securities on the Tel-Aviv Stock Exchange, it may also be difficult to bring an action against us in U.S. court.

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

The Israeli Companies Law generally requires that a merger be approved by the board of directors and by the general meeting of the shareholders. Upon the request of any creditor of a merging company, a court may delay or prevent the merger if it concludes that there is a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy its obligations. In addition, a merger may generally not be completed unless at least (i) 50 days have passed since the filing of the merger proposal with the Israeli Registrar of Companies and (ii) 30 days have passed since the merger was approved by the shareholders of each of the merging companies.

Also, in certain circumstances, an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser would hold 25% or more of the voting rights in the company (unless there is already a 25% or greater shareholder of the company) or more than 45% of the voting rights in the company (unless there is already a shareholder that holds more than 45% of the voting rights in the company). If, as a result of an acquisition, the acquirer would hold more than 90% of a company's shares or voting rights, the acquisition must be made by means of a tender offer for all of the shares.

Table of Contents

In addition, the Israeli Companies Law allows us to create and issue shares having rights different from those attached to our ordinary shares, including rights that may delay or prevent a takeover or otherwise prevent our shareholders from realizing a potential premium over the market value of their ordinary shares. The authorization of a new class of shares would require an amendment to our articles of association, which requires the prior approval of the holders of a majority of our shares at a general meeting and, according to the Israeli Securities Law subject to limited exceptions, the issuance thereof is possible only if we are no longer traded on the Tel-Aviv Stock Exchange.

These provisions could delay, prevent or impede an acquisition of us, even if such an acquisition would be considered beneficial by some of our shareholders.

Exchange rate fluctuations between the U.S. dollar and the NIS may negatively affect our earnings.

Although all of our revenues and a majority of our expenses are denominated in U.S. dollars, a significant portion of our research and development expenses and our Israeli facility expenses are incurred in new Israeli shekels, or NIS. As a result, we are exposed to risk to the extent that the inflation rate in Israel exceeds the rate of devaluation of the NIS in relation to the U.S. dollar, or if the timing of these devaluations lags behind inflation in Israel. In that event, the U.S. dollar cost of our research and development operations in Israel will increase and our U.S. dollar-measured results of operations will be adversely affected. To the extent that the value of the NIS increases against the U.S. dollar, our expenses on a U.S. dollar cost basis increase. We cannot predict any future trends in the rate of inflation in Israel or the rate of appreciation of the NIS against the U.S. dollar. The Israeli rate of inflation amounted to 3.9%, 2.7% and 2.2% for the years ended December 31, 2009, 2010 and 2011, respectively. The increase in value of the NIS against the U.S. dollar amounted to 0.7%, 6.0% in the years ended December 31, 2009 and 2010, respectively. The increase in value of the U.S dollar against the NIS amounted to 7.7% in the year ended December 31, 2011. If the U.S. dollar cost of our research and development operations and facility expenses in Israel increases, our dollar-measured results of operations will be adversely affected. Our operations also could be adversely affected if we are unable to guard against currency fluctuations in the future. Further, because all of our international revenues are denominated in U.S. dollars, a strengthening of the dollar versus other currencies could make our products less competitive in foreign markets and the collection of our receivables more difficult. To help manage this risk we have been engaged in foreign currency hedging activities. These measures, however, may not adequately protect us from material adverse effects due to the impact of inflation in Israel and changes in value of NIS against the U.S. dollar.

The government tax benefits that we currently receive require us to meet several conditions and may be terminated or reduced in the future, which would increase our costs.

Some of our operations in Israel have been granted "Approved Enterprise" status by the Investment Center in the Israeli Ministry of Industry Trade and Labor and the Israeli Income Tax Authority, which makes us eligible for tax benefits under the Israeli Law for Encouragement of Capital Investments, 1959. The availability of these tax benefits is subject to certain requirements, including, among other things, making specified investments in fixed assets and equipment, financing a percentage of those investments with our capital contributions, complying with our marketing program which was submitted to the Investment Center, filing of certain reports with the Investment Center and complying with Israeli intellectual property laws. If we do not meet these requirements in the future, these tax benefits may be cancelled and we could be required to refund any tax benefits that we have already received plus interest and penalties thereon. The tax benefits that our current "Approved Enterprise" program receives may not be continued in the future at their current levels or at all. If these tax benefits were reduced or eliminated, the amount of taxes that we pay would likely increase, which could adversely affect our results of operations. Additionally, if we increase our activities outside of

Table of Contents

Israel, for example, by acquisitions, our increased activities may not be eligible for inclusion in Israeli tax benefit programs.

The Israeli government grants that we received require us to meet several conditions and restrict our ability to manufacture and engineer products and transfer know-how outside of Israel and require us to satisfy specified conditions.

We have received grants from the government of Israel through the Office of the Chief Scientist of Israel's Ministry of Industry, Trade and Labor, or the OCS, for the financing of a portion of our research and development expenditures in Israel. When know-how is developed using OCS grants, the Encouragement of Industrial Research and Development Law 5744-1984, or the R&D Law, as well as the terms of these grants restrict the transfer of the know-how outside of Israel. Transfer of know-how outside of Israel requires pre-approval by the OCS which may at its sole discretion grant such approval and impose certain conditions, and is subject to the payment of a transfer fee calculated according to the formula provided in the R&D Law which takes into account the consideration for such know-how paid to us in the transaction in which the technology is transferred. In addition, any decrease of the percentage of manufacturing performed in Israel, as originally declared in the application to the OCS, requires us to notify, or to obtain the approval of the OCS and may result in increased royalty payments to the OCS as well as increase total amount to be paid to the OCS. These restrictions may impair our ability to enter into agreements for those products or technologies without the approval of the OCS. We cannot be certain that any approval of the OCS will be obtained on terms that are acceptable to us, or at all. Furthermore, in the event that we undertake a transaction involving the transfer to a non-Israeli entity of technology developed with OCS funding pursuant to a merger or similar transaction, the consideration available to our shareholders may be reduced by the amounts we are required to pay to the OCS. Any approval, if given, will generally be subject to additional financial obligations. If we fail to comply with the conditions imposed by the OCS, including the payment of royalties with respect to grants received, we may be required to refund any payments previously received, together with interest and penalties.

Your rights and responsibilities as a shareholder will be governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under U.S. law.

We are incorporated under Israeli law. The rights and responsibilities of holders of our ordinary shares are governed by our amended and restated articles of association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith toward the company and other shareholders and to refrain from abusing his, her or its power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters.

Risks Related to Our Ordinary Shares

The price of our ordinary shares may continue to be volatile, and the value of an investment in our ordinary shares may decline.

We sold ordinary shares in our initial public offering in February 2007 at a price of $17.00 per share, and our shares have subsequently traded as low as $6.02 per share. During 2011, our shares traded as low as $23.96 per share and as high as $36.45 per share. Factors that could cause volatility in the market price of our ordinary shares include, but are not limited to:

- quarterly variations in our results of operations or those of our competitors;

- announcements by us, our customers or rumors from sources other than our company related to acquisitions, new products, significant contracts, commercial relationships or capital commitments;
- our ability to develop and market new and enhanced products on a timely basis;
- disruption to our operations;
- geopolitical instability;
- the emergence of new sales channels in which we are unable to compete effectively;
- any major change in our board of directors or management;
- changes in financial estimates, including our ability to meet our future revenue and operating profit or loss projections;
- changes in governmental regulations or in the status of our regulatory approvals;
- general economic conditions and slow or negative growth of related markets;
- commencement of, or our involvement in, litigation;
- changes in earnings estimates or recommendations by securities analysts;
- continuing international conflicts and acts of terrorism; and
- changes in accounting rules.

In addition, the stock markets in general, and the markets for semiconductor stocks in particular, have experienced extreme volatility that often has been unrelated to the operating performance of the issuer. These broad market fluctuations may adversely affect the trading price or liquidity of our ordinary shares. In the past, when the market price of a stock has been volatile and declined, holders of that stock have sometimes instituted securities class action litigation against the issuer. If any of our shareholders were to bring such a lawsuit against us, we could incur substantial costs defending the lawsuit and the attention of our management would be diverted from the operation of our business.

We may need to raise additional capital, which might not be available or which, if available, may be on terms that are not favorable to us.

We may need to raise additional funds, and we cannot be certain that we will be able to obtain additional financing on favorable terms, if at all. If we issue equity securities to raise additional funds, the ownership percentage of our shareholders would be diluted, and the new equity securities may have rights, preferences or privileges senior to those of existing holders of our ordinary shares. If we borrow money, we may incur significant interest charges, which could harm our profitability. Holders of debt would also have rights, preferences or privileges senior to those of existing holders of our ordinary shares. If we cannot raise needed funds on acceptable terms, we may not be able to develop or enhance our products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, which could harm our business, operating results and financial condition.

If we sell our ordinary shares in future financings, ordinary shareholders could experience immediate dilution and, as a result, the market price of our ordinary shares may decline.

We may from time to time issue additional ordinary shares at a discount from the current trading price of our ordinary shares. As a result, our ordinary shareholders would experience immediate dilution upon the purchase of any ordinary shares sold at such discount. In addition, as opportunities present themselves, we may enter into equity financings or similar arrangements in the future, including

Table of Contents

the issuance of debt securities, preferred shares or ordinary shares. If we issue ordinary shares or securities convertible into ordinary shares, holders of our ordinary shares could experience dilution.

The ownership of our ordinary shares may continue to be concentrated, and your interests may conflict with the interests of our significant shareholders.

As of December 31, 2011, based on information filed with the SEC or reported to us, Oracle Corporation and certain entities affiliated with Fidelity Management & Research Company, beneficially owned an aggregate of approximately 24% of our outstanding ordinary shares, and taken together with our executive officers and directors and their affiliates, beneficially owned an aggregate of approximately 30% of our outstanding ordinary shares. Accordingly, these shareholders, should they act as a group, would have significant influence over the outcome of corporate actions requiring shareholder approval, including the election of directors, any merger, consolidation or sale of all or substantially all of our assets or any other significant corporate transaction. These shareholders could delay or prevent a change of control of our company, even if such a change of control would benefit our other shareholders. The significant concentration of share ownership may adversely affect the trading price of our ordinary shares due to investors' perception that conflicts of interest may exist or arise.

Our ordinary shares are traded on more than one market and this may result in price variations and volatility.

Our ordinary shares are traded on The NASDAQ Global Select Market and the Tel Aviv Stock Exchange. Trading in our ordinary shares on these markets is made in different currencies (U.S. dollars on The NASDAQ Global Select Market and New Israeli Shekels on the Tel Aviv Stock Exchange) and at different times (due to different time zones, trading days and public holidays in the United States and Israel). Consequently, the trading prices of our ordinary shares on these two markets often differ. In addition, due to the smaller size of the local capital market in Israel, we may receive more media coverage in Israel and Israeli investors may react to this coverage more quickly than investors elsewhere. Any decrease in the trading price of our ordinary shares on one of these markets could cause a decrease in the trading prices of our ordinary shares on the other market.

If securities or industry analysts do not publish research or reports about our business, if they adversely change their recommendations regarding our ordinary shares or if our operating results do not meet their expectations, the market price of our ordinary shares could decline.

The trading market for our ordinary shares could be influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause the price of our ordinary shares or trading volume in our ordinary shares to decline. Moreover, if one or more of the analysts who cover our company downgrades our ordinary shares or if our operating results do not meet their expectations, the market price of our ordinary shares could decline.

Provisions of our articles of association could delay or prevent an acquisition of our company, even if the acquisition would be beneficial to our shareholders, and could make it more difficult for shareholders to change management.

Provisions of our amended and restated articles of association may discourage, delay or prevent a merger, acquisition or other change in control that shareholders may consider favorable, including transactions in which shareholders might otherwise receive a premium for their shares. In addition, these provisions may frustrate or prevent any attempt by our shareholders to replace or remove our

Table of Contents

current management by making it more difficult to replace or remove our board of directors. These provisions include:

- no cumulative voting;
- approval of merger requires a majority of our outstanding shares;
- a vote of at least 75% of the voting power at the general meeting required to remove any directors (not including external directors) from office, and elect directors instead of directors so removed; and
- an advance notice requirement for shareholder proposals and nominations.

Furthermore, Israeli tax law treats some acquisitions, particularly share-for-share swaps between an Israeli company and a foreign company, less favorably than U.S. tax law. Israeli tax law generally provides that a shareholder who exchanges our shares for shares in a foreign corporation is treated as if the shareholder has sold the shares. In such a case, the shareholder will generally be subject to Israeli taxation on any capital gains from the sale of shares (after two years, with respect to one half of the shares, and after four years, with respect to the balance of the shares, in each case unless the shareholder sells such shares at an earlier date), unless a relevant tax treaty between Israel and the country of the shareholder's residence exempts the shareholder from Israeli tax. Please see "Risk Factors Provisions of Israeli law may delay, prevent or make difficult an acquisition of our company, which could prevent a change of control and therefore depress the price of our shares" for a further discussion of Israeli laws relating to mergers and acquisitions. These provisions in our amended and restated articles of association and other provisions of Israeli law could limit the price that investors are willing to pay in the future for our ordinary shares.

We have never paid cash dividends on our share capital, and we do not anticipate paying any cash dividends in the foreseeable future.

We have never declared or paid cash dividends on our share capital, nor do we anticipate paying any cash dividends on our share capital in the foreseeable future. We currently intend to retain all available funds and any future earnings to fund the development and growth of our business. As a result, capital appreciation, if any, of our ordinary shares will be your sole source of gain for the foreseeable future.

We may incur increased costs as a result of changes in laws and regulations relating to corporate governance matters.

Changes in the laws and regulations affecting public companies, including Israeli laws, rules adopted by the SEC and by The NASDAQ Stock Market, may result in increased costs to us as we respond to their requirements. These laws and regulations could make it more difficult or more costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers. We cannot predict or estimate the amount or timing of additional costs we may incur to respond to these requirements.

ITEM 1B ***UNRESOLVED STAFF COMMENTS***

None.

Table of Contents

ITEM 2 ***PROPERTIES***

As of December 31, 2011, our major facilities consisted of:

	Israel	United States	Other	Total
Leased facilities *(in thousands of square feet))*	586	39	2	627

Our United States business headquarters are located in Sunnyvale, California, and our engineering headquarters are located in Yokneam, Israel. We believe that our existing facilities in the United States and Israel will be adequate to meet our current requirements and that suitable additional or substitute space will be available on acceptable terms to accommodate our foreseeable needs.

ITEM 3 ***LEGAL PROCEEDINGS***

We are not currently involved in any material legal proceedings. We may, from time to time, become a party to various legal proceedings arising in the ordinary course of business. We may also be indirectly affected by administrative or court proceedings or actions in which we are not involved but which have general applicability to the semiconductor industry.

ITEM 4 ***MINE SAFETY DISCLOSURES***

Not applicable.

Table of Contents

PART II

ITEM 5 *MARKET FOR REGISTRANT'S ORDINARY SHARES, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

Market Information

Our ordinary shares began trading on The NASDAQ Global Market on February 8, 2007 under the symbol "MLNX." Prior to that date, our ordinary shares were not traded on any public exchange. Our ordinary shares began trading on the Tel-Aviv Stock Exchange as of July 9, 2007 under the symbol "MLNX."

The following table summarizes the high and low sales prices for our ordinary shares as reported by the NASDAQ Global Select Market.

2011	**High**	**Low**
First quarter	$ 28.32	$ 23.96
Second quarter	$ 32.50	$ 24.61
Third quarter	$ 35.60	$ 26.48
Fourth quarter	$ 36.45	$ 30.80

2010	**High**	**Low**
First quarter	$ 23.66	$ 17.65
Second quarter	$ 27.00	$ 21.84
Third quarter	$ 25.36	$ 14.79
Fourth quarter	$ 26.32	$ 19.34

As of February 17, 2012, we had approximately 130 holders of record of our ordinary shares. This number does not include the number of persons whose shares are in nominee or in "street name" accounts through brokers.

Table of Contents

Share Performance Graph

The graph below compares the cumulative total shareholder return on our ordinary shares with the cumulative total return on The NASDAQ Composite Index and The Philadelphia Semiconductor Index. The period shown commences on February 7, 2007, the date of our initial public offering, and ends on December 31, 2011, the end date of our last fiscal year. The graph assumes an investment of $100 on February 7, 2007, and the reinvestment of any dividends. No cash dividends have been declared on our ordinary shares since our initial public offering in 2007. Shareholder returns over the indicated periods should not be considered indicative of future share prices or shareholder returns.

	2/7/2007	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
Mellanox Technologies	100.00*	107.18	46.24	111.12	153.94	191.12
NASDAQ Composite Index	100.00*	106.50	63.32	91.11	106.52	104.60
Philadelphia Semiconductor Index	100.00*	86.61	45.04	76.39	87.41	77.36

* $100 invested on February 7, 2007 in shares or index-including reinvestment of dividends.

Dividends

We have not declared or paid any cash dividends on our ordinary shares in the past, and we do not anticipate declaring or paying cash dividends in the foreseeable future. The Israeli Companies Law, 1999, or the Companies Law, also restricts our ability to declare dividends. We can only distribute dividends from profits (the "Profit Test") (as defined in the Companies Law) and only if there is no reasonable concern that the dividend distribution will prevent us from meeting our existing and foreseeable obligations as they come due (the "Insolvency Test")"); provided that, with court approval, we may distribute dividends if we do not meet the Profit Test so long as we meet the Insolvency Test.

Securities Authorized for Issuance under Equity Compensation Plans

Our equity compensation plan information required by this item is incorporated by reference to the information in Part III, Item 12 of this report. For additional information on our share incentive plans and activity, see Note 8, "Employee Benefit Plans" included in Part IV, Item 15 of this report.

Recent Sales of Unregistered Securities

None.

40

Table of Contents

ITEM 6 *SELECTED FINANCIAL DATA*

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this report. We derived the consolidated balance sheet data for the years ended December 31, 2007, 2008 and 2009 and our consolidated statements of operations data for the years ended December 31, 2007 and 2008, from our audited consolidated financial statements not included in this report. We derived the consolidated statements of operations data for each of the three years in the period ended December 31, 2011, as well the consolidated balance sheet data as of December 31, 2010 and 2011, from our audited consolidated financial statements included elsewhere in this report. Our historical results are not necessarily indicative of results to be expected in any future period.

