

# MELLANOX TECHNOLOGIES, LTD.

## **FORM 10-K** (Annual Report)

Filed 02/26/16 for the Period Ending 12/31/15

Address	350 OAKMEAD PARKWAY, SUITE 100 SUNNYVALE, CA 94085
Telephone	408-970-3400
CIK	0001356104
Symbol	MLNX
SIC Code	3674 - Semiconductors and Related Devices
Industry	Semiconductors
Sector	Technology
Fiscal Year	12/31

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

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

For the Fiscal Year Ended: **December 31, 2015**

**OR**

**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**  
(State or other jurisdiction of  
incorporation or organization)

**98-0233400**  
(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  No

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  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark 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.

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a  
smaller reporting company)

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

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, 2015, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$2.3 billion (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 22, 2016, was 47,330,469.

**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 2015 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, 2015.

**MELLANOX TECHNOLOGIES, LTD.**

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## 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 resume and maintain adequate revenue growth;
- market adoption of our InfiniBand and Ethernet solutions;
- 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

We are an integrated supplier of end-to-end high-performance interconnect products and solutions based on the InfiniBand and Ethernet standards. Our products facilitate efficient data transmission between servers, storage systems, communications infrastructure equipment and other embedded systems. We operate our business globally and offer products to customers at various levels of integration. The products we offer include integrated circuits ("ICs"), adapter cards, switch systems, cables, modules, software, services and accessories 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 ("HPC"), cloud, Web 2.0, storage, financial services, and enterprise data center ("EDC"). These solutions increase performance, application efficiency and improve return on investment. Through the successful development and implementation of multiple generations of our products, we have established significant expertise and competitive advantages.

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 largest server vendors. We supply our products to leading storage and communications infrastructure equipment vendors. Additionally, our products are used as embedded solutions.

We are one of the pioneers of InfiniBand, an industry-standard architecture for high-performance interconnects. We believe InfiniBand interconnect solutions deliver industry-leading performance, efficiency and scalability for 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 25/50/100Gb/s Ethernet adapters and switches to the market, and the only end-to-end supplier on these products today. This provides us the opportunity to gain share in the Ethernet market as users upgrade from one or 10Gb/s directly to 25/40/50 or 100 Gb/s.

In September 2015, we entered into an Agreement of Merger (the "Agreement") to acquire EZchip Semiconductor, Ltd. ("EZchip"), for approximately \$811.0 million. EZchip is a public company formed under the laws of the State of Israel specializing in network-processing semiconductors. The EZchip acquisition is a step in our strategy to become the leading broad-line supplier of intelligent interconnect solutions for the software-defined data centers. The addition of EZchip's products and expertise in security, deep packet inspection, video, and storage processing enhances our leadership position, and ability to deliver complete end-to-end, intelligent 10, 25, 40, 50, and 100Gb/s interconnect and processing solutions for advanced data center and edge platforms. The combined company will have diverse and robust solutions to enable customers to meet the growing demands of data-intensive applications used in high-performance computing, Web 2.0, cloud, secure data center, enterprise, telecom, database, financial services, and storage environments. The transaction closed on February 23, 2016 and was financed with cash on hand, and with \$280 million in term debt ("Term Debt").

We have been shipping our InfiniBand products since 2001 and our Ethernet products since 2007. During 2008, we introduced Virtual Protocol Interconnect, ("VPI"), into our ConnectX family of adapter ICs and cards, and in April 2011, we introduced the SwitchX family of switch ICs that 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. In 2015, we introduced the Spectrum family of 25, 50, and 100Gb/s Ethernet switches and the Switch-IB 2 smart InfiniBand switch.

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

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

We are a Steering Committee member of the InfiniBand Trade Association, ("IBTA"), and the OpenFabrics Alliance, ("OFA"), both of which are industry trade organizations that maintain and promote InfiniBand technology. Additionally, OFA supports and promotes Ethernet solutions. We are a founding member of the 25 Gigabit Ethernet consortium. We are also a participating member of the Institute of Electrical and Electronic Engineers, or IEEE, an 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 and manufacturing headquarters are in Yokneam, Israel. Our total assets as of December 31, 2015 and 2014 were approximately \$1,053.4 million and \$863.2 million, respectively. During the years ended December 31, 2015, 2014 and 2013, we generated approximately \$658.1 million, \$463.6

million and \$390.4 million in revenues, respectively, and approximately \$92.9 million, \$(24.0) million and \$(23.3) million in net income (loss), respectively.

We manage our business based on one reportable segment: the development, manufacturing, marketing and sales of interconnect products. Additional information required by this item is incorporated herein by reference to our consolidated financial statements and 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. The risks related to foreign operations and dependence on foreign operations are discussed under the section entitled "Risk Factors—Risks Related to Operations in Israel and Other Foreign Countries" under Part I, Item 1A 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 compute and storage 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 better resource utilization, thereby delivering higher application performance with lower capital expenditures and operating expenses. Large scale applications provided by leading companies in HPC, storage, Web 2.0, cloud, big data, EDCs and financial services utilize these technologies to deliver their products and services.

Demand for computing power and data storage capacity continue to rise, fueled by the increasing reliance by enterprises on information technology ("IT") for everyday operations. 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 Flash memory drives for data storage;
- Increasing deployments of software defined scale out storage;
- Enterprise data center infrastructure consolidation;
- Increasing deployments of mission critical, latency, or response time sensitive applications;
- Increasing deployments of converged and hyperconverged infrastructure;
- Increasing deployment of virtualized computing and virtualized networking 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
- Big Data Analytics requirements for faster data access and processing to analyze increasingly large datasets and to provide real-time analysis.

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

### ***Challenges Addressed 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 take advantage of the increased compute power of microprocessors. 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 has also proliferated in 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, increased 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, causing 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 and Ethernet, proprietary and other standards-based interconnect solutions, including Fibre Channel, 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 facilitating improvements and changes to the technology. The number of supercomputers that use proprietary interconnect solutions has been declining largely due to the required use of proprietary software solutions, a lack of compatible storage systems and the availability of industry standards-based interconnects that offer superior price/performance.
- Fibre Channel is an industry standard interconnect solution limited to storage applications. The majority of Fibre Channel deployments support 2, 4, 8 and 16Gb/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). The Fibre Channel market is declining as legacy storage area network moves to more modern Web 2.0 and cloud architectures based on converged, software defined, and scale out storage.
- 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 1/10Gb/s and lower data rates, its overall efficiency, scalability and reliability have been less optimal than other interconnect solutions in high-performance computing, storage and communication applications. An increase to 25/40/50/100Gb/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, cloud, Web2.0 and storage markets the predominant interconnects today are InfiniBand and Ethernet. In the EDC and embedded markets, the predominant interconnects today are Ethernet, Fibre Channel and InfiniBand. 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 by providing solutions for more

demanding requirements of the high-performance interconnect market. More specifically, we believe that InfiniBand has the following advantages:

- *Superior performance.* Compared 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 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 100Gb/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 - 16Gb/s	1Gb/s - 100Gb/s	10Gb/s - 100Gb/s

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 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 cloud, Web 2.0, storage and embedded markets, and, therefore, there is a trend towards using industry-standard InfiniBand and Ethernet solutions of 10Gb/s and faster, able to deliver lower latency than 1Gb/s Ethernet.

- *Reduced complexity.* While other interconnects require use of separate 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, 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 provides 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 Solutions

We provide comprehensive end-to-end 40/56/100Gb/s InfiniBand solutions, including switch and gateway ICs, adapter cards, switch, gateway and long-haul systems, cables, modules 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 Solutions

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 complete industry leading, end-to-end 10/40/56Gb/s Ethernet product portfolio for use in EDC, HPC, embedded environments, hyperscale, Web 2.0, and cloud data centers. Our portfolio of advanced Ethernet switch products supports the latest generation of Ethernet speeds at 10/25/40/50/56/100Gb/s and all deliver wire speed forwarding for telco and data center environments. In addition, we provide a full range of Ethernet NICs at these speeds which incorporate the latest in Ethernet technology, including support for virtualization and RDMA over Converged Ethernet (RoCE). These solutions remove I/O bottlenecks in mainstream servers that limit application performance and support hardware-based I/O virtualization, providing dedicated

adapter resources and guaranteed isolation and protection for virtual machines within the server.

### **VPI: Providing Connectivity to InfiniBand and Ethernet**

Our VPI technology 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 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 285 issued patents. We believe our experience, competencies and IP will enable us to remain a leading supplier of high-performance interconnect solutions.
- *We have expertise in developing high speed analog and optical components.* We have unique design expertise and manufacturing capabilities required to build state of the art optical components, modules, and cable assemblies. We have developed significant know-how related to building advanced electrical and electro-optical components and sub-assemblies which combine electrical and optical components on an integrated silicon photonics substrate. In addition, we have design expertise to enable advanced transceiver chipsets for driving and receiving multimode optical signals and interfacing to low cost lasers and optical sensor technologies. We have developed significant manufacturing know how and automated assembly techniques to combine these optical and electrical components and build complete optical module and cables that are high performance, cost effective, high quality, and offer high reliability.
- *We believe we are the leading merchant supplier of InfiniBand ICs.* 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 InfiniBand products.
- *We believe we are the leading merchant supplier of high performance Ethernet Adapters.* We have gained significant expertise in Ethernet adapters and are the leading supplier of adapters with speeds above 10Gb/s with over 90% market share of 40Gb/s adapters. Four out of the top five hyperscale cloud and Web 2.0 data centers are our customers. Our engagement with these customers through several generations of designs has allowed us to understand the challenges faced by large scale deployments, and to develop features that solve these problems. We are the first to market with a complete end-to-end product portfolio of the latest 25, 50, and 100 Gb/s speeds of Ethernet. Our leading time to market, customer engagements, advanced feature set, and rapid development cadence provides a significant competitive advantage over other vendors. We believe that this places us in an advantageous position to benefit from continuing market adoption of our Ethernet 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, 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 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. 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.
- *Capture Ethernet market share with our adapter, switch, and cable products.* We believe we are the market leader in Ethernet adapters with performance greater than 10Gb/s and the only provider of end-to-end solutions of adapters, switches, and cables at the latest 25, 50, and 100Gb/s speeds. We plan to capture Ethernet market share as data centers transition from 10Gb/s to 25/40/50 or 100 Gb/s. We believe we will be able to leverage our strength in the Ethernet adapter business to grow our Ethernet switch and cable business during the market transition to these advanced speeds.
- *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, switches and cables 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.

## Our Products

We provide complete solutions which are based on and meet the specifications of the InfiniBand and Ethernet standards. Our InfiniBand products include adapter ICs and cards (ConnectX® and Connect-IB™ product family) and switch ICs (InfiniScale®, SwitchX®, and SwitchX®-2, and Switch-IB™ product families) and systems, gateway ICs (BridgeX® product family) and gateway systems, long-haul systems (MetroX®), software, cables and modules. The last 4 generations of our adapters and cards (ConnectX®, ConnectX®-2, ConnectX®-3, ConnectX®-4 product families) support both the Ethernet and InfiniBand interconnect standards. Our SwitchX® and SwitchX®-2 family of silicon and systems supports both Ethernet and InfiniBand, and includes gateways that support bridging from InfiniBand to Ethernet. Our Spectrum family of Ethernet switches support data rates from 10 to 100Gb/s. Our long-haul systems expand the reach of InfiniBand and lossless Ethernet up to 80 kilometers.

We have registered "Mellanox" and its logo, "BridgeX", "Connect-IB", "ConnectX", "CoolBox", "CORE-Direct", "GPUDirect", "InfiniBridge", "InfiniHost", "InfiniScale", "Kotura" and its logo, "Mellanox Federal Systems", "Mellanox Hostdirect", "Mellanox Open Ethernet", "Mellanox Peerdirect", "Mellanox ScalableHPC", "Mellanox Technologies Connect.

Accelerate. Outperform", "Mellanox Virtual Modular Switch", "MetroDX", "MetroX", "MLNX-OS", "Open Ethernet" logo, "PhyX", "SwitchX", "TestX", "The Generation of Open Ethernet" and its logo, "UFM", "Virtual Protocol Interconnect" and "Voltaire" and its logo as trademarks in the United States.

We have trademark applications pending to register in the United States "25G is the New 10G", "Accelio", "CloudX" logo, "CompustorX", "CYPU", "FPGADirect", "HPC-X"LinkX", "Mellanox Care", "Mellanox CloudX" and its logo, "Mellanox Multi-host", "Mellanox NEO", "Mellanox Opencloud" and its logo, "Mellanox OpenHPC", "Mellanox Socket Direct", "Mellanox Spectrum", "Mellanox StorageX", "Mellanox TuneX", "NVMeDirect", "One Switch. A world of options" slogan, "PlatformX", "PSiPHY", "SiPhy", "Spectrum", "StoreX", "STPU", "Switch-EN", "Switch-IB", "TuneX", "UCX", "UCX Unified Communication X" and "Unbreakable-Link".

We provide adapters to server, storage, communications infrastructure and embedded systems OEMs as ICs or standard card form factors with 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 provide our switch ICs and systems 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 Spectrum Ethernet switch IC supports 10, 25, 40, 50, 56, and 100Gb/s Ethernet throughput. Our 8th generation InfiniBand switch IC (Switch-IB 2) supports up to 100Gb/s InfiniBand throughput. We have introduced switch systems that include 8-port, 12-port, 18-port, 36-port, 48-port, 64-port, 108-port, 216-port, 324-port and 648-port.

Our products generally vary by the number and performance of InfiniBand 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 ("UFM"), Network Orchestration (NEO), and MLNX- OS, for managing, optimizing, testing and verifying the operation of InfiniBand and Ethernet switch fabrics. In addition, we provide a full suite of acceleration software (Messaging Accelerator, ("VMA"), Fabric Collective Accelerator ("FCA"), and Unstructured Data Accelerator ("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 active copper and optical cables and modules to enable InfiniBand and Ethernet connectivity at speeds up to 100Gb/s.

## **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 26Gb/s SerDes over an eight 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 26Gb/s SerDes I/O that is used in our ConnectX-4 adapter that supports InfiniBand and Ethernet and Switch-IB switch silicon that supports InfiniBand. Our 26Gb/s SerDes enables our ConnectX adapters to support 100Gb/s bandwidth (four 26Gb/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.

### ***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 I/O 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**

HPC, cloud, Web 2.0 and embedded end-user markets for systems utilizing our products are mainly served by leading server, storage and communications infrastructure OEMs and original design manufacturers ("ODMs"). 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.

Our products have broad adoption with multiple end customers across HPC, Web 2.0, cloud, EDC, financial services and storage markets; however, these markets are mainly served by leading server, storage, communications infrastructure and embedded system OEMs and ODMs. Therefore, we have derived a substantial portion of our revenues from a relatively small number of OEM and ODM customers. In the years ended December 31, 2015, 2014 and 2013 sales to Hewlett-Packard accounted for 14%, 11% and 13%, respectively of our total revenues. In the year ended December 31, 2014, sales to Dell accounted for 11% of our total revenues. In the years ended December 31, 2014 and 2013 sales to IBM accounted for 10% and 17%, respectively, of our total revenues.

### **Backlog**

Our sales are primarily made through standard purchase orders for delivery of products. Our manufacturing production is based on estimates and advance non-binding commitments from customers as to future purchases. We follow industry practice that allows customers to cancel, change or defer orders with limited advance notice prior to shipment. Given this practice, we do not believe that backlog is a reliable indicator of future revenue levels.

### **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 marketing and sales personnel in the United States, Europe, China, Japan, India, Taiwan and Australia. 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.

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.

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 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 reviews of their systems in addition to technical training on the technology we have implemented in our products.

Our marketing team is responsible for creating and growing the brand of our company, product strategy and management, 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 tradeshow, 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 ("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, better product cost and superior time to market as opposed to relying on third-party verification services.

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 \$252.2 million in 2015, \$208.9 million in 2014 and \$169.4 million in 2013.

## **Manufacturing**

We depend on third-party vendors to manufacture, package, assemble and production test our products as we do not own or operate facilities for semiconductor fabrication, packaging or production testing, or for board, cable or 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, ("TSMC"), to manufacture and Advanced Semiconductor Engineering, ("ASE"), to assemble, package and production test our IC products. We use Flextronics International Ltd., Sanmina-SCI Corporation, A.L Electronics Engineering, Production Services, Ltd. and Universal Scientific Industrial Co., Ltd., ("USI"), 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 use several sub-contractors to manufacture our cables. 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 Teradyne IC in-house testers providing 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.

## **Employees**

As of December 31, 2015 we had 1,922 full-time employees and 197 part-time employees, including 1,424 in research and development, 354 in sales and marketing, 251 in general and administrative and 90 in operations. 1,429 of our full-time employees and 192 of the 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 Economy (formerly: the Ministry of Industry, Trade and Labor), which extends such collective bargaining agreements to Israeli employers. These provisions primarily concern the length of the workday, travel expensed, 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. In addition, we are currently engaged in litigation and may engage in future litigation with parties that claim that we infringed their patents or misappropriated or misused their trade secrets. Such litigations could result in substantial cost 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.

As of December 31, 2015, we had 236 issued patents and two registered designs in the United States, five issued patents in Israel and 44 issued patents and two registered designs in other countries. We had 134 patent applications and three design applications pending in the United States and 31 patent applications and one design application pending in other countries, 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. In addition, the lives of acquired patents may also have a shorter term depending upon their acquisition date and the issue date of respective patent. 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 Part I, 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 and latency;
- 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 Intel Corporation, which acquired the InfiniBand product lines from QLogic Corporation at the beginning of 2012. In addition, we compete with proprietary interconnects such as Intel's Omni-Path. For Ethernet technology, the leading IC vendors include Intel and Broadcom Corporation. The leading IC vendors that provide Ethernet and Fibre Channel products to the market include Broadcom Corporation, Marvell Technology Group, and QLogic Corporation. The leading Ethernet switch system vendors include Cisco, Brocade, Juniper and Arista. In embedded markets, we typically compete with interconnect technologies that are developed in-house by system OEM vendors and created for specific applications.

## **Acquisition**

In September 2015, we entered into an Agreement to acquire EZchip, for approximately \$811.0 million. EZchip is a public company formed under the laws of the State of Israel specializing in network-processing semiconductors. The EZchip acquisition is a step in our strategy to become the leading broad-line supplier of intelligent interconnect solutions for the software-defined data centers. The addition of EZchip's products and expertise in security, deep packet inspection, video, and storage processing enhances our leadership position, and ability to deliver complete end-to-end, intelligent 10, 25, 40, 50, and

100Gb/s interconnect and processing solutions for advanced data center and edge platforms. The combined company will have diverse and robust solutions to enable customers to meet the growing demands of data-intensive applications used in high-performance computing, Web 2.0, cloud, secure data center, enterprise, telecom, database, financial services, and storage environments.

Under the Agreement, EZchip became our wholly owned subsidiary. The acquisition closed on February 23, 2016. At the closing, we assumed each unvested option and RSU of EZchip on the same terms and conditions as were applicable to such EZchip option or RSU (including with respect to vesting), and converted it to an equivalent equity award to receive our ordinary shares appropriately adjusted to take into account the transaction consideration. All vested, in-the-money EZchip stock options and RSUs, after giving effect to any acceleration or vesting that occurs as a result of the transaction, were cashed out. Any vested out-of-the-money EZchip options were cancelled for no consideration. The acquisition and related transaction expenses was financed with cash on hand and with \$280 million in term debt. For additional information regarding the debt financing, see Note 9 to the audited consolidated financial statements. As of December 31, 2015, we have incurred approximately \$1.6 million in legal, accounting and consulting fees associated with the EZchip transaction.

For further discussion of our acquisitions, see Note 3 of the Notes to audited consolidated financial statements.

### **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". 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. Jacob Shulman 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](http://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, ("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](http://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](mailto: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](http://www.sec.gov).

## 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 fail to realize the benefits expected from the EZchip acquisition, which could adversely affect the value of our ordinary shares.*

Although we expect significant benefits to result from the EZchip acquisition, there can be no assurance that we will actually realize these or any other anticipated benefits of the EZchip acquisition. The value of our ordinary shares following the completion of the EZchip acquisition may be affected by our ability to achieve the benefits expected to result from the EZchip acquisition. Achieving the benefits of the EZchip acquisition will depend, in part, on our ability to integrate the business of EZchip successfully and efficiently with our business. The challenges involved in this integration, which will be complex and time-consuming, include the following:

- demonstrating to our customers and the customers of EZchip that the EZchip acquisition will not adversely affect our ability to address the needs of customers or the loss of attention or business focus;
- coordinating and integrating independent research and development and engineering teams across technologies and product platforms to enhance product development while reducing costs;
- consolidating and integrating corporate, information technology, finance and administrative infrastructures;
- coordinating sales and marketing efforts to effectively position our capabilities and the direction of product development; and
- minimizing the diversion of management attention from important business objectives.