	December 31,				
	2011(2)	2010	2009	2008	2007
	(In thousands, except per share data)				
Consolidated Statement of Operations Data:					
Total revenues	$ 259,251	$ 154,640	$ 116,044	$ 107,701	$ 84,078
Cost of revenues	92,015	40,550	28,669	23,406	21,390
Gross profits	167,236	114,090	87,375	84,295	62,688
Operating expenses:					
Research and development	92,508	56,804	42,241	39,519	24,638
Sales and marketing	40,366	22,104	17,034	15,058	12,739
General and administrative	21,769	11,744	9,353	8,370	6,229
Total operating expenses	154,643	90,652	68,628	62,947	43,606
Income from operations	12,593	23,438	18,747	21,348	19,082
Other income (loss), net	759	(135)	518	3,823	5,976
Income before taxes on income	13,352	23,303	19,265	25,171	25,058
Benefit from (provision for) taxes on income	(3,375)	(9,763)	(6,379)	(2,800)	10,530
Net income	$ 9,977	$ 13,540	$ 12,886	$ 22,371	$ 35,588
Net income per share basic(1)	$ 0.28	$ 0.40	$ 0.40	$ 0.71	$ 1.28
Net income per share diluted(1)	$ 0.26	$ 0.38	$ 0.39	$ 0.68	$ 1.18
Shares used to compute net income per share(1)	36,263	33,591	32,099	31,436	27,827
Shares used to compute diluted net income per share(1)	38,562	35,483	33,400	32,843	30,201

Table of Contents

	December 31,				
	2011(2)	2010	2009	2008	2007
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 181,258	$ 107,994	$ 43,640	$ 110,153	$ 100,650
Short-term investments	52,373	141,959	166,357	70,855	52,231
Working capital	251,533	265,625	231,226	198,932	170,615
Total assets	$ 530,030	$ 315,755	$ 275,386	$ 244,771	$ 202,400
Short-term liabilities	67,093	23,778	24,107	23,085	19,545
Long-term liabilities	20,590	10,287	8,396	7,606	5,738
Total liabilities	$ 87,683	$ 34,065	$ 32,503	$ 30,691	$ 25,283
Total shareholders' equity	$ 442,347	$ 281,690	$ 242,883	$ 214,080	$ 177,117

(1) On February 1, 2007, we effected a 1.75-to-1 reverse split of our ordinary shares, mandatorily redeemable convertible preferred shares and convertible preferred shares (the "Share Split") pursuant to the filing of our amended and restated articles of association. The number of shares and per share amounts have been adjusted to reflect the Share Split for all periods presented.

(2) On February 7, 2011, we acquired Voltaire Ltd., an Israeli-based public company. Voltaire's results of operations and estimated fair value of assets acquired and liabilities assumed were included in the Company's consolidated financial statements beginning February 7, 2011.

ITEM 7 *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the financial statements and the notes thereto included elsewhere in this report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this report, particularly in the section entitled "Risk Factors."

Overview

General

We are a fabless semiconductor company that produces and supplies high-performance connectivity products that facilitate efficient data transmission between servers, storage systems and communications infrastructure equipment and other embedded systems. We offer adapter, gateway and switch ICs, adapter cards, switch systems, gateway systems, software, services and cables as an integral part of a total end-to-end networking solution focused on computing, storage and communication applications used in multiple markets, including high-performance computing, or HPC, Web 2.0, storage, financial services, database and cloud. Our adapters and switch ICs provide per-port bandwidth up to 10Gb/s and 40Gb/s Ethernet, and 10Gb/s (Single Data Rate or SDR), 20Gb/s (Double Data Rate or DDR), 40Gb/s (Quad Data Rate or QDR) and 56Gb/s (Fourteen Data Rate or FDR) InfiniBand. With our adapter ICs and cards, we deliver software for collectives, messaging, unstructured data and storage used to accelerate applications in HPC, Web 2.0, high frequency trading, database and storage, among others. Our switch systems range in port density from 8, 18 and 36 port top-of-rack switches to director-class switches ranging in size from 108 to 648 ports. Connectivity between the adapters and switches is supported with our short reach copper cables and long reach active optical cables, and our management software provides visibility, monitoring and diagnostics for the system.

We are one of the pioneers of InfiniBand: an industry-standard architecture that provides specifications for high-performance interconnects. We believe we are the leading supplier of InfiniBand interconnect solutions that deliver industry-leading performance and features, which is demonstrated by the performance, efficiency and scalability of clustered computing and storage systems that incorporate our products. In addition to supporting InfiniBand, our products also support industry-standard Ethernet transmission protocols providing unique product differentiation and connectivity flexibility. Our products serve as building blocks for creating reliable and scalable InfiniBand and Ethernet solutions with leading performance.

On February 7, 2011, we completed the acquisition of Voltaire Ltd., or Voltaire, a leading provider of scale-out computing fabrics for data centers, high performance computing and cloud environments. Our primary reasons for the Voltaire acquisition were to enhance our position in providing end-to-end connectivity solutions and to expand our software and hardware offerings. The acquisition also enhanced our engineering team and sales force through the addition of Voltaire employees. The acquisition of Voltaire has allowed us to offer a broader product portfolio, provided us with the opportunity to expand our customer base and allowed us to go to market with end-to-end hardware and software solutions for both InfiniBand and Ethernet.

We have experienced growth in our total revenues in each of the last three years. Our revenues increased from $107.7 million for the year ended December 31, 2008 to $116.0 million to $154.6 million to $259.3 million for the years ended December 31, 2009, 2010 and 2011, respectively. In order to increase our annual revenues, we must continue to achieve design wins over other InfiniBand and Ethernet providers and providers of competing interconnect technologies. We consider a design win to occur when an original equipment manufacturer, or OEM, or contract manufacturer notifies us that it has selected our products to be incorporated into a product or system under development. Because the life cycles for our customers' products can last for several years if these products have successful commercial introductions, we expect to continue to generate revenues over an extended period of time for each successful design win.

Revenues. We derive revenues from sales of our ICs, cards, switch systems and cables, software and accessories. Our sales have historically been made on the basis of purchase orders rather than long-term agreements. To date, we have derived a substantial portion of our revenues from a relatively small number of customers. Sales to our top ten customers represented 70%, 71% and 79% of our total revenues for the years ended December 31, 2011, 2010 and 2009, respectively. Sales to customers representing 10% or more of revenues accounted for 36%, 27% and 36% of our total revenues for the years ended December 31, 2011, 2010 and 2009, respectively. The loss of one or more of our principal customers or the reduction or deferral of purchases of our products by one of these customers could cause our revenues to decline materially if we are unable to increase our revenues from other customers.

Our customers, including our most significant customers, are not obligated by long-term contracts to purchase our products and may cancel orders with limited potential penalties. If any of our large customers reduces or cancels its purchases from us for any reason, it could have an adverse effect on our revenues and results of operations.

At December 31, 2011, Oracle Corporation held approximately 3.8 million of our ordinary shares. Sales to Oracle and/or its contract manufacturers during 2011 were $18.3 million, and were conducted at arm's-length. There were no other material transactions with Oracle during 2011. At December 31, 2011, accounts receivable from Oracle totaled $17,831. At December 31, 2010, Oracle held approximately 3.4 million shares. Sales to Oracle and/or its contract manufacturers during 2010 were $11.8 million, and were conducted at arm's-length. At December 31, 2010, accounts receivable from Oracle totaled $27,230. There were no other material transactions with Oracle during 2010.

Cost of revenues and gross profit. The cost of revenues consists primarily of the cost of silicon wafers purchased from our foundry supplier, costs associated with the assembly, packaging and production testing of our ICs, outside processing costs associated with the manufacture of our host channel adapters, or HCA cards, and switch systems, purchased cable costs, royalties due to third parties, warranty costs, excess and obsolete inventory costs and costs of personnel associated with production management, quality assurance and services. In addition, after we purchase wafers from our foundries, we also face yield risk related to manufacturing these wafers into semiconductor devices. Manufacturing yield is the percentage of acceptable product resulting from the manufacturing process, as identified when the product is tested as a finished IC. If our manufacturing yields decrease, our cost per unit increases, which could have a significant adverse impact on our cost of revenues. We do not have long-term pricing agreements with foundry suppliers and contract manufacturers. Accordingly, our costs are subject to price fluctuations based on the overall cyclical demand for semiconductors.

We purchase our inventory pursuant to standard purchase orders. We estimate that lead times for delivery of our finished semiconductors from our foundry supplier and assembly, packaging and production testing subcontractor are approximately three to four months, lead times for delivery from our HCA card manufacturing subcontractor are approximately eight to ten weeks, and lead times for delivery from our switch systems manufacturing subcontractors are approximately twelve weeks. We build inventory based on forecasts of customer orders rather than the actual orders themselves. In addition, our customers are seeking opportunities to minimize their inventory on hand while demanding shorter lead times for orders placed. As a result, we have increased our inventory levels over the past year to meet this demand.

We expect our cost of revenues to increase over time as a result of the expected increase in our sales volume. We expect our cost of revenues as a percentage of sales to increase in the future as a result of a reduction in the average sale price of our products and a higher percentage of revenue deriving from sales of switch systems and cables, which generally yield lower gross margins. This trend will depend on overall customer demand for our products, our product mix, competitive product offerings and related pricing and our ability to reduce manufacturing costs.

Operational expenses

Research and development expenses. Our research and development expenses consist primarily of salaries, share-based compensation and associated costs for employees engaged in research and development, costs associated with computer aided design software tools, depreciation, allocable facilities related expenses and tape-out costs. Tape-out costs are expenses related to the manufacture of new ICs, including charges for mask sets, prototype wafers, mask set revisions and testing incurred before releasing new ICs into production. We anticipate these expenses will increase in future periods based on an increase in personnel to support our product development activities and the introduction of new products. We anticipate that our research and development expenses may fluctuate over the course of a year based on the timing of our product tape-outs.

Sales and Marketing Expenses. Sales and marketing expenses consist primarily of salaries, incentive compensation, share-based compensation and associated costs for employees engaged in sales, marketing and customer support, commission payments to external, third party sales representatives, advertising, and charges for trade shows, promotions, travel and allocable facilities related expenses. We expect these expenses will increase in absolute dollars in future periods based on an increase in sales and marketing personnel and increased marketing activities.

General and Administrative Expenses. General and administrative expenses consist primarily of salaries, share-based compensation and associated costs for employees engaged in finance, legal, human resources and administrative activities, and other professional services expenses for accounting, corporate legal fees and allocable facilities related expenses. We expect these expenses will increase in absolute dollars in future periods based on an increase in personnel to support our business activities.

Taxes on Income

Our operations in Israel have been granted "Approved Enterprise" status by the Investment Center of the Israeli Ministry of Industry, Trade and Labor, which makes us eligible for tax benefits under the Israeli Law for Encouragement of Capital Investments, 1959. Under the terms of the Approved Enterprise program, income that is attributable to our operations in Yokneam, Israel will be exempt from income tax for a period of ten years commencing when we first generate taxable income after setting off our losses from prior years. Income that is attributable to our operations in Tel Aviv, Israel will be exempt from income tax for a period of two years commencing when we first generate taxable income and will be subject to a reduced income tax rate (generally 10 to 25%, depending on the percentage of foreign investment in the Company) for the following five to eight years. The Approved Enterprise tax holiday associated with our Yokneam and Tel Aviv operations began in 2011. The Yokneam tax holiday is expected to expire in 2020 and the Tel Aviv tax holiday is expected to expire between 2015 and 2018. In accordance with recent amendments to the Israeli tax laws, the planned reduction of the Israeli corporate income tax rate will be cancelled and instead, as of January 1, 2012, the corporate income tax rate will be increased to 25% in 2012.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe that the assumptions and estimates associated with revenue recognition, allowance for doubtful accounts, fair value of financial instruments, short-term investments, inventory valuation, valuation and impairment of goodwill and acquired intangibles, warranty provision, share-based compensation and income taxes have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates. For further information on all of our significant accounting policies, please see Note 1, "The Company and Summary of Significant Accounting Policies," of the Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this report.

Revenue recognition

We recognize revenue from the sales of products when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the price is fixed or determinable; and (4) collection is reasonably assured. We use a binding purchase order or a signed agreement as evidence of an arrangement. Delivery occurs when goods are shipped via a third party and title and risk of loss transfer to the customer. Our standard arrangement with our customers typically includes freight-on-board shipping point, no right of return and no customer acceptance provisions. The customer's obligation to pay and the payment terms are set at the time of delivery and are not dependent on the subsequent resale of the product. We determine whether collectibility is probable on a customer-by-customer basis. When assessing the probability of collection, we consider the number of years the customer has been in business and the history of our collections. Customers are subject to a credit review process that evaluates the customers' financial positions and ultimately their ability to pay. If it is determined at the outset of an arrangement that collection is not probable, no product is shipped and no revenue is recognized unless cash is received in advance.

A portion of our sales are made to distributors under agreements which contain a limited right to return unsold product and price protection provisions. We recognize revenue from these distributors based on the sell-through method using point of sale and inventory information provided by the distributor. Additionally, we maintain accruals and allowances for price protection and cooperative marketing programs. We classify the costs of these programs based on the identifiable benefit received as either a reduction of revenue, a cost of sale or an operating expense.

We also maintain inventory, or hub arrangements with certain customers. Pursuant to these arrangements we deliver products to a customer or a designated third party warehouse based upon the customer's projected needs, but do not recognize product revenue unless and until the customer reports it has removed our product from the warehouse to be incorporated into its end products.

We recognize revenue from the sale of hardware products and software bundled with hardware that is essential to the functionality of the hardware in accordance with general revenue recognition accounting guidance. We recognize revenue in accordance with industry specific software accounting guidance for the following types of sales transactions: (i) standalone sales of software products, (ii) sales of software upgrades and (iii) sales of software bundled with hardware not essential to the functionality of the hardware.

For multiple element arrangements that include a combination of hardware, software and services, such as post-contract customer support, the arrangement consideration is first allocated to the separate elements using our best estimate of selling price. If an arrangement includes undelivered elements that are not essential to the functionality of the delivered elements, we defer the fair value or best estimate selling price of the undelivered elements. If the undelivered elements are essential to the functionality of the delivered elements, no revenue is recognized. In the arrangements described above, we recognize revenue upon shipment of each element, hardware or software, assuming all other basic revenue

Table of Contents

recognition criteria are met, as both the hardware or software are considered delivered elements and the only undelivered element is post-contract customer support. The revenue from fixed-price support or maintenance contracts, including extended warranty contracts and software post-contract customer support agreements are recognized ratably over the contract period and the costs associated with these contracts are recognized as incurred.

We account for multiple element arrangements that consist of software or software-related products, including the sale of upgrades to previously sold software and post-contract customer support, in accordance with industry specific accounting guidance for software and software-related transactions. For such transactions, revenue on arrangements that include multiple elements is allocated to each element based on the relative fair value of each element, and fair value is generally determined by vendor-specific objective evidence, or VSOE. If we cannot objectively determine the fair value of any undelivered element included in such multiple-element arrangements, we defer revenue until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements. When the fair value of a delivered element has not been established, but fair value exists for the undelivered elements, we use the residual method to recognize revenue if the fair value of all undelivered elements is determinable. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

Costs incurred for shipping and handling expenses to customers are recorded as cost of revenues. To the extent these amounts are billed to the customer in a sales transaction, we record the shipping and handling fees as revenue.

Allowance for doubtful accounts

We estimate the allowance for doubtful accounts based on an assessment of the collectibility of specific customer accounts. If we determine that a specific customer is unable to meet its financial obligations, we provide a specific allowance for credit losses to reduce the net recognized receivable to the amount we reasonably believe will be collected. Probability of collection is assessed on a customer-by-customer basis and our historical experience with each customer. Customers are subject to an ongoing credit review process that evaluates their respective financial positions. We review and update our estimates for allowance for doubtful accounts on a quarterly basis. Our allowance for doubtful accounts totaled approximately $557,000 and $402,000 at December 31, 2011 and 2010, respectively. Our bad debt expense totaled approximately $155,000, $112,000 and $59,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

Fair value of financial instruments

Our financial instruments consist of cash, cash equivalents, short-term investments, forward contracts, accounts receivable, accounts payable and other accrued liabilities. We believe that the carrying amounts of the financial instruments approximate their respective fair values. When there is no readily available market data, we may make fair value estimates, which may not necessarily represent the amounts that could be realized in a current or future sale of these assets.

Short-term investments

We classify short-term investment as available-for-sale securities. We view our available-for-sale-portfolio as available for use in current operations. Available-for-sale securities are recorded at fair value, and we record temporary unrealized gains and losses as a separate component of accumulated other comprehensive income. We charge unrealized losses against net earnings when a decline in fair value is determined to be other-than-temporary. We review several factors to determine whether a loss is other-than-temporary. These factors include but are not limited to: (1) the length of time a security is in an unrealized loss position, (2) the extent to which fair value is less than cost, (3) the financial condition and near term prospects of the issuer and (4) our intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

Inventory valuation

We value our inventory at the lower of cost or market. Market is determined based on net realizable value. Cost is determined for raw materials on a "first-in, first-out" basis, for work in process based on actual costs and for finished goods based on standard cost, which approximates actual cost on a first-in, first-out basis. We reserve for excess and obsolete inventory based on forecasted demand generally over a six to twelve months period and market conditions. Inventory reserves are not reversed and permanently reduce the cost basis of the affected inventory until it is either sold or scrapped.

Goodwill and intangibles assets

Goodwill represents the excess of the cost of acquired businesses over the fair market value of their identifiable net assets. In the fourth quarter of fiscal 2011, we early adopted FASB's amended guidance issued in September 2011 for testing of goodwill for impairment. We conduct a goodwill impairment qualitative assessment during the fourth quarter of each fiscal year or more frequently if facts and circumstances indicate that goodwill may be impaired. The goodwill impairment qualitative assessment requires us to perform an assessment to determine if it is more likely than not that the fair value of the business is less than its carrying amount. The qualitative assessment considers various factors, including the macroeconomic environment, industry and market specific conditions, market capitalization, stock price, financial performance, earnings multiples, budgeted-to-actual revenue performance from the prior year, gross margin and cash flow from operating activities and issues or events specific to the business. If adverse qualitative trends are identified that could negatively impact the fair value of the business, we perform a "two step" goodwill impairment test. The "step one" goodwill impairment test requires us to estimate the fair value of its business and certain assets and liabilities. The "step two" of the process is only performed if a potential impairment exists in "step one" and it involves determining the difference between the fair value of the reporting unit's net assets other than goodwill to the fair value of the reporting unit. If the difference is less than the net book value of goodwill, an impairment exists and is recorded. As of December 31, 2011, our assessment of goodwill impairment indicated that goodwill in the reporting unit was not impaired.

Intangible assets primarily represent acquired intangible assets including developed technology, customer relationships and in-process research and development, or IPR&D. We amortize the intangible assets over their useful lives using a method that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used or, if that pattern cannot be reliably determined, using a straight-line amortization method. We capitalize IPR&D projects acquired as part of a business combination. On completion of each project, IPR&D assets are reclassified to developed technology and amortized over their estimated useful lives. If any of the IPR&D projects are abandoned, we would be required to impair the related IPR&D asset.

Intangible assets are tested for impairment when indicators of impairment, such as reductions in demand, the abandonment of IPR&D projects or significant economic slowdowns in the semiconductor industry, are present. Reviews are performed to determine whether the carrying value of an asset is impaired, based on comparisons to undiscounted expected future cash flows. If this comparison indicates that there is impairment, the impaired asset is written down to fair value, which is typically calculated using: (i) quoted market prices or (ii) discounted expected future cash flows utilizing an appropriate discount rate. Impairment is based on the excess of the carrying amount over the fair value of those assets. As of December 31, 2011, our assessment of intangibles indicated that intangible assets were not impaired.

Investment in privately-held companies

As of December 31, 2011, we held a $3.0 million investment in a privately-held company. We account for this investment under the cost method. To determine if the investment is recoverable, we monitor the privately-held company's revenue and earnings trends relative to pre-defined milestones and overall business prospects, the general market conditions in its industry and other factors related to its ability to remain in business, such as liquidity and receipt of additional funding.

Warranty provision

We provide a limited warranty for periods of up to three years from the date of delivery against defects in materials and workmanship. If a customer has a defective product, we will either repair the goods or provide replacement products at no charge. We record estimated warranty expenses at the time we recognize the associated product revenues based on our historical rates of return and costs of repair over the preceding 36-month period. In addition, we recognize estimated warranty expenses for specific defects at the time those defects are identified.

Share-based compensation

We account for share-based compensation expense based on the estimated fair value of the share option awards as of the grant dates. We estimate the fair value of share option awards using the Black-Scholes option valuation model, which requires the input of subjective assumptions including the expected share price volatility, the calculation of expected term, and the fair value of the underlying ordinary share on the date of grant, among other inputs. Share compensation expense is recognized on a straight-line basis over each optionee's requisite service period, which is generally the vesting period.

We base our estimate of expected volatility on a combination of our historical volatility and reported market value data for a group of publicly traded companies, which were selected from market indices that we believe would be indicators of our future share price volatility, after consideration of their size, stage of life cycle, profitability, growth, risk and return on investment. We calculate the expected term of our options using the simplified method as prescribed by the authoritative guidance. The expected term for newly- granted options is approximately 6.25 years.

Share-based compensation expense is recorded net of estimated forfeitures. Forfeitures are estimated at the time of grant and this estimate is revised, if necessary, in subsequent periods. If the actual number of forfeitures differs from that estimated, adjustments may be required to share-based compensation expense in future periods.

Income taxes

To prepare our consolidated financial statements, we estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual tax exposure together with assessing temporary differences resulting from the differing treatment of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet.

We must also make judgments regarding the realizability of deferred tax assets. The carrying value of our net deferred tax asset is based on our belief that it is more likely than not that we will generate sufficient future taxable income in certain jurisdictions to realize these deferred tax assets. A valuation allowance has been established for deferred tax assets which we do not believe meet the "more likely than not" criteria. Our judgments regarding future taxable income may change due to changes in market conditions, changes in tax laws, tax planning strategies or other factors. If our assumptions and consequently our estimates change in the future, the valuation allowances we have established may be increased or decreased, resulting in a respective increase or decrease in income tax expense. Our

Table of Contents

effective tax rate is highly dependent upon the geographic distribution of our worldwide earnings or losses, the tax regulations and tax holidays in each geographic region, the availability of tax credits and carryforwards, and the effectiveness of our tax planning strategies.

We use a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with the guidance on judgments regarding the realizability of deferred taxes. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

Results of Operations

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

	Years Ended December 31,		
	2011	**2010**	**2009**
Total revenues	100%	100%	100%
Cost of revenues	(35)	(26)	(25)
Gross profit	65	74	75
Operating expenses:			
Research and development	36	37	36
Sales and marketing	16	14	15
General and administrative	8	8	8
Total operating expenses	60	59	59
Income from operations	5	15	16
Other income, net			
Provision for taxes on income	(1)	(6)	(5)
Net income	4	9	11

Comparison of the Year Ended December 31, 2011 to the Year Ended December 31, 2010 and Year Ended December 31, 2010 to the Year Ended December 31, 2009

Revenues.

The following tables represent our total revenues for the years ended December 31, 2011 and 2010 by product type and interconnect protocol:

	Year Ended December 31,			
	2011	**% of Revenues**	**2010**	**% of Revenues**
	(In thousands)		**(In thousands)**	
ICs	$ 46,564	18.0	$ 57,030	36.9
Boards	98,004	37.8	67,085	43.4
Switch systems and gateways	76,398	29.5	19,461	12.6
Cables, accessories and other	38,285	14.7	11,064	7.1
Total revenue	$ 259,251	100.0	$ 154,640	100.0

Table of Contents

	Year Ended December 31, 2011	% of Revenues	2010	% of Revenues
	(In thousands)		(In thousands)	
Infiniband:				
QDR	$ 151,610	58.5	$ 108,009	69.9
DDR	24,548	9.5	17,569	11.4
FDR	12,054	4.7		
SDR	5,857	2.3	8,364	5.4
Total	194,069	75.0	133,942	86.7
Ethernet	24,060	9.2	8,223	5.3
Other	41,122	15.8	12,475	8.0
Total revenue	$ 259,251	100.0	$ 154,640	100.0

Revenues. Revenues were $259.3 million for the year ended December 31, 2011 compared to $154.6 million for the year ended December 31, 2010, representing an increase of approximately 68%. This year-over-year growth was mainly the result of incremental new revenues from the Voltaire acquisition, as well as increased market demand for our higher bandwidth products. Revenues attributable to our higher bandwidth QDR and FDR products increased 51.6% from the prior year. Our Ethernet revenues also grew significantly year-over-year primarily due to increased adoption of our products within the Web 2.0 market. Revenues in all of our product categories increased with the highest growth in switch systems and cables and accessories. The 2011 revenues are not necessarily indicative of future results.

The following tables represent our total revenues for the years ended December 31, 2010 and 2009 by product type and interconnect protocol:

	Year Ended December 31, 2010	% of Revenues	2009	% of Revenues
	(In thousands)		(In thousands)	
ICs	$ 57,030	36.9	$ 38,972	33.6
Boards	67,085	43.4	61,556	53.0
Switch systems and gateways	19,461	12.6	9,996	8.6
Cables, accessories and other	11,064	7.1	5,520	4.8
Total revenue	$ 154,640	100.0	$ 116,044	100.0

	Year Ended December 31, 2010	% of Revenues	2009	% of Revenues
	(In thousands)		(In thousands)	
Infiniband:				
QDR	$ 108,009	69.9	$ 61,409	52.9
DDR	17,569	11.4	41,022	35.4
FDR				
SDR	8,364	5.4	5,612	4.8
Total	133,942	86.7	108,043	93.1
Ethernet	8,223	5.3	1,899	1.6
Other	12,475	8.0	6,102	5.3
Total revenue	$ 154,640	100.0	$ 116,044	100.0

Table of Contents

Revenues were $154.6 million for the year ended December 31, 2010 compared to $116.0 million for the year ended December 31, 2009, representing an increase of approximately 33%. The increase in revenues resulted primarily from increased sales across all of our product lines. In particular, we experienced substantial increases in sales of integrated circuits and switch systems.

Gross Profit and Margin. Gross profit was $167.2 million for the year ended December 31, 2011 compared to $114.1 million for the year ended December 31, 2010, representing an increase of approximately 47%. As a percentage of revenues, gross margin decreased to 65% in the year ended December 31, 2011 from approximately 74% in the year ended December 31, 2010. The decrease in gross margin was primarily due to a higher portion of revenues derived from sales of our switch systems, cables and accessories, which typically yield lower gross margins than our IC and board revenues. In addition, gross margin in the year ended December 31, 2011 was negatively impacted by the amortization of acquired intangible assets in an amount of $8.2 million as a result of the Voltaire acquisition, which reduced gross margin by 3.2 percentage points. Gross margin for 2011 is not necessarily indicative of future results.

Gross profit was $114.1 million for the year ended December 31, 2010 compared to $87.4 million for the year ended December 31, 2009, representing an increase of approximately 31%. As a percentage of revenues, gross margin decreased to 74% in the year ended December 31, 2010 from approximately 75% in the year ended December 31, 2009. The decrease in gross margins was primarily due to an increase in sales of our switch systems for which we typically earn lower margins.

Research and Development.

The following table presents details of our research and development expenses for the periods indicated:

	Year Ended December 31,					
	2011 (in thousands)	**% of Revenues**	**2010 (in thousands)**	**% of Revenues**	**2009 (in thousands)**	**% of Revenues**
Salaries and benefits	$ 48,437	18.7%	$ 31,358	20.3%	$ 21,387	18.4%
Share-based compensation	11,906	4.6%	8,031	5.2%	6,562	5.7%
Development and tape-out costs	13,888	5.4%	7,712	5.0%	7,604	6.5%
Other	18,277	7.0%	9,703	6.2%	6,688	5.8%
Total Research and development	$ 92,508	35.7%	$ 56,804	36.7%	$ 42,241	36.4%

Research and development expenses were $92.5 million for the year ended December 31, 2011 compared to $56.8 million for the year ended December 31, 2010, representing an increase of approximately 63%. The increase in salaries and benefits and share-based compensation was attributable to headcount additions, including those associated with the Voltaire acquisition, and merit increases. Development and design costs increased due to increases in mask, prototyping, qualification and outsourcing costs as a result of our continued development and tape-out of new products. The increase in *other* costs was primarily attributable to an increase in facilities, depreciation and travel related expenses. We expect that research and development expenses will increase in absolute dollars in future periods as we continue to devote resources to develop new products, meet the changing requirements of our customers, expand into new markets and technologies and hire additional personnel.

Research and development expenses were $56.8 million for the year ended December 31, 2010 compared to $42.2 million for the year ended December 31, 2009, representing an increase of

Table of Contents

approximately 35%. The increase in salaries and benefits and share-based compensation was attributable to headcount additions and merit increases. The increase in development and design costs was due to higher outsourcing expenses and engineering design tool costs, partially offset by a decrease in mask costs. The increase in *other* costs was primarily attributable to an increase in facilities, depreciation and travel related expenses.

Sales and Marketing.

The following table presents details of our sales and marketing expenses for the periods indicated:

	Year Ended December 31,					
	2011 (in thousands)	% of Revenues	2010 (in thousands)	% of Revenues	2009 (in thousands)	% of Revenues
Salaries and benefits	$ 20,884	8.1%	$ 11,099	7.2%	$ 7,831	6.8%
Share-based compensation	4,894	1.9%	2,730	1.8%	2,125	1.8%
Trade shows and promotions	7,309	2.8%	5,142	3.3%	4,739	4.1%
Other	7,279	2.8%	3,133	2.0%	2,339	2.0%
Total Sales and marketing	$ 40,366	15.6%	$ 22,104	14.3%	$ 17,034	14.7%

Sales and marketing expenses were $40.4 million for the year ended December 31, 2011 compared to $22.1 million for the year ended December 31, 2010, representing an increase of approximately 83%. The increase in salaries and benefits and share-based compensation was attributable to headcount additions, including those associated with the Voltaire acquisition, and merit increases. The increase in trade show and promotion costs is primarily due to higher expenses related to equipment for customer product evaluations and an increase in sales and marketing activities. The increase in *other* costs was primarily attributable to the amortization of customer relationship intangible assets associated with Voltaire acquisition and higher facilities related costs.

Sales and marketing expenses were $22.1 million for the year ended December 31, 2010 compared to $17.0 million for the year ended December 31, 2009, representing an increase of approximately 30%. The increase in salaries and benefits and share-based compensation was attributable to headcount additions and merit increases. The increase in trade show and promotional costs is primarily associated with higher expenses related to equipment for customer product evaluations and an increase in sales and marketing activities, partially offset by a decrease in commission expense due to changes in our external sales representative compensation plan.

General and Administrative.

The following table presents details of our general and administrative expenses for the periods indicated:

	Year Ended December 31,					
	2011 (in thousands)	% of Revenues	2010 (in thousands)	% of Revenues	2009 (in thousands)	% of Revenues
Salaries and benefits	$ 7,883	3.0%	$ 4,378	2.8%	$ 3,596	3.1%
Share-based compensation	3,632	1.4%	2,955	1.9%	1,744	1.5%
Professional services	7,433	2.9%	2,960	1.9%	2,962	2.6%
Other	2,821	1.1%	1,451	1.0%	1,051	0.9%
Total General and administrative	$ 21,769	8.4%	$ 11,744	7.6%	$ 9,353	8.1%

Table of Contents

General and administrative expenses were $21.8 million for the year ended December 31, 2011 compared to $11.7 million for the year ended December 31, 2010, representing an increase of approximately 85%. The increase in salaries and benefits and share-based compensation was attributable to headcount additions, including those associated with the Voltaire acquisition and merit increases. The increase in professional services costs was primarily associated with the Voltaire acquisition. The increase in *other* costs was due to higher depreciation and facilities related expenses.

General and administrative expenses were $11.7 million for the year ended December 31, 2010 compared to $9.4 million for the year ended December 31, 2009, representing an increase of approximately 26%. The increase in salaries and benefits and share-based compensation was attributable to headcount additions, and merit increases. The increase in *other* costs was primarily due to higher depreciation expenses.

Share-based compensation expense.

The following table presents details of our total share-based compensation expense that is included in each functional line item in our consolidated statements of income:

	Year Ended December 31,		
	2011	2010	2009
		(in thousands)	
Cost of goods sold	$ 980	$ 385	$ 305
Research and development	11,906	8,031	6,562
Sales and marketing	4,894	2,730	2,125
General and administrative	3,632	2,955	1,744
	$ 21,412	$ 14,101	$ 10,736

The amount of unearned share-based compensation currently estimated to be expensed from 2012 through 2015 related to unvested share-based payment awards at December 31, 2011 is $41.0 million. Of this amount, $17.6 million, $12.2 million, $8.4 million and $2.8 million are currently estimated to be recorded in 2012, 2013, 2014 and 2015, respectively. The weighted-average period over which the unearned share-based compensation is expected to be recognized is approximately 2.8 years. If there are any modifications or cancellations of the underlying unvested awards, we may be required to accelerate, increase or cancel any remaining unearned share-based compensation expense. Future share-based compensation expense and unearned share-based compensation will increase to the extent that we grant additional equity awards to employees or assume unvested equity awards in connection with other acquisitions.

Other Income (loss), net. Other income (loss), net consists of interest earned on cash and cash equivalents and short-term investments and foreign currency exchange gains and losses. Other income, net for the year ended December 31, 2011 of $759,000 compared to a loss of $135,000 for the year ended December 31, 2010. The change was primarily attributable to higher foreign exchange gains of $690,000, partially offset by a decrease of $498,000 in interest income associated with lower yields on investments. In addition, in the year ended December 31, 2010, we recognized an impairment loss of $750,000 from investments in privately-held companies.

Other income or expense, net was an expense of $135,000 for the year ended December 31, 2010 compared to income of $518,000 for the year ended December 31, 2009. The decline was primarily attributable to an increase of $280,000 in foreign exchange losses, an increase of $247,000 in losses from investments in privately-held companies and a decrease of $126,000 in interest income.

As of December 31, 2011 and 2010, our investment portfolio included investments of $3.0 million in a privately held company. In the year ended December 31, 2010, we determined that the decline in our investments in the preferred stock of two of the privately held companies we invested in was not fully recoverable within the foreseeable future and recorded impairment charges of $0.75 million, to reduce the carrying value of these investments from $3.75 million to $3.0 million. We sold our holdings in one of these privately held companies in the fourth quarter of 2010.

Provision for Taxes on Income. Our tax expense was $3.4 million for the year ended December 31, 2011 as compared to $9.8 million for the year ended December 31, 2010. The U.S. federal statutory rate was 34% for 2011 and 2010. Our effective tax rates were 25.2% and 41.9% for 2011 and 2010, respectively. The difference between our effective tax rate in 2011 and the federal statutory tax rate is primarily due to non tax-deductible expenses such as share-based compensation expense and the accrual of unrecognized tax benefits, interest and penalties associated with unrecognized tax positions, partially offset by profits earned in Israel, where the tax rate is lower than the U.S. tax rate.

Our tax expense was $9.8 million for the year ended December 31, 2010 as compared to $6.4 million for the year ended December 31, 2009. The federal statutory rate was 34% for 2010 and 2009. Our effective tax rates were 41.9% and 33.1% for 2010 and 2009, respectively. The difference between our effective tax rate in 2010 and the federal statutory tax rate is primarily due to the full utilization of deferred tax assets associated with carryforward losses and research and developments costs in Israel before the Approved Enterprise Tax Holiday begins. The difference between our effective tax rate in 2009 and the federal statutory tax rate is primarily due to foreign earnings taxed at lower rates than the federal statutory tax rate.

Liquidity and Capital Resources

Since our inception, we have financed our operations through a combination of sales of equity securities and cash generated by operations. As of December 31, 2011, our principal source of liquidity consisted of cash and cash equivalents of $181.2 million and short-term investments of $52.4 million. On February 7, 2011 we completed the acquisition of Voltaire for a total cash purchase price of $203.7 million. In September 2011, we raised $104.2 million in public offering of 3,450,000 of our ordinary shares. We expect that our current cash and cash equivalents and short-term investments and our cash flows from operating activities will be sufficient to fund our operations over the next twelve months after taking into account expected increases in research and development expenses, including tape out costs, higher sales and marketing and general and administrative expenses, and capital expenditures to support our infrastructure and growth.

Operating Activities

Net cash provided by our operating activities amounted to $63.1 million in the year ended December 31, 2011. Net cash provided by operating activities was primarily attributable to net income of $10.0 million adjusted by net non-cash items of $38.5 million and changes in assets and liabilities of $14.6 million. Non-cash expenses consisted primarily of $19.0 million for share-based compensation, net of the excess tax benefits, and $19.7 million for depreciation and amortization. The cash inflow from changes in assets and liabilities resulted from an increase in accounts payable of $21.1 million due to the timing of purchases during the year and an increase of $18.6 million in accrued liabilities, partially offset by an increase in accounts receivable of $15.9 million mainly due to higher sales, an increase in inventories of $8.6 million due to higher safety stock levels and an increase in prepaid expense and other assets of $0.5 million.

Net cash generated by our operating activities amounted to approximately $41.2 million in the year ended December 31, 2010. Net cash generated by operating activities was primarily attributable to net income of $13.5 million adjusted for non-cash items, including $13.0 million for share-based compensation, net of the excess tax benefit, $7.4 million for deferred taxes and approximately $5.8 million for depreciation and amortization. Furthermore, net cash generated by operating activities increased due to an increase of $5.5 million in accrued liabilities, a decrease in prepaid expenses and other assets of $0.7 million and a decrease in accounts receivable of $0.5 million, partially offset by a decrease of $2.2 million in accounts payable and an increase in inventory of $3.0 million due to higher safety stock levels.

Net cash generated by our operating activities amounted to $32.8 million in the year ended December 31, 2009. Net cash generated by operating activities was primarily attributable to net income of $12.9 million adjusted for non-cash items, including $10.7 million for share-based compensation, approximately $4.1 million for depreciation and amortization and deferred taxes of $3.6 million. Furthermore, net cash generated by operating activities increased due to a decline in accounts receivable of approximately $3.0 million as a result of improved linearity related to invoicing during the last quarter of 2009, an increase of approximately $2.3 million in accrued liabilities primarily associated with payroll and an increase of approximately $0.5 million in accounts payable, partially offset by an increase in inventory of $3.0 million due to higher safety stock levels and an increase of $1.0 million in prepaid expenses and other assets.