If we do not successfully manage these issues and the other challenges inherent in integrating an acquired business of the size and complexity of EZchip, then we may not achieve the anticipated benefits of the EZchip acquisition and our revenue, expenses, operating results and financial condition could be materially adversely affected. For example, goodwill and other intangible assets could be determined to be impaired, which could adversely impact our financial results. The successful integration of the EZchip business is likely to require significant management attention following the completion of the EZchip acquisition, and may divert the attention of management from our business and operational issues.

In addition, we may not realize any of the expected benefits of having completed the EZchip acquisition. The EZchip acquisition is our largest acquisition to date. The benefits we expect to realize from the EZchip acquisition are based on projections and assumptions about the combined businesses of the Company and EZchip, which may not materialize or which may prove to be inaccurate.

***We have made and expect to continue to make acquisitions that could disrupt our operations and harm our operating results.***

Our growth depends upon market growth, our ability to enhance our existing products, and our ability to introduce new products on a timely basis. We intend to continue to address the need to develop new products and enhance existing products through acquisitions of other companies, product lines, technologies, and personnel. We completed the acquisition of EZchip on February 23, 2016 and may engage in future acquisitions.

Acquisitions 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:

- difficulties in integrating the operations, systems, technologies, products, and personnel of the acquired companies, particularly companies with large and widespread operations and/or complex products;
- the diversion of management's attention from normal daily operations of the business and the challenges of managing larger and more widespread operations resulting from acquisitions;
- 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;
- potential difficulties in completing projects associated with in-process research and development intangibles and,
- the use of a substantial portion of our cash resources and incurrence of significant amounts of debt;
- significantly increase our interest expense, leverage and debt service requirements as a result of incurring debt;
- the impact of any such acquisition on our financial results;
- internal controls may become more complex and may require significantly more resources to ensure they remain effective;
- negative customer reaction to any such acquisition; and
- assuming the liabilities of the acquired company.

***Leverage incurred in connection with the acquisition of EZchip could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent the interest rate on our variable rate debt increases and prevent us from meeting our obligations under the terms of the Term Debt.***

As a result of the acquisition of EZchip and the related Term Debt, we have become more leveraged than we have been historically. As of December 31, 2015, we did not have any debt for borrowed money on our balance sheet. After giving effect to the acquisition of EZchip, we have borrowed \$280.0 million under the Term Debt. Our substantial indebtedness could have more important consequences, including:

- increasing our vulnerability to adverse general economic and industry conditions;
- requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts, the execution of our business strategy, acquisitions and other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in the economy and the semiconductor industry;
- placing us at a competitive disadvantage compared to our competitors with less indebtedness;
- exposing us to interest rate risk to the extent of our variable rate indebtedness; and
- making it more difficult to borrow additional funds in the future to fund growth, acquisitions, working capital, capital expenditures and other purposes.

The Term Debt requires payment of principal and accrued interest during the three years after the closing of the acquisition of EZchip. In addition, if we were to experience a change of control, this would trigger an event of default under the Term Debt, which would permit the lenders to immediately declare the loans due and payable in whole or in part. In either such event, we may not have sufficient available cash to repay such debt at the time it becomes due, or be able to refinance such debt on acceptable terms or at all. Any of the foregoing could materially and adversely affect our business, financial condition and results of operations.

***Our Term Debt is expected to impose certain restrictions on our business.***

The Term Debt is expected to contain a number of covenants imposing certain restrictions on our business. These restrictions may affect our ability to operate our business and to take advantage of potential business opportunities as they arise. The restrictions placed on us include limitations on our ability to:

- incur additional indebtedness and issue preferred or redeemable shares;
- incur or create liens;
- consolidate, merge or transfer all or substantially all of our assets;
- make investments, acquisitions, loans or advances or guarantee indebtedness;
- engage in sale and lease back transactions;
- pay dividends or make other distributions on, redeem or repurchase shares or make other restricted payments; and
- engage in transactions with affiliates.

The foregoing restrictions could limit our ability to plan for, or react to, changes in market conditions or our capital needs. We do not know whether we will be granted waivers under, or amendments to, the Term Debt if for any reason we are unable to meet these requirements, or whether we will be able to refinance our indebtedness on terms acceptable to us, or at all.

The breach of any of these covenants or restrictions could result in a default under the Term Debt. In addition, the Term Debt contains cross-default provisions that could result in an acceleration of amounts outstanding under the Term Debt if certain events of default occur under any of our material debt instruments. If we are unable to repay these amounts, lenders having secured obligations, including the lenders under the Term Debt, could proceed against the collateral securing that debt. Any of the foregoing would have a material adverse effect on our business, financial condition, and results of operations.

***Servicing the debt incurred under the Term Debt will require a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.***

Our ability to make scheduled payments of the principal of, to pay interest on, and to refinance our debt, depends on our future performance, which is subject to economic, financial, competitive, and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to satisfy our obligations under the Term Debt and any future indebtedness we may incur and to make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as reducing or delaying investments or capital expenditures, selling assets, refinancing or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our outstanding indebtedness or future indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, when needed, which could result in a default on our indebtedness.

***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.***

We may pursue acquisitions of other companies or new or complementary products, technologies and businesses in the future. Acquisitions 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 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 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 these businesses may never develop, and we may incur losses related to these investments. In addition, we have written down the carrying value of these investments in the past and may be required to write down the carrying value of these investments in the future to reflect other-than-temporary declines in their value, which could have a material adverse effect on our business, financial position and results of operations.

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

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 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 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 customer and 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 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, 2015, sales to Hewlett-Packard accounted for 14% of our total revenues, while sales to our top ten customers accounted for 57% of our revenues. For the year ended December 31, 2014, sales to Hewlett-Packard, Dell and IBM accounted for 11%, 11% and 10%, respectively, of our total revenues, while sales to our top ten customers accounted for 62% 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 Intel Corporation. For Ethernet technology, the leading IC vendors include Intel and Broadcom Limited. The leading IC vendors that provide Ethernet and Fibre Channel products to the market include Marvell Technology Group, Broadcom Limited and QLogic Corporation. The leading Ethernet switch system vendors include Cisco, Brocade, Juniper and Arista. In HPC, EDC, Web 2.0, cloud and financial services markets, products based on the InfiniBand standard primarily compete with the industry-standard Ethernet and Fibre Channel interconnect technologies as well as proprietary interconnect technologies, such as Intel's Omni-Path. In embedded markets, we typically compete with interconnect technologies that are developed in-house by system OEM vendors and created for specific applications.

Some of our customers are also IC 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.

There has been a trend toward industry consolidation in our markets for several years, as companies attempt to improve the leverage of growing research and development costs, strengthen or hold their market positions in an evolving industry or are unable to continue operations. Companies that are strategic alliance partners in some areas of our business may acquire or form alliances with our competitors, thereby reducing their business with us. We believe that industry consolidation may result in stronger competitors that are better able to compete as sole-source vendors for customers. This could lead to more variability in our operating results and could have a material adverse effect on our business, operating results and financial condition.

***Winning business is subject to lengthy, competitive selection processes that often require us to incur significant expense, from which we may ultimately generate no revenues***

Our business is dependent on us winning competitive bid selection processes, known as "design wins," to develop semiconductors for use in our customers' products. These selection processes are typically lengthy and can require us to incur significant design and development expenditures and to dedicate scarce engineering resources in pursuit of a single customer opportunity. We may not win the competitive selection process and may never generate any revenue despite incurring such expenditures.

Furthermore, winning a product design does not guarantee sales to a customer. We may experience delays in generating revenue as a result of the lengthy development cycle typically required, or we may not realize as much revenue as anticipated. In addition, a delay or cancellation of a customer's plans could materially and adversely affect our financial results, as we may have incurred significant expense in the design process and generated little or no revenue. Customers could choose at any time to stop using our products or may fail to successfully market and sell their products, which could reduce the demand for our products and cause us to hold excess inventory, thereby materially adversely affecting our business, financial condition and results of operations.

The timing of design wins is unpredictable and implementing production for a major design win, or multiple design wins occurring at or around the same time, may strain our resources and those of our contract manufacturers. In such event we may be forced to dedicate significant additional resources and incur additional, unanticipated costs and expenses, which may have a material adverse effect on our results of operations.

Finally, some customers will not purchase any products from us, other than limited numbers of evaluation units, until they qualify the products and/or the manufacturing line for the products. The qualification process can take significant time and resources and we may not always be able to satisfy the qualification requirements of these customers. Delays in qualification or

failure to qualify our products may cause a customer to discontinue use of our products and result in a significant loss of revenue

***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 our next generation of products in order to meet the demands of our 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.

We may be unable to successfully develop additional next generation products, new products or product enhancements. There is a risk that these developments or enhancement will be late, have technical problems, fail to meet customer or market specifications or otherwise be uncompetitive with other products using alternative technologies that offer comparable performance and functionality. Our next generation products or any new products or product enhancements may not be accepted in new or existing markets. Our business, financial condition and results of operations may be adversely affected if we fail 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 use TSMC to manufacture and ASE to assemble, package and production test our IC products. We use Flextronics International Ltd., Sanmina-SCI Corporation, A.L Electronics Engineering, Production Services Ltd and USI 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 use several sub-contractors to manufacture our cables. 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.

In addition, the consolidation of foundry subcontractors, as well as the increasing capital intensity and complexity associated with fabrication in smaller process geometries has limited our diversity of suppliers and increased our risk of a "single point of failure." Specifically, as we move to smaller geometries, we have become increasingly reliant on IC manufacturers. The lack of diversity of suppliers could also drive increased prices and adversely affect our results of operations, including our product gross margins.

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 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 our 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;
- changes in the relative sales mix of our products;
- decreases in the overall average selling prices of our products;
- changes in the cost of our 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.

***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, trademark 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, trademark 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 as we have patent applications pending with respect to certain products, while we have not been able to obtain, or choose not to seek, patent protection for other products. 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. Furthermore, any issued patents may be challenged, invalidated or declared unenforceable. Whether or not these patents are issued, the applications may become publicly available and the proprietary information disclosed in the applications will become available to others. The lives of acquired patents may also be of a shorter term depending upon their acquisition dates and the issue dates. The term of any issued patent in the United States and Israel is typically 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, financial condition and results of operations. 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. In such cases, our lack of intellectual property rights may have a material adverse impact on our business, financial condition and results of operations.

***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. From time to time, we receive notices from competitors and other third parties that claim we have infringed upon, misappropriated or misused other parties' proprietary rights. We may also be required to indemnify some customers and strategic partners under our agreements if a third party alleges or if a court finds that our products or activities have infringed upon, misappropriated or misused another party's proprietary rights. We have received requests from certain customers and strategic partners to include increasingly broad indemnification provisions in our agreements with them. Additionally, our products may contain technology provided to us by other parties such as contractors, suppliers or customers. We may have little or no ability to determine in advance whether such technology infringes upon the intellectual property rights of a third party. Our contractors, suppliers and licensors may not be required to indemnify us in the event that a claim of infringement is asserted against us, or they may be required to indemnify us only up to a maximum amount, above which we would be responsible for any further costs or damages.

Questions of infringement in the markets we serve involve highly technical and subjective analyses. We are involved in intellectual property litigation today and 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 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 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 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 CEO and other senior executives. We do not have long-term employment contracts with our president and CEO, CFO 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. 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 and result in the dilution of our holders of our ordinary shares. 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 and strengthen our sales and marketing and general and administrative efforts. To successfully manage our growth, we believe we must effectively:

- manage and enhance our relationships with customers, distributors, suppliers, end users and other third parties;
- implement additional, and enhance existing, administrative, financial and operations systems, procedures and controls;
- address capacity shortages;
- expand and upgrade our technological capabilities;
- manage the challenges of having U.S., Israeli and other foreign operations; and
- hire, train, integrate and manage additional qualified engineers for research and development activities as well as additional personnel to strengthen our sales and marketing, financial and IT functions.

Managing our growth 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, in which case our business, financial conditions and results of operations may be adversely affected.

***We are subject to risks associated with our distributors' product inventories and product sell-through.***

We sell many of our products to customers through distributors who maintain their own inventory of our products for sale to dealers and end customers. We limit distributor return rights and we allow limited price adjustments on sales to distributors. Price adjustments may be effected by way of credits for future product or by cash payments to the distributor, either in arrears or in advance, using estimates based on historical transactions. We recognize reserves for distributor rights related to these limited stock returns and price adjustments. We recognize revenues for sales to distributors upon sell through by the distributors, net of estimated provisions for these stock return and price adjustment programs. We have extended these programs to certain distributors in the United States, Asia and Europe and may extend them on a selective basis to some of our other distributors in these geographies. The reserves recognized for these programs are based on significant judgments and estimates, using historical experience rates, inventory levels in distribution, current trends and other factors, and there could be significant differences between actual amounts and our estimates.

If our distributors are unable to sell an adequate amount of their inventory of our products in a given quarter to dealers and end customers or if they decide to decrease their inventories for any reason, such as adverse global economic conditions or a downturn in technology spending, our sales to these distributors and our revenues may decline. We also face the risk that our distributors may purchase, or for other reasons accumulate, inventory levels of our products in any particular quarter in excess of future anticipated sales to end customers. If such sales do not occur in the time frame anticipated by these distributors for any reason, these distributors may substantially decrease the amount of product they order from us in subsequent periods until their inventory levels realign with end-customer demand, which would harm our business and could adversely affect our revenues in such subsequent periods. Our reserve estimates associated with products stocked by our distributors are based largely on reports that our distributors provide to us on a weekly or monthly basis. To date, we believe this resale and channel inventory data has been generally accurate. To the extent that this data are inaccurate or not received in a timely manner, we may not be able to make reserve estimates for future periods accurately or at all.

We do not always have a direct relationship with the end customers of our products sold through distributors. As a result, our products may be used in applications for which they were not necessarily designed or tested, and they may not perform as anticipated in such applications. In such event, failure of even a small number of parts could result in significant liabilities to us, damage our reputation and harm our business and results of operations.

***Certain of our customers and suppliers require us to comply with their codes of conduct, which may include certain restrictions that may substantially increase our cost of doing business as well as have an adverse effect on our operating efficiencies, operating results and financial condition.***

Certain of our customers and suppliers require us to agree to comply with the Electronic Industry Code of Conduct ("EICC") or their own codes of conduct, which may include detailed provisions on labor, human rights, health and safety, environment, corporate ethics and management systems. Certain of these provisions are not requirements under the laws of the countries in which we operate and may be burdensome to comply with on a regular basis. Moreover, new provisions may be

added or material changes may be made to any these codes of conduct, and we may have to promptly implement such new provisions or changes, which may substantially further increase the cost of our business, be burdensome to implement and adversely affect our operational efficiencies and operating results. If we violate any such codes of conduct, we may lose further business with the customer or supplier and, in addition, we may be subject to fines from the customer or supplier. While we believe that we are currently in compliance with our customers and suppliers' codes of conduct, there can be no assurance that, from time to time, if any one of our customers and suppliers audits our compliance with such code of conduct, we would be found to be in full compliance. A loss of business from these customers or suppliers could have a material adverse effect on our business, operating results and financial condition.

***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, delays of our product shipments and prevent us from recognizing the benefits of new technologies we develop.***

Our products may contain defects and errors. 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. Our products are complex and our quality control tests and procedures may fail to detect any such defects or errors. 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. As a result, defects in our products could have an adverse effect on our business, financial condition and results of operations.

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 a limited number of third parties to manufacture our products. Our ability to offer new products depends on our manufacturers' ability to implement our revised product specifications, which is costly, time-consuming and complex.

***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, or by changes in the valuation of our deferred tax assets and liabilities. Our effective income tax rates are also affected by intercompany transactions for sales, services, funding and 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 or new information is discovered in the course of our tax return preparation process, we may not achieve our expected effective tax rate. Additionally, our effective tax rate may be affected by the tax effects of acquisitions, restructuring activities, 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 business, 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, ("GAAP"), in the United States. These accounting principles are subject to interpretation by the Financial Accounting Standards Board, ("FASB"), the American Institute of Certified Public Accountants, ("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.

***We may be subject to disruptions or failures in information technology systems and network infrastructures, including theft, misuse of our electronic data or cyber-attacks 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, attempts by others that try to gain unauthorized access through the Internet to our information technology systems, 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. These attempts may be the result of industrial or other espionage, or actions by hackers seeking to harm us, our products, or our end users. 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, and in some cases we may be unaware of an incident or its magnitude and effects.

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. Any such loss of data by our third-party service providers, or theft, unauthorized use or publication of our trade secrets and other confidential business information as a result of such cyber threats, could adversely affect our competitive position and reduce marketplace acceptance of our products; the value of our investment in research and development and marketing could be reduced; and third parties may assert against us or our customers claims related to resulting losses of confidential or proprietary information or end-user data, or system reliability. Any such event could have a material adverse effect on our business, results of operations, 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 or tsunami, could have a material adverse impact on our business, operating results and financial condition. 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.

***We must comply with a variety of existing and future laws and regulations that could impose substantial costs on us and may adversely affect our business.***

We are subject to various state, federal and international laws and regulations governing the environment, including restricting the presence of certain substances in electronic products and making producers of those products financially responsible for the collection, treatment, recycling and disposal of those products. In addition, we are also subject to various industry requirements restricting the presence of certain substances in electronic products. Although our management systems are designed to maintain compliance, we cannot assure you that we have been or will be at all times in complete compliance with such laws and regulations. If we violate or fail to comply with any of them, a range of consequences could result, including fines, import/export restrictions, sales limitations, criminal and civil liabilities or other sanctions.

We and our customers are also subject to various import and export laws and regulations. Government export regulations apply to the encryption or other features contained in some of our products. If we fail to continue to receive licenses or otherwise comply with these regulations, we may be unable to manufacture the affected products or ship these products to certain customers, or we may incur penalties or fines.

There have also been regulations to improve transparency and accountability concerning the supply of minerals coming from the conflict zones in and around the Democratic Republic of Congo. The Dodd-Frank Wall Street Reform and Consumer Protection Act includes disclosure requirements regarding the use of conflict minerals mined from the Democratic Republic of Congo and adjoining countries and procedures regarding a manufacturer's efforts to prevent the sourcing of such conflict minerals. The implementation of these requirements could affect the sourcing and availability of minerals used in the manufacture of semiconductor devices.

As a result, this could limit the pool of suppliers who can provide us DRC "conflict free" components and parts, and we may not be able to obtain DRC "conflict free" products or supplies in sufficient quantities for our operations. Also, because our supply chain is complex, we may face reputational challenges with our customers, shareholders and other stakeholders if we are unable to sufficiently verify the origins for the minerals used in our products.

The costs of complying with these laws could adversely affect our current or future business. In addition, future regulations may become more stringent or costly and our compliance costs and potential liabilities could increase, which may harm our current or future business.

***If we fail to maintain an effective system of internal controls, we may not be able to report accurately our financial results or prevent material 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 material 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. Furthermore, as we grow our business or acquire businesses, our internal controls may become more complex and we may require significantly more resources to ensure they remain effective. Failure to implement required new or improved controls, or difficulties encountered in their implementation, either in our existing business or in businesses that we may acquire could harm our operating results or cause us to fail to meet our reporting obligations. In the event that our CEO, CFO 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.

Remediation of a material weakness could require us to incur significant expense and if we fail to remedy any material weakness, our financial statements may be inaccurate, our ability to report our financial results on a timely and accurate basis may be adversely affected, our access to the capital markets may be restricted, the trading price of our ordinary shares may decline and we could become subject to a variety of administrative sanctions, including the suspension or delisting of our ordinary shares from The NASDAQ Global Select Market. We may also be required to restate our financial statements from prior periods.

### **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. 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, Iraq, Syria and Libya. 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.

The security and political conditions may have an 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. 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 as a result of such events could have a material adverse effect on our business, financial condition and results of operations.

***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 51% of our revenues in the years ended December 31, 2015, 2014 and 2013, 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;
- restrictive governmental actions, such as restrictions on the transfer or repatriation of funds and foreign investments;
- foreign currency exchange risks;
- fluctuations in freight rates and transportation disruptions;
- political and economic instability;
- variance and unexpected changes in local laws and regulations
- natural disasters and public health emergencies; and
- trade and travel restrictions.

A significant legal risk associated with conducting business internationally is compliance with various and differing anti-corruption and anti-bribery laws and regulations of the countries in which we do business, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and similar laws in China. In addition, the anti-corruption laws in various countries are constantly evolving and may, in some cases, conflict with each other. Our Code of Ethics and Business Conduct and other policies prohibit us and our employees from offering or giving anything of value to a government official for the purpose of obtaining or retaining business and from engaging in unethical business practices, including kick-backs to or from purely private parties. However, there can be no assurance that all of our employees or agents will refrain from acting in violation of such laws and our related anti-corruption policies and procedures. Any violations of these anti-corruption or trade control laws, or even allegations of such violations, can lead to an investigation, which could disrupt our operations, involve significant management distraction, and lead to significant costs and expenses, including legal fees. If we, or our employees or agents acting on our behalf, are found to have engaged in practices that violate these laws and regulations, we could suffer severe fines and penalties, profit disgorgement, injunctions on future conduct, securities litigation, and other consequences that may have a



material adverse effect on our business, financial condition and results of operations. In addition, our reputation, sales activities or stock price could be adversely affected if we become the subject of any negative publicity related to actual or potential violations of anti-corruption, anti-bribery, or trade control laws and regulations.

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 three of our directors, one of whom 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. 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.

***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.

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.

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 ("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. 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" and "Beneficiary Enterprise" status by the Investment Center in the Israeli Ministry of Economy (formerly the 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, limiting manufacturing outside of Israel 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" and "Beneficiary 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 Israel, for example, by acquisitions, our increased activities may not be eligible for inclusion in Israeli tax benefit programs.

If we elect to distribute dividends out of income derived from "Approved Enterprise" operations during the tax exemption period, we will be subject to tax on the gross amount distributed. The tax rate will be the rate which would have been applicable had we not been granted the beneficial status. This rate is generally between 10% and the corporate tax rate in Israel, depending on the percentage of our shares held by foreign shareholders. The dividend recipient is subject to withholding tax at the source at the reduced rate applicable to dividends from Approved Enterprises, which is 15% if the dividend is distributed during the tax exemption period (subject to the applicable double tax treaty) or within 12 years after the period. This 12 year limitation does not apply to foreign investment companies. These dividend tax rules may also apply to our acquisitions outside Israel if they are made with cash from tax benefited income.

***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 Israeli National Authority for Technological Innovation, previously known as the Office of the Chief Scientist of Israel's Ministry of Economy (the "OCS"), for the financing of a portion of our research and development expenditures in Israel. When know-how is developed using or in connection with OCS grants, the Encouragement of Industrial Research and Development Law 5744-1984, or the R&D Law, as well as the regulations, the OCS guidelines and 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, inter alia, the consideration for such know-how paid to us in the transaction in which the technology is transferred. In general, transfer fees are no less than the funding received plus interest less the royalties already paid for the transferred know-how. In addition, any decrease of the percentage of manufacturing performed in Israel, as originally declared in the application to the OCS, requires us to obtain the approval of the OCS and may result in increased amounts to be paid to the OCS or tax authorities. These restrictions may impair our ability to enter into agreements for those products or technologies without the approval of the OCS or tax authorities. We cannot be certain that any approval of the OCS or tax authorities 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 or tax authorities, we may be required to refund any payments previously received, together with interest and penalties as well as tax benefits. Also, failure to meet the restrictions concerning transfer of know-how outside of Israel may trigger criminal liability.

***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 2015, our shares traded as low as \$32.24 per share and as high as \$52.77 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 competitors, our customers or rumors from sources other than our company related to acquisitions, new products, significant contracts, commercial relationships, capital commitments or changes in the competitive landscape;
- 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;
- whether our operating results meet our guidance or the expectations of investors or securities analysts;
- continuing international conflicts and acts of terrorism; and
- changes in accounting rules.

*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 may also have certain 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 or debt financings or similar arrangements in the future, including the issuance of convertible 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, 2015, based on information filed with the SEC or reported to us, Oracle Corporation and Scopia Capital Management, LLC beneficially owned an aggregate of approximately 15% of our outstanding ordinary shares, and taken together with our executive officers and directors and their affiliates, beneficially owned an aggregate of approximately 20% 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.

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

- no cumulative voting;
- a requirement for any merger involving the Company shall require the approval of the shareholders of at least a majority of the voting power of the Company;
- a requirement for the approval of at least 75% of the voting power represented at the general meeting of the shareholders for the removal of any director (not including external directors) from office, and election of any director instead of the director so removed;
- 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.

#### **ITEM 2— PROPERTIES**

As of December 31, 2015, our major facilities consisted of:

	<b>Israel</b>	<b>United States</b>	<b>Other</b>	<b>Total</b>
Leased facilities ( <i>in thousands of square feet</i> )	807	110	49	966

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 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**

See Note 9, "Commitments and Contingencies—Legal proceedings" of the Notes to the Consolidated Financial Statements, included in Part IV, Item 15 of this report, for a full description of legal proceedings and related contingencies and their effects on our consolidated financial position, results of operations and cash flows.

We may, from time to time, become a party to various other 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.

## **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.

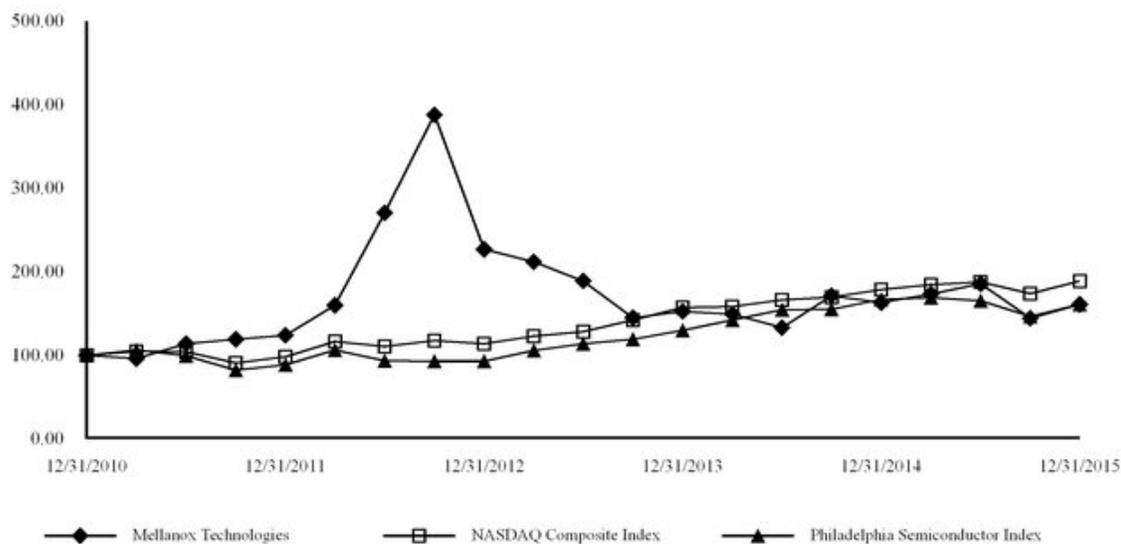
The following table summarizes the high and low sales prices for our ordinary shares as reported by The NASDAQ Global Select Market.

	<u>High</u>	<u>Low</u>
<b>2015</b>		
First quarter	\$ 48.92	\$ 42.37
Second quarter	\$ 52.77	\$ 44.28
Third quarter	\$ 49.59	\$ 32.24
Fourth quarter	\$ 48.14	\$ 37.05
<b>2014</b>		
First quarter	\$ 46.04	\$ 33.07
Second quarter	\$ 40.80	\$ 30.58
Third quarter	\$ 45.15	\$ 33.33
Fourth quarter	\$ 46.96	\$ 39.21

As of February 22, 2016, we had approximately 219 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.

### Share Performance Graph

The graph below compares the five-year 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 December 31, 2010 and ends on December 31, 2015, the end date of our last fiscal year. The graph assumes an investment of \$100 on December 31, 2010, and the reinvestment of any dividends. No cash dividends have been declared or paid on our ordinary shares during such period. Shareholder returns over the indicated periods should not be considered indicative of future share prices or shareholder returns.



	12/31/2010 *	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
Mellanox Technologies	100.00	124.15	226.90	152.73	163.28	161.02
NASDAQ Composite Index	100.00	98.20	113.82	157.44	178.53	188.75
Philadelphia Semiconductor Index	100.00	88.49	93.26	129.92	166.79	161.11

\* \$100 invested on December 31, 2010 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 (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 10, "Share Incentive Plans" included in Part IV, Item 15 of this report.

### Recent Sales of Unregistered Securities

None.

**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, 2013, 2012, and 2011 and our consolidated statements of operations data for the years ended December 31, 2012 and 2011, 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, 2015, as well as the consolidated balance sheet data as of December 31, 2015 and 2014, 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.

	Year ended December 31,				
	2015	2014	2013 (1)	2012	2011 (2)
(In thousands, except per share data)					
<b>Consolidated Statement of Operations Data:</b>					
Total revenues	\$ 658,140	\$ 463,649	\$ 390,436	\$ 500,275	\$ 259,251
Cost of revenues	189,209	148,672	134,282	157,736	91,988
Gross profits	468,931	314,977	256,154	342,539	167,263
Operating expenses:					
Research and development	252,175	208,877	169,382	138,310	92,283
Sales and marketing	97,438	76,860	70,544	60,894	40,294
General and administrative	44,212	36,431	37,046	24,456	21,736
Total operating expenses	393,825	322,168	276,972	223,660	154,313
Income (loss) from operations	75,106	(7,191)	(20,818)	118,879	12,950
Other income (loss), net	(524)	1,449	1,228	1,259	759
Income (loss) before taxes on income	74,582	(5,742)	(19,590)	120,138	13,709
Benefit from (provision for) taxes on income	18,312	(18,267)	(3,752)	(8,187)	(3,375)
Net income (loss)	\$ 92,894	\$ (24,009)	\$ (23,342)	\$ 111,951	\$ 10,334
Net income (loss) per share—basic	\$ 2.00	\$ (0.54)	\$ (0.54)	\$ 2.71	\$ 0.29
Net income (loss) per share—diluted	\$ 1.94	\$ (0.54)	\$ (0.54)	\$ 2.55	\$ 0.27
Shares used to compute net income (loss) per share	46,365	44,831	43,421	41,308	36,263
Shares used to compute diluted net income (loss) per share	47,778	44,831	43,421	43,901	38,562

	December 31,				
	2015	2014 (3)	2013 (1)(3)	2012 (3)	2011 (2)(3)
(In thousands)					
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 263,199	\$ 51,326	\$ 63,164	\$ 117,054	\$ 181,258
Short-term investments	247,314	334,038	263,528	302,593	52,373
Working capital	540,108	396,591	344,825	429,591	251,148
Long-term assets	376,144	348,982	363,939	234,533	212,530
Total assets	\$ 1,053,382	\$ 863,218	\$ 806,826	\$ 769,330	\$ 530,030
Short-term liabilities	137,130	117,645	98,062	105,206	66,352
Long-term liabilities	49,571	43,821	41,953	35,004	20,590
Total liabilities	\$ 186,701	\$ 161,466	\$ 140,015	\$ 140,210	\$ 86,942
Total shareholders' equity	\$ 866,681	\$ 701,752	\$ 666,811	\$ 629,120	\$ 443,088

(1) On July 1, 2013, we completed our acquisition of a privately held company, IPtronics A/S, and on August 15, 2013, we completed our acquisition of a privately held company, Kotura, Inc. IPtronics's and Kotura's results of operations and estimated fair value of assets acquired and liabilities assumed were included in our consolidated financial statements beginning as of their respective acquisition dates.

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

(3) In November 2015, the Financial Accounting Standards Board issued guidance requiring current deferred tax assets, current deferred tax liabilities and related current valuation allowances to be reclassified as non-current. As a result of adoption of this guidance, we made the following adjustments to selected consolidated financial data:

	Year ended December 31,			
	2014	2013	2012	2011
(in thousands)				
Working capital decrease	(2,271)	(7,336)	(3,813)	(1,126)
Long-term assets increase	2,271	7,336	3,813	1,126

For more information on the adoption of this guidance, see Note 1-The Company and Summary of Significant Accounting Policies in the notes to the audited consolidated financial statements, included in Part IV, Item 15 of this report.

## 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 designs, manufactures and sells high-performance interconnect products and solutions primarily based on the InfiniBand and Ethernet standards. Our products facilitate efficient data transmission between servers, storage systems, communications infrastructure equipment and other embedded systems. We operate our business globally and offer products to customers at various levels of integration. The products we offer include integrated circuits ("ICs"), adapter cards, switch systems, cables, modules, software, services and accessories 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

("HPC"), Web 2.0, storage, financial services, enterprise data center ("EDC") and cloud. These solutions increase performance, application productivity and improve return on investment. Through the successful development and implementation of multiple generations of our products, we have established significant expertise and competitive advantages.

We are one of the pioneers of InfiniBand, an industry-standard architecture for high-performance interconnects. We believe InfiniBand interconnect solutions deliver industry-leading performance, efficiency and scalability for 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 25/50/100Gb/s Ethernet adapters to the market, and the only end-to-end 25, 40, 50 and 100Gb/s Ethernet supplier on the market today, which provides us with the opportunity to gain additional share in the Ethernet market as users upgrade from one or 10Gb/s directly to 25/40/50 or 100Gb/s.

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 server vendors. We supply our products to leading storage and communications infrastructure equipment vendors. Additionally, our products are used as embedded solutions.

Our revenues for the years ended December 31, 2015, 2014 and 2013 were \$658 million, \$464 million, and \$390 million, respectively. The year-over-year revenue increase in 2015 from 2014 was primarily due to higher sales of InfiniBand products into the HPC and the storage markets, as well as increased sales of our 10Gb/s and 40Gb/s Ethernet products into Web 2.0 and cloud markets. 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 ("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.

On February 23, 2016 we completed the acquisition of EZchip for approximately \$811.0 million. EZchip is a public company formed under the laws of the State of Israel specializing in network-processing semiconductors. The EZchip acquisition is a step in our strategy to become the leading broad-line supplier of intelligent interconnect solutions for software-defined data centers. The addition of EZchip's products and expertise in security, deep packet inspection, video, and storage processing enhances our leadership position, and ability to deliver complete end-to-end, intelligent 10, 25, 40, 50, and 100Gb/s interconnect and processing solutions for advanced data center and edge platforms. The combined company will have diverse and robust solutions to enable customers to meet the growing demands of data-intensive applications used in high-performance computing, Web 2.0, cloud, secure data center, enterprise, telecom, database, financial services, and storage environments. We financed the acquisition with cash on hand, and with \$280 million in term debt.

*Revenues.* We derive revenues from sales of our ICs, boards, switch systems, cables, modules, software, accessories and other product groups. Our products have broad adoption with multiple end customers across HPC, Web 2.0, cloud, EDC, financial services and storage markets; however, these markets are mainly served by leading server, storage and communications infrastructure OEMs. Therefore, we have derived a substantial portion of our revenues from a relatively small number of OEM customers. Sales to our top ten customers represented 57%, 62% and 67% of our total revenues for the years ended December 31, 2015, 2014 and 2013, respectively. Sales to customers representing 10% or more of revenues accounted for 14%, 32% and 30% of our total revenues for the years ended December 31, 2015, 2014 and 2013, respectively. The loss of one or more of our principal customers, the reduction or deferral of purchases, or changes in the mix of our products ordered by any 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.

*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 products, royalties due to third parties, warranty costs, excess and obsolete inventory costs, depreciation and amortization, 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 adapter 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.

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 lower percentage of revenue deriving from sales of ICs and boards, which generally yield higher gross margins than sales of switches and cables. 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, amortization of intangibles, allocable facilities related and administrative 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 research and development expenses will increase in future periods based on an increase in personnel to support our product development activities and the introduction of new products.

*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 third party sales representatives, advertising, trade shows and promotions, travel, amortization of intangibles, and allocable facilities related and administrative 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, professional service 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 and professional services required 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 Economy (formerly, the Ministry of Industry, Trade and Labor) and "Beneficiary Enterprise" status by the Israeli Income Tax Authority, which makes us eligible for tax benefits under the Israeli Law for Encouragement of Capital Investments, 1959. Under the terms of the Beneficiary 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 fiscal year 2011. Income that is attributable to our operations in Tel Aviv, Israel is subject to a reduced income tax rate (generally between 10% and the current corporate tax rate, depending on the percentage of foreign investment in the Company) for five to eight years beginning fiscal year 2013. The tax holiday for the Company's Yokneam operations will expire in 2021 and the tax holiday for the Company's Tel-Aviv operations will expire between the years 2017 and 2021. The corporate tax rate was increased to 26.5% in 2014 from 25%. In 2016, the Government of Israel reduced corporate income tax rates from 26.5% to 25% effective January 1, 2016.

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.

### **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, inventory valuation, valuation and impairment of goodwill and acquired intangibles, warranty provision, share-based compensation, contingent liabilities, 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 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 shipment and are not dependent on the subsequent resale of the product. We determine whether collectability 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.

We 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.

### ***Multiple Element Arrangements Excluding Software***

For revenue arrangements that contain multiple deliverables, judgment is required to properly identify the accounting units of the transactions and to determine the manner in which revenue should be allocated among the accounting units. Moreover, judgment is used in interpreting the commercial terms and determining when all criteria of revenue recognition have been met for each deliverable in order for revenue recognition to occur in the appropriate accounting period. While changes in the allocation of the arrangement consideration between the units of accounting will not affect the amount of total revenue recognized for a particular sales arrangement, any material changes in these allocations could impact the timing of revenue recognition, which could affect our results of operations. When we enter into an arrangement that includes multiple elements, the allocation of value to each element is derived based on management's best estimate of selling price when vendor specific evidence or third party evidence is unavailable.

### ***Multiple Element Arrangements Including Software***

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 among the accounting units before revenue recognition criteria are applied. If an arrangement includes undelivered elements that are not essential to the functionality of the delivered elements, we defer revenue for the undelivered elements based on their fair value. The fair value for undelivered software elements is based on vendor specific evidence. If the undelivered elements are essential to the functionality of the delivered elements, no revenue is recognized. The revenues 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.

### ***Distributor Revenue***

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 inventory and point of sale information provided by the distributor. Additionally, we maintain accruals and allowances for price protection and cooperative marketing programs. We classify the costs of cooperative marketing programs based on the identifiable benefit received as either a reduction of revenue or an operating expense.

### ***Deferred Revenue and Income***

We defer revenue and income when advance payments are received from customers before performance obligations have been completed and/or services have been performed. Technical support services and extended warranty revenue is deferred and recognized ratably over the contract period which is typically one to three years.

### ***Shipping and Handling***

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 collectability 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 \$0.6 million and \$0.7 million at December 31, 2015 and 2014, respectively. Our bad debt expense totaled approximately less than \$0.1 million for the years ended December 31, 2015, 2014 and 2013.

### ***Fair value of financial instruments***

Our financial instruments consist of cash, cash equivalents, short-term investments and foreign currency derivative contracts. 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 investments 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 (loss). We charge unrealized losses against net income 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 market conditions and forecasted demand generally over a six to twelve months period. Inventory reserves are not reversed and permanently reduce the cost basis of the affected inventory until it is either sold or scrapped.

### ***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 to five 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.

We incur costs for the fabrication of masks used by our contract manufacturers to manufacture wafers that incorporate our products. We capitalize the costs of fabrication masks that are reasonably expected to be used during production manufacturing. These amounts are included within property and equipment and are generally depreciated over a period of 12 months to cost of revenue. If we do not reasonably expect to use the fabrication mask during production manufacturing, we expense the related mask costs to research and development in the period in which the costs are incurred.

### ***Goodwill and intangible assets***

Goodwill represents the excess of the cost of acquired businesses over the fair market value of their identifiable net assets. 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. "Step one" of the goodwill impairment test requires us to estimate the fair value of the reporting units. "Step two" of the test 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 and 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, 2015, our qualitative assessment of goodwill impairment indicated that goodwill was not impaired.

Intangible assets primarily represent acquired intangible assets including developed technology, customer relationships and in-process research and development, ("IPR&D"). We amortize the finite lived 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 as intangible assets with indefinite lives. 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 impair the related IPR&D asset.

Indefinite-lived intangible assets are tested for impairment annually or more frequently when indicators of impairment exist. We first assess qualitative factors to determine if it is more likely than not that an indefinite-lived intangible asset is impaired and whether it is necessary to perform a quantitative impairment test. The qualitative assessment considers various factors, including reductions in demand, the abandonment of IPR&D projects or significant economic slowdowns in the semiconductor industry and macroeconomic environment. If adverse qualitative trends are identified that could negatively impact the fair value of the asset, then quantitative impairment tests are performed to compare the carrying value of the asset to its undiscounted expected future cash flows. If this test 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, 2015, there were no indicators that impairment existed or assets were not recoverable. Intangible assets with finite lives are tested for impairment in accordance with our policy for long-lived assets.

#### ***Investments in privately-held companies***

As of December 31, 2015 and 2014, we held a total of \$7.7 million and \$10.7 million in investments in privately-held companies.

On April 27, 2015, we were informed that one of the privately-held companies intended to discontinue its operations. As a result, we concluded that our investment of \$3.2 million in this privately-held company was fully impaired and the impairment of this investment was other than temporary. The impairment loss is included in other loss, net, on the audited consolidated statement of operations for the year ended December 31, 2015.

We account for these investments under the cost method, reduced by any impairment write-downs, because we do not have the ability to exercise significant influence over the operating and financial policies of these companies. To determine if an investment is recoverable, we monitor the investments and if facts and circumstances indicate the investment may be impaired, conduct an impairment test. The impairment test considers multiple factors including a review of 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 that are expected to result in warranty claims in excess of our historical rates of return 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 equity awards as of the grant dates. The fair value of restricted share units ("RSUs") is based on the closing market price of our ordinary shares on the date of grant. 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 and the calculation of expected term as well as and the fair value of the underlying ordinary share on the date of grant, among other inputs.

We base our estimate of expected volatility on the historical volatility of our shares. 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 in fiscal year 2014 was approximately 5.77 years. We did not grant options in the 2015 fiscal year.