Investing Activities

Net cash used in investing activities was $114.5 million in the year ended December 31, 2011. Cash used in investing activities was primarily attributable to the acquisition of Voltaire in the amount of $203.7 million, purchases of property and equipment of $24.7 million and an increase in restricted cash of $1.7 million, partially offset by net proceeds from sales and maturities of short-term investments of $116.4 million.

Net cash provided from investing activities was $13.1 million in the year ended December 31, 2010. Cash provided from investing activities was primarily attributable to net proceeds and maturities of short-term investments of $25.4 million, partially offset by acquisitions of property and equipment of $11.4 million and an equity investment in a privately-held company of $0.1million.

Net cash used in investing activities was $103.7 million in the year ended December 31, 2009. Cash used in investing activities was primarily attributable to net purchases of short-term investments of $94.8 million, acquisitions of property and equipment of $3.7 million, an equity investment in a privately-held company of $3.5 million and an increase in restricted cash deposits of $0.9 million.

Financing Activities

Net cash provided by financing activities was $124.6 million in the year ended December 31, 2011. Cash provided by financing activities was primarily due to net cash of $104.2 million received in conjunction with our recent additional public offering, proceeds from exercise of share awards of approximately $18.5 million and an excess tax benefit from share-based compensation of approximately $2.4 million, partially offset by principal payments on capital lease obligations of $0.5 million.

Net cash provided by financing activities was $10.1 million in the year ended December 31, 2010. Cash provided by financing activities was attributable to proceeds from the exercise of share awards of approximately $9.5 million and an excess tax benefit from share-based compensation of approximately $1.1 million, partially offset by principal payments on capital lease obligations of $0.5 million.

Net cash provided by financing activities was $4.4 million in the year ended December 31, 2009. Cash provided by financing activities was attributable to proceeds from the exercise of share awards of $3.7 million and an excess tax benefit from share-based compensation of $1.2 million, partially offset by principal payments on capital lease obligations of $0.5 million.

Table of Contents

Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2011 and the effect those obligations are expected to have on our liquidity and cash flow in future periods:

	Payments Due by Period			
Contractual Obligations:	**Total**	**Less Than 1 Year**	**1 - 3 Years**	**3 - 5 Years**
	(in thousands)			
Commitments under capital lease	$ 578	$ 299	$ 279	$
Non-cancelable operating lease commitments	48,579	10,229	16,923	21,427
Purchase commitments	49,495	49,095	400	
Total	$ 98,652	$ 59,623	$ 17,602	$ 21,427

As of December 31, 2011, we had no contractual obligations expected to have an effect on our liquidity and cash flow in periods beyond five years.

For purposes of this table, purchase commitments are defined as agreements that are enforceable and legally binding and that specify all significant terms including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Our purchase orders are based on our current manufacturing needs and are fulfilled by our vendors within relatively short time horizons. In addition, we have purchase orders that represent authorizations to purchase rather than binding agreements. We do not have significant agreements for the purchase of raw materials or other goods specifying minimum quantities or set prices that exceed our expected requirements.

The contractual obligation table excludes our unrecognized tax benefit liabilities because we cannot make a reliable estimate of the timing of cash payments. As of December 31, 2011, our unrecognized tax benefits totaled $4.1 million, which would reduce our income tax expense and effective tax rate, if recognized.

Recent accounting pronouncements

See Note 1, "The Company and Summary of Significant Accounting Policies Recent accounting pronouncements" of the Notes to the Consolidated Financial Statements, included in Part IV, Item 15 of this report, for a full description of recent accounting standards, including the respective dates of adoption and effects on our condensed consolidated financial position, results of operations and cash flows.

Off-Balance Sheet Arrangements

As of December 31, 2011, we did not have any off-balance sheet arrangements.

Impact of Currency Exchange Rates

Exchange rate fluctuations could have a material adverse effect on our business, financial condition and results of operations. Our most significant foreign currency exposure is the new Israeli shekel, or NIS. We do not enter into derivative transactions for speculative or trading purposes. In fiscal year 2011, we used foreign currency forward contracts to hedge a portion of operating expenses denominated in NIS. Our derivative instruments are recorded at fair value in assets or liabilities with final gains or losses recorded in other income, net or as a component of accumulated Other Comprehensive Income and subsequently reclassified into operating expenses in the same period in which the hedged operating expenses are recognized. See Note 7, "Derivatives and Hedging Activities," of the Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this report.

ITEM 7A *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Interest rate fluctuation risk

We do not have any long-term borrowings. Our investments consist of cash and cash equivalents, short-term deposits, money market funds and interest bearing investments in U.S. government debt securities, foreign government bonds and corporate bonds with an average maturity of less than one year. The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. By policy, we limit the amount of our credit exposure through diversification and restricting its investments to highly rated securities. Individual securities are limited to comprising no more than 10% of the portfolio value at the time of purchase, except U.S. Treasury or Agency securities. Highly rated securities are defined as having a minimum Moody or Standard & Poor's rating of A2 or A, respectively. We have not experienced any significant losses on our cash equivalents or short-term investments. We do not enter into investments for trading or speculative purposes. Our investments are exposed to market risk due to a fluctuation in interest rates, which may affect our interest income and the fair market value of our investments. Due to the short-term nature of our investment portfolio, we do not believe an immediate 1% change in interest rates would have a material effect on the fair market value of our portfolio, and therefore we do not expect our operating results or cash flows to be materially affected to any degree by a sudden change in market interest rates.

Foreign currency exchange risk

We derive all of our revenues in U.S. dollars. The U.S. dollar is our functional and reporting currency in all of our foreign locations. However, a significant portion of our headcount related expenses, consisting principally of salaries and related personnel and facilities expenses, are denominated in new Israeli shekels, or NIS. This foreign currency exposure gives rise to market risk associated with exchange rate movements of the U.S. dollar against the NIS. Furthermore, we anticipate that a material portion of our expenses will continue to be denominated in NIS. To the extent the U.S. dollar weakens against the NIS, we will experience a negative impact on our profit margins.

To protect against reductions in value and the volatility of future cash flows caused by changes in foreign currency exchange rates, we have established a balance sheet and anticipated transaction risk management program. Currency forward contracts and natural hedges are generally utilized in this hedging program. We do not enter into forward contracts for trading or speculative purposes. Our hedging program reduces, but does not eliminate the impact of currency exchange rate movements (see Part I, Item 1A, "Risk Factors"). If we were to experience a 10% change in currency exchange rates, the impact on assets and liabilities denominated in currencies other than the U.S. dollar, after taking into account hedges and offsetting positions, would result in a loss before taxes of approximately $340,000 at December 31, 2011. There would also be an impact on future operating expenses denominated in currencies other than the U.S. dollar. At December 31, 2011, approximately $7.0 million of our monthly operating expenses were denominated in NIS. As of December 31, 2011, we had forward contracts in place that hedged future operating expenses of approximately 167.1 million NIS, or approximately $43.7 million based upon the exchange rate as of December 31, 2011. The forward contracts cover a portion of our future NIS denominated operating expenses expected to occur over the next twelve months. Our derivatives expose us to credit risk to the extent that the counterparties may be unable to meet the terms of the agreement. We seek to mitigate such risk by limiting our counterparties to major financial institutions and by spreading the risk across a number of major financial institutions. However, under current market conditions, failure of one or more of these financial institutions is possible and could result in incurred losses.

Table of Contents

Inflation related risk

We believe that the rate of inflation in Israel has not had a material impact on our business to date. Our cost in Israel in U.S. dollar terms will increase if inflation in Israel exceeds the devaluation of the NIS against the U.S. dollar or if the timing of such devaluation lags behind inflation in Israel.

ITEM 8 *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

The financial statements required by Item 8 are submitted as a separate section of this report and are incorporated by reference into this Item 8. See Item 15, "Exhibits and Financial Statement Schedules."

Summary Quarterly Data Unaudited

	Q4(*) 2011	Q3(*) 2011	Q2(*) 2011	Q1(*) 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
	(in thousands, except per share data)							
Total revenues	$ 72,689	$ 68,160	$ 63,345	$ 55,057	$ 40,693	$ 37,779	$ 39,958	$ 36,210
Cost of revenues	26,186	24,164	22,249	19,416	11,477	9,861	10,189	9,023
Gross profit	46,503	43,996	41,096	35,641	29,216	27,918	29,769	27,187
Operating expenses:								
Research and development	25,142	23,367	23,689	20,310	15,559	14,973	13,995	12,277
Sales and marketing	11,338	10,484	9,989	8,555	6,237	5,445	5,409	5,013
General and administrative	4,140	4,525	4,659	8,445	3,684	2,675	2,749	2,636
Total operating expenses	40,620	38,376	38,337	37,310	25,480	23,093	22,153	19,926
Income (loss) from operations	5,883	5,620	2,759	(1,669)	3,736	4,825	7,616	7,261
Other income (loss), net	207	416	88	48	(352)	55	49	113
Income (loss) before taxes on income	6,090	6,036	2,847	(1,621)	3,384	4,880	7,665	7,374
Provision for taxes on income	(1,427)	(1,226)	(719)	(3)	(3,901)	(1,377)	(2,349)	(2,136)
Net income (loss)	$ 4,663	$ 4,810	$ 2,128	$ (1,624)	$ (517)	$ 3,503	$ 5,316	$ 5,238
Net income (loss) per share basic	0.12	0.13	0.06	(0.05)	(0.02)	0.10	0.16	0.16
Net income (loss) per share diluted	$ 0.11	$ 0.13	$ 0.06	$ (0.05)	$ (0.02)	$ 0.10	$ 0.15	$ 0.15

(*) On February 7, 2011, we acquired Voltaire Ltd., an Israeli-based public company. Voltaire's results of operations and estimated fair value of assets acquired and liabilities assumed were included in the Company's consolidated financial statements beginning February 7, 2011.

ITEM 9 *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE*

None.

ITEM 9A *CONTROLS AND PROCEDURES*

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2011. Based on this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2011.

Changes in Internal Control Over Financial Reporting

On February 7, 2011, we acquired Voltaire Ltd. During the integration we changed Voltaire's internal controls over financial reporting to conform with ours. There has been no additional changes in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011 using the criteria established in "Internal Control Integrated Framework," issued by The Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that the internal controls over financial reporting were effective as of December 31, 2011.

The certifications of our principal executive officer and principal financial officer attached as Exhibits 31.1 and 31.2 to this report include, in paragraph 4 of such certifications, information concerning our disclosure controls and procedures and internal controls over financial reporting. Such certifications should be read in conjunction with the information contained in this Item 9A for a more complete understanding of the matters covered by such certifications.

The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included in Item 15 of this report.

ITEM 9B *OTHER INFORMATION*

None.

Table of Contents

PART III

ITEM 10 *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE*

Our written Code of Business Conduct and Ethics applies to all of our directors and employees, including our executive officers. The Code of Business Conduct and Ethics is available on our website at http://www.mellanox.com. Any changes to or waivers of the Code of Business Conduct and Ethics will be disclosed on the same website.

The other information required by this item will be contained in our definitive proxy statement to be filed with the SEC in connection with the Annual General Meeting of our Shareholders, or the Proxy Statement, which is expected to be filed no later than 120 days after the end of our fiscal year ended December 31, 2011, and is incorporated in this report by reference.

ITEM 11 *EXECUTIVE COMPENSATION*

The information required by this item will be set forth in the Proxy Statement and is incorporated in this report by reference.

ITEM 12 *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS*

The information required by this item will be set forth in the Proxy Statement and is incorporated in this report by reference.

ITEM 13 *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE*

The information required by this item will be set forth in the Proxy Statement and is incorporated in this report by reference.

ITEM 14 *PRINCIPAL ACCOUNTANT FEES AND SERVICES*

The information required by this item will be set forth in the Proxy Statement and is incorporated in this report by reference.

Table of Contents

PART IV

ITEM 15 *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES*

(a) Documents filed as part of this report.

1. *Financial Statements.* The following financial statements and report of the independent registered public accounting firm are included in Item 8:

2. *Financial Statement Schedules.* The following financial statement schedules of the Company are filed as part of this report:

All other schedules have been omitted because they are not applicable or not required, or the information is included in the Consolidated Financial Statements or Notes thereto.

3. *Exhibits.* See Item 15(b) below. Each management contract or compensatory plan or arrangement required to be filed has been identified.

(b) Exhibits.

Table of Contents

INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit
1.1(1)	Underwriting Agreement, dated as of September 20, 2011, by and between Mellanox Technologies, Ltd. and J.P. Morgan Securities LLC, as representative of the several underwriters named therein.
2.1(2)	Agreement of Merger, dated as of November 29, 2010, among Mellanox Technologies, Ltd., Mondial Acquisition Corporation Ltd. and Voltaire Ltd.
3.1(3)	Amended and Restated Articles of Association of Mellanox Technologies, Ltd. (as amended on May 16, 2011).
10.1(4)*	Mellanox Technologies, Ltd. 1999 United States Equity Incentive Plan and forms of agreements relating thereto.
10.2(5)*	Mellanox Technologies, Ltd. 1999 Israeli Share Option Plan and forms of agreements relating thereto.
10.3(6)*	Mellanox Technologies, Ltd. 2003 Israeli Share Option Plan and forms of agreements relating thereto.
10.4(7)	Amended Form of Indemnification Undertaking made by and between Mellanox Technologies, Ltd. and each of its directors and executive officers as amended on May 16, 2011.
10.5(8)	Lease Contract, dated May 9, 2001, by and between the Company, as tenant, and Sha'ar Yokneam, Registered Limited Partnership, as landlord, as amended August 23, 2001 (as translated from Hebrew).
10.6(9)*	Mellanox Technologies, Ltd. Global Share Incentive Plan (2006) and forms of agreements and appendices relating thereto.
10.7(10)*	Mellanox Technologies, Ltd. Non-Employee Director Option Grant Policy.
10.8(11)*	Form of Mellanox Technologies, Ltd. Executive Severance Benefits Agreement for U.S. Executives.
10.9(12)*	Form of Mellanox Technologies, Ltd. Executive Severance Benefits Agreement for Israel Executives.
10.10(13)*	Mellanox Technologies, Ltd. Employee Share Purchase Plan.
10.11(14)	Lease Contract, dated May 9, 2001, by and between the Company, as tenant, and Sha'ar Yokneam, Registered Limited Partnership, as landlord, as amended May 15, 2007 (as translated from Hebrew).
10.14(15)	Lease Contract, dated May 9, 2001, by and between the Company, as tenant, and Sha'ar Yokneam, Registered Limited Partnership, as landlord, as amended September 4, 2007 (as translated from Hebrew).
10.15(16)	Office Space Lease dated September 30, 2008 by and between Oakmead Parkway Properties Partnership, a California general partnership, as landlord, and Mellanox Technologies, Inc., as tenant.
10.16(17)*	Mellanox Technologies, Ltd., Global Share Incentive Assumption Plan (2010).

Table of Contents

Exhibit No.	Description of Exhibit
10.17(18)	Lease Contract, dated March 1, 2011, by and between the Company, as tenant, and Sha'ar Yokneam, Registered Limited Partnership, as landlord (as translated from Hebrew).
21.1	List of Company Subsidiaries.
23.1	Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm.
24.1	Power of Attorney (included on signature page to this annual report on Form 10-K).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS(19)	XBRL Instance Document
101.SCH(19)	XBRL Taxonomy Extension Schema Document
101.CAL(19)	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB(19)	XBRL Taxonomy Extension Label Linkbase Document
101.PRE(19)	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF(19)	XBRL Taxonomy Extension Definition Linkbase Document

(1) Incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K (SEC File No. 001-33299) filed on September 21, 2011.

(2) Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K (SEC File No. 001-33299) filed on November 29, 2010.

(3) Incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement on Schedule 14A (File No. 001-33299) filed on April 11, 2011.

(4) Incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on September 28, 2006.

(5) Incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on September 28, 2006.

(6) Incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on September 28, 2006.

(7) Incorporated by reference to Exhibit B to the Company's Definitive proxy statement on Schedule 14A (File No. 001-33299) filed on April 11, 2011.

(8)
Incorporated by reference to Exhibit 10.9 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on November 14, 2006.

(9)
Incorporated by reference to Exhibit 10.10 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on November 14, 2006.

Table of Contents

(10) Incorporated by reference to Exhibit 10.11 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on November 14, 2006.

(11) Incorporated by reference to Exhibit 10.12 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on November 14, 2006.

(12) Incorporated by reference to Exhibit 10.13 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on November 14, 2006.

(13) Incorporated by reference to Exhibit 10.14 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on December 7, 2006.

(14) Incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K (SEC File No. 001-33299) filed on March 24, 2008.

(15) Incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K (SEC File No. 001-33299) filed on March 24, 2008.

(16) Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (SEC File No. 001-33299) filed on November 7, 2008.

(17) Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (SEC File No. 001-33299) filed on February 7, 2011.

(18) Incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K (SEC File No. 001-33299) filed on March 7, 2011.