Share compensation expense is recognized on a straight-line basis over each recipient's requisite service period, which is generally the vesting period. 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 assets 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 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:

	Year ended December 31,					
	2015		2014		2013	
Total revenues	100	%	100	%	100	%
Cost of revenues	(29)		(32)		(34)	
Gross profit	71		68		66	
Operating expenses:						
Research and development	38		45		43	
Sales and marketing	15		16		18	
General and administrative	7		8		10	
Total operating expenses	60		69		71	
Income (loss) from operations	11		(1)		(5)	
Other income, net	—		—		—	
Benefit from (provision for) taxes on income	3		(4)		(1)	
Net income (loss)	14	%	(5)	%	(6)	%

**Comparison of the Year Ended December 31, 2015 to the Year Ended December 31, 2014 and the Year Ended December 31, 2014 to the Year Ended December 31, 2013**

*Revenues.*

The following tables represent our total revenues for the years ended December 31, 2015 and 2014 by product type and interconnect protocol:

	Year Ended December 31,			
	2015	% of Revenues	2014	% of Revenues
	(In thousands)		(In thousands)	
ICs	\$ 92,214	14.0	\$ 70,840	15.3
Boards	265,249	40.3	147,738	31.8
Switch systems	179,977	27.3	147,403	31.8
Cables, accessories and other	120,700	18.4	97,668	21.1
<b>Total Revenue</b>	<b>\$ 658,140</b>	<b>100.0</b>	<b>\$ 463,649</b>	<b>100.0</b>

	Year Ended December 31,			
	2015	% of Revenues	2014	% of Revenues
	(In thousands)		(In thousands)	
<b>InfiniBand:</b>				
EDR	\$ 39,009	5.9	\$ —	—
FDR	347,760	52.8	264,785	57.1
QDR/DDR/SDR	63,745	9.8	72,890	15.7
<b>Total</b>	<b>450,514</b>	<b>68.5</b>	<b>337,675</b>	<b>72.8</b>
Ethernet	155,221	23.6	83,470	18.0
Other	52,405	7.9	42,504	9.2
<b>Total revenue</b>	<b>\$ 658,140</b>	<b>100.0</b>	<b>\$ 463,649</b>	<b>100.0</b>

Revenues were \$658.1 million for the year ended December 31, 2015 compared to \$463.6 million for the year ended December 31, 2014, representing an increase of approximately 42%. The year-over-year revenue increase in 2015 from 2014 was primarily due to higher sales of InfiniBand products, including sales of our FDR products into the HPC and storage market and sales of our 100Gb/s EDR products into the HPC market, and increased sales of our 10Gb/s and 40Gb/s Ethernet products into Web 2.0 and cloud markets. Revenues from InfiniBand EDR and FDR products increased as customers continued transitioning from QDR and lower data rates to the latest generations of products. The increase in Other product revenues was primarily due to higher cable and component sales. The 2015 revenues are not necessarily indicative of future results.

The following tables represent our total revenues for the years ended December 31, 2014 and 2013 by product type and interconnect protocol:

	Year Ended December 31,			
	2014	% of Revenues	2013	% of Revenues
	(In thousands)		(In thousands)	
ICs	\$ 70,840	15.3	\$ 56,817	14.5
Boards	147,738	31.8	119,399	30.6
Switch systems	147,403	31.8	145,184	37.2
Cables, accessories and other	97,668	21.1	69,036	17.7
<b>Total Revenue</b>	<b>\$ 463,649</b>	<b>100.0</b>	<b>\$ 390,436</b>	<b>100.0</b>

	Year Ended December 31,			
	2014	% of Revenues	2013	% of Revenues
	(In thousands)		(In thousands)	
InfiniBand:				
FDR	\$ 264,785	57.1	\$ 200,300	51.3
QDR/DDR/SDR	72,890	15.7	107,995	27.6
Total	337,675	72.8	308,295	78.9
Ethernet	83,470	18.0	52,908	13.6
Other	42,504	9.2	29,233	7.5
Total revenue	\$ 463,649	100.0	\$ 390,436	100.0

Revenues were \$463.6 million for the year ended December 31, 2014 compared to \$390.4 million for the year ended December 31, 2013, representing an increase of approximately 19%. The year-over-year revenue increase was primarily due to higher sales of InfiniBand products into the HPC, storage, and EDC markets. In addition, the growth in revenues was attributed to increased sales of our Ethernet products into Web 2.0 and cloud markets. Revenues from InfiniBand FDR products increased as customers continued transitioning from QDR and lower data rates to FDR, the latest generation products.

*Gross Profit and Margin.* Gross profit was \$468.9 million for the year ended December 31, 2015 compared to \$315.0 million for the year ended December 31, 2014, representing an increase of approximately 49%. As a percentage of revenues, gross margin increased to 71.3% in the year ended December 31, 2015 from approximately 67.9% in the year ended December 31, 2014. The gross margin improvement was primarily a result of changes in the product mix toward higher margin IC and Board products as well as higher margins on switch systems and cables. Gross margin for 2015 is not necessarily indicative of future results.

Gross profit was \$315.0 million for the year ended December 31, 2014 compared to \$256.2 million for the year ended December 31, 2013, representing an increase of approximately 23%. As a percentage of revenues, gross margin increased to 67.9% in the year ended December 31, 2014 from approximately 65.6% in the year ended December 31, 2013. The gross margin percentage increase was mainly due to lower warranty expenses of \$7.6 million and lower amortization expenses of \$5.6 million related to intangible assets from the acquisition of Voltaire Ltd.

#### Research and Development.

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

	Year ended December 31,					
	2015	% of Revenues	2014	% of Revenues	2013	% of Revenues
	(In thousands)		(In thousands)		(In thousands)	
Salaries and benefits	\$ 130,255	19.8%	\$ 105,376	22.7%	\$ 84,261	21.6%
Share-based compensation	28,820	4.4%	26,979	5.8%	25,956	6.6%
Development and tape-out costs	36,305	5.5%	28,443	6.2%	21,337	5.5%
Other	56,795	8.6%	48,079	10.4%	37,828	9.6%
Total Research and development	\$ 252,175	38.3%	\$ 208,877	45.1%	\$ 169,382	43.3%

Research and development expenses were \$252.2 million for the year ended December 31, 2015 compared to \$208.9 million for the year ended December 31, 2014, representing an increase of \$43.3 million, or approximately 21%. The increase in salaries and benefits expenses was attributable to headcount additions and higher accrued bonuses under our annual discretionary bonus award program. The increase in development and tape-out costs was attributable to increased equipment expense and material costs as a result of our development activities. The increase in other reflects higher depreciation, professional services expenses and travel costs. We expect that research and development expenses will increase in absolute dollars in future periods as we continue to devote more 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 \$208.9 million for the year ended December 31, 2014 compared to \$169.4 million for the year ended December 31, 2013, representing an increase of \$39.5 million, or approximately 23%, \$14.7 million of which related to the Kotura and IPtronics acquisitions. In particular, 2014 had the entire year of expenses related to these acquisitions compared to approximately one and a half quarters of expenses for Kotura and a half year for IPtronics in 2013. The increase in salaries and

benefits and share-based compensation was primarily attributable to increased expenses related to the Kotura and IPtronics acquisitions. In addition, the increase in salaries and benefits expenses was also attributable to head count additions and higher accrued bonuses under our annual discretionary bonus award program. The increase in development and tape-out costs was attributable to increased tape-out costs, higher equipment expenses and software costs. The increase in other research and development costs was primarily attributable to higher amortization expenses of acquired intangibles, higher professional services expenses, as well as increased facilities and maintenance expenses.

#### *Sales and Marketing.*

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

	Year ended December 31,					
	2015	% of Revenues	2014	% of Revenues	2013	% of Revenues
	(In thousands)		(In thousands)		(In thousands)	
Salaries and benefits	\$ 58,204	8.8%	\$ 43,550	9.4%	\$ 39,252	10.0%
Share-based compensation	10,309	1.6%	9,755	2.1%	9,198	2.4%
Trade shows and promotions	15,996	2.4%	10,033	2.2%	10,456	2.7%
Other	12,929	2.0%	13,522	2.9%	11,638	2.9%
<b>Total Sales and marketing</b>	<b>\$ 97,438</b>	<b>14.8%</b>	<b>\$ 76,860</b>	<b>16.6%</b>	<b>\$ 70,544</b>	<b>18.0%</b>

Sales and marketing expenses were \$97.4 million for the year ended December 31, 2015 compared to \$76.9 million for the year ended December 31, 2014, representing an increase of \$20.6 million, or approximately 27%. The increase in salaries and benefits expenses was primarily related to headcount additions and higher accrued commissions and bonuses under our annual discretionary bonus awards. The increase in trade show and promotion costs was due primarily to higher trade show exhibit costs and advertising expenses, as well as higher equipment expenses and travel costs. The decrease in other primarily reflects a decline in depreciation and amortization expenses associated with acquired intangible assets offset by increases in professional services costs.

Sales and marketing expenses were \$76.9 million for the year ended December 31, 2014 compared to \$70.5 million for the year ended December 31, 2013, representing an increase of approximately 9%, \$1.3 million of which related to the Kotura, and IPtronics acquisitions. In particular, 2014 had the entire year of expenses related to these acquisitions compared to approximately one and a half quarters of expenses for Kotura and a half year for IPtronics in 2013. The increase in salaries and benefits and share-based compensation was primarily attributable to increased expenses related to the Kotura and IPtronics acquisitions. In addition, the increase in salaries and benefits expenses was also attributable to head count additions and higher accrued bonuses under our annual discretionary bonus award program. The decrease in trade show and promotion costs was primarily due to a decrease in professional services expenses. The increase in other sales and marketing costs was primarily attributable to higher amortization expenses of acquired intangible assets, as well as an increase in facilities and maintenance costs.

#### *General and Administrative.*

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

	Year Ended December 31,					
	2015	% of Revenues	2014	% of Revenues	2013	% of Revenues
	(In thousands)		(In thousands)		(In thousands)	
Salaries and benefits	\$ 16,050	2.4%	\$ 12,181	2.7%	\$ 11,617	3.0%
Share-based compensation	9,268	1.4%	8,339	1.8%	8,156	2.0%
Professional services	12,348	1.9%	11,229	2.4%	13,964	3.6%
Other	6,546	1.0%	4,682	1.0%	3,309	0.9%
<b>Total General and administrative</b>	<b>\$ 44,212</b>	<b>6.7%</b>	<b>\$ 36,431</b>	<b>7.9%</b>	<b>\$ 37,046</b>	<b>9.5%</b>

General and administrative expenses were \$44.2 million for the year ended December 31, 2015 compared to \$36.4 million for the year ended December 31, 2014, representing an increase of \$7.8 million, or approximately 21%. The increase in general and administrative expenses was primarily due to an increase in salaries and benefits expenses and higher accrued bonuses under our annual discretionary bonus award program. The increase in professional services expenses was primarily related to acquisition and legal proceedings. The increase in other expenses was primarily related to higher depreciation and office expenses.

General and administrative expenses were \$36.4 million for the year ended December 31, 2014 compared to \$37.0 million for the year ended December 31, 2013, representing a decrease of \$0.6 million, or approximately 2%. The decrease in general and administrative expenses was primarily due to lower professional services expenses of \$2.7 million associated with legal proceedings and acquisitions which was partially offset by \$0.9 million higher facilities and depreciation expenses and \$0.9 million other expenses attributed to the Kotura and IPtronics acquisitions. The increase in salaries and benefits expenses was primarily related to headcount additions and higher accrued bonuses under our annual discretionary bonus award program.

*Share-based Compensation Expense.*

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

	Year ended December 31,		
	2015	2014	2013
	(in thousands)		
Cost of goods sold	\$ 2,366	\$ 2,162	\$ 1,828
Research and development	28,821	26,979	25,956
Sales and marketing	10,309	9,755	9,198
General and administrative	9,268	8,339	8,156
	<u>\$ 50,764</u>	<u>\$ 47,235</u>	<u>\$ 45,138</u>

The amount of unearned share-based compensation currently expected to be expensed from 2016 through 2019 related to unvested share-based payment awards at December 31, 2015 is \$79.6 million. Of this amount, \$35.2 million, \$22.8 million, \$15.9 million, and \$5.7 million and are currently estimated to be recorded in 2016, 2017, 2018 and 2019, respectively. The weighted-average period over which the unearned share-based compensation is expected to be recognized is approximately 2.3 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 primarily consists of interest earned on cash and cash equivalents and short-term investments, impairment loss on investment in a private company and foreign currency exchange gains and losses. Other income (loss), net was \$(0.5) million for the year ended December 31, 2015 compared to \$1.4 million for the year ended December 31, 2014.

On April 27, 2015, we were informed that one of the privately-held companies we have invested in intended to discontinue its operations. As a result, we concluded that our investment of \$3.2 million in this privately-held company was impaired and the impairment of this investment was other than temporary. The impairment loss was included in other income (loss), net, on the audited consolidated statement of operations for the year ended December 31, 2015. This \$3.2 million loss was partially offset by increases in interest income due to higher invested balances and increased yield on investments.

Other income, net was \$1.4 million for the year ended December 31, 2014 compared to \$1.2 million for the year ended December 31, 2013.

*Benefit from (Provision for) Taxes on Income.* Our benefit from income tax expense was \$18.3 million for the year ended December 31, 2015 as compared to a provision for income tax of \$18.3 million for the year ended December 31, 2014. Our effective tax rate was (24.6)% and (318.1)% for 2015 and 2014, respectively. For the year ended December 31, 2015, the difference between the (24.6)% effective tax rate and the 35% federal statutory rate resulted primarily from the reduction of \$22.4 million in a valuation allowance against deferred tax assets in Israeli income tax jurisdictions in the fourth quarter of 2015 as we believe these assets are more likely than not to be realized based upon consideration of the available positive and negative evidence. In reaching this conclusion, objective and verifiable positive evidence related to current and historical cumulative profits in Israeli income tax jurisdictions as well as a forecast of future taxable income outweighed available negative evidence in our consideration of the realizability of the related deferred tax assets. The effective tax rates were also affected by foreign earnings taxed at rates lower than the federal statutory rates which resulted in a reduction of approximately \$31.7 million, and which was partially offset by the accrual of unrecognized tax benefits along with interest and penalties associated with unrecognized tax positions in the amount of \$4.5 million.

Our tax expense was \$18.3 million for the year ended December 31, 2014 as compared to \$3.8 million for the year ended December 31, 2013. Our effective tax rates were (318.1)% and (19.2)% for 2014 and 2013, respectively. The difference between our effective tax rates for the year ended December, 2014 and the 35% federal statutory rate resulted primarily from the establishment of a valuation allowance of \$17.2 million against deferred tax assets in U.S. income tax jurisdictions in the fourth quarter of 2014 as we

believed these assets are not more likely than not to be realized based upon consideration of the available positive and negative evidence. In reaching this conclusion, objective and verifiable negative evidence related to current and historical cumulative losses in US income tax jurisdictions outweighed available positive evidence in our consideration of our ability to realize the related deferred tax assets. The effective tax rate was also affected by the accrual of unrecognized tax benefits along with interest and penalties associated with unrecognized tax positions in the amount of \$5.0 million, partially offset by foreign earnings taxed at rates lower than the federal statutory rates.

The corporate tax rate in Israel was increased to 26.5% in 2014 from 25%. In 2016, the Government of Israel reduced the corporate income tax rates from 26.5% to 25% effective January 1, 2016. The Israeli tax holidays resulted in cash tax savings of \$33.0 million, \$6.9 million, \$6.4 million and \$33.2 million in 2015, 2014, 2013, and 2012 respectively.

## Liquidity and Capital Resources

On September 30, 2015, we entered into a merger agreement with EZchip for a purchase price of approximately \$811.0 million. On February 23, 2016 we completed the acquisition of EZchip and financed the acquisition and related transaction expenses with cash on hand of the combined companies, and with \$280 million in term debt. The Term Debt agreement includes customary liquidity covenants and consists of a variable interest rate senior secured loan for the term of three years at an annualized variable interest rate based on the London Interbank Offered Rate ("LIBOR"). The Term Debt provides for an additional term loan borrowing of up to \$100 million under certain conditions.

Historically, we have financed our operations through a combination of sales of equity securities and cash generated by operations. As of December 31, 2015, our principal source of liquidity consisted of cash and cash equivalents of \$263.2 million and short-term investments of \$247.3 million. After taking into consideration expected increases in operating expenses, the financing of the EZchip acquisition and increases in capital expenditures to support our infrastructure and growth, we expect our current cash and cash equivalents, short-term investments, and our cash flows from operating activities will be sufficient to fund our operations and both our short-term and long-term liquidity requirements arising from interest, principal and commitment fee payments related to the Term Debt.

We are an Israeli company and as of December 31, 2015 our subsidiaries outside of Israel held approximately \$15.2 million in cash and cash equivalents and short term investments.

Our cash position, short-term investments, restricted cash and working capital at December 31, 2015 and December 31, 2014 were as follows:

	Year ended December 31,	
	2015	2014
	(in thousands)	
Cash and cash equivalents	\$ 263,199	\$ 51,326
Short-term investments	247,314	334,038
Restricted cash, current	—	3,604
Total	\$ 510,513	\$ 388,968
Working capital	\$ 540,108	\$ 396,591

Our ratio of current assets to current liabilities increased to 4.9 :1 at December 31, 2015 from 4.4 :1 at December 31, 2014.

### Operating Activities

Net cash provided by our operating activities amounted to \$150.5 million in the year ended December 31, 2015. Net cash provided by operating activities was attributable to net income of \$92.9 million adjusted by net non-cash items of \$69.7 million and partially offset by changes in assets and liabilities of \$12.1 million. Non-cash expenses consisted primarily of \$50.8 million of share-based compensation, net of excess tax benefits, \$41.4 million of depreciation and amortization, and a loss on an equity investment in a private company of \$3.2 million, partially offset by increases in deferred income taxes of \$22.6 million primarily due to the release of a valuation allowance and a gain on investments of \$3.0 million. The \$12.1 million cash outflow from changes in assets and liabilities resulted from increases in accounts receivable of \$19.4 million primarily due to the timing of sales, an increase in inventories of \$24.7 million as a result of our effort to fulfill forecasted sales and an increase in prepaid expenses and other assets of \$2.6 million, partially offset by an increase in accounts payable of \$3.8 million primarily due to the timing of payments and an increase of \$30.9 million in accrued liabilities primarily related to deferred revenue and salaries and benefits expenses.

Net cash provided by our operating activities amounted to \$80.1 million in the year ended December 31, 2014. Net cash provided by operating activities was attributable to net loss of \$24.0 million adjusted by net non-cash items of \$99.8 million and changes in assets and liabilities of \$4.3 million. Non-cash expenses consisted primarily of \$46.9 million of share-based compensation,

net of excess tax benefits, and \$38.7 million for depreciation and amortization, deferred income taxes of \$13.8 million and losses on investments of \$0.4 million. The \$4.3 million cash inflow from changes in assets and liabilities resulted from an increase in accounts payable of \$9.7 million primarily due to the timing of payments, an increase of \$6.5 million in accrued liabilities and decreases in accounts receivable of \$5.4 million primarily due to timing of sales and improved collectability, partially offset by an increase in inventories of \$9.6 million as a result of our effort to fulfill forecasted sales and an increase in prepaid expenses and other assets of \$7.7 million.

### ***Investing Activities***

Net cash provided by investing activities was \$43.6 million in the year ended December 31, 2015. Cash provided by investing activities was primarily attributable to net sales and maturities of short-term investments of \$89.5 million and the release of a restricted cash deposit of \$3.6 million, partially offset by purchases of property and equipment of \$48.6 million.

Net cash used in investing activities was \$107.7 million in the year ended December 31, 2014. Cash used in investing activities was primarily attributable to net purchases of short-term investments of \$71.3 million, purchases of property and equipment of \$29.9 million, and equity investments in private companies of \$5.7 million.

### ***Financing Activities***

Net cash provided by financing activities was \$17.8 million in the year ended December 31, 2015. Cash provided by financing activities was primarily due to proceeds of \$18.9 million from share option exercises and purchases pursuant to our employee share purchase plan partially offset by principal payments on capital lease obligations of \$1.1 million.

Net cash provided by financing activities was \$15.7 million in the year ended December 31, 2014. Cash provided by financing activities was primarily due to proceeds of \$16.8 million from share option exercises and purchases pursuant to our employee share purchase plan, and an excess tax benefit from share-based compensation of \$0.3 million, partially offset by principal payments on capital lease obligations of \$1.4 million.

### **Contractual Obligations**

The following table summarizes our contractual obligations at December 31, 2015 and the effect those obligations are expected to have on our liquidity and cash flow in future periods:

<u>Contractual Obligations:</u>	Total	Payments Due by Period			
		Less Than 1 Year	1 - 3 Years	3 - 5 Years	Beyond 5 Years
		(in thousands)			
Commitments under capital lease	\$ 491	\$ 491	\$ —	\$ —	\$ —
Non-cancelable operating lease commitments	49,230	15,555	21,240	9,367	3,068
Purchase commitments	78,281	74,246	3,855	180	—
Total	\$ 128,002	\$ 90,292	\$ 25,095	\$ 9,547	\$ 3,068

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, 2015, our unrecognized tax benefits totaled \$25.4 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 consolidated financial position, results of operations and cash flows.

## **Off-Balance Sheet Arrangements**

As of December 31, 2015, 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, ("NIS"). We do not enter into derivative transactions for speculative or trading purposes. In fiscal year 2015, we used foreign currency derivative contracts to hedge a portion of operating expenses denominated in NIS. Our derivative instruments are recorded at fair value in assets or liabilities with gains or losses recorded 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. The ineffective portion of a derivative's change in fair value is immediately recognized in other income, net. 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***

On February 23, 2016 we completed the acquisition of EZchip and used \$280 million in debt financing with an annualized variable interest rate based on LIBOR. A hypothetical 1.0% increase in the applicable interest rate would increase the interest expense on our outstanding debt by \$2.8 million for the 12 months following issuance.

Our investments consist of cash and cash equivalents, time deposits, money market funds and interest bearing investments in government debt securities, commercial paper and corporate bonds with an average maturity of 7 months. The primary objective of our investment activities is to preserve principal and ensure liquidity while maximizing income without significantly increasing risk. By policy, we limit the amount of our credit exposure through diversification and restricting our investments to highly rated securities. At the time of purchase, we do not invest more than 4% of the total investment portfolio in individual securities, except U.S. Treasury or agency securities. Highly rated long-term securities are defined as having a minimum Moody's, Standard & Poor's or Fitch rating of A2 or A, respectively. Highly rated short-term securities are defined as having a minimum Moody's, Standard & Poor's or Fitch rating of P-1, A-1 or F-1, 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 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 net income.

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 derivative instruments and natural hedges are generally utilized in this hedging program. We do not enter into derivative instruments 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 strengthening of USD against NIS of 10%, the impact on assets and liabilities denominated in NIS, after taking into account hedges and offsetting positions, would result in a loss before taxes of approximately \$0.5 million at December 31, 2015. There would also be an impact on future operating expenses denominated in currencies other than the U.S. dollar. For the month of December 31, 2015, approximately \$15.9 million of our monthly expenses were denominated in NIS. As of December 31, 2015, we had derivative contracts in place of approximately 385.3 million NIS, or approximately \$98.7 million based upon the exchange rate on that day. The derivative contracts cover a significant portion of 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.

### *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	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	2015	2015	2015	2015	2014	2014	2014	2014
(in thousands, except per share data)								
Total revenues	\$ 176,940	\$ 171,377	\$ 163,148	\$ 146,675	\$ 141,116	\$ 120,708	\$ 102,823	\$ 99,002
Cost of revenues	51,815	49,129	47,178	41,087	41,131	39,377	34,433	33,731
Gross profit	125,125	122,248	115,970	105,588	99,985	81,331	68,390	65,271
Operating expenses:								
Research and development	65,620	65,861	62,576	58,118	56,814	54,220	49,506	48,337
Sales and marketing	26,698	24,816	23,366	22,558	19,995	18,863	18,723	19,279
General and administrative	12,897	10,944	10,670	9,701	9,570	9,185	9,461	8,215
Total operating expenses	105,215	101,621	96,612	90,377	86,379	82,268	77,690	75,831
Income (loss) from operations	19,910	20,627	19,358	15,211	13,606	(937)	(9,300)	(10,560)
Other income (loss), net	592	441	912	(2,469)	497	361	357	234
Income (loss) before taxes on income	20,502	21,068	20,270	12,742	14,103	(576)	(8,943)	(10,326)
Benefit from (provision for) taxes on income	22,696	(1,116)	(1,022)	(2,246)	(18,856)	1,167	76	(654)
Net income (loss)	\$ 43,198	\$ 19,952	\$ 19,248	\$ 10,496	\$ (4,753)	\$ 591	\$ (8,867)	\$ (10,980)
Net income (loss) per share—basic	\$ 0.92	\$ 0.43	\$ 0.42	\$ 0.23	\$ (0.10)	\$ 0.01	\$ (0.20)	\$ (0.25)
Net income (loss) per share—diluted	\$ 0.90	\$ 0.42	\$ 0.40	\$ 0.22	\$ (0.10)	\$ 0.01	\$ (0.20)	\$ (0.25)

## **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 provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act") 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 CEO (principal executive officer) and CFO (principal 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 CEO and CFO, of the effectiveness of our disclosure controls and procedures as of December 31, 2015. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of December 31, 2015 to provide the reasonable assurance described above.

### ***Changes in Internal Control Over Financial Reporting***

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

During the year ended December 31, 2015, we implemented internal control procedures to address the previously identified material weaknesses related to our control environment, risk assessment and monitoring as described in more detail under "Remediation Efforts" below.

### ***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 the CEO and the CFO, we carried out an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2015 using the criteria established in "Internal Control-Integrated Framework" (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2015.

PricewaterhouseCoopers LLP, our independent registered public accounting firm, audited our consolidated financial statements and has issued a report on the effectiveness of our internal control over financial reporting as of December 31, 2015, as stated in their report which appears under Item 8.

### ***Previously Identified Material Weaknesses in Internal Control Over Financial Reporting***

We previously identified and disclosed in our Annual Report on Form 10-K for the period ended December 31, 2014, as well as in our Quarterly Reports on Form 10-Q for each interim period in fiscal 2015, material weaknesses in our internal control over financial reporting relating to the following:

***Control Environment*** - We did not maintain an effective control environment as we lacked sufficient oversight of activities related to our internal control over financial reporting. In addition, we did not maintain a sufficient complement of personnel with an appropriate level of knowledge, experience and training in internal control over financial reporting commensurate with our financial reporting requirements. As a result this contributed to the following material weaknesses in risk assessment and monitoring.

***Risk Assessment*** - We did not appropriately design controls in response to the risk of misstatement. This material weakness contributed to the following control deficiencies, which are considered material weakness:

- We did not design, document and maintain effective controls over our period-end financial reporting processes, including controls over the preparation, analysis and review of certain significant account reconciliations required to assess the appropriateness of account balances at period-end; and controls over the preparation and review of the consolidated interim and annual financial statements, including effective controls related to identifying and accumulating all required supporting information to determine the completeness and accuracy of the consolidated financial statements and disclosures.
- We did not design, document and maintain effective controls with respect to the accounting for revenue and related accounts receivable, including maintaining effective controls to prevent or detect errors in the processing of customer transactions. Specifically, we had insufficient controls related to the review of the accuracy of customer order entry and pricing.
- We did not design, document and maintain effective controls with respect to the accounting for inventory and related cost of sales accounts. Specifically, our controls over perpetual inventory records, which include our cycle count and annual physical inventory programs, were not appropriately designed or executed to validate the existence, completeness and accuracy of physical inventory quantities. In addition, we did not appropriately design controls related to the validation of assumptions used in the calculation of the provision for excess and obsolete inventory, as well as the completeness and accuracy of the underlying data used in the calculation.
- We did not design, document and maintain effective controls over access to the Company's financial applications and data. Specifically, access review controls were not effectively designed to validate that access to certain financial applications and data were adequately restricted, which impacted controls that were dependent on the effective operation of restricted access.

**Monitoring** - We did not design and maintain effective monitoring controls related to the design and operating effectiveness of certain controls involving an inherent level of complexity, subjectivity, and judgment related to the following business processes: revenue and accounts receivable, purchases and payables, period-end financial reporting, goodwill, intangible and finite-lived assets, hedging, income taxes, business combinations, and stock-based compensation. Specifically, we did not maintain sufficient documentation or perform a sufficient review of the control activities due to an insufficient complement of personnel with an appropriate level of experience, training and lines of reporting necessary to monitor control activities to allow for an effective internal control over financial reporting compliance group.

#### **Remediation Efforts**

Our management, with oversight from our audit committee, has implemented the following remediation steps to address the previously disclosed material weaknesses and to improve our internal control over financial reporting:

- Established an internal audit organization, which reports directly to our audit committee, including hiring of a Corporate Internal Audit Director and utilizing external consultants to augment the internal audit organization;
- Performed a comprehensive risk assessment to identify, design, implement, and re-evaluate our control activities related to internal control over financial reporting, including monitoring controls related to the design and operating effectiveness of certain control activities;
- Enhanced and supplemented the finance team by increasing the number of roles, reassigning responsibilities, and hiring additional individuals with an appropriate level of knowledge and experience in internal control over financial reporting commensurate with the financial reporting complexities of the organization;
- Instituted additional training programs that will continue on a regular basis related to internal control over financial reporting for our world-wide finance and accounting personnel;
- Enhanced the tone, communication and overall awareness of the importance of internal control over financial reporting from executive management; and
- Strengthened procedures and set guidelines for documentation of review controls throughout our domestic and international locations for consistency of application;

During the quarter ended September 30, 2015, we substantially completed the comprehensive risk assessment of the design of existing controls and implemented new controls as needed to remediate the previously identified material weaknesses. However, as we had yet to complete the testing and evaluation of the operating effectiveness of controls, the previously disclosed material weaknesses remained unremediated as of the end of the third quarter.

During the quarter ended December 31, 2015, we completed the testing and evaluation of the operating effectiveness of the controls, and concluded that the previously reported material weaknesses have been remediated as of December 31, 2015.

#### **ITEM 9B— OTHER INFORMATION**

None.

### **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, 2015, 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 under the sections titled “Compensation Discussion and Analysis,” “Executive Officers” and “Corporate Governance and Board of Director Matters” 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 under the sections titled “Compensation Discussion and Analysis,” “Executive Officers” and “Corporate Governance and Board of Director Matters” 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 under the sections titled “Security Ownership” and “Corporate Governance and Board of Directors Matters” 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 under the section “Proposal - Approval of the Appointment of Independent Registered Public Accounting Firm and Authorization of Audit Committee Determination of Remuneration” and is incorporated in this report by reference.

## 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:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	58
Consolidated Balance Sheets	59
Consolidated Statements of Operations	60
Consolidated Statements of Comprehensive Income (Loss)	61
Consolidated Statements of Shareholders' Equity	62
Consolidated Statements of Cash Flows	63
Notes to Consolidated Financial Statements	64

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

Schedule II—Consolidated Valuation and Qualifying Accounts	89
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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.*

## INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
2.1	(1) Agreement of Merger, dated as of November 29, 2010, among Mellanox Technologies, Ltd., Mondial Acquisition Corporation Ltd. and Voltaire Ltd.
2.2	(2) Agreement of Merger, dated as of September 30, 2015, among Mellanox Technologies, Ltd., Mondial Europe Sub Ltd. and EZchip Semiconductor Ltd.
2.3	(3) Amendment No. 1 to the Agreement of Merger, dated as of November 17, 2015, among Mellanox Technologies, Ltd., Mondial Europe Sub Ltd. and EZchip Semiconductor Ltd.
3.1	Amended and Restated Articles of Association of Mellanox Technologies, Ltd. (as amended on May 11, 2015).
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) * Mellanox Technologies, Ltd. Global Share Incentive Plan (2006) and forms of agreements and appendices relating thereto.
10.6	(9) * Mellanox Technologies, Ltd. Non-Employee Director Option Grant Policy.
10.7	(10) * Form of Mellanox Technologies, Ltd. Executive Severance Benefits Agreement for U.S. Executives.
10.8	(11) * Form of Mellanox Technologies, Ltd. Executive Severance Benefits Agreement for Israel Executives.
10.9	(12) * Mellanox Technologies, Ltd. Amended and Restated 2006 Employee Share Purchase Plan.
10.10	(13) 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.
10.11	(14) * Mellanox Technologies, Ltd., Global Share Incentive Assumption Plan (2010).
10.12	(15) 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).
10.13	(16) * IPtronics, Inc. 2013 Restricted Stock Unit Plan.
10.14	(17) * Kotura, Inc. Second Amended and Restated 2003 Stock Plan.
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	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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- (1) 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.
  - (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 September 30, 2015.
  - (3) 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 17, 2015.
  - (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 10.10 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on November 14, 2006.
  - (9) 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.
  - (10) 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.
  - (11) 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.
  - (12) Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A (SEC File No. 001-33299) filed on April 19, 2012.
  - (13) 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.
  - (14) 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.
  - (15) 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.
  - (16) Incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 (File No. 333-189720) filed on July 1, 2013.
  - (17) Incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 (File No. 333-190631) filed on August 15, 2013.

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

## 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 comprehensive income (loss), 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, 2015 and December 31, 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 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, 2015, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule 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 Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the 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.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it classifies deferred tax assets and liabilities in 2015.

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 26, 2016

MELLANOX TECHNOLOGIES, LTD.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2015	2014
	(In thousands, except par value)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 263,199	\$ 51,326
Short-term investments	247,314	334,038
Restricted cash	—	3,604
Accounts receivable, net	84,273	64,922
Inventories	62,473	44,470
Other current assets	19,979	15,876
Total current assets	<u>677,238</u>	<u>514,236</u>
Property and equipment, net	100,018	78,827
Severance assets	9,514	9,474
Intangible assets, net	32,154	42,067
Goodwill	200,743	200,743
Deferred taxes and other long-term assets	33,715	17,871
Total assets	<u>\$ 1,053,382</u>	<u>\$ 863,218</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 44,600	\$ 39,811
Accrued liabilities	74,296	61,974
Deferred revenue	17,743	14,758
Capital lease liabilities, current	491	1,102
Total current liabilities	<u>137,130</u>	<u>117,645</u>
Accrued severance	12,464	11,850
Deferred revenue	12,439	8,942
Capital lease liabilities	—	494
Other long-term liabilities	24,668	22,535
Total liabilities	<u>186,701</u>	<u>161,466</u>
Commitments and Contingencies (Note 9)		
Shareholders' equity		
Ordinary shares: NIS 0.0175 par value, 200,000 and 137,143 shares authorized, 47,120 and 45,488 shares issued and outstanding at December 31, 2015 and 2014, respectively	200	192
Additional paid-in capital	684,824	615,148
Accumulated other comprehensive income (loss)	(1,669)	(4,020)
Retained earnings	183,326	90,432
Total shareholders' equity	<u>866,681</u>	<u>701,752</u>
Total liabilities and shareholders' equity	<u>\$ 1,053,382</u>	<u>\$ 863,218</u>

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

MELLANOX TECHNOLOGIES, LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,		
	2015	2014	2013
	(In thousands, except per share data)		
Total revenues	\$ 658,140	\$ 463,649	\$ 390,436
Cost of revenues	189,209	148,672	134,282
Gross profit	468,931	314,977	256,154
Operating expenses:			
Research and development	252,175	208,877	169,382
Sales and marketing	97,438	76,860	70,544
General and administrative	44,212	36,431	37,046
Total operating expenses	393,825	322,168	276,972
Income (loss) from operations	75,106	(7,191)	(20,818)
Other income (loss), net	(524)	1,449	1,228
Income (loss) before taxes on income	74,582	(5,742)	(19,590)
Benefit from (provision for) taxes on income	18,312	(18,267)	(3,752)
Net income (loss)	\$ 92,894	\$ (24,009)	\$ (23,342)
Net income (loss) per share — basic	\$ 2.00	\$ (0.54)	\$ (0.54)
Net income (loss) per share — diluted	\$ 1.94	\$ (0.54)	\$ (0.54)
Shares used in computing net income (loss) per share:			
Basic	46,365	44,831	43,421
Diluted	47,778	44,831	43,421

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

**MELLANOX TECHNOLOGIES, LTD.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

	Year ended December 31,		
	2015	2014	2013
	(In thousands)		
Net income (loss)	\$ 92,894	\$ (24,009)	\$ (23,342)
Other comprehensive income (loss), net of tax:			
Change in unrealized gains/losses on available-for-sale securities, net (net of tax effect of \$0, \$138, \$2)	(204)	(368)	142
Change in unrealized gains/losses on derivative contracts, net (net of tax effect of \$97, \$0, \$28)	2,555	(5,042)	(1,546)
Other comprehensive income (loss)	2,351	(5,410)	(1,404)
Total comprehensive income (loss), net of tax	\$ 95,245	\$ (29,419)	\$ (24,746)

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

MELLANOX TECHNOLOGIES, LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Ordinary Shares		Additional Paid-in Capital	Accumulated	Retained Earnings	Total Shareholders' Equity
	Shares	Amount		Other Comprehensive Income (Loss)		
(In thousands, except share data)						
Balance at December 31, 2012	42,596,262	\$ 178	\$ 488,365	\$ 2,794	\$ 137,783	\$ 629,120
Net loss	—	—	—	—	(23,342)	(23,342)
Unrealized gains on available-for-sale securities, net of taxes	—	—	—	142	—	142
Unrealized losses on derivative contracts, net of taxes	—	—	—	(1,546)	—	(1,546)
Share-based compensation	—	—	45,138	—	—	45,138
Exercise of share awards	1,154,672	5	5,299	—	—	5,304
Issuance of shares pursuant to employee share purchase plan	248,486	2	9,331	—	—	9,333
Income tax benefit from share options exercised	—	—	2,662	—	—	2,662
Balance at December 31, 2013	43,999,420	\$ 185	\$ 550,795	\$ 1,390	\$ 114,441	\$ 666,811
Net loss	—	—	—	—	(24,009)	(24,009)
Unrealized losses on available-for-sale securities, net of taxes	—	—	—	(368)	—	(368)
Unrealized losses on derivative contracts, net of taxes	—	—	—	(5,042)	—	(5,042)
Share-based compensation	—	—	47,235	—	—	47,235
Exercise of share awards	1,093,429	5	4,842	—	—	4,847
Issuance of shares pursuant to employee share purchase plan	394,915	2	11,934	—	—	11,936
Income tax benefit from share options exercised	—	—	342	—	—	342
Balance at December 31, 2014	45,487,764	\$ 192	\$ 615,148	\$ (4,020)	\$ 90,432	\$ 701,752
Net income	—	—	—	—	92,894	92,894
Unrealized losses on available-for-sale securities, net of taxes	—	—	—	(204)	—	(204)
Unrealized gains on derivative contracts, net of taxes	—	—	—	2,555	—	2,555
Share-based compensation	—	—	50,764	—	—	50,764
Exercise of share awards	1,267,244	6	6,043	—	—	6,049
Issuance of shares pursuant to employee share purchase plan	364,746	2	12,816	—	—	12,818
Income tax benefit from share options exercised	—	—	53	—	—	53
Balance at December 31, 2015	47,119,754	\$ 200	\$ 684,824	\$ (1,669)	\$ 183,326	\$ 866,681

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

**MELLANOX TECHNOLOGIES, LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended December 31,		
	2015	2014	2013
	(In thousands)		
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 92,894	\$ (24,009)	\$ (23,342)
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>			
Depreciation and amortization	41,372	38,671	35,646
Deferred income taxes	(22,607)	13,832	(1,240)
Share-based compensation	50,764	47,235	45,138
(Gain) loss on investments, net	(3,000)	425	(1,219)
Excess tax benefit from share-based compensation	(53)	(342)	(2,662)
Impairment of equity investment in a private company	3,189	—	—
<b>Changes in assets and liabilities, net of effect of acquisitions:</b>			
Accounts receivable	(19,351)	5,421	(9,500)
Inventories	(24,735)	(9,624)	9,472
Prepaid expenses and other assets	(2,619)	(7,687)	1,414
Accounts payable	3,750	9,659	(4,447)
Accrued liabilities and other liabilities	30,884	6,549	2,610
Net cash provided by operating activities	<u>150,488</u>	<u>80,130</u>	<u>51,870</u>
<b>Cash flows from investing activities:</b>			
Acquisitions, net of cash acquired	—	(2,253)	(123,519)
Purchase of severance-related insurance policies	(743)	(777)	(849)
Purchase of short-term investments	(219,459)	(307,924)	(200,377)
Proceeds from sales of short-term investments	179,700	158,054	122,997
Proceeds from maturities of short-term investments	129,279	78,567	117,806
Purchase of property and equipment	(48,601)	(29,924)	(30,911)
Restricted cash	3,604	—	3,468
Purchase of intangible assets	(210)	—	(7,440)
Purchase of equity investments in private companies	—	(3,455)	(3,123)
Net cash provided by (used) in investing activities	<u>43,570</u>	<u>(107,712)</u>	<u>(121,948)</u>
<b>Cash flows from financing activities:</b>			
Principal payments on capital lease obligations	(1,105)	(1,381)	(1,111)
Proceeds from exercise of share awards	18,867	16,783	14,637
Excess tax benefit from share-based compensation	53	342	2,662
Net cash provided by financing activities	<u>17,815</u>	<u>15,744</u>	<u>16,188</u>
Net increase (decrease) in cash and cash equivalents	211,873	(11,838)	(53,890)
Cash and cash equivalents at beginning of period	51,326	63,164	117,054
Cash and cash equivalents at end of period	<u>\$ 263,199</u>	<u>\$ 51,326</u>	<u>\$ 63,164</u>
<b>Supplemental disclosures of cash flow information</b>			
Interest paid	\$ 27	\$ 31	\$ 57
Income taxes paid	\$ 1,114	\$ 913	\$ 1,305
<b>Supplemental disclosure of noncash investing and financing activities</b>			
Unpaid property and equipment	\$ 2,228	\$ 5,121	\$ 3,326
Transfer from inventory to property and equipment	\$ 6,732	\$ 1,624	\$ 1,837

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



## 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 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.

On July 1, 2014, the Company completed its acquisition of Integrity Project, Ltd. ("Integrity"), a privately held company. The consolidated financial statements include the results of operations of Integrity commencing as of the acquisition date.