(19) Pursuant to Rule 406T of SEC Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, and are deemed not filed for the purpose of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

* Indicates management contract or compensatory plan, contract or arrangement.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Mellanox Technologies, Ltd.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Mellanox Technologies, Ltd. and its subsidiaries at December 31, 2011 and December 31, 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits (which were integrated audits in 2011 and 2010). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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/ PricewaterhouseCoopers LLP

San Jose, California
February 27, 2012

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

CONSOLIDATED BALANCE SHEETS

	December 31, 2011	December 31, 2010
	(In thousands, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 181,258	$ 107,994
Short-term investments	52,373	141,959
Restricted cash	4,452	3,353
Accounts receivable, net	48,215	19,893
Inventories	24,955	11,717
Deferred taxes and other current assets	7,373	4,487
Total current assets	318,626	289,403
Property and equipment, net	36,806	15,490
Severance assets	7,767	5,792
Intangible assets, net	25,657	290
Goodwill	132,885	
Deferred taxes and other long-term assets	8,289	4,780
Total assets	$ 530,030	$ 315,755
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 30,132	$ 6,526
Accrued liabilities	31,091	15,885
Deferred revenue	5,571	1,051
Capital lease liabilities, current	299	316
Total current liabilities	67,093	23,778
Accrued severance	10,433	7,355
Deferred revenue	3,664	563
Capital lease liabilities	279	158
Other long-term liabilities	6,214	2,211
Total liabilities	87,683	34,065
Commitments and Contingencies (Note 9)		
Shareholders' equity		
Ordinary shares: NIS 0.0175 par value, 137,143 shares authorized, 39,735 and 34,231 shares issued and outstanding at December 31, 2011 and 2010, respectively	165	141
Additional paid-in capital	418,255	265,481
Accumulated other comprehensive income (loss)	(1,164)	954
Retained earnings	25,091	15,114
Total shareholders' equity	442,347	281,690
Total liabilities and shareholders' equity	$ 530,030	$ 315,755

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

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2011	2010	2009
	(In thousands, except per share data)		
Total revenues	$ 259,251	$ 154,640	$ 116,044
Cost of revenues	92,015	40,550	28,669
Gross profit	167,236	114,090	87,375
Operating expenses:			
Research and development	92,508	56,804	42,241
Sales and marketing	40,366	22,104	17,034
General and administrative	21,769	11,744	9,353
Total operating expenses	154,643	90,652	68,628
Income from operations	12,593	23,438	18,747
Other income (loss), net	759	(135)	518
Income before taxes on income	13,352	23,303	19,265
Provision for taxes on income	(3,375)	(9,763)	(6,379)
Net income	$ 9,977	$ 13,540	$ 12,886
Net income per share basic	$ 0.28	$ 0.40	$ 0.40
Net income per share diluted	$ 0.26	$ 0.38	$ 0.39
Shares used in computing income per share:			
Basic	36,263	33,591	32,099
Diluted	38,562	35,483	33,400

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

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Ordinary Shares		Additional Paid-in Capital	Accumulated Other Comprehensive Income (loss)	Retained Earnings (Accumulated Deficit)	Total Shareholders' Equity
	Shares	Amount				
			(In thousands, except share data)			
Balance at December 31, 2008	31,774,620	$ 131	$ 225,180	$ 81	$ (11,312)	$ 214,080
Net income					12,886	12,886
Unrealized losses on available-for-sale securities, net of taxes				(157)		(157)
Unrealized gains on derivative contracts, net of taxes				443		443
Comprehensive net income						13,172
Share-based compensation			10,736			10,736
Exercise of share options	700,624	3	2,223			2,227
Issuance of shares pursuant to employee share purchase plan	206,529	1	1,437			1,437
Income tax benefit from share options exercised			1,231			1,231
Balance at December 31, 2009	32,681,773	$ 135	$ 240,807	$ 367	$ 1,574	$ 242,883
Net income					13,540	13,540
Unrealized losses on available-for-sale securities, net of taxes				(90)		(90)
Unrealized gains on derivative contracts, net of taxes				677		677
Comprehensive net income						14,127
Share-based compensation			14,101			14,101
Exercise of share options	1,349,891	6	6,886			6,892
Issuance of shares pursuant to employee share purchase plan	199,540		2,586			2,586
Income tax benefit from share options exercised			1,101			1,101
Balance at December 31, 2010	34,231,204	$ 141	$ 265,481	$ 954	$ 15,114	$ 281,690
Net income					9,977	9,977
Unrealized losses on available-for-sale securities, net of taxes				(109)		(109)
Unrealized losses on derivative contracts, net of taxes				(2,009)		(2,009)
Comprehensive net income						7,859
Share-based compensation			21,412			21,412
Exercise of share awards	1,810,582	7	13,993			14,000
Issuance of shares pursuant to employee share purchase plan	243,256	1	4,454			4,455
Issuance of shares in connection with public offering	3,450,000	16	104,201			104,217

Share-based compensation related to acquisitions			6,303			6,303
Income tax benefit from share options exercised			2,411			2,411
Balance at December 31, 2011	39,735,042	$ 165	$ 418,255	$ (1,164)	$ 25,091	$ 442,347

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

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2011	**2010**	**2009**
		(In thousands)	
Cash flows from operating activities:			
Net income	$ 9,977	$ 13,540	$ 12,886
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	19,745	5,777	4,071
Deferred income taxes	(228)	7,379	3,638
Share-based compensation	21,412	14,101	10,736
Gain on investments	(15)	(25)	(327)
Excess tax benefit from share-based compensation	(2,411)	(1,101)	
Changes in assets and liabilities, net of effect of acquisition:			
Accounts receivable	(15,899)	525	2,981
Inventories	(8,639)	(2,951)	(3,014)
Prepaid expenses and other assets	(513)	689	(982)
Accounts payable	21,065	(2,249)	510
Accrued liabilities and other liabilities	18,645	5,547	2,289
Net cash provided by operating activities	63,139	41,232	32,788
Cash flows from investing activities:			
Acquisition of Voltaire Ltd., net of cash acquired of $3,961	(203,704)		
Purchase of severance-related insurance policies	(832)	(789)	(857)
Purchase of short-term investments	(45,600)	(182,615)	(236,680)
Proceeds from sales of short-term investments	149,889	157,377	121,768
Proceeds from maturities of short-term investments	12,128	50,628	20,080
Purchase of property and equipment	(24,680)	(11,395)	(3,662)
Increase in restricted cash deposit	(1,700)		(880)
Purchase of equity investment in a private company		(135)	(3,500)
Net cash provided (used) in investing activities	(114,499)	13,071	(103,731)
Cash flows from financing activities:			
Proceeds from public offering, net	104,201		
Principal payments on capital lease obligations	(459)	(528)	(465)
Proceeds from exercise of share awards	18,471	9,478	3,664
Excess tax benefit from share-based compensation	2,411	1,101	1,231
Net cash provided by financing activities	124,624	10,051	4,430
Net increase (decrease) in cash and cash equivalents	73,264	64,354	(66,513)
Cash and cash equivalents at beginning of period	107,994	43,640	110,153
Cash and cash equivalents at end of period	$ 181,258	$ 107,994	$ 43,640
Supplemental disclosures of cash flow information			
Interest paid	$	$ 1	$ 4
Income taxes paid	$ 469	$ 1,550	$ 876

Supplemental disclosure of noncash investing and financing activities

Software acquired under capital leases	$ (563)	$	$
Inventory capitalization	$	$ 562	$ 426
Vested share awards issued in connection with the Voltaire acquisition	$ 6,303	$	$

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

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Company

Mellanox Technologies, Ltd., an Israeli corporation, (the "Company" or "Mellanox") was incorporated and commenced operations in March 1999. Mellanox is a supplier of high-performance semiconductor interconnect products for computing, storage and communications applications.

Principles of presentation

The consolidated financial statements include the Company's accounts as well as those of its wholly owned subsidiaries after the elimination of all significant intercompany balances and transactions.

Risks and uncertainties

The Company is subject to all of the risks inherent in a company which operates in the dynamic and competitive semiconductor industry. Significant changes in any of the following areas could have a materially adverse impact on the Company's financial position and results of operations: unpredictable volume or timing of customer orders; ordered product mix; the sales outlook and purchasing patterns of the Company's customers based on consumer demands and general economic conditions; loss of one or more of the Company's customers; decreases in the average selling prices of products or increases in the average cost of finished goods; the availability, pricing and timeliness of delivery of components used in the Company's products; reliance on a limited number of subcontractors to manufacture, assemble, package and production test the Company's products; the Company's ability to successfully develop, introduce and sell new or enhanced products in a timely manner; product obsolescence and the Company's ability to manage product transitions; and the timing of announcements or introductions of new products by the Company's competitors.

Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of net revenue and expenses in the reporting periods. The Company regularly evaluates estimates and assumptions related to revenue recognition, allowances for doubtful accounts, investment valuation, warranty reserves, inventory reserves, share-based compensation expense, long-term asset valuations, goodwill and purchased intangibles assets valuation, deferred income tax asset valuation allowances, uncertain tax positions, litigation and other loss contingencies. These estimates and assumptions are based on current facts, historical experience and various other factors that the Company believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of revenue, costs and expenses that are not readily apparent from other sources. The actual results that the Company experiences may differ materially and adversely from the Company's original estimates. To the extent there are material differences between the estimates and actual results, the Company's future results of operations will be affected.

Cash and cash equivalents

The Company considers all highly liquid investments with a maturity of three months or less from the date of purchase to be cash equivalents. Cash and cash equivalents consist of cash on deposit with

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

banks, money market funds, government agency discount notes, foreign government bonds and corporate bonds.

Short-term investments

The Company's short-term investments are classified as available-for-sale securities and are reported at fair value. Unrealized gains or losses are recorded in shareholders' equity and included in OCI. The Company views its available-for-sale portfolio as available for use in its current operations. Accordingly, the Company has classified all investments in available for sale securities with readily available markets as short-term, even though the stated maturity date may be one year or more beyond the current balance sheet date, because of the intent and ability to sell these securities prior to maturity to meet liquidity needs or as part of a risk management program.

Restricted cash and deposits

The Company maintains certain cash amounts restricted as to withdrawal or use. At December 31, 2011 the Company maintained a balance of approximately $1.9 million that represented tenant's security deposits restricted due to the tenancy agreement and approximately $2.6 million that represented security deposits restricted due to a foreign exchange management agreement with two banks.

At December 31, 2010 the Company maintained a balance of approximately $0.7 million that represented tenant's security deposits restricted due to the tenancy agreement and approximately $2.7 million that represented security deposits restricted due to a foreign exchange management agreement with two banks.

The restricted deposits are presented at their cost, including accrued interest at rates of approximately 1.5% per annum.

Fair value of financial instruments

The Company's financial instruments consist of cash, cash equivalents, short-term investments, forward contracts, accounts receivable, accounts payable and other accrued liabilities. The Company believes that the carrying amounts of the financial instruments approximate their respective fair values. The Company regularly reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors considered in determining whether a loss is temporary include: the length of time and extent to which fair value has been lower than the cost basis; the financial condition, credit quality and near-term prospects of the issuer; and whether it is more likely than not that the Company will be required to sell the security prior to any anticipated recovery in fair value. When there is no readily available market data, fair value estimates may be made by the Company, which may not necessarily represent the amounts that could be realized in a current or future sale of these assets.

Derivatives

The Company recognizes derivative instruments as either assets or liabilities and measures those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

intended use of the derivative and the resulting designation. The Company enters into forward contracts designated as cash flow hedges. For a derivative instrument designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of accumulated other comprehensive income, or OCI, and subsequently reclassified into earnings when the hedged exposure affects earnings.

Concentration of credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents, short-term investments and accounts receivable. Cash equivalents and short-term investments balances are maintained with high quality financial institutions, the composition and maturities of which are regularly monitored by management. The Company's accounts receivable are derived from revenue earned from customers located in North America, Europe and Asia. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. The Company maintains an allowance for doubtful accounts receivable based upon the expected collectibility of accounts receivable. The Company reviews its allowance for doubtful accounts quarterly by assessing individual accounts receivable over a specific aging and amount, and all other balances based on historical collection experience and an economic risk assessment. If the Company determines that a specific customer is unable to meet its financial obligations to the Company, the Company provides an allowance for credit losses to reduce the receivable to the amount management reasonably believes will be collected.

The following table summarizes the revenues from customers (including original equipment manufacturers) in excess of 10% of the total revenues:

	Year Ended December 31,		
	2011	**2010**	**2009**
Hewlett-Packard	19%	15%	15%
IBM	17%	*	11%
Dell	*	12%	*
Supermicro Computer Inc	*	*	10%

*
Less than 10%

At December 31, 2011, IBM and Hewlett-Packard accounted for 16% and 15%, respectively, of the Company's total accounts receivable. At December 31, 2010, IBM, Dell and Hewlett-Packard accounted for 15%, 11% and 10%, respectively, of the Company's total accounts receivable.

At December 31, 2011, Oracle held approximately 3.8 million ordinary shares of Mellanox. Sales to Oracle and/or its contract manufacturers during 2011 were $18.3 million, and were conducted at arm's-length. There were no other material transactions with Oracle during 2011. At December 31, 2011, accounts receivable from Oracle totaled $17,831. At December 31, 2010, Oracle held approximately 3.4 million shares of Mellanox common stock. Sales to Oracle and/or its contract manufacturers during 2010 were $11.8 million, and were conducted at arm's-length. There were no other material transactions with Oracle. At December 31, 2010, accounts receivable from Oracle totaled $27,230.

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Inventory

Inventory includes finished goods, work-in-process and raw materials. Inventory is stated at the lower of cost (principally standard cost which approximates actual cost on a first-in, first-out basis) or market value. Reserves for potentially excess and obsolete inventory are made based on management's analysis of inventory levels and future sales forecasts. Once established, the original cost of the Company's inventory less the related inventory reserve represents the new cost basis of such products.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation and amortization is generally calculated using the straight-line method over the estimated useful lives of the related assets, which is three years for computers, software license rights and other electronic equipment, and seven to fifteen years for office furniture and equipment. Leasehold improvements and assets acquired under capital leases are amortized on a straight-line basis over the term of the lease, or the useful lives of the assets, whichever is shorter. Maintenance and repairs are charged to expense as incurred, and improvements are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is reflected in the results of operations in the period realized.

Business combinations

The Company accounts for business combinations using the acquisition method of accounting. The Company determines the recognition of intangible assets based on the following criteria: (i) the intangible asset arises from contractual or other rights; or (ii) the intangible asset is separable or divisible from the acquired entity and capable of being sold, transferred, licensed, returned or exchanged. The Company allocates the purchase price of business combinations to the tangible assets, liabilities and intangible assets acquired, including in-process research and development ("IPR&D"), based on their estimated fair values. The excess purchase price over those fair values is recorded as goodwill. The process of estimating the fair values requires significant estimates, especially with respect to intangible assets. Critical estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from customer contracts, customer lists and distribution agreements, acquired developed technologies, expected costs to develop IPR&D into commercially viable products, estimated cash flows from projects when completed and discount rates. The Company estimates fair value based upon assumptions that are believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Other estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed.

Goodwill and intangible assets

Goodwill represents the excess of the cost of acquired businesses over the fair market value of their identifiable net assets. In the fourth quarter of fiscal 2011, the Company early adopted FASB's amended guidance issued in September 2011 for testing of goodwill for impairment. The Company conduct a goodwill impairment qualitative assessment during the fourth quarter of each fiscal year or more frequently if facts and circumstances indicate that goodwill may be impaired. The goodwill

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

impairment qualitative assessment requires the Company to perform an assessment to determine if it is more likely than not that the fair value of the business is less than its carrying amount. The qualitative assessment considers various factors, including the macroeconomic environment, industry and market specific conditions, market capitalization, stock price, financial performance, earnings multiples, budgeted-to-actual revenue performance from prior year, gross margin and cash flow from operating activities and issues or events specific to the business. If adverse qualitative trends are identified that could negatively impact the fair value of the business, the Company performs a "two step" goodwill impairment test. The "step one" goodwill impairment test requires the Company to estimate the fair value of its business and certain assets and liabilities. The "step two" of the process is only performed if a potential impairment exists in "step one" and it involves determining the difference between the fair value of the reporting unit's net assets other than goodwill to the fair value of the reporting unit. If the difference is less than the net book value of goodwill, an impairment exists and is recorded. As of December 31, 2011, the Company's assessment of goodwill impairment indicated that goodwill in the reporting unit was not impaired.

Intangible assets primarily represent acquired intangible assets including developed technology, customer relationships and IPR&D. The Company amortizes its intangible assets over their useful lives using a method that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used or, if that pattern cannot be reliably determined, using a straight-line amortization method. The Company capitalizes IPR&D projects acquired as part of a business combination. On completion of each project, IPR&D assets are reclassified to developed technology and amortized over their estimated useful lives. If any of the IPR&D projects are abandoned, the Company would be required to impair the related IPR&D asset.

Intangible assets are tested for impairment when indicators of impairment, such as reductions in demand, the abandonment of IPR&D projects or significant economic slowdowns in the semiconductor industry, are present. Reviews are performed to determine whether the carrying value of an asset is impaired, based on comparisons to undiscounted expected future cash flows. If this comparison indicates that there is impairment, the impaired asset is written down to fair value, which is typically calculated using: (i) quoted market prices or (ii) discounted expected future cash flows utilizing an appropriate discount rate. Impairment is based on the excess of the carrying amount over the fair value of those assets. As of December 31, 2011, the Company's assessment of intangibles indicated that intangible assets were not impaired.

Investments

The Company has an equity investment in a privately-held company. This investment is recorded at cost because the Company does not have the ability to exercise significant influence over the operating and financial policies of the company. The investment is included in other long-term assets on the accompanying balance sheets. The Company monitors this investment for impairment by considering available evidence generally including financial, operational and economic data and makes appropriate reductions in carrying values when an impairment is deemed to be other than temporary.

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Impairment of long-lived assets

Long-lived assets include equipment and furniture and fixtures. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. If the sum of the expected future cash flows (undiscounted and without interest charges) from the long-lived assets is less than the carrying amount of such assets, an impairment loss would be recognized, and the assets would be written down to their estimated fair values. The Company reviews for possible impairment on a regular basis.

Revenue recognition

The Company recognizes revenue from the sales of products when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the price is fixed or determinable; and (4) collection is reasonably assured. The Company uses a binding purchase order or a signed agreement as evidence of an arrangement. Delivery occurs when goods are shipped and title and risk of loss transfer to the customer. The Company's standard arrangement with its customers typically includes freight-on-board shipping point, no right of return and no customer acceptance provisions. The customer's obligation to pay and the payment terms are set at the time of shipment and are not dependent on the subsequent resale of the product. The Company determines whether collectibility is probable on a customer-by-customer basis. When assessing the probability of collection, the Company considers the number of years the customer has been in business and the history of the Company's collections. Customers are subject to a credit review process that evaluates the customers' financial positions and ultimately their ability to pay. If it is determined at the outset of an arrangement that collection is not probable, no product is shipped and no revenue is recognized unless cash is received in advance.

A portion of the Company's sales are made to distributors under agreements which contain a limited right to return unsold product and price protection provisions. The Company recognizes revenue from these distributors based on the sell-through method using inventory information provided by the distributor. Additionally, the Company maintains accruals and allowances for price protection and cooperative marketing programs. The Company classifies the costs of these programs based on the identifiable benefit received as either a reduction of revenue, a cost of revenues or an operating expense.

The Company also maintains inventory, or hub arrangements with certain customers. Pursuant to these arrangements the Company delivers products to a customer or a designated third party warehouse based upon the customer's projected needs, but does not recognize product revenue unless and until the customer reports it has removed the Company's product from the warehouse to be incorporated into its end products.

The Company recognizes revenue from the sale of hardware products and software bundled with hardware that is essential to the functionality of the hardware in accordance with general revenue recognition accounting guidance. The Company recognizes revenue in accordance with industry specific software accounting guidance for the following types of sales transactions: (i) standalone sales of software products, (ii) sales of software upgrades and (iii) sales of software bundled with hardware not essential to the functionality of the hardware.

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

For multiple element arrangements, that include a combination of hardware, software and services, such as post-contract customer support, the arrangement consideration is first allocated to the separate elements using the Company's best estimate of selling price. If an arrangement includes undelivered elements that are not essential to the functionality of the delivered elements, the Company defers the fair value or best estimate selling price of the undelivered. If the undelivered elements are essential to the functionality of the delivered elements, no revenue is recognized. In the arrangements described above, the Company recognizes revenue upon shipment of each element, hardware or software, assuming all other basic revenue recognition criteria are met, as both the hardware and software are considered delivered elements and the only undelivered element is post-contract customer support. The revenue from fixed-price support or maintenance contracts, including extended warranty contracts and software post-contract customer support agreements are recognized ratably over the contract period and the costs associated with these contracts are recognized as incurred.

The Company accounts for multiple element arrangements that consist of software or software-related products, including the sale of upgrades to previously sold software and post-contract customer support, in accordance with industry specific accounting guidance for software and software-related transactions. For such transactions, revenue on arrangements that include multiple elements is allocated to each element based on the relative fair value of each element, and fair value is determined by vendor-specific objective evidence, or VSOE. If the Company cannot objectively determine the fair value of any undelivered element included in such multiple-element arrangements, the Company defers revenue until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements. When the fair value of a delivered element has not been established, but fair value exists for the undelivered elements, the Company uses the residual method to recognize revenue if the fair value of all undelivered elements is determinable. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

Costs incurred for shipping and handling expenses to customers are recorded as cost of revenues. To the extent these amounts are billed to the customer in a sales transaction, the Company records the shipping and handling fees as revenue.