Certain prior year amounts have been reclassified to conform to 2015 presentation. In November 2015, the Financial Accounting Standards Board ("FASB") issued guidance requiring current deferred tax assets, current deferred tax liabilities and related current valuation allowances to be reclassified as non-current. For more information about the changes and reclassifications as a result of adoption of this guidance, see Note 1-The Company and Summary of Significant Accounting Policies, Adoption of new accounting principle. These changes and reclassifications did not impact net or comprehensive income.

##### *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; the timing of announcements or introductions of new products by the Company's competitors, and the Company's ability to successfully integrate acquired businesses.

##### *Use of estimates*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, ("GAAP") 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, sales returns and allowances, investment valuation, warranty reserves, inventory reserves, share-based compensation expense, long-term asset valuations, goodwill and purchased intangible asset valuation, hedge effectiveness, deferred income tax asset valuation, 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 banks, money market funds, U.S. government agency discount notes, municipal bonds, foreign government bonds, corporate bonds and commercial paper.

**MELLANOX TECHNOLOGIES, LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 1—THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)*****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 other comprehensive income ("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, 2015, the restricted cash balance was \$0. At December 31, 2014, the restricted cash balance was \$3.6 million and was designated for contingent payments related to acquisitions.

***Fair value of financial instruments***

The Company's financial instruments consist of cash equivalents, short-term investments and foreign currency derivative contracts. The fair value of a financial instrument is the amount that would be received in an asset sale or paid to transfer a liability in an orderly transaction between unaffiliated market participants. 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 intended use of the derivative and the resulting designation. The Company enters into derivative instruments 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 OCI, and subsequently reclassified into earnings when the hedged exposure affects earnings. 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 Company uses derivative instruments primarily to manage exposures to foreign currency. The Company enters into derivative contracts to manage its exposure to changes in the exchange rate of the 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 derivative instruments expose the Company to credit risk to the extent that the counter-parties may be unable to meet the terms of the agreement. The Company seeks to mitigate such risk by limiting its counter-parties 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 counter-party resulting from this type of credit risk is monitored on an ongoing basis.

***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 collectability 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

## MELLANOX TECHNOLOGIES, LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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,		
	2015	2014	2013
Hewlett-Packard	14%	11%	13%
Dell	*	11%	*
IBM	*	10%	17%

\* Less than 10%

The following table summarizes accounts receivable balances in excess of 10% of total accounts receivable:

	December 31, 2015	December 31, 2014
Hewlett Packard	16%	17%
Hon Hai Precision Ind. Co. Ltd.	11%	*
IBM	*	11%
Ingram Micro	15%	10%

\* Less than 10%

**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, future sales forecasts and market conditions. 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 is generally calculated using the straight-line method over the estimated useful lives of the related assets, which is three to five 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.

The Company incurs costs for the fabrication of masks used by its contract manufacturers to manufacture wafers that incorporate its products. The Company capitalizes the costs of fabrication masks that are reasonably expected to be used during production manufacturing. These amounts are included within property and equipment and are generally depreciated over a period of 12 months to cost of revenue. If it does not reasonably expect to use the fabrication mask during production manufacturing, it expenses the related mask costs to research and development in the period in which the costs are incurred.

The Company capitalizes certain costs incurred in connection with internal use of inventory items in the Company's data centers and laboratories. Capitalized inventory costs are included in Property and equipment, net and amortized on a straight-line basis over the estimated useful life of the asset.

**MELLANOX TECHNOLOGIES, LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 1—THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)*****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. The Company conducts 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 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. "Step one" of the goodwill impairment test requires the Company to estimate the fair value of the reporting unit "Step two" of the test is only performed if a potential impairment exists in "step one" and 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, 2015, the Company's qualitative assessment of goodwill impairment indicated that goodwill was not impaired.

Intangible assets primarily represent acquired intangible assets including developed technology, customer relationships and IPR&D. The Company amortizes its finite lived 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 as intangible assets with indefinite lives. 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 impair the related IPR&D asset.

Indefinite-lived intangible assets are tested for impairment annually or more frequently when indicators of impairment exist. The Company first assesses qualitative factors to determine if it is more likely than not that an indefinite-lived intangible asset is impaired and whether it is necessary to perform a quantitative impairment test. The qualitative assessment considers various factors, including reductions in demand, the abandonment of IPR&D projects or significant economic slowdowns in the semiconductor industry and macroeconomic environment. If adverse qualitative trends are identified that could negatively impact the fair value of the asset, then quantitative impairment tests are performed to compare the carrying value of the asset to its undiscounted expected future cash flows. If this test 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, 2015, there were no indicators that impairment existed or assets were not recoverable. Intangible assets with finite lives are tested for impairment in accordance with our policy for long-lived assets.

***Investments***

The Company has equity investments in privately-held companies. These investments are recorded at cost reduced by any impairment write-downs because the Company does not have the ability to exercise significant influence over the operating and

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

financial policies of the company. The investments are included in other long-term assets on the accompanying balance sheets. The Company monitors the investments and if facts and circumstances indicate an investment may be impaired, then it conducts an 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.

*Impairment of long-lived assets*

Long-lived assets include equipment and furniture and fixtures and finite-lived intangible assets. 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 collectability 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.

The Company 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.

*Multiple Element Arrangements Excluding Software*

For revenue arrangements that contain multiple deliverables, judgment is required to properly identify the accounting units of the transactions and to determine the manner in which revenue should be allocated among the accounting units. Moreover, judgment is used in interpreting the commercial terms and determining when all criteria of revenue recognition have been met for each deliverable in order for revenue recognition to occur in the appropriate accounting period. While changes in the allocation of the arrangement consideration between the units of accounting will not affect the amount of total revenue recognized for a particular sales arrangement, any material changes in these allocations could impact the timing of revenue recognition, which could affect its results of operations. When the Company enters into an arrangement that includes multiple elements, the allocation of value to each element is derived based on management's best estimate of selling price when vendor specific evidence or third party evidence is unavailable.

*Multiple Element Arrangements Including Software*

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 among the accounting units before revenue recognition criteria are applied. If an arrangement includes undelivered elements that are not essential to the functionality of the delivered elements, the Company defers revenue for the undelivered elements based on their fair value. The fair value for undelivered software elements is based on vendor specific evidence. If the undelivered elements are essential to the functionality of the delivered elements, no revenue is recognized. The revenues 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.

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

*Distributor Revenue*

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 and point of sale 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 cooperative marketing programs based on the identifiable benefit received as either a reduction of revenue, a cost of revenues or an operating expense.

*Deferred Revenue and Income*

The Company defers revenue and income when advance payments are received from customers before performance obligations have been completed and/or services have been performed.

*Shipping and Handling*

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 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 required in future periods. Changes in the Company's liability for product warranty during the years ended are as follows:

	December 31,	
	2015	2014
	(In thousands)	
Balance, beginning of the period	\$ 1,932	\$ 3,633
New warranties issued during the period	2,529	3,072
Reversal of warranty reserves	(480)	(197)
Settlements during the period	(2,340)	(4,576)
Balance, end of the period	1,641	1,932
Less: long term portion of product warranty liability	(435)	(424)
Balance, end of the period	<u>\$ 1,206</u>	<u>\$ 1,508</u>

*Research and development*

Costs incurred in research and development are charged to operations as incurred. The Company expenses all costs for internally developed patents as incurred.

*Advertising*

Costs related to advertising and promotion of products are charged to sales and marketing expense as incurred. Advertising expense was approximately \$2.0 million , \$0.7 million and \$0.9 million for the years ended December 31, 2015 , 2014 and 2013 , respectively.

*Share-based compensation*

The Company accounts for share-based compensation expense based on the estimated fair value of the equity awards as of the grant dates. The fair value of restricted stock units, or RSUs, is based on the closing market price of our ordinary shares on the date of grant. The Company estimates the fair value of share options using the Black-Scholes option valuation model, which

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

requires the input of subjective assumptions including the expected share price volatility and the calculation of expected term, as well as the fair value of the underlying ordinary share on the date of grant, among other inputs.

The Company bases its estimate of expected volatility on the historical volatility of the Company's shares. The Company calculates the expected term of its option awards using the simplified method as prescribed by the authoritative guidance. The expected term for newly granted option awards in 2014 was approximately 5.77 years. The Company did not grant share options in 2015.

Share compensation expense is recognized on a straight-line basis over each recipient's requisite service period, which is generally the vesting period. 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 on the consolidated balance sheets at December 31, 2015 and 2014, represents 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. The amount of income tax expense allocated to unrealized gains (losses) on derivative instruments was \$0.1 million and \$ 0, respectively at December 31, 2015 and 2014.

**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 are 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 incremental ordinary shares issuable upon the exercise of share options.

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

	Year Ended December 31,		
	2015	2014	2013
	(In thousands, except per share data)		
Net income (loss)	\$ 92,894	\$ (24,009)	\$ (23,342)
Basic and diluted shares:			
Weighted average ordinary shares outstanding used to compute basic net income (loss) per share	46,365	44,831	43,421
Dilutive effect of employee share option and purchase plans	1,413	—	—
Shares used to compute diluted net income (loss) per share	47,778	\$ 44,831	43,421
Net income (loss) per share—basic	\$ 2.00	\$ (0.54)	\$ (0.54)
Net income (loss) per share—diluted	\$ 1.94	\$ (0.54)	\$ (0.54)

The Company excluded 0.5 million, 0.7 million and 0.8 million outstanding shares for the years ended December 31, 2015, 2014 and 2013, respectively, from the computation of diluted net income per share because including them would have had an anti-dilutive effect.

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

*Segment reporting*

The Company has one reportable segment: the development, manufacturing, marketing and sales of interconnect 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 assets 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, 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.

*Adoption of new accounting principle*

In November 2015, the FASB issued Accounting Standards Updates ("ASU") No. 2015-17, *Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes*, requiring all deferred tax assets (DTA) and deferred tax liabilities (DTL), and any related valuation allowance, to be classified as non-current on the balance sheet. The classification change for all deferred taxes as non-current eliminates the need to separately identify the net current and net non-current deferred tax asset or liability in each jurisdiction and allocate valuation allowances. The FASB allowed all entities to early adopt the ASU for financial statements that had not been issued. The Company elected to retrospectively adopt this accounting standard in the beginning of the Company's fourth quarter of fiscal 2015.

As a result of the adoption, the Company made the following adjustments to the 2014 balance sheet: a \$2.3 million decrease to current deferred tax assets and total current assets; and a \$2.3 million increase to long-term deferred tax assets.

*Recent accounting pronouncements*

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. In August 2015, the FASB issued an update to defer the effective date of this update by one year. The updated standard becomes effective for the Company in the first quarter of fiscal year 2018, but allows the Company to adopt the standard one year earlier if it so chooses. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its Consolidated Financial Statements and related disclosures.

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2—BALANCE SHEET COMPONENTS:

	December 31, 2015	December 31, 2014
	(In thousands)	
<b>Accounts receivable, net:</b>		
Accounts receivable	\$ 84,894	\$ 65,594
Less: allowance for doubtful accounts	(621)	(672)
	<u>\$ 84,273</u>	<u>\$ 64,922</u>
<b>Inventories:</b>		
Raw materials	\$ 8,304	\$ 5,725
Work-in-process	25,716	13,874
Finished goods	28,453	24,871
	<u>\$ 62,473</u>	<u>\$ 44,470</u>
<b>Other current assets:</b>		
Prepaid expenses	\$ 9,948	\$ 8,040
VAT receivable	7,946	6,117
Other	2,085	1,719
	<u>\$ 19,979</u>	<u>\$ 15,876</u>
<b>Property and equipment, net:</b>		
Computer equipment and software	\$ 172,176	\$ 124,370
Furniture and fixtures	3,886	3,256
Leasehold improvements	36,121	33,295
	212,183	160,921
Less: Accumulated depreciation and amortization	(112,165)	(82,094)
	<u>\$ 100,018</u>	<u>\$ 78,827</u>
<b>Deferred taxes and other long-term assets:</b>		
Equity investments in private companies	\$ 7,739	\$ 10,736
Deferred taxes	23,222	2,660
Other assets	2,754	4,475
	<u>\$ 33,715</u>	<u>\$ 17,871</u>
<b>Accrued liabilities:</b>		
Payroll and related expenses	\$ 43,041	\$ 31,254
Accrued expenses	26,431	21,171
Derivative contracts payable	1,157	3,562
Product warranty liability	1,206	1,508
Other	2,461	4,479
	<u>\$ 74,296</u>	<u>\$ 61,974</u>
<b>Other long-term liabilities:</b>		
Income tax payable	\$ 20,023	\$ 18,174
Deferred rent	1,950	2,337
Other	2,695	2,024
	<u>\$ 24,668</u>	<u>\$ 22,535</u>

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**NOTE 3—BUSINESS COMBINATION:**

On February 23, 2016 the Company completed the acquisition of EZchip for approximately \$811.0 million . The Company is in the process of determining the allocation of the purchase price. For more information about the acquisition, see Note 15-Subsequent Events in the notes to the audited consolidated financial statements.

On July 1, 2014, the Company completed its acquisition of Integrity Project, Ltd. ("Integrity"), a privately held company. Based in Ramat-Gan, Israel, Integrity specializes in the fields of connectivity, low-level development, real-time applications, and security. The Company's primary reason for the Integrity acquisition was for Integrity's software expertise, which further enhances the Company's commitment to provide superior solutions. The acquisition positions the Company to broaden its customer base by adding software solutions designed to enable customers to achieve optimal performance from all interconnect components. The Company accounted for this transaction using the acquisition method, and accordingly, the consideration has been allocated to tangible and intangible assets acquired and liabilities assumed on the basis of their respective estimated fair values on the acquisition date. The purchase consideration paid, assets acquired and liabilities assumed were immaterial to the Company's financial statements. There were no intangible assets identified in this transaction other than goodwill. The goodwill arising from this acquisition was primarily attributable to the assembled workforce. Goodwill is not deductible for tax purposes. Goodwill is not being amortized but is reviewed annually for impairment or more frequently if impairment indicators arise, in accordance with authoritative accounting guidance.

**NOTE 4—FAIR VALUE MEASUREMENTS:**

*Fair value hierarchy:*

The Company measures its cash equivalents and marketable securities at fair value. 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. The Level 3 valuation inputs include the Company's best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instrument's valuation. As of December 31, 2015 and December 31, 2014 , the Company did not have any assets or liabilities valued based on Level 3 valuations.

The following table represents the fair value hierarchy of the Company's financial assets and liabilities measured at fair value as of December 31, 2015 .

	Level 1	Level 2	Total
	(in thousands)		
Certificates of deposit	\$ —	\$ 110,423	\$ 110,423
U.S. Government and agency securities	—	131,722	131,722
Commercial paper	—	57,214	57,214
Corporate bonds	—	105,482	105,482
Municipal bonds	—	26,208	26,208
Foreign government bonds	—	13,940	13,940
<b>Total financial assets</b>	<b>\$ —</b>	<b>\$ 444,989</b>	<b>\$ 444,989</b>
Derivative contracts	\$ —	\$ 1,157	\$ 1,157
<b>Total financial liabilities</b>	<b>\$ —</b>	<b>\$ 1,157</b>	<b>\$ 1,157</b>

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, 2014 .

	Level 1	Level 2	Total
	(in thousands)		
Money market funds	\$ 4,426	\$ —	\$ 4,426
Certificates of deposit	—	80,275	80,275
U.S. Government and agency securities	—	99,114	99,114
Commercial paper	—	23,019	23,019
Corporate bonds	—	111,736	111,736
Municipal bonds	—	13,104	13,104
Foreign government bonds	—	6,790	6,790
Total financial assets	\$ 4,426	\$ 334,038	\$ 338,464
Derivative contracts	\$ —	\$ 3,562	\$ 3,562
Total financial liabilities	\$ —	\$ 3,562	\$ 3,562

There were no transfers between Level 1 and Level 2 securities during the years ended December 31, 2015 and 2014 .

NOTE 5—INVESTMENTS:

*Cash, cash equivalents and short-term investments:*

At December 31, 2015 and 2014 , the Company held cash and short-term investments classified as available-for-sale securities as follows:

	December 31, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(in thousands)			
Cash	\$ 65,524	\$ —	\$ —	\$ 65,524
Certificates of deposit	110,427	3	(7)	110,423
U.S. Government and agency securities	131,755	5	(38)	131,722
Commercial paper	57,214	4	(4)	57,214
Corporate bonds	105,900	2	(420)	105,482
Municipal bonds	26,283	—	(75)	26,208
Foreign government bonds	13,988	—	(48)	13,940
Total	511,091	14	(592)	510,513
Less amounts classified as cash and cash equivalents	(263,196)	(5)	2	(263,199)
	\$ 247,895	\$ 9	\$ (590)	\$ 247,314

	December 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(in thousands)			
Cash	\$ 46,900	\$ —	\$ —	\$ 46,900
Money market funds	4,426	—	—	4,426
Certificates of deposit	80,304	1	(30)	80,275
U.S. Government and agency securities	99,236	9	(131)	99,114
Commercial paper	23,017	3	(1)	23,019
Corporate bonds	112,033	16	(313)	111,736
Municipal bonds	13,151	—	(47)	13,104
Foreign government bonds	6,809	—	(19)	6,790
Total	385,876	29	(541)	385,364

Less amounts classified as cash and cash equivalents	(51,326)	—	—	(51,326)
	<u>\$ 334,550</u>	<u>\$ 29</u>	<u>\$ (541)</u>	<u>\$ 334,038</u>

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5—INVESTMENTS: (Continued)

Realized gains (losses), net upon the sale of marketable securities were \$3.0 million and \$(0.4) million for the years ended December 31, 2015 and 2014, respectively. At December 31, 2015, gross unrealized losses on investments that were in a gross unrealized loss position for greater than 12 months were immaterial. These investments were not deemed to be other-than-temporarily impaired and the gross unrealized losses were recorded in OCI.

The contractual maturities of short-term investments at December 31, 2015 and 2014 were as follows:

	December 31, 2015		December 31, 2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in thousands)			
Due in less than one year	\$ 148,041	\$ 147,914	\$ 129,150	\$ 129,155
Due in one to three years	99,854	99,400	205,400	204,883
	<u>\$ 247,895</u>	<u>\$ 247,314</u>	<u>\$ 334,550</u>	<u>\$ 334,038</u>

*Investments in privately-held companies:*

As of December 31, 2015 and 2014, the Company held a total of \$7.7 million and \$10.7 million in investments in privately-held companies. On April 27, 2015, the Company was informed that one of the privately-held companies intended to discontinue its operations. As a result, the Company concluded that its investment of \$3.2 million in this privately-held company was fully impaired and the impairment of this investment was other than temporary. The impairment loss was included in other loss, net, on the audited consolidated statements of operations for the year ended December 31, 2015.

NOTE 6—GOODWILL AND INTANGIBLE ASSETS:

Carrying amount of goodwill at December 31, 2015 and December 31, 2014 (in thousands) \$ 200,743

The carrying amounts of intangible assets as of December 31, 2015 were as follows:

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
	(in thousands)		
Licensed technology	\$ 2,554	\$ (1,589)	\$ 965
Developed technology	69,828	(40,408)	29,420
Customer relationships	13,376	(11,607)	1,769
Total intangible assets	<u>\$ 85,758</u>	<u>\$ (53,604)</u>	<u>\$ 32,154</u>

The carrying amounts of intangible assets as of December 31, 2014 were as follows:

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
	(in thousands)		
Licensed technology	\$ 2,344	\$ (917)	\$ 1,427
Developed technology	56,064	(32,130)	23,934
Customer relationships	13,376	(10,434)	2,942
Total amortizable intangible assets	71,784	(43,481)	28,303
In-process research and development	13,764	—	13,764
Total intangible assets	<u>\$ 85,548</u>	<u>\$ (43,481)</u>	<u>\$ 42,067</u>

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**NOTE 6—GOODWILL AND INTANGIBLE ASSETS (continued):**

The balance of IPR&D was transferred to developed technology during 2015. Amortization expense of intangible assets totaled approximately \$10.1 million, \$12.2 million and \$14.0 million for the years ended December 31, 2015, 2014 and 2013, respectively.

The estimated future amortization expense from amortizable intangible assets is as follows:

	(in thousands)	
2016	\$	9,991
2017		9,928
2018		6,967
2019		3,532
2020 and thereafter		1,736
Total	\$	<u>32,154</u>

**NOTE 7—DERIVATIVES AND HEDGING ACTIVITIES:**

The notional amounts of outstanding forward contracts at December 31, 2015 and 2014 were as follows:

	Buy Contracts	
	December 31,	December 31,
	2015	2014
	(in thousands)	
Israeli shekel	\$ 98,744	\$ 88,532

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, 2015 and 2014 was as follows:

	Derivative Liabilities Reported in Accrued Liabilities	
	2015	2014
	(in thousands)	
Foreign exchange contracts designated as cash flow hedges	\$ 1,157	\$ 3,562
Total derivatives designated as hedging instruments	<u>\$ 1,157</u>	<u>\$ 3,562</u>

***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, 2015 and 2014, and their impact on OCI for the year ended December 31, 2015 (in thousands):

December 31, 2014	\$ (3,646)
Amount of loss recognized in OCI (effective portion)	(1,075)
Amount of loss reclassified from OCI to income (effective portion)	3,630
December 31, 2015	<u>\$ (1,091)</u>

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 reclassified out of OCI. The Company expects to realize the accumulated OCI balance related to foreign exchange contracts within the next twelve months.

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 years ended December 31, 2015, 2014, and 2013 was:

	Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Gain (loss) on foreign exchange contracts designated as cash flow hedges	\$ (3,630)	\$ (1,239)	\$ 6,027

The net gains or losses relating to the ineffective portion of derivative contracts were not material in the years ended December 31, 2015, 2014 and 2013.

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 \$1.2 million, \$0.9 million and \$0.8 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Under Israeli law, the Company is required to make severance payments to certain of its retired or dismissed Israeli employees. For employees hired prior to January 1, 2007 the severance pay liability is calculated based on the last 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,	
	2015	2014
	(in thousands)	
Accrued severance liability	\$ 12,464	\$ 11,850
Severance assets	9,514	9,474
Unfunded portion	\$ 2,950	\$ 2,376

For other Israeli employees, the Company's contributions for severance pay will replace its severance obligation. Upon a monthly contribution equal to 8.3% 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, 2015, 2014 and 2013 were \$7.6 million, \$6.8 million and \$6.1 million, respectively.

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 6.0% 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 contribution pension plan expenses were \$5.7 million, \$4.9 million and \$4.5 million in the years ended December 31, 2015, 2014 and 2013, respectively.

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 \$10.5 million , \$9.9 million and \$8.9 million for the years ended December 31, 2015 , 2014 and 2013 , respectively. The terms of the facility leases 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 \$0.5 million and \$1.6 million for the years ended December 31, 2015 and 2014 , respectively.

At December 31, 2015 , future minimum payments under non-cancelable operating and capital leases are as follows:

Year Ended December 31,	Capital Leases	Operating Leases
	(in thousands)	
2016	\$ 502	\$ 15,555
2017	—	12,390
2018	—	8,850
2019	—	9,367
2020 and thereafter	—	3,068
Total minimum lease payments	502	\$ 49,230
Less: Amount representing interest	(11)	
Present value and current portion of capital lease obligations	\$ 491	

*Purchase commitments*

At December 31, 2015 , the Company had the following non-cancelable purchase commitments:

	(in thousands)
Non-cancelable purchase obligations, due in the next twelve months	\$ 74,246
Non-cancelable purchase obligations, due in the next two to three years	3,855
Non-cancelable purchase obligations, due in the next four to five years	180
	\$ 78,281

*Term Debt*

As disclosed in Note 15, the Company entered into a merger agreement on September 30, 2015 with EZchip, a publicly held company, for a purchase price of approximately \$811.0 million. On February 23, 2016 we completed the acquisition of EZchip and financed the acquisition and related transaction expenses with cash on hand of the combined companies, and with \$280.0 million in term debt. For more information about the term debt, see Note 15-Subsequent Events in the notes to the audited consolidated financial statements, included in Part IV, Item 15 of this report.

*Legal proceedings*

The Company is currently involved in various legal proceedings. Unless otherwise noted below, during the periods presented the Company did not record any accrual for loss contingencies associated with such legal proceedings, determine that an unfavorable outcome is probable or reasonably possible, or determine that the amount or range of any possible loss is reasonably estimable. The Company is engaged in other legal actions not described below arising in the ordinary course of its business and, while there can be no assurance, it believes that the ultimate outcome of these actions will not have a material adverse effect on its operating results, liquidity or financial position. Pending legal proceedings as of December 31, 2015 were as follows:

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**NOTE 9—COMMITMENTS AND CONTINGENCIES:**

*Avago Technologies Fiber (IP) Singapore Pte. Ltd. vs. IPtronics, Inc. and IPtronics A/S.*

On September 29, 2010, Avago Technologies Fiber (IP) Singapore Pte. Ltd. (“Avago IP”) filed a complaint for patent infringement against IPtronics, Inc. and IPtronics A/S (now Mellanox Technologies Denmark Aps) (collectively, “IPtronics”) now pending in the United States District Court, Northern District of California, San Jose Division (Case No.: 5:10-cv-02863 EJD), asserting infringement of U.S. Patents Number 5,596,456 and 5,359,447. On September 11, 2012, Avago IP along with additional subsidiaries of Avago Technologies Limited (collectively, “Avago”) filed a Second Amended and Supplemental Complaint against IPtronics adding allegations that IPtronics engaged in violations of the Lanham Act, Section 43 (A); misappropriated Avago’s trade secrets; engaged in unfair competition against Avago; intentionally interfered with Avago’s contractual relations; and were unjustly enriched by and through the conduct complained of by Avago. A motion to file a third amended complaint was filed but never granted.

Avago’s motion to file a Fourth Amended and Supplemental Complaint (the “Complaint”) to add the Company and a new claim for interference with prospective economic advantage against IPtronics was granted. The Company and IPtronics have answered the new complaint and the case is set for trial in May and June 2016. IPtronics’ motion to add an antitrust counterclaim against Avago for pursuing a sham action was denied. As explained below, that a similar claim is being pursued in a separate action.

The parties have filed various motions for summary judgment. The Court’s resolution of these motions could affect the issues for trial.

Pursuant to the Complaint, Avago seeks unspecified damages, treble damages, injunctive relief and any other relief deemed just and proper by the court. Neither the outcome of the proceeding nor the amount and range of potential damages or exposure associated with the proceeding can be assessed with certainty. In the event the Defendants are not successful in defending against the Complaint, the Company could be forced to license technology from Avago and be prevented from importing, selling, offering for sale, advertising, soliciting, using and/or warehousing for distribution the allegedly infringing products. Based on currently available information, the Company believes that the resolution of this proceeding is not likely to have a material adverse effect on the Company’s business, financial position, results of operations or cash flows.

*IPtronics, Inc. and Mellanox Technologies Denmark ApS vs. Avago Technologies, Inc., et al.*

IPtronics has filed an antitrust Complaint in the United States District Court, Northern District of California, San Jose Division (Case No.: 5:14-cv-05647-BLF (PSG)), against Avago for pursuing what the Company believes to be a baseless ITC action against IPtronics. The Complaint seeks unspecified damages in an amount to compensate IPtronics for the damages resulting from Avago’s conduct. In response to the Complaint Avago filed a motion to dismiss. The court denied that motion on August 25, 2015. Avago has since moved to stay the case pending resolution of the N.D.C patent litigation mentioned above. On December 15, 2015, the Court granted Avago’s motion in an order staying the case until June 17, 2016. The court has set a case calendar leading to a trial in June 2017.

**NOTE 10—SHARE INCENTIVE PLANS:**

The Company has seven 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”), the Global Share Incentive Assumption Plan 2010 (the “Assumption Plan”), the Kotura, Inc. Second Amended and Restated 2003 Stock Plan (the “Kotura Plan”) and the IPtronics, Inc. 2013 Restricted Stock Unit Plan (the “IPtronics Plan”).

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, 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, 2016, 2015 and 2014, respectively. The plan will expire in October 2016 and no additional shares are expected to be reserved under this plan.

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, by a number of ordinary shares equal to the lower 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,

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10—SHARE INCENTIVE PLANS (Continued):

2016, 2015 and 2014, respectively. The plan will expire in July 2017. There were no ordinary shares reserved for future issuance under any of the other plans.

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

	Options Outstanding	
	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2013	2,806,224	\$ 30.14
Options granted	50,000	\$ 32.64
Options exercised	(265,990)	\$ 18.23
Options canceled	(122,711)	\$ 69.01
Outstanding at December 31, 2014	2,467,523	\$ 29.55
Options exercised	(381,708)	\$ 15.84
Options canceled	(57,220)	\$ 76.33
Outstanding at December 31, 2015	2,028,595	\$ 30.81

The weighted average fair value of options granted was approximately \$0, \$17.22 and \$8.91 for the years ended December 31, 2015, 2014 and 2013, respectively.

The total pretax intrinsic value of options exercised in 2015 was \$12.0 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 \$42.14 on December 31, 2015, the total pretax intrinsic value of all outstanding options was \$40.2 million. The total pretax intrinsic value of exercisable options at December 31, 2015 was \$39.9 million.

The total pretax intrinsic value of options exercised in 2014 was \$6.0 million. Based on the closing price of the Company's ordinary shares of \$42.73 on December 31, 2014, the total pretax intrinsic value of all outstanding options was \$51.4 million. The total pretax intrinsic value of exercisable options at December 31, 2014 was \$50.1 million.

The weighted average remaining contractual life of options outstanding at December 31, 2015 was 4.3 years. There were 1,938,383 options exercisable at December 31, 2015 with a weighted average exercise price \$29.12 per share.

The following table summarizes the restricted share unit activity under all equity incentive plans:

	Restricted Share Units Outstanding	
	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested restricted share units at December 31, 2013	1,974,454	\$ 43.81
Restricted share units granted	970,970	\$ 37.35
Restricted share units vested	(827,396)	\$ 42.03
Restricted share units canceled	(206,862)	\$ 40.91
Non-vested restricted share units at December 31, 2014	1,911,166	\$ 41.61
Restricted share units granted	1,353,095	\$ 45.98
Restricted share units vested	(885,536)	\$ 41.00
Restricted share units canceled	(173,642)	\$ 43.46
Non-vested restricted share units at December 31, 2015	2,205,083	\$ 44.39

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**NOTE 10—SHARE INCENTIVE PLANS (Continued):**

The weighted average fair value of restricted share units granted was \$45.98 , \$37.35 and \$49.05 for the years ended December 31, 2015, 2014 and 2013 , respectively. The total intrinsic value of all outstanding restricted share units was \$92.9 million as of December 31, 2015 .

The Employee Share Purchase Plan, ("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. 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 2,585,712 shares. 1,085,712 shares were initially reserved for issuance pursuant to purchase rights under the ESPP. In August 2012, the Company reserved for issuance 1,500,000 additional shares under the ESPP. 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 year ended December 31, 2015 , and 2014 , 364,746 and 394,915 shares, respectively, were issued under the ESPP at weighted average per share prices of \$35.15 and \$30.22 , respectively.

The Company had the following ordinary shares reserved for future issuance under its equity incentive plans as of December 31, 2015 :

	<b>Number of Shares</b>
Share options outstanding	2,028,595
Restricted share units outstanding	2,205,083
Shares authorized for future issuance	1,356,036
ESPP shares available for future issuance	486,313
<b>Total shares reserved for future issuance as of December 31, 2015</b>	<b>6,076,027</b>

**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.

The following weighted average assumptions were used to value share options granted in connection with the Company's share incentive plans for the years ended December 31, 2015 , 2014 and 2013 :

	<b>Employee Share Options</b>			<b>Employee Share Purchase Plan</b>		
	<b>Year ended December 31,</b>			<b>Year ended December 31,</b>		
	<b>2015 <sup>(1)</sup></b>	<b>2014</b>	<b>2013</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Dividend yield, %	—	—	—	—	—	—
Expected volatility	—	56.1%	57.5%	33.7%	46.6%	56.2%
Risk free interest rate	—	1.98%	1.54%	0.10%	0.05%	0.07%
Expected life, years	—	5.77	4.72	0.50	0.50	0.53

(1) There were no Employee Share Options granted in 2015.

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10—SHARE INCENTIVE PLANS (Continued):

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

	Year ended December 31,		
	2015	2014	2013
	(in thousands)		
Share-based compensation expense by caption:			
Cost of goods sold	\$ 2,366	\$ 2,162	\$ 1,828
Research and development	28,821	26,979	25,956
Sales and marketing	10,309	9,755	9,198
General and administrative	9,268	8,339	8,156
Total share-based compensation expense	<u>\$ 50,764</u>	<u>\$ 47,235</u>	<u>\$ 45,138</u>
Share-based compensation expense by type of award:			
Share options	\$ 6,680	\$ 8,974	\$ 12,460
ESPP	4,007	3,976	3,938
RSU	40,077	34,285	28,740
Total share-based compensation expense	<u>\$ 50,764</u>	<u>\$ 47,235</u>	<u>\$ 45,138</u>

At December 31, 2015, there was \$79.6 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 2.3 years.

NOTE 11—ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):

The following table summarizes the changes in accumulated balances of other comprehensive income (loss) for the years ended December 31, 2015 and 2014:

	Unrealized	Gains / Losses	Total
	Gains / Losses on Available-for-Sale Securities	on Derivatives	
	(in thousands)		
Balance at December 31, 2014	\$ (374)	\$ (3,646)	\$ (4,020)
Other comprehensive income/loss before reclassifications	(220)	(1,075)	(1,295)
Amounts reclassified from accumulated other comprehensive income/loss	16	3,630	3,646
Net current-period other comprehensive income/loss, net of taxes	(204)	2,555	2,351
Balance at December 31, 2015	<u>\$ (578)</u>	<u>\$ (1,091)</u>	<u>\$ (1,669)</u>
Balance at December 31, 2013	\$ (6)	\$ 1,396	\$ 1,390
Other comprehensive income/loss before reclassifications	(378)	(6,281)	(6,659)
Amounts reclassified from accumulated other comprehensive income/loss	10	1,239	1,249
Net current-period other comprehensive income/loss, net of taxes	(368)	(5,042)	(5,410)
Balance at December 31, 2014	<u>\$ (374)</u>	<u>\$ (3,646)</u>	<u>\$ (4,020)</u>



MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11—ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS): (Continued)

The following table provides details about reclassifications out of accumulated other comprehensive income (loss) for the year ended December 31, 2015 and 2014 :

Details about Accumulated Other Comprehensive Income / Loss Components	Amount Reclassified from Other Comprehensive Income / Loss		Affected Line Item in the Statement of Operations
	Year ended December 31,		
	2015	2014	
	(in thousands)		
Losses on Derivatives	\$ 3,630	\$ 1,239	Cost of revenues and Operating expenses
	182	87	Cost of revenues
	2,974	969	Research and development
	209	92	Sales and marketing
	265	91	General and administrative
	3,630	1,239	
Unrealized gains (losses) on Available-for-Sale Securities	16	10	Other income, net
Total reclassifications for the period	\$ 3,646	\$ 1,249	Total

NOTE 12—INCOME TAXES:

The components of income (loss) before (benefit from) provision for income taxes are as follows:

	Year ended December 31,		
	2015	2014	2013
	(in thousands)		
United States	\$ (12,539)	\$ (10,260)	\$ (2,463)
Foreign	87,121	4,518	(17,127)
Income (loss) before income taxes	\$ 74,582	\$ (5,742)	\$ (19,590)

The components of the (benefit from) provision for income taxes are as follows:

	Year ended December 31,		
	2015	2014	2013
	(in thousands)		
Current:			
U.S. federal	\$ (1,578)	\$ 162	\$ 1,989
State and local	284	163	508
Foreign	5,737	4,683	3,110
	4,443	5,008	5,607
Deferred:			
U.S. federal	\$ —	\$ 12,140	\$ (1,174)
State and local	—	1,539	(219)
Foreign	(22,755)	(420)	(462)
	(22,755)	13,259	(1,855)
(Benefit from) provision for taxes on income	\$ (18,312)	\$ 18,267	\$ 3,752



MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12—INCOME TAXES (Continued):

At December 31, 2015 and 2014, significant deferred tax assets and liabilities are as follows:

	December 31,	
	2015	2014 (1)
	(in thousands)	
Deferred tax assets:		
Net operating loss and credit carryforwards	\$ 39,200	\$ 41,070
Reserves and accruals	10,691	7,633
Depreciation and amortization	441	1,030
Other	10,747	8,556
Gross deferred tax assets	61,079	58,289
Valuation allowance	(28,999)	(46,220)
Total deferred tax assets	32,080	12,069
Intangible assets	(8,858)	(11,551)
Total deferred tax liabilities	(8,858)	(11,551)
Net deferred tax assets	\$ 23,222	\$ 518

(1) In connection with the preparation of our consolidated financial statements for the year ended December 31, 2015, the Company identified and corrected classification errors of certain items within the details of the gross deferred tax asset for 2014, resulting in an increase in the deferred tax asset for net operating loss and credit carryforwards of \$15.5 million, and a decrease in deferred tax asset for depreciation and amortization of \$15.5 million. The Company assessed the materiality of the error and concluded that it was not material to 2014.

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. As of each reporting date, the Company's management considers new evidence, both positive and negative, that could impact management's view with regard to future realization of deferred tax assets. As of December 31, 2015, primarily because in the current year, the Company achieved 3 years of cumulative pre-tax income for the related Israeli subsidiary, management determined that sufficient positive evidence exists as of December 31, 2015, to conclude that it is more likely than not that additional deferred taxes of \$22.4 million are realizable, and therefore, reduced the valuation allowance accordingly. The Company has maintained a valuation allowance against the subsidiary's capital loss credit carryforwards, as management has determined that these deferred tax assets are not more likely than not to be realized.

On January 4, 2016 the Israeli Government legislated a reduction in corporate income tax rates from 26.5% to 25.0%, effective in 2016. Deferred tax assets and liabilities at December 31, 2015 were measured using the 26.5% tax rate. Deferred tax assets and liabilities to be measured in 2016 will be measured using the 25.0% tax rate. The Company believes the immediate change in the corporate income tax rates from 26.5% to 25.0% would result in a reduction of \$1.3 million to the Company's deferred tax assets and a corresponding increase in the Company's income tax expense during the first quarter of 2016.

At December 31, 2015, the Company had net operating loss carryforwards ("NOLs") of approximately \$55.0 million in Israel, \$65.4 million in the United States ("U.S.") for federal tax purposes, \$43.7 million in the U.S. for state tax purposes and \$10.8 million in Denmark. The US net operating losses begin to expire in 2016 and the non-U.S. net operating losses have no expiration date.

Included in the U.S. federal and state NOLs are \$17.9 million of NOLs which have not been recognized for financial reporting purposes due to unrecognized tax benefits and excess tax benefits related to stock-based compensation. Excess tax benefits related to option exercises cannot be recognized until realized through a reduction of current taxes payable.

The Company has not provided for Israeli income and foreign withholding taxes on \$2.0 million of its non-Israeli subsidiaries' undistributed earnings as of December 31, 2015. 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 associated with future repatriation of such earnings because the time or manner of the repatriation is uncertain and therefore, quantification of the related tax liability is impracticable.

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12—INCOME TAXES (Continued):

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

	December 31,		
	2015	2014	2013
Tax at statutory rate	35.0 %	35.0 %	35.0 %
State, net of federal benefit	0.2	(28.6)	2.9
Meals and entertainment	0.2	(1.3)	(0.4)
Tax at rates other than the statutory rate	(42.5)	56.1	(35.7)
Valuation allowance	(22.0)	(280.6)	—
Share-based compensation	—	(4.0)	(4.6)
Net change in tax reserves	6.0	(87.4)	(15.9)
Other, net	(1.5)	(7.3)	(0.5)
Provision for taxes	<u>(24.6)%</u>	<u>(318.1)%</u>	<u>(19.2)%</u>

The Company calculates the pool of excess tax benefits resulting from share based compensation 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. For the years ended December 31, 2015 and 2014, the Company recognized a tax benefit to APIC of \$0.1 million and \$0.3 million, respectively.

The Company's operations in Israel were granted "Approved Enterprise" status by the Investment Center in the Israeli Ministry of Economy (formerly, the Ministry of Industry Trade and Labor) and "Beneficiary Enterprise" status from the Israeli Income Tax Authority, which makes the Company eligible for tax benefits under the Israeli Law for Encouragement of Capital Investments, 1959. Under the terms of the Beneficiary 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 2011. Income that is attributable to the Company's operations in Tel Aviv, Israel, was exempted from income tax for a period of two years commencing 2013, and will be subject to a reduced income tax rate (generally between 10% and the current corporate tax rate, depending on the percentage of foreign investment in the Company) for five to eight years beginning fiscal year 2013. The tax holiday for the Company's Yokneam operations will expire in 2021 and the tax holiday for the Company's Tel-Aviv operations will expire between the years 2017 and 2021. The tax holiday has resulted in a cash tax savings of \$33.0 million, \$6.9 million and \$6.4 million in 2015, 2014, and 2013 respectively, increasing diluted earnings per share by approximately \$0.69, \$0.15 and \$0.15 in the years ended December 31, 2015, 2014, and 2013, respectively.

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

	December 31,		
	2015	2014	2013
	(in thousands)		
Gross unrecognized tax benefits, beginning of the period	\$ 18,037	\$ 23,585	\$ 9,716
Increases in tax positions for prior years	1,153	299	444
Decreases in tax positions for prior years	(131)	(10,339)	(11)
Increases in tax positions for current year	7,908	5,170	3,029
Increases in tax positions acquired or assumed in a business combination	—	—	11,037
Decreases due to statute of limitations	(1,585)	(678)	(630)
Gross unrecognized tax benefits, end of the period	<u>\$ 25,382</u>	<u>\$ 18,037</u>	<u>\$ 23,585</u>

As of December 31, 2015, 2014 and 2013, the total amount of gross unrecognized tax benefits was \$25.4 million, \$18.0 million, and \$23.6 million, respectively. Of these amounts as of December 31, 2015, 2014 and 2013, \$18.9 million, \$15.3 million, and \$12.5 million, respectively would impact the effective tax rate if recognized. The remaining unrecognized tax benefits are associated with deferred tax assets subject to a full valuation allowance.

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, 2015, 2014 and 2013, the

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**NOTE 12—INCOME TAXES (Continued):**

amount of accrued interest or penalties related to unrecognized tax benefit totaled \$1.2 million , \$1.0 million , and \$0.6 million , respectively. For unrecognized tax benefits that existed at December 31, 2015 , the Company does not anticipate any significant changes within the next twelve months.

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 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, 2015 , the 2010 through 2014 tax years are open and may be subject to potential examinations in the United States and Denmark. As of December 31, 2015 the income tax returns of the Company and one of its subsidiaries in Israel are under examination by the Israeli Tax Authority for certain years from 2011 to 2014 .

**NOTE 13—GEOGRAPHIC INFORMATION AND REVENUES BY PRODUCT GROUP:**

The Company operates in one reportable segment, the development, manufacturing, marketing and sales of 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,		
	2015	2014	2013
	(in thousands)		
United States	\$ 300,674	\$ 202,921	\$ 175,491
China	89,466	65,204	67,517
Europe	93,666	72,181	51,973
Other Americas	24,692	19,760	16,869
Other Asia	149,642	103,583	78,586
Total revenue	\$ 658,140	\$ 463,649	\$ 390,436

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:

	December 31,	
	2015	2014
	(in thousands)	
Israel	\$ 83,758	\$ 69,004
United States	13,776	7,849
Other	2,484	1,974
Total property and equipment, net	\$ 100,018	\$ 78,827

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

MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 13—GEOGRAPHIC INFORMATION AND REVENUES BY PRODUCT GROUP: (Continued)

Revenues by product type and interconnect protocol are as follows:

	Year ended December 31,		
	2015	2014	2013
	(in thousands)		
ICs	\$ 92,214	\$ 70,840	\$ 56,817
Boards	265,249	147,738	119,399
Switch systems	179,977	147,403	145,184
Cables, accessories and other	120,700	97,668	69,036
Total revenue	<u>\$ 658,140</u>	<u>\$ 463,649</u>	<u>\$ 390,436</u>

	Year ended December 31,		
	2015	2014	2013
	(in thousands)		
InfiniBand:			
EDR	\$ 39,009	\$ —	\$ —
FDR	347,760	264,785	200,300
QDR/DDR/SDR	63,745	72,890	107,995
Total	<u>450,514</u>	<u>337,675</u>	<u>308,295</u>
Ethernet	155,221	83,470	52,908
Other	52,405	42,504	29,233
Total revenue	<u>\$ 658,140</u>	<u>\$ 463,649</u>	<u>\$ 390,436</u>

NOTE 14—OTHER INCOME (LOSS), NET:

Other income (loss), net, is summarized in the following table:

	Year ended December 31,		
	2015	2014	2013
	(in thousands)		
Interest income and gain on sale of investments, net	\$ 2,998	\$ 1,952	\$ 1,738
Impairment loss on equity investment in a private company	(3,189)	—	—
Foreign exchange loss	(186)	(245)	(309)
Other	(147)	(258)	(201)
Total other income (loss), net	<u>\$ (524)</u>	<u>\$ 1,449</u>	<u>\$ 1,228</u>

NOTE 15—SUBSEQUENT EVENT:

In September 2015, the Company entered into an Agreement to acquire EZchip, a public company formed under the laws of the State of Israel and specializing in network-processing semiconductors, for approximately \$811.0 million. The EZchip acquisition is a step in the Company's strategy to become the leading broad-line supplier of intelligent interconnect solutions for the software-defined data centers. The addition of EZchip's products and expertise in security, deep packet inspection, video, and storage processing enhances the Company's leadership position, and ability to deliver complete end-to-end, intelligent 10, 25, 40, 50, and 100Gb/s interconnect and processing solutions for advanced data center and edge platforms. The combined company will have diverse and robust solutions to enable customers to meet the growing demands of data-intensive applications used in high-performance computing, Web 2.0, cloud, secure data center, enterprise, telecom, database, financial services, and storage environments.



MELLANOX TECHNOLOGIES, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**NOTE 15—SUBSEQUENT EVENT (CONTINUED):**

The acquisition closed on February 23, 2016, at which time EZchip became a wholly owned subsidiary of the Company. At the closing, the Company assumed each unvested option and RSU of EZchip on the same terms and conditions as were applicable to such EZchip option or RSU (including with respect to vesting), and converted to an equivalent equity award to receive the Company's ordinary shares appropriately adjusted to take into account the transaction consideration. All vested, in-the-money EZchip stock options and RSUs, after giving effect to any acceleration or vesting that occurs as a result of the transaction, were cashed out. Any vested out-of-the-money EZchip options were cancelled for no consideration.

The Company is in the process of determining the allocation of the purchase price to assets acquired and liabilities assumed.

The acquisition and related transaction expenses were financed with cash on hand and with \$280 million in term debt. The Term Debt agreement includes customary liquidity covenants and consists of a variable interest rate senior secured loan for the term of three years. The Term Debt provides for an additional term loan borrowing of up to \$100.0 million under certain conditions.

Borrowings under the Term Debt bear interest through maturity at a variable rate based upon, at the Company's option, either the Eurodollar rate or the base rate (which is the highest of (i) the administrative agent's prime rate, (ii) one-half of 1.00% in excess of the overnight federal funds rate, and (iii) 1.00% in excess of the one-month Eurodollar rate), plus in each case, an applicable margin. The applicable margin for Eurodollar rate loans ranges, based on the applicable total net leverage ratio, from 1.25% to 2.00% per annum and the applicable margin for base rate loans ranges, based on the applicable total net leverage ratio, from 0.25% to 1.00% per annum.

During the three years after the closing date, the Company will be required to make quarterly amortization payments on the term loans of: (i) 2.50% of the original principal amount for the four fiscal quarters beginning on June, 2016 and ending on March, 2017, (ii) 3.75% of the original principal amount for the four fiscal quarters beginning on June, 2017 and ending on March, 2018 and (iii) 6.25% of the original principal amount for the three fiscal quarters beginning on June, 2018 and ending on December, 2018. On the maturity date, the Company will be required to pay all remaining outstanding amounts under the term loans. The Company is also required to make mandatory prepayments of loans under the Term Debt, subject to specified exceptions, with the proceeds of asset sales, debt issuances and specified other events.

The Company's obligations under the Term Debt are guaranteed by all of their direct and indirect US and Israeli subsidiaries, other than EZchip and its subsidiaries and other immaterial subsidiaries (collectively, the "Loan Parties"). The obligations under the Term Debt and the guarantees are secured by a lien on substantially all of the Loan Parties' tangible and intangible property and by a pledge of 100% of the equity interests in the Loan Parties' US and Israeli subsidiaries, including EZchip but excluding any subsidiaries of EZchip and other immaterial subsidiaries.

The Term Debt contains a number of covenants and restrictions that among other things, require the Company and its subsidiaries to satisfy certain financial covenants and restricts the ability of the Company and its subsidiaries' ability to, incur liens, incur additional indebtedness, make loans and investments, engage in mergers and acquisitions, engage in asset sales, declare dividends or redeem or repurchase capital stock, prepay, redeem or purchase subordinated debt and amend or otherwise alter debt agreements. A failure to comply with these covenants could permit the lenders under the Term Debt to declare all amounts borrowed under the Term Debt, together with accrued interest and fees, to be immediately due and payable.

**SCHEDULE II—CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS**

**MELLANOX TECHNOLOGIES, LTD.**

<u>Description:</u>	<u>Balance at Beginning of Year</u>	<u>Charged (Credited) to Costs and Expenses</u>	<u>Deductions (Recovery)</u>	<u>Balance at End of Year</u>
	(in thousands)			
Year ended December 31, 2015:				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$ 672	\$ (51)	\$ —	\$ 621
Allowance for sales returns and adjustments	—	—	—	—
Income tax valuation allowance	46,220	(16,440)	(781)	28,999
Total	<u>\$ 46,892</u>	<u>\$ (16,491)</u>	<u>\$ (781)</u>	<u>\$ 29,620</u>
Year ended December 31, 2014:				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$ 639	\$ 33	\$ —	\$ 672
Allowance for sales returns and adjustments	—	—	—	—
Income tax valuation allowance	27,365	18,855	—	46,220
Total	<u>\$ 28,004</u>	<u>\$ 18,888</u>	<u>\$ —</u>	<u>\$ 46,892</u>
Year ended December 31, 2013:				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$ 639	\$ —	\$ —	\$ 639
Allowance for sales returns and adjustments	79	(79)	—	—
Income tax valuation allowance	28,039	—	(674)	27,365
Total	<u>\$ 28,757</u>	<u>\$ (79)</u>	<u>\$ (674)</u>	<u>\$ 28,004</u>



## INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
2.1	(1) Agreement of Merger, dated as of November 29, 2010, among Mellanox Technologies, Ltd., Mondial Acquisition Corporation Ltd. and Voltaire Ltd.
2.2	(2) Agreement of Merger, dated as of September 30, 2015, among Mellanox Technologies, Ltd., Mondial Europe Sub Ltd. and EZchip Semiconductor Ltd.
2.3	(3) Amendment No. 1 to the Agreement of Merger, dated as of November 17, 2015, among Mellanox Technologies, Ltd., Mondial Europe Sub Ltd. and EZchip Semiconductor Ltd.
3.1	Amended and Restated Articles of Association of Mellanox Technologies, Ltd. (as amended on May 11, 2015).
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) * Mellanox Technologies, Ltd. Global Share Incentive Plan (2006) and forms of agreements and appendices relating thereto.
10.6	(9) * Mellanox Technologies, Ltd. Non-Employee Director Option Grant Policy.
10.7	(10) * Form of Mellanox Technologies, Ltd. Executive Severance Benefits Agreement for U.S. Executives.
10.8	(11) * Form of Mellanox Technologies, Ltd. Executive Severance Benefits Agreement for Israel Executives.
10.9	(12) * Mellanox Technologies, Ltd. Amended and Restated 2006 Employee Share Purchase Plan.
10.10	(13) 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.
10.11	(14) * Mellanox Technologies, Ltd., Global Share Incentive Assumption Plan (2010).
10.12	(15) 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).
10.13	(16) * IPtronics, Inc. 2013 Restricted Stock Unit Plan.
10.14	(17) * Kotura, Inc. Second Amended and Restated 2003 Stock Plan.
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	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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- (1) 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.
  - (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 September 30, 2015.
  - (3) 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 17, 2015.
  - (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 10.10 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on November 14, 2006.
  - (9) 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.
  - (10) 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.
  - (11) 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.
  - (12) Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A (SEC File No. 001-33299) filed on April 19, 2012.
  - (13) 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.
  - (14) 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.
  - (15) 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.
  - (16) Incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 (File No. 333-189720) filed on July 1, 2013.
  - (17) Incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 (File No. 333-190631) filed on August 15, 2013.

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

**Amended and Restated Articles of Association****AMENDED AND RESTATED  
ARTICLES OF ASSOCIATION****OF****MELLANOX TECHNOLOGIES, LTD.****A COMPANY LIMITED BY SHARES****1. COMPANY NAME**

The name of the company is "Mellanox Technologies Ltd." (the "Company").

**2. INTERPRETATION**

(a) In these Articles, the following terms shall bear the meanings set forth below, unless inconsistent with the subject or context.

"Office Holder" shall mean every director and every other person included in the definition of "office holder" under the Companies Law, including the executive officers of the Company.

"External Directors" shall mean directors appointed and serving in accordance with Sections 239 through 249 of the Companies Law.

"Companies Law" shall mean the Israeli Companies Law, 5759-1999, as amended and as may be amended from time to time, and any regulations promulgated thereunder.

"Securities Law" shall mean the Israeli Securities Law 5728-1968, as amended and as may be amended from time to time, and any regulations promulgated thereunder.

"Articles" shall mean these Amended and Restated Articles of Association as originally adopted or as amended from time to time.

"Office" shall mean the registered office of the Company.

"Year" and "Month" shall mean a Gregorian month or year.

(b) Defined terms used herein, but not defined, shall have the meaning given them in the Companies Law.

(c) Unless the subject or the context otherwise requires: words and expressions importing the masculine gender shall include the feminine gender; and words and expressions importing persons shall include bodies corporate.

**3. PUBLIC COMPANY; LIMITED LIABILITY AND COMPANY OBJECTIVES**

(a) The Company is a Public Company, as such term is defined in the Companies Law.

(b) The liability of the Company's Shareholders is limited and, accordingly, the liability of each Shareholder for the Company's obligations shall be limited to the payment of the nominal value of the shares held by such Shareholder, subject to the provisions of these Articles and the Companies Law.

(c) The Company's objectives are to carry on any business and perform any act which is not prohibited by law. The Company may also make contributions of reasonable sums to worthy purposes even if such contributions are not made on the basis of business considerations

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## SHARE CAPITAL

### 4. SHARE CAPITAL

(a) The authorized share capital of the Company is three million five hundred thousand New Israeli Shekels (NIS 3,500,000) divided into two hundred million (200,000,000) Ordinary Shares, par value 0.0175 per share.

(b) The Ordinary Shares all rank *pari passu* in all respects.

### 5. INCREASE OF AUTHORIZED SHARE CAPITAL

(a) The Company may, from time to time, by resolution of its shareholders, whether or not all the shares then authorized have been issued and whether or not all the shares theretofore issued have been called up for payment, increase its authorized share capital by the creation of new shares. Any such increase shall be in such amount and shall be divided into shares of such nominal amounts, and such shares shall confer such rights and preferences, and shall be subject to such restrictions, as such resolution shall provide.

(b) Except to the extent otherwise provided in such resolution, any new shares included in the authorized share capital increased as aforesaid shall be subject to all the provisions of these Articles which are applicable to shares of the same class included in the existing share capital.

### 6. SPECIAL RIGHTS; MODIFICATION OF RIGHTS

(a) Subject to the provisions of these Articles, and without prejudice to any special rights previously conferred upon the holders of existing shares in the Company, the Company may, from time to time, by resolution of its shareholders, provide for shares with such preferred or deferred rights or rights of redemption or other special rights and/or such restrictions, whether in regard to liquidation, dividends, voting, repayment of share capital or otherwise, as may be stipulated in such resolution provided that any resolution with respect to the issuance of shares will be made only by the Board of Directors.

(b)

(i) If at any time the share capital is divided into different classes of shares, the rights attached to any class, unless otherwise provided by these Articles, may be modified or abrogated by the Company, by a resolution of the shareholders, subject to the consent in writing of the holders of at least a majority of the issued shares of such class or the adoption of a resolution passed at a separate General Meeting of the holders of the shares of such class.

(ii) The provisions of these Articles relating to General Meetings shall, *mutatis mutandis*, apply to any separate General Meeting of the holders of the shares of a particular class, provided, however, that the requisite quorum at any such separate General Meeting shall be two or more members present in person or by proxy and holding not less than thirty three and a third percent ( $33\frac{1}{3}\%$ ) of the issued shares of such class.

(iii) Unless otherwise provided by these Articles, the enlargement of an authorized class of shares, or the issuance of additional shares thereof out of the authorized and unissued share capital, shall not be deemed, for purposes of this Article 6(b), to modify or abrogate the rights attached to previously issued shares of such class or of any other class.

### 7. CONSOLIDATION, SUBDIVISION, CANCELLATION AND REDUCTION OF SHARE CAPITAL

(a) The Company may, from time to time, by resolution of its shareholders (subject, however, to the provisions of Article 6(b) hereof and to applicable law):

(i) consolidate and divide all or part of its issued or un-issued authorized share capital into shares of a per share nominal value which is larger than the per share nominal value of its existing shares;

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(ii) subdivide its shares (issued or un-issued) or any of them, into shares of smaller nominal value;

(iii) cancel any shares which, at the date of the adoption of such resolution, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so canceled; or

(iv) reduce its share capital in any manner, subject to any consent required by law.

(b) With respect to any consolidation of issued shares into shares of a larger nominal value per share, and with respect to any other action which may result in fractional shares, the Board of Directors may settle any difficulty which may arise with regard thereto, as it deems fit, and, in connection with any such consolidation or other action which could result in fractional shares, may, without limiting its aforesaid power:

(i) determine, as to the holder of shares so consolidated, which issued shares shall be consolidated into a share of a larger nominal value per share;

(ii) allot, in contemplation of or subsequent to such consolidation or other action, shares or fractional shares sufficient to preclude or remove fractional share holdings;

(iii) redeem, in the case of redeemable preference shares, and subject to applicable law, such shares or fractional shares sufficient to preclude or remove fractional share holdings; and/or

(iv) cause the transfer of fractional shares by certain shareholders of the Company to other shareholders thereof so as to most expediently preclude or remove any fractional shareholdings, and cause the transferees of such fractional shares to pay the transferors thereof the fair value thereof, and the Board of Directors is hereby authorized to act in connection with such transfer, as agent for the transferors and transferees of any such fractional shares, with full power of substitution, for the purposes of implementing the provisions of this sub-Article 7(b)(iv).

## **SHARES**

### **8. ISSUANCE OF SHARE CERTIFICATES; REPLACEMENT OF LOST CERTIFICATES**

(a) Share Certificates shall be issued under the corporate seal of the Company and shall bear the signature of one Director, or of any other person or persons so authorized by the Board of Directors.

(b) Each shareholder shall be entitled to one or several numbered certificates for all the shares of any class registered in his name, each for one or more of such shares. Each certificate shall specify the serial numbers of the shares represented thereby and may also specify the amount paid up thereon.

(c) A share certificate registered in the names of two or more persons shall be delivered to the person first named in the Shareholder Register in respect of such co-ownership.

(d) A share certificate which has been defaced, lost or destroyed, may be replaced, and the Company shall issue a new certificate to replace such defaced, lost or destroyed certificate upon payment of such fee, and upon the furnishing of such evidence of ownership and such indemnity, as the Board of Directors in its discretion deems fit.

### **9. REGISTERED HOLDER**

Except as otherwise provided in these Articles, the Company shall be entitled to treat the registered holder of each share as the absolute owner thereof, and accordingly, shall not, except as ordered by a court of competent jurisdiction, or as required by statute, be obligated to recognize any equitable or other claim to, or interest in, such share on the part of any other person.

### **10. ALLOTMENT OF SHARES**

The un-issued shares from time to time shall be under the sole control of the Board of Directors, who shall have the power to allot, issue or otherwise dispose of shares to such persons, on such terms and conditions (including

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*inter alia* terms relating to calls as set forth in Article 12(f) hereof), and either at par or at a premium, or, subject to the provisions of the Companies Law, at a discount and/or with payment of commission, and at such times, as the Board of Directors deems fit, and the power to give to any person the option to acquire from the Company any shares, either at par or at a premium, or, subject as aforesaid, at a discount and/or with payment of commission, during such time and for such consideration as the Board of Directors deems fit.

#### **11. PAYMENT IN INSTALLMENTS**

If pursuant to the terms of allotment or issue of any share, all or any portion of the price thereof shall be payable in installments, every such installment shall be paid to the Company on the due date thereof by the then registered holder(s) of the share or the person(s) then entitled thereto.

#### **12. CALLS ON SHARES**

(a) The Board of Directors may, from time to time, as it, in its discretion, deems fit, make calls for payment upon shareholders in respect of any sum which has not been paid up in respect of shares held by such shareholders and which is not pursuant to the terms of allotment or issue of such shares or otherwise, payable at a fixed time, and each shareholder shall pay the amount of every call so made upon him or her (and of each installment thereof if the same is payable in installments), to the Company at the time(s) and place(s) designated by the Board of Directors, as any such time(s) may be thereafter extended or place(s) changed. Unless otherwise stipulated in the resolution of the Board of Directors (and in the notice hereafter referred to), each payment in response to a call shall be deemed to constitute a pro rata payment on account of all the shares in respect of which such call was made.

(b) Notice of any call for payment by a shareholder shall be given in writing to such shareholder not less than fourteen (14) days prior to the time of payment fixed in such notice, and shall specify the time and place of payment. Prior to the time for any such payment fixed in a notice of a call given to a shareholder, the Board of Directors may in its absolute discretion, by notice in writing to such member, revoke such call in whole or in part, extend the time fixed for payment thereof, or designate a different place of payment. In the event of a call payable in installments, only one notice thereof need be given.

(c) If pursuant to the terms of allotment or issue of a share or otherwise, an