Product warranty

The Company typically offers a limited warranty for its products for periods up to three years. The Company accrues for estimated returns of defective products at the time revenue is recognized based on prior historical activity. The determination of these accruals requires the Company to make estimates of the frequency and extent of warranty activity and estimated future costs to either replace or repair the products under warranty. If the actual warranty activity and/or repair and replacement costs differ significantly from these estimates, adjustments to record additional cost of revenues may be

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

required in future periods. Changes in the Company's liability for product warranty during the years ended December 31, 2011 and 2010 are as follows:

	December 31,	
	2011	2010
	(In thousands)	
Balance, beginning of the period	$ 807	$ 902
New warranties issued during the period	922	605
Reversal of warranty reserves	(33)	(346)
Settlements during the period	(599)	(354)
Balance, end of the period	$ 1,097	$ 807

Research and development

Costs incurred in research and development are charged to operations as incurred, including mask sets. The Company expenses all costs for internally developed patents as incurred. Total research and development operating expenses reported in the Consolidated Statement of Operations for the years ended December 31, 2011, 2010 and 2009 were $ 92.5 million, $56.8 million and $42.2 million, respectively.

Advertising

Costs related to advertising and promotion of products are charged to sales and marketing expense as incurred. Advertising expense was approximately $359,000, $342,000 and $26,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

Share-based compensation

The Company has share incentive plans under which incentive share options have been granted to employees and non-qualified share awards have been granted to employees and non-employee members of the Board of Directors. The Company also has an employee share purchase plan for all eligible employees. In 2010 the Company began granting restricted share units to employees and non-employee members of the Board of Directors. The Company accounts for share-based compensation expense based on the estimated fair value of the share option awards as of the grant dates.

The Company estimates the fair value of share option awards using the Black-Scholes option valuation model, which requires the input of subjective assumptions including the expected share price volatility, the calculation of expected term, and the fair value of the underlying ordinary share on the date of grant, among other inputs. Share compensation expense is recognized on a straight-line basis over each optionee's requisite service period, which is generally the vesting period.

The Company bases its estimate of expected volatility on a combination of historical volatility of the Company stock and reported market value data for a group of publicly traded companies, which were selected from market indices that it believes would be indicators of its future share price volatility, after consideration of their size, stage of lifecycle, profitability, growth, risk and return on investment.

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

The Company calculates the expected term of its options using the simplified method as prescribed by the authoritative guidance. The expected term for newly granted options is approximately 6.25 years.

Share-based compensation expense is recorded net of estimated forfeitures. Forfeitures are estimated at the time of grant and this estimate is revised, if necessary, in subsequent periods. If the actual number of forfeitures differs from the estimate, adjustments may be required to share-based compensation expense in future periods.

Comprehensive income (loss)

Accumulated other comprehensive income (loss), net of tax, presented in the accompanying balance sheets consists of the accumulated unrealized gains (losses) on available-for-sale securities, and the accumulated unrealized gains (losses) related to derivative instruments accounted for as cash flow hedges (in thousands).

	December 31,	
	2011	2010
	(In thousands)	
Accumulated net unrealized gains (losses) on:		
Available-for-sale securities	$ (15)	$ 94
Derivative instruments	(1,149)	860
Total accumulated other comprehensive income (loss)	$ (1,164)	$ 954

The amount of income tax expense allocated to unrealized gain on available-for-sale securities and hedging activities was not material at December 31, 2011 and 2010.

Foreign currency translation

The Company uses the U.S. dollar as its functional currency. Foreign currency assets and liabilities are remeasured into U.S. dollars at the end-of-period exchange rates except for non-monetary assets and liabilities, which are remeasured at historical exchange rates. Revenue and expenses are remeasured each day at the exchange rate in effect on the day the transaction occurred, except for those expenses related to balance sheet amounts, which are remeasured at historical exchange rates. Gains or losses from foreign currency transactions are included in the Consolidated Statements of Operations as part of "Other income (loss), net."

Net income per share

Basic and diluted net income per share is computed by dividing the net income for the period by the weighted average number of ordinary shares outstanding during the period. The calculation of diluted net income per share excludes potential ordinary shares if the effect is anti-dilutive. Potential ordinary shares are comprised of ordinary shares subject to repurchase rights and incremental ordinary shares issuable upon the exercise of share options.

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

The following table sets forth the computation of basic and diluted net income per share for the periods indicated:

	December 31,		
	2011	2010	2009
	(In thousands, except per share data)		
Net income	$ 9,977	$ 13,540	$ 12,886
Basic and diluted shares:			
Weighted average ordinary shares outstanding used to compute basic net income per share	36,263	33,591	32,099
Dilutive effect of employee stock option plan	2,299	1,892	1,301
Shares used to compute diluted net income per share	38,562	35,483	33,400
Net income per share basic	$ 0.28	$ 0.40	$ 0.40
Net income per share diluted	$ 0.26	$ 0.38	$ 0.39

The Company excluded 0.5 million, 0.4 million and 2.9 million outstanding options for the years ended December 31, 2011, 2010 and 2009, respectively, and 27,033 outstanding restricted stock units for the year ended December 31, 2011 from the computation of diluted net income per share because including them would have had an anti-dilutive effect. There were no anti-dilutive restricted stock units for the year ended December 31, 2010, which was the year the Company began granting restricted stock units.

Segment reporting

The Company has one reportable segment: the development, manufacturing, marketing and sales of inter-connect semiconductor products.

Income taxes

To prepare the Company's consolidated financial statements, the Company estimates its income taxes in each of the jurisdictions in which it operates. This process involves estimating the Company's actual tax exposure together with assessing temporary differences resulting from the differing treatment of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the Company's consolidated balance sheet.

The Company must also make judgments regarding the realizability of deferred tax assets. The carrying value of the Company's net deferred tax asset is based on its belief that it is more likely than not that the Company will generate sufficient future taxable income in certain jurisdictions to realize these deferred tax assets. A valuation allowance has been established for deferred tax assets which the Company does not believe meet the "more likely than not" criteria. The Company's judgments regarding future taxable income may change due to changes in market conditions, changes in tax laws, tax planning strategies or other factors. If the Company's assumptions and consequently its estimates change in the future, the valuation allowances it has established may be increased or decreased,

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

resulting in a respective increase or decrease in income tax expense. The Company's effective tax rate is highly dependent upon the geographic distribution of its worldwide earnings or losses, the tax regulations and tax holidays in each geographic region, the availability of tax credits and carryforwards, and the effectiveness of its tax planning strategies.

Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. Income tax positions that previously failed to meet the more-likely-than-not threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met. The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits within the consolidated statements of income as income tax expense.

Recent accounting pronouncements

In May 2011, the FASB issued additional guidance on fair value measurements that clarifies the application of existing guidance and disclosure requirements, changes certain fair value measurement principles and requires additional disclosures about fair value measurements. The updated guidance is effective on a prospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The Company does not expect adoption of the updated guidance to have a material impact on its consolidated results of operations or financial condition.

In June 2011, the FASB issued authoritative guidance regarding the presentation of comprehensive income. The new standard requires companies to present net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. The new standard also requires presentation of adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. In December 2011, the FASB decided to propose a deferral to part of the new guidance which required companies to present the reclassifications of other comprehensive income on the face of the income statement. The updated guidance is effective on a retrospective basis for financial statements issued for fiscal years and interim periods within those fiscal years, beginning after December 15, 2011. The Company does not expect adoption of the updated guidance to have a material impact on its consolidated results of operations or financial condition.

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 BALANCE SHEET COMPONENTS:

	December 31, 2011	December 31, 2010
	(In thousands)	
Accounts receivable, net:		
Accounts receivable	$ 48,772	$ 20,295
Less: allowance for doubtful accounts	(557)	(402)
	$ 48,215	$ 19,893
Inventories:		
Raw materials	$ 5,983	$ 2,043
Work-in-process	4,705	1,728
Finished goods	14,267	7,946
	$ 24,955	$ 11,717
Deferred taxes and other current assets:		
Prepaid expenses	$ 2,406	$ 1,754
Forward contracts receivable		860
Deferred taxes	1,126	616
Other	3,841	1,257
	$ 7,373	$ 4,487
Property and equipment, net:		
Computer equipment and software	$ 49,157	$ 38,179
Furniture and fixtures	2,865	1,980
Leasehold improvements	18,899	3,320
	70,921	43,479
Less: Accumulated depreciation and amortization	(34,115)	(27,989)
	$ 36,806	$ 15,490
Deferred taxes and other long-term assets:		
Equity investments in private companies	$ 3,000	$ 3,000
Deferred taxes	1,316	1,422
Restricted cash	3,317	
Other assets	656	358
	$ 8,289	$ 4,780
Accrued liabilities:		
Payroll and related expenses	$ 15,018	$ 9,512
Accrued expenses	6,026	3,472
Product warranty liability	1,097	807
Forward contracts payable	1,149	
Development project	3,000	
Other	4,801	2,094

	$	31,091	$	15,885
Other long-term liabilities:				
Income tax payable	$	3,365	$	1,754
Deferred rent		2,849		457
	$	6,214	$	2,211

82

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 BUSINESS COMBINATION:

On February 7, 2011, the Company completed its acquisition of Voltaire Ltd. ("Voltaire"), an Israeli-based public company, pursuant to an Agreement of Merger (the "Merger Agreement") dated November 29, 2010. Under the Merger Agreement, the Company's wholly owned subsidiary merged with and into Voltaire (the "Merger") with Voltaire continuing after the Merger as a surviving corporation and a wholly owned subsidiary of the Company.

Voltaire's results of operations and estimated fair value of assets acquired and liabilities assumed were included in the Company's consolidated financial statements beginning February 7, 2011. Acquisition costs related to the Merger of $4.4 million were expensed as incurred in general and administrative expenses in the consolidated statement of operations for the year ended December 31, 2011.

Under the terms of the Merger Agreement, the Company paid $207.7 million in cash ($203.7 million net of cash received) and issued to Voltaire employees options to purchase 564,878 shares of the Company's ordinary shares and 84,736 restricted stock units ("RSUs") with an aggregate value of $13.6 million, in exchange for their options to purchase Voltaire ordinary shares and RSUs of Voltaire. The Company recorded $6.3 million as part of the purchase price, which represents the fair value of options and RSUs that were vested at the acquisition date. The remaining unvested options and RSUs will result in compensation expense of $7.3 million. This amount will be recognized over the remaining vesting period of these equity awards, which ranges from one day to four years.

Based on Voltaire equity awards outstanding on February 7, 2011, the purchase price was as follows (in thousands):

Purchase price:	
Cash	$ 207,665
Fair value of awards attributable to pre-acquisition services	6,303
Total purchase price	$ 213,968

The fair value of the exchanged options was determined based on the closing price of the Company's ordinary shares on February 7, 2011 of $27.72 using a Black-Scholes valuation model with the following weighted-average assumptions: expected life of 3.98 years, volatility of 66.2%, risk-free interest rate of 1.83%, and dividend yield of zero. The fair value of the exchanged RSUs was determined based on the per share value of the underlying Company ordinary shares of $27.72 per share at February 7, 2011.

The Company accounted for the transaction using the acquisition method, and accordingly, the consideration has been allocated to the tangible and intangible assets acquired and liabilities assumed

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 BUSINESS COMBINATION: (Continued)

on the basis of their respective estimated fair values on the acquisition date. The Company's allocation of the total purchase price is summarized below (in thousands):

Purchase price allocation:		
Current assets	$	52,131
Other long-term assets		10,875
Intangible assets		36,052
Goodwill		132,885
Total assets		231,943
Current liabilities		(11,369)
Long-term liabilities		(6,606)
Total liabilities		(17,975)
Total purchase price allocation	$	213,968

Intangible assets acquired, and their respective estimated remaining useful lives over which each asset will be amortized are:

		Fair value (in thousands)	Weighted Average Useful life (in years)
Developed technology	$	20,378	2 - 3
In process research and development		2,754	
Customer relationships		10,956	4 - 5
Customer contract		1,529	2
Backlog		435	Less than 1
Total purchased intangible assets	$	36,052	

Identifiable intangible assets

Developed technology represents completed technology that has passed technological feasibility and/or is currently offered for sale to customers. The Company used the income approach to value the developed technology. Under the income approach, the expected future cash flows from each technology are estimated and discounted to their net present values at an appropriate risk-adjusted rate of return. Significant factors considered in the calculation of the rate of return are the weighted average cost of capital and the return on assets. The Company applied a discount rate of 14% to value the developed technology assets taking into consideration market rates of return on debt and equity capital and the risk associated with achieving forecasted revenues related to these assets.

Customer relationships represent the fair value of future projected revenues that will be derived from the sale of products to existing customers of the acquired company. The Company used the comparative method ("with/without") of the income approach to determine the fair value of this intangible asset and utilized a discount rate of 14%.

Customer contract relates to an ongoing licensing and professional services arrangement. To determine the fair value of this intangible asset the Company used the income approach, taking into

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 BUSINESS COMBINATION: (Continued)

consideration amounts remaining to be billed under the contract, estimated costs to complete the contract, and the profit that a market participant would require to complete the contract.

Backlog represents the fair value of sales order backlog as of the valuation date. The Company used the income approach to determine the fair value of this intangible asset.

In-process research and development

In-process research and development represents projects that have not yet reached technological feasibility. Technological feasibility is defined as being equivalent to completion of a beta-phase working prototype in which there is no remaining risk relating to the development.

As of the acquisition date, Voltaire was involved in research and development projects related to its Unified Fabric Manager, or "UFM", acceleration software and Ethernet product families. Each of these projects is focused on integrating new technologies, improving product performance and broadening features and functionalities. There is a risk that these development efforts and enhancements will not be competitive with other products using alternative technologies that offer comparable functionality.

The following table summarizes the significant assumptions underlying the valuations of IPR&D at acquisition:

	Average time to complete (in months)	Estimated cost to complete (in thousands)	Fair value (in thousands)
Development project:			
UFM	12	$ 1,700	$ 1,069
Acceleration software	7	1,100	975
Ethernet	2	100	710
Total IPR&D		$ 2,900	$ 2,754

The Company used the income approach to determine the fair value of IPR&D and utilized a discount rate of 14.5%. This intangible asset will be capitalized on the balance sheet and evaluated periodically for impairment until the project is completed, at which time it will become subject to amortization over its useful life. During the year ended December 31, 2011, the Ethernet project and the Accelerated software project were completed and became subject to amortization over three years. The remaining UFM project progressed as previously estimated.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the underlying net tangible and intangible assets. The Company's primary reasons for the Voltaire acquisition were to enhance its position in providing end-to-end connectivity solutions and to expand its software and hardware offerings. The acquisition also enhanced the Company's engineering team and sales force through the addition of Voltaire employees. These significant factors were the basis for the recognition of goodwill. Goodwill will not be amortized but instead will be tested for impairment annually or more

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 BUSINESS COMBINATION: (Continued)

frequently if certain indicators are present. Goodwill is not expected to be tax deductible for tax purposes.

Supplemental pro forma data (unaudited)

The unaudited financial information in the table below summarizes the combined results of operations of the Company and Voltaire, on a pro forma basis, as though the companies had been combined as of the beginning of the earliest period presented. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisitions had taken place at the beginning of the earliest period presented.

The following unaudited pro forma financial information combines the results for the Company and Voltaire for the years ended December 31, 2011 and December 31, 2010 (in thousands, except per share amounts):

	Year Ended	
	December 31, 2011	December 31, 2010
	(in thousands)	
Pro forma revenue	$ 262,832	$ 216,467
Pro forma net income	$ 9,274	$ 4,484
Pro forma net income per share basic	$ 0.26	$ 0.13
Pro forma net income per share diluted	$ 0.26	$ 0.13

NOTE 4 FAIR VALUE MEASUREMENTS:

Fair value hierarchy:

The Company measures its cash equivalents and marketable securities at fair value. The Company's cash equivalents are classified within Level 1. Cash equivalents are valued primarily using quoted market prices utilizing market observable inputs. The Company's investments in debt securities and certificates of deposits are classified within Level 2 as the market inputs to value these instruments consist of market yields, reported trades and broker/dealer quotes. In addition, foreign currency contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments. As of December 31, 2011 and December 31, 2010, the Company did not have any assets or liabilities valued based on Level 3 valuations.

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4 FAIR VALUE MEASUREMENTS: (Continued)

The following table represents the fair value hierarchy of the Company's financial assets and liabilities measured at fair value as of December 31, 2011.

	Level 1	Level 2	Total
		(in thousands)	
Money market funds	$ 105,246		$ 105,246
Certificates of deposits		50,152	50,152
U.S. Government and agency securities		251	251
Corporate bonds		5,217	5,217
Foreign Government bonds		957	957
Total financial assets	$ 105,246	$ 56,577	$ 161,823
Forward contracts		1,149	1,149
Total financial liabilities	$	$ 1,149	$ 1,149

The following table represents the fair value hierarchy of the Company's financial assets measured at fair value as of December 31, 2010. There were no financial liabilities as of December 31, 2010.

	Level 1	Level 2	Total
		(in thousands)	
Money market funds	$ 67,147	$	$ 67,147
Certificates of deposit		40,258	40,258
U.S. Government and agency securities		96,891	96,891
Equity securities		301	301
Forward contracts		860	860
Total financial assets	$ 67,147	$ 138,310	$ 205,457

There were no transfers between Level 1 and Level 2 securities during the twelve months ended December 31, 2011 and during the twelve months ended December 31, 2010.

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 INVESTMENTS:

Cash, Cash Equivalents and Short-term investments:

At December 31, 2011 and 2010, the Company held short-term investments classified as available-for-sale securities as follows:

	December 31, 2011		
	Amortized Cost	Net Unrealized Gains (Losses)	Estimated Fair Value
		(in thousands)	
Cash	$ 71,808	$	$ 71,808
Money market funds	105,246		105,246
Certificates of deposits	50,170	(18)	50,152
U.S. Government and agency securities	250	1	251
Corporate bonds	5,215	2	5,217
Foreign Government bonds	957	0	957
Total investments in marketable securities	$ 233,646	$ (15)	$ 233,631
Less amounts classified as cash and cash equivalents	(181,258)		(181,258)
	$ 52,388	$ (15)	$ 52,373

	December 31, 2010		
	Amortized Cost	Net Unrealized Gains	Estimated Fair Value
		(in thousands)	
Cash	$ 40,847	$	$ 40,847
Money market funds	71,656		71,656
Certificates of deposit	40,258		40,258
U.S. Government and agency securities	96,797	94	96,891
Equity securities	301		301
Total investments in marketable securities	$ 249,859	$ 94	$ 249,953
Less amounts classified as cash and cash equivalents	(107,994)		(107,994)
	$ 141,865	$ 94	$ 141,959

Realized gains upon the sale of marketable securities were approximately $15,000 and $775,000 for the years ended December 31, 2011 and December 31, 2010, respectively. At December 31, 2011, gross unrealized losses on our investments were not deemed to be other-than-temporarily impaired.

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 INVESTMENTS: (Continued)

The contractual maturities of debt securities at December 31, 2011 and December 31, 2010 were as follows:

	December 31, 2011		December 31, 2010	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in thousands)			
Due in less than one year	$	$	$ 79,547	$ 79,611
Due in one to three years	6,422	6,425	17,250	17,280
	$ 6,422	$ 6,425	$ 96,797	$ 96,891

Investments in privately-held companies:

As of December 31, 2011, the Company held a $3.0 million investment in a privately-held company. This investment is accounted for under the cost method. The Company monitors the investment and if facts and circumstances indicates that the investment may be impaired then it conducts a impairment test of its investment. To determine if the investment is recoverable, it reviews the privately-held company's revenue and earnings trends relative to pre-defined milestones and overall business prospects, the general market conditions in its industry and other factors related to its ability to remain in business, such as liquidity and receipt of additional funding.

NOTE 6 GOODWILL AND INTANGIBLE ASSETS:

The following table represents changes in the carrying amount of goodwill (in thousands):

December 31, 2010	$
Goodwill recorded in connection with Voltaire acquisition	132,885
December 31, 2011	$ 132,885

The carrying amounts of intangible assets as of December 31, 2011 are as follows:

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
		(in thousands)	
Licensed technology	$ 946	$ (874)	$ 72
Developed technology	22,063	(7,174)	14,889
Customer relationships	10,956	(1,571)	9,385
Customer contract	1,529	(1,287)	242
Backlog	435	(435)	
Total amortizable intangible assets	$ 35,929	$ (11,341)	$ 24,588
IPR&D	1,069		1,069
Total intangible assets	$ 36,998	$ (11,341)	$ 25,657

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 GOODWILL AND INTANGIBLE ASSETS: (Continued)

The carrying amounts of intangible assets as of December 31, 2010 are as follows:

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
		(in thousands)	
Licensed technology	$ 946	$ (656)	$ 290
Total intangible assets	$ 946	$ (656)	$ 290

Amortization expense of intangible assets totaled approximately $9.4 million, $0.2 million and $0.2 million for the years ended December 31, 2011, 2010 and 2009, respectively.

The estimated future amortization expense from amortizable intangible assets is as follows (in thousands):

2012	$ 9,578
2013	9,000
2014	3,468
2015	970
2016 and thereafter	1,572
	$ 24,588

NOTE 7 DERIVATIVES AND HEDGING ACTIVITIES:

The Company uses derivative instruments primarily to manage exposures to foreign currency. The Company enters into forward contracts to manage its exposure to changes in the exchange rate of the New Israeli Shekel ("NIS") against the U.S. dollar. The Company's primary objective in entering these arrangements is to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. The program is not designated for trading or speculative purposes. The Company's forward contracts expose the Company to credit risk to the extent that the counterparties may be unable to meet the terms of the agreement. The Company seeks to mitigate such risk by limiting its counterparties to major financial institutions and by spreading the risk across a number of major financial institutions. In addition, the potential risk of loss with any one counterparty resulting from this type of credit risk is monitored on an ongoing basis.

The Company uses forward contracts designated as cash flow hedges to hedge a substantial portion of forecasted operating expenses in NIS. The gain or loss on the effective portion of a cash flow hedge is initially reported as a component of OCI and subsequently reclassified into operating expenses in the same period in which the hedged operating expenses are recognized, or reclassified into other income, net, if the hedged transaction becomes probable of not occurring. Any gain or loss after a hedge is de-designated because it is no longer probable of occurring or related to an ineffective portion of a hedge, as well as any amount excluded from the Company's hedge effectiveness, is recognized as other income, net immediately. The net gains or losses relating to ineffectiveness were not material in the year ended December 31, 2011. As of December 31, 2011, the Company had forward contracts in place that hedged future operating expenses of approximately 167.1 million NIS, or approximately

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 DERIVATIVES AND HEDGING ACTIVITIES: (Continued)

$43.7 million based upon the exchange rate as of December 31, 2011. The forward contracts cover future NIS denominated operating expenses expected to occur over the next twelve months.

As of December 31, 2010, we had forward contracts in place that hedged future operating expenses of approximately 55.8 million NIS, or approximately $15.7 million based upon the exchange rate as of December 31, 2010.

The Company does not use derivative financial instruments for purposes other than cash flow hedges.

Fair Value of Derivative Contracts

The fair value of derivative contracts as of December 31, 2011 and December 31, 2010 was as follows:

	Derivative Assets Reported in Other Current Assets		Derivative Liabilities Reported in Other Current Liabilities	
	December 31,		December 31,	
	2011	2010	2011	2010
	(in thousands)			
Foreign exchange contracts designated as cash flow hedges	$	$ 860	$ 1,149	$
Total derivatives designated as hedging instruments	$	$ 860	$ 1,149	$

Effect of Designated Derivative Contracts on Accumulated Other Comprehensive Income

The following table represents the balance of derivative contracts designated as cash flow hedges as of December 31, 2011 and 2010, and their impact on OCI for the year ended December 31, 2011 (in thousands):

December 31, 2010	$ 860
Derivative contracts acquired in connection with Voltaire acquisition	120
Amount of loss recognized in OCI (effective portion)	(906)
Amount of gain reclassified from OCI to income (effective portion)	(1,223)
December 31, 2011	$ (1,149)

Foreign exchange contracts designated as cash flow hedges relate primarily to operating expenses and the associated gains and losses are expected to be recorded in operating expenses when reclassed out of OCI. The Company expects to realize the accumulated OCI balance related to foreign exchange contracts within the next twelve months.

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 DERIVATIVES AND HEDGING ACTIVITIES: (Continued)

Effect of Derivative Contracts on the Condensed Consolidated Statement of Operations

The impact of derivative contracts on total operating expenses in the twelve months ended December 31, 2011, 2010 and 2009 was:

	Year Ended December 31,		
	2011	2010	2009
	(in thousands)		
Gain (loss) on foreign exchange contracts designated as cash flow hedges	$ 1,223	$ 563	$ (546)

NOTE 8 EMPLOYEE BENEFIT PLANS:

The Company has established a pretax savings plan under Section 401(k) of the Internal Revenue Code. The 401(k) Plan allows eligible employees in the United States to voluntarily contribute a portion of their pre-tax salary, subject to a maximum limit specified in the Internal Revenue Code. The Company matches employee contributions of up to 4% of their annual base salaries. The total expenses for these contributions were approximately $422,000, $286,000 and $228,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

Under Israeli law, in general, the Company is required to make severance payments to its retired or dismissed Israeli employees. For those hired prior to January 1, 2007, the severance pay liability is calculated based on the monthly salary of each employee multiplied by the number of years of such employee's employment and is presented in the Company's balance sheet in long-term liabilities, as if it was payable at each balance sheet date on an undiscounted basis. This liability is partially funded by the purchase of insurance policies or pension funds in the name of the employees. The surrender value of the insurance policies or pension funds is presented in long-term assets.

The severance pay detail is as follows:

	December 31,	
	2011	2010
	(in thousands)	
Accrued severance liability	$ 10,433	$ 7,355
Severance assets	7,767	5,792
Unfunded portion	$ 2,666	$ 1,563

With respect to its Israeli employees hired after January 1, 2007, the Company's contributions for severance pay will replace its severance obligation. Upon a monthly contribution equal to 8.33% of the employee's monthly salary to an insurance policy or pension fund no additional calculations shall be conducted between the parties regarding the matter of severance pay and no additional payments will be made by the Company to the employee. Further, the related obligation and amounts deposited on behalf of the employee for such obligation are not stated on the balance sheet, as the Company is legally released from the obligation to employees once the deposit amounts have been paid.

Severance expenses for the years ended December 31, 2011, 2010 and 2009 were $3.9 million, $2.2 million and $0.8 million, respectively.

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8 EMPLOYEE BENEFIT PLANS: (Continued)

In addition, the Company has established a pension contribution plan with respect to its employees in Israel. Under the plan, the Company contributes up to 6% of employee monthly salary toward the plan. Employees are entitled to amounts accumulated in the plan upon reaching retirement age, subject to any applicable law. Defined pension contribution plan expenses were $2.5 million, $1.3 million and $0.7 million in the years ended December 31, 2011, 2010 and 2009, respectively.

NOTE 9 COMMITMENTS AND CONTINGENCIES:

Leases

The Company leases office space and motor vehicles under operating leases with various expiration dates through 2021. Rent expense was approximately $6.6 million, $2.8 million and $2.1 million for the years ended December 31, 2011, 2010 and 2009 respectively. The terms of the facility lease provide for rental payments on a graduated scale. The Company recognizes rent expense on a straight-line basis over the lease period, and has accrued for rent expense incurred but not paid.

The Company has entered into capital lease agreements for electronic design automation software. The total amount of assets under capital lease agreements within "Property and equipment, net" was approximately $0.6 million and $3.3 million for the years ended December 31, 2011 and 2010, respectively.

At December 31, 2011, future minimum lease payments under non-cancelable operating and capital leases totaled approximately $49.2 million. For the years ended December 31, 2011 and 2010, the accumulated amortization for assets under capital lease agreements totaled approximately $0.1 million and $2.7 million, respectively. At December 31, 2011, future minimum payments under non-cancelable operating and capital leases are as follows:

Year Ended December 31,	Capital Leases	Operating Leases
	(in thousands)	
2012	$ 307	$ 10,229
2013	140	8,234
2014	139	6,542
2015		2,147
2016 and beyond		21,427
Total minimum lease payments	$ 586	$ 48,579
Less: Amount representing interest	(8)	
Present value of capital lease obligations	578	
Less: Current portion	(299)	
Long-term portion of capital lease obligations	$ 279	

Purchase commitments

At December 31, 2011, the Company had non-cancelable purchase commitments of $49.5 million, $49.1 million of which is expected to be paid in 2012 and $0.4 million in 2013 and beyond.

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 COMMITMENTS AND CONTINGENCIES: (Continued)

At December 31, 2010, the Company had non-cancelable purchase commitments of $17.4 million, $16.8 million of which was expected to be paid in 2011 and $0.6 million in 2012 and beyond.

Royalty obligations

Prior to 2003, the Company received funds totaling $600,000 from the Binational Industrial Research and Development Foundation (the "BIRD Foundation"). As a result, the Company is obligated to pay the BIRD Foundation royalties from sales of products in the research and development of which the BIRD Foundation participated by way of grants. Royalty rates range from 1.45% to 2.95% of "qualifying" product revenue. Since the length of time of repayment has exceeded four years, the grant amount to be repaid has increased to $900,000. However, should the Company decide to discontinue sales of the "qualifying" products, no additional amounts are required to be paid. At December 31, 2011, the Company had repaid and accrued approximately $577,000 to the BIRD Foundation, and the contingent liability in respect of royalties payable is approximately $323,000.

OCS consent is required for the Company to transfer technologies developed with OCS funding to third parties in Israel. Transfer of OCS-funded technologies outside of Israel is permitted with the approval of the OCS and in accordance with the restrictions and payment obligations set forth under Israeli law. Israeli law further specifies that both the transfer of know-how as well as the transfer of intellectual property rights in such know-how are subject to the same restrictions. These restrictions do not apply to exports of products from Israel or the sale of products developed with these technologies. The Company does not anticipate the need to transfer any of its intellectual property rights outside of Israel at this time.

Contingencies

The Company is not currently subject to any material legal proceedings. The Company may, from time to time, become a party to various legal proceedings arising in the ordinary course of business. The Company may also be indirectly affected by administrative or court proceedings or actions in which the Company is not involved but which have general applicability to the semiconductor industry.

NOTE 10 EQUITY OFFERING:

On September 26, 2011, the Company completed an additional public offering of 3,450,000 shares of its ordinary shares at a price to the public of $31.75 per share. Net proceeds to the Company aggregated approximately $104.2 million after payment of offering fees, underwriters' commissions and offering expenses.

NOTE 11 SHARE INCENTIVE PLANS:

The Company has five option plans: the 1999 United States Equity Incentive Plan, 1999 Israeli Share Option Plan, 2003 Israeli Share Option Plan (collectively, the "Prior Plans"),the 2006 Global Share Incentive Plan (the "Global Plan") and the Global Share Incentive Assumption Plan 2010 (the "Assumption Plan").

The Company has authorized for issuance under the Global Plan an aggregate of 3,428,571 ordinary shares, plus the number of ordinary shares available for issuance under the Prior Plans that are not subject to outstanding options, as of the effective date of the Global Plan.

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11 SHARE INCENTIVE PLANS: (Continued)

The number of ordinary shares reserved for issuance under the Company's Global Plan will increase automatically on the first day of each fiscal year, beginning in 2008, by a number of ordinary shares equal to the lower of: (i) 2% of total number of ordinary shares outstanding on a fully diluted basis on the date of the increase, (ii) 685,714 ordinary shares, or (iii) a smaller number determined by the board of directors. In any event, the maximum aggregate number of ordinary shares that may be issued or transferred under the Global Plan during the term of the Global Plan may in no event exceed 15,474,018 ordinary shares. The Global Plan was automatically increased by 685,714 ordinary shares on January 1, 2012, 2011 and 2010, respectively.

The number of ordinary shares reserved for issuance under the Company's Assumption Plan will increase automatically on the first day of each fiscal year, beginning in 2012, by a number of ordinary shares equal to the lower of: (i) in each case in an amount equal to the lesser of (i) 281,625 ordinary shares or (ii) an amount determined by the Board. The Assumption Plan was automatically increased by 281,625 ordinary shares on January 1, 2012.

The following table summarizes the stock option activity under all equity incentive plans:

	Options Outstanding	
	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2008	6,928,619	$ 10.20
Options granted	2,778,031	$ 10.72
Options exercised	(700,624)	$ 3.18
Options canceled	(2,602,347)	$ 17.05
Outstanding at December 31, 2009	6,403,679	$ 8.38
Options granted	605,340	$ 21.73
Options exercised	(1,338,223)	$ 5.15
Options canceled	(235,822)	$ 10.99
Outstanding at December 31, 2010	5,434,974	$ 10.56
Options granted	1,060,938	$ 21.80
Options exercised	(1,586,577)	$ 8.83
Options canceled	(202,986)	$ 16.46
Outstanding at December 31, 2011	4,706,349	$ 13.42

The weighted average fair value of options granted was approximately $18.51, $12.51 and $7.73 for the years ended December 31, 2011, 2010 and 2009, respectively.

The total pretax intrinsic value of options exercised in 2011 was $35.0 million. This intrinsic value represents the difference between the fair market value of the Company's ordinary shares on the date of exercise and the exercise price of each option. Based on the closing price of the Company's ordinary shares of $32.49 on December 30, 2011, the total pretax intrinsic value of all outstanding options was $90.3 million. The total pretax intrinsic value of exercisable options at December 31, 2011 was $66.8 million.

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11 SHARE INCENTIVE PLANS: (Continued)

Restricted stock units activity in the years ended December 31, 2010 and December 31, 2011 is set forth below:

	Restricted Stock Units Outstanding	
	Number of Shares	Weighted Average Grant Date Fair Value
Non vested restricted stock units at December 31, 2009		$
Restricted stock units granted	437,008	19.93
Restricted stock units vested	(11,668)	22.54
Restricted stock units canceled	(10,395)	19.89
Non vested restricted stock units at December 31, 2010	414,945	$ 19.86
Restricted stock units granted	1,143,142	27.00
Restricted stock units vested	(224,005)	20.02
Restricted stock units canceled	(142,409)	24.97
Non vested restricted stock units at December 31, 2011	1,191,673	$ 26.05

The weighted average fair value of restricted stock units granted was $27.00 and $19.93 for the years ended December 31, 2011 and 2010, respectively. The total intrinsic value of all outstanding restricted stock units was $38.7 million as of December 31, 2011.

The Company had the following ordinary shares reserved for future issuance under its equity incentive plans as of December 31, 2011:

	Number of Shares
Stock options outstanding	4,706,349
Restricted stock units	1,191,673
Stock authorized for future issuance	1,743,799
ESPP shares available for future issuance	42,474
Total shares reserved for future issuance as of December 31, 2011	7,684,295

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11 SHARE INCENTIVE PLANS: (Continued)

The following tables provide additional information about all options outstanding and exercisable at December 31, 2011:

	Options Outstanding at December 31, 2011				Options Exercisable at December 31, 2011		
Range of Exercise Price	**Number Outstanding**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**		**Number Outstanding**	**Weighted Average Exercise Price**	
$1.47 - $7.44	345,174	2.76	$	3.98	331,176	$	3.84
$8.23 - $8.23	621,074	6.96	$	8.23	404,490	$	8.23
$8.45 - $9.19	812,712	5.78	$	9.01	661,570	$	9.06
$10.23 - $10.23	1,303,904	7.30	$	10.23	1,030,523	$	10.23
$10.50 - $17.74	478,676	7.28	$	13.57	295,821	$	13.50
$18.21 - $24.11	473,132	8.07	$	20.48	206,652	$	20.03
$24.19 - $30.44	471,082	8.66	$	27.01	108,354	$	24.80
$34.00 - $34.00	93,140	9.85	$	34.00		$	
$35.12 - $35.12	107,280	9.70	$	35.12		$	
$1,003.13 - $1,003.13	175	1.25	$	1,003.13	175	$	1,003.13
$1.47 - $1,003.13	4,706,349	6.98	$	13.42	3,038,761	$	10.57

The Employee Share Purchase Plan, or ESPP, is designed to allow eligible employees to purchase the Company's ordinary shares, at semi-annual intervals, with their accumulated payroll deductions. A participant may contribute up to 15% of his or her base compensation through payroll deductions, and the accumulated deductions will be applied to the purchase of shares on the purchase date, which is the last trading day of the offering period. The purchase price per share will be equal to 85% of the fair market value per share on the start date of the offering period in which the participant is enrolled or, if lower, 85% of the fair market value per share on the purchase date. 571,428 shares were initially reserved for issuance pursuant to purchase rights under the ESPP. In addition, the number of ordinary shares reserved under the Company's ESPP will increase automatically on the first day of each fiscal year during the term, beginning in 2009, by a number of ordinary shares equal to the lower of (i) 0.5% of the total number of ordinary shares outstanding on a fully diluted basis on the date of the increase, (ii) 171,428 shares or (iii) a smaller number of shares as determined by the board of directors. In any event, the maximum aggregate number of ordinary shares that may be issued over the term of the ESPP may in no event exceed 2,114,285 shares. In addition, no participant in the ESPP may be issued or transferred more than $25,000 worth of ordinary shares pursuant to purchase rights under the ESPP per calendar year. During the years ended December 31, 2011 and 2010, 243,256 and 199,540 shares, respectively, were issued under this plan at weighted average per share prices of $18.31 and $12.96, respectively. At December 31, 2011, 42,474 shares were available for future issuance under the ESPP. On January 1, 2012 the number of shares available under the Company's ESPP increased automatically by 171,428 shares.

Share-based compensation

The Company accounts for share-based compensation expense based on the estimated fair value of the share option awards as of the grant dates.

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11 SHARE INCENTIVE PLANS: (Continued)

The following weighted average assumptions are used to value share options granted in connection with the Company's share incentive plans for the years ended December 31, 2011, 2010 and 2009:

	Employee Share Options Year Ended December 31,			Employee Share Purchase Plan Year Ended December 31,		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Dividend yield,%						
Expected volatility,%	55.9	59.8	62.9	41.8	54.7	56.1
Risk free interest rate,%	1.72	2.18	2.61	0.10	0.10	0.10
Expected life, years	6.25	6.23	6.20	0.53	0.53	0.53

The following table summarizes the distribution of total share-based compensation expense in the Consolidated Statements of Operations:

	Year Ended December 31,		
	2011	**2010**	**2009**
		(in thousands)	
Share-based compensation expense by caption:			
Cost of goods sold	$ 980	$ 385	$ 305
Research and development	11,906	8,031	6,562
Sales and marketing	4,894	2,730	2,125
General and administrative	3,632	2,955	1,744
Total share-based compensation expense	$ 21,412	$ 14,101	$ 10,736
Share-based compensation expense by type of award:			
Share options	$ 12,568	$ 11,017	$ 10,233
ESPP	1,686	1,053	503
Restricted Stock	7,158	2,031	
Total share-based compensation expense	$ 21,412	$ 14,101	$ 10,736

At December 31, 2011, there was $41.0 million of total unrecognized share-based compensation costs related to non-vested share-based compensation arrangements. The costs are expected to be recognized over a weighted average period of approximately 2.8 years.

Share option exchange program

In April 2009, the Company completed an offer to exchange certain employee share options issued under the Global Plan. The option exchange program allowed eligible employees, executive management and contractors of the Company to exchange their outstanding options that had an exercise price greater than $13.65 per share for a lesser number of options calculated in accordance with exchange ratios. Members of the Company's board of directors were not allowed to participate in the program. The ratios were determined using the Black-Scholes option pricing model based on, among other things, the closing price of the Company's ordinary shares as quoted on The NASDAQ

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11 SHARE INCENTIVE PLANS: (Continued)

Global Select Market on March 16, 2009 and the exercise prices of the options eligible for exchange. The exchange ratios used were as follows:

Exercise Price Range	Shares Subject to Option Surrendered	Shares Subject to Replacement Option Granted
$13.66 to $16.99	1.10	1
$17.00 and above	1.21	1

Pursuant to the program, 255 eligible participants tendered, and the Company accepted for exchange, options to purchase an aggregate of 2,340,334 ordinary shares, representing approximately 96% of eligible options. In exchange, the Company granted 1,983,797 options with an exercise price of $10.23 per share, which was the closing price of the Company's ordinary shares as reported by the NASDAQ Global Select Market on April 22, 2009.

For options originally granted in 2007, the replacement options granted in the option exchange program vest as follows: one-third ($^1/_3$) of the options replaced vest and become exercisable on the one-year anniversary of the replacement grant date, with the remaining shares vesting and becoming exercisable in equal monthly increments over the 24 months following the first anniversary of the replacement grant date. For options originally granted in 2008, the replacement options vest as follows: one-fourth ($^1/_4$) of the shares subject to each replacement option vest and become exercisable on the one-year anniversary of the replacement grant date, with the remaining shares vesting and becoming exercisable in equal monthly increments over the 36 months following the first year anniversary of the replacement grant date.

A modification charge resulting from the share option exchange program was immaterial.

NOTE 12 INCOME TAXES:

The components of income before income taxes are as follows:

	Year Ended December 31,		
	2011	2010	2009
	(in thousands)		
United States	$ 3,479	$ 2,324	$ 976
Foreign	9,873	20,979	18,289
Income before income taxes	$ 13,352	$ 23,303	$ 19,265

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 INCOME TAXES: (Continued)

The components of the provision for income taxes are as follows:

	Year Ended December 31,		
	2011	2010	2009
	(in thousands)		
Current:			
U.S. federal	$ 2,838	$ 1,660	$ 1,241
State and local	437	462	214
Foreign	907	262	152
	4,182	2,384	1,607
Deferred:			
U.S. federal	$ (658)	$ (848)	$ (279)
State and local	(149)	46	15
Foreign		8,181	5,036
	(807)	7,379	4,772
Provision for taxes on income	$ 3,375	$ 9,763	$ 6,379

At December 31, 2011 and 2010, temporary differences which gave rise to significant deferred tax assets and liabilities are as follows:

	December 31,	
	2011	2010
	(in thousands)	
Deferred tax assets:		
Net operating loss and credit carryforwards	$ 23,078	$ 3,345
Research and development costs	3,866	
Reserves and accruals	3,940	1,858
Depreciation and amortization	49	181
Gross deferred tax assets	30,933	5,384
Valuation allowance	(28,491)	(3,345)
Net deferred tax assets	$ 2,442	$ 2,039

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance.

At December 31, 2011, the Company had foreign net operating loss carryforwards of approximately $79.4 million. The foreign net operating losses have no expiration date.

The Company has not provided for Israeli income and foreign withholding taxes on $4.7 million of its non-Israeli subsidiaries' undistributed earnings as of December 31, 2011. The Company currently has no plans to repatriate those funds and intends to indefinitely reinvest them in its non-Israeli operations. The Company cannot determine the impact of local taxes, withholding taxes and foreign tax credits

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 INCOME TAXES: (Continued)

associated with future repatriation of such earnings because the time or manner of the repatriation is uncertain and therefore cannot quantify the related tax liability.

The reconciliation of the statutory federal income tax rate to the Company's effective tax rate is as follows:

	Year Ended December 31,		
	2011	**2010**	**2009**
Tax at statutory rate	34.0%	34.0%	34.0%
State, net of federal benefit	2.2	1.1	1.2
Meals and entertainment	0.4	0.1	0.1
Tax at rates other than the statutory rate	(15.6)	5.6	(5.3)
Share-based compensation	3.2	1.6	2.8
Other, net	1.0	(0.5)	0.3
Provision for taxes	25.2%	41.9%	33.1%

The Company calculates the pool of excess tax benefits available to absorb tax deficiencies recognized using the method under which each award grant is tracked on an employee-by-employee basis and grant-by-grant basis to determine if there is a tax benefit situation or tax deficiency situation for such award. The Company then compares the fair value expense to the tax deduction received for each grant and aggregates the benefits and deficiencies to determine whether there is a hypothetical additional paid in capital (APIC) pool (net tax benefit situation). For the years ended December 31, 2011 and 2010, the Company recognized a tax benefit to APIC of $2.4 million and $1.1 million, respectively.

The Company's operations in Israel were granted "Approved Enterprise" status by the Investment Center in the Israeli Ministry of Industry Trade and Labor, which makes the Company eligible for tax benefits under the Israeli Law for Encouragement of Capital Investments, 1959. Under the terms of the Approved Enterprise program, income that is attributable to the Company's operations in Yokneam, Israel, will be exempt from income tax for a period of ten years commencing when the Company first generates taxable income (after setting off its losses from prior years). Income that is attributable to the Company's operations in Tel Aviv, Israel, will be exempt from income tax for a period of two years commencing when the Company first generates taxable income (after setting off its losses from prior years), and will be subject to a reduced income tax rate (generally 10-25%, depending on the percentage of foreign investment in the Company) for the following five to eight years. The Approved Enterprise tax holiday associated with the Company's Yokneam and Tel Aviv operations began in 2011. The tax holiday for the Company's Yokneam operations will expire in 2020 and the Tax Holiday for the Company's Tel-Aviv operations will expire between the years 2015 and 2018. The tax holiday has resulted in a tax savings of $3.8 million in 2011, increasing diluted earnings per share by approximately $0.10 in the year ended December 31, 2011.

As a multinational corporation, the Company conducts business in many countries and is subject to taxation in many jurisdictions. The taxation of the Company's business is subject to the application of multiple and sometimes conflicting tax laws and regulations as well as multinational tax conventions. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 INCOME TAXES: (Continued)

uncertainty. Tax laws themselves are subject to change as a result of changes in fiscal policy, changes in legislation and the evolution of regulations and court rulings. Consequently, taxing authorities may impose tax assessments or judgments against the Company that could materially impact its tax liability and/or its effective income tax rate.

As of December 31, 2011 and 2010, the unrecognized tax benefits totaled approximately $4.1 million and $1.8 million, respectively, which would reduce the Company's income tax expense and effective tax rate, if recognized.

The following summarizes the activity related to the Company's unrecognized tax benefits:

	Year Ended December 31,	
	2011	2010
	(in thousands)	
Gross unrecognized tax benefits, beginning of the period	$ 1,754	$ 1,442
Increases in tax positions for prior years	985	
Decreases in tax positions for prior years	(523)	(395)
Increases in tax positions for current year	1,847	707
Decreases in tax positions for current year		
Gross unrecognized tax benefits, end of the period	$ 4,063	$ 1,754

It is the Company's policy to classify accrued interest and penalties as part of the accrued unrecognized tax benefits liability and record the expense in the provision for income taxes. For the years ended December 31, 2011, 2010 and 2009, the amount of accrued interest or penalties related to unrecognized tax benefit totaled $231,000, $95,000 and $67,000, respectively. For unrecognized tax benefits that existed at December 31, 2011, the Company does not anticipate any significant changes within the next twelve months.

The Company files income tax returns in the U.S. federal jurisdictions, and various states and foreign jurisdictions. The 2008 through 2011 tax years are open and may be subject to potential examination in one or more jurisdictions.

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 13 GEOGRAPHIC INFORMATION AND REVENUES BY PRODUCT GROUP:

The Company operates in one reportable segment, the development, manufacturing, marketing and sales of semiconductor interconnect products. The Company's chief operating decision maker is the chief executive officer. Since the Company operates in one segment, all financial segment information can be found in the accompanying Consolidated Financial Statements.

Revenues by geographic region are as follows:

	Year Ended December 31, 2011	2010	2009
		(in thousands)	
United States	$ 120,385	$ 67,166	$ 39,717
China	33,681	17,256	14,990
Israel	1,867	10,265	8,158
Europe	39,566	20,003	18,868
Other North America	15,912	2,456	2,126
Other Asia	47,840	37,494	32,185
Total revenue	$ 259,251	$ 154,640	$ 116,044

Revenues are attributed to countries based on the geographic location of the customers. Intercompany sales between geographic areas have been eliminated.

Property and equipment, net by geographic location are as follows:

	Year Ended December 31, 2011	2010
	(in thousands)	
Israel	$ 36,207	$ 14,354
United States	599	1,136
Total property and equipment, net	$ 36,806	$ 15,490

Property and equipment, net is attributed to the geographic location in which it is located.

Revenues by product group are as follows:

	Year Ended December 31, 2011	2010	2009
		(in thousands)	
ICs	$ 46,564	$ 57,030	$ 38,972
Boards	98,004	67,085	61,556
Switch systems and gateways	76,398	19,461	9,996
Cables, accessories and other	38,285	11,064	5,520
Total revenue	$ 259,251	$ 154,640	$ 116,044

Table of Contents

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14 OTHER INCOME, NET:

Other income, net, is summarized in the following table:

	Year Ended December 31,		
	2011	2010	2009
	(in thousands)		
Interest income	$ 630	$ 1,128	$ 1,289
Foreign exchange gains (losses)	374	(316)	(36)
Loss on equity investment in privately-held companies		(750)	(500)
Other	(245)	(197)	(235)
Total other income (loss), net	$ 759	$ (135)	$ 518

Table of Contents

SCHEDULE II CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

MELLANOX TECHNOLOGIES, LTD.

Description:	Balance at Beginning of Year	Charged (Credited) to Costs and Expenses	Deductions(1)	Balance at End of Year
		(in thousands)		
Year ended December 31, 2011:				
Deducted from asset accounts:				
Allowance for doubtful accounts	$ 402	$ 155	$	$ 557
Allowance for sales returns and adjustments	75	262		337
Income tax valuation allowance	3,245	25,267	(21)	28,491
Total	$ 3,722	$ 25,684	$ (21)	$ 29,385
Year ended December 31, 2010:				
Deducted from asset accounts:				
Allowance for doubtful accounts	$ 290	$ 112	$	$ 402
Allowance for sales returns and adjustments	15	60		75
Income tax valuation allowance	3,186	188	(129)	3,245
Total	$ 3,491	$ 360	$ (129)	$ 3,722
Year ended December 31, 2009:				
Deducted from asset accounts:				
Allowance for doubtful accounts	$ 277	$ 59	$ (46)	$ 290
Allowance for sales returns and adjustments	15			15
Income tax valuation allowance	3,236	125	(175)	3,186
Total	$ 3,528	$ 184	$ (221)	$ 3,491

(1) Deductions for Allowance for doubtful accounts are for accounts receivable written-off.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Mellanox Technologies, Ltd. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 27, 2012.

MELLANOX TECHNOLOGIES, LTD.

By: /s/ EYAL WALDMAN

Eyal Waldman

President and Chief Executive Officer

KNOW ALL MEN AND WOMEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Eyal Waldman and Michael Gray, and each of them, his or her attorneys-in-fact and agents, each with the power of substitution, for him or her in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the U.S. Securities and Exchange Commission, hereby ratifying and confirming all that said attorneys-in-fact, or his or her or their substitute or substitutes, may do or cause to be done by virtue thereof.

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.

Signature	Title	Date
/s/ EYAL WALDMAN Eyal Waldman	Chief Executive Officer and Director (principal executive officer)	February 27, 2012
/s/ MICHAEL GRAY Michael Gray	Chief Financial Officer (principal financial and accounting officer) and Authorized Representative in the United States	February 27, 2012
/s/ DOV BAHARAV Dov Baharav	Director	February 27, 2012
/s/ GLENDA DORCHAK Glenda Dorchak	Director	February 27, 2012
/s/ IRWIN FEDERMAN Irwin Federman	Director	February 27, 2012

Table of Contents

Signature	Title	Date
/s/ AMAL JOHNSON Amal Johnson	Director	February 27, 2012
/s/ THOMAS J. RIORDAN Thomas J. Riordan	Director	February 27, 2012
/s/ THOMAS WEATHERFORD Thomas Weatherford	Director	February 27, 2012

Table of Contents

INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit
1.1(1)	Underwriting Agreement, dated as of September 20, 2011, by and between Mellanox Technologies, Ltd. and J.P. Morgan Securities LLC, as representative of the several underwriters named therein.
2.1(2)	Agreement of Merger, dated as of November 29, 2010, among Mellanox Technologies, Ltd., Mondial Acquisition Corporation Ltd. and Voltaire Ltd.
3.1(3)	Amended and Restated Articles of Association of Mellanox Technologies, Ltd. (as amended on May 16, 2011).
10.1(4)*	Mellanox Technologies, Ltd. 1999 United States Equity Incentive Plan and forms of agreements relating thereto.
10.2(5)*	Mellanox Technologies, Ltd. 1999 Israeli Share Option Plan and forms of agreements relating thereto.
10.3(6)*	Mellanox Technologies, Ltd. 2003 Israeli Share Option Plan and forms of agreements relating thereto.
10.4(7)	Amended Form of Indemnification Undertaking made by and between Mellanox Technologies, Ltd. and each of its directors and executive officers as amended on May 16, 2011.
10.5(8)	Lease Contract, dated May 9, 2001, by and between the Company, as tenant, and Sha'ar Yokneam, Registered Limited Partnership, as landlord, as amended August 23, 2001 (as translated from Hebrew).
10.6(9)*	Mellanox Technologies, Ltd. Global Share Incentive Plan (2006) and forms of agreements and appendices relating thereto.
10.7(10)*	Mellanox Technologies, Ltd. Non-Employee Director Option Grant Policy.
10.8(11)*	Form of Mellanox Technologies, Ltd. Executive Severance Benefits Agreement for U.S. Executives.
10.9(12)*	Form of Mellanox Technologies, Ltd. Executive Severance Benefits Agreement for Israel Executives.
10.10(13)*	Mellanox Technologies, Ltd. Employee Share Purchase Plan.
10.11(14)	Lease Contract, dated May 9, 2001, by and between the Company, as tenant, and Sha'ar Yokneam, Registered Limited Partnership, as landlord, as amended May 15, 2007 (as translated from Hebrew).
10.14(15)	Lease Contract, dated May 9, 2001, by and between the Company, as tenant, and Sha'ar Yokneam, Registered Limited Partnership, as landlord, as amended September 4, 2007 (as translated from Hebrew).
10.15(16)	Office Space Lease dated September 30, 2008 by and between Oakmead Parkway Properties Partnership, a California general partnership, as landlord, and Mellanox Technologies, Inc., as tenant.
10.16(17)*	Mellanox Technologies, Ltd., Global Share Incentive Assumption Plan (2010).

Table of Contents

Exhibit No.	Description of Exhibit
10.17(18)	Lease Contract, dated March 1, 2011, by and between the Company, as tenant, and Sha'ar Yokneam, Registered Limited Partnership, as landlord (as translated from Hebrew).
21.1	List of Company Subsidiaries.
23.1	Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm.
24.1	Power of Attorney (included on signature page to this annual report on Form 10-K).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS(19)	XBRL Instance Document
101.SCH(19)	XBRL Taxonomy Extension Schema Document
101.CAL(19)	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB(19)	XBRL Taxonomy Extension Label Linkbase Document
101.PRE(19)	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF(19)	XBRL Taxonomy Extension Definition Linkbase Document

---

(1) Incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K (SEC File No. 001-33299) filed on September 21, 2011.

(2) Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K (SEC File No. 001-33299) filed on November 29, 2010.

(3) Incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement on Schedule 14A (File No. 001-33299) filed on April 11, 2011.

(4) Incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on September 28, 2006.

(5) Incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on September 28, 2006.

(6) Incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on September 28, 2006.

(7) Incorporated by reference to Exhibit B to the Company's Definitive proxy statement on Schedule 14A (File No. 001-33299) filed on April 11, 2011.

(8) Incorporated by reference to Exhibit 10.9 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on November 14, 2006.

Table of Contents

(9) Incorporated by reference to Exhibit 10.10 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on November 14, 2006.

(10) Incorporated by reference to Exhibit 10.11 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on November 14, 2006.

(11) Incorporated by reference to Exhibit 10.12 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on November 14, 2006.

(12) Incorporated by reference to Exhibit 10.13 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on November 14, 2006.

(13) Incorporated by reference to Exhibit 10.14 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on December 7, 2006.

(14) Incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K (SEC File No. 001-33299) filed on March 24, 2008.

(15) Incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K (SEC File No. 001-33299) filed on March 24, 2008.

(16) Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (SEC File No. 001-33299) filed on November 7, 2008.

(17) Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (SEC File No. 001-33299) filed on February 7, 2011.

(18) Incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K (SEC File No. 001-33299) filed on March 7, 2011.

(19) Pursuant to Rule 406T of SEC Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, and are deemed not filed for the purpose of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

* Indicates management contract or compensatory plan, contract or arrangement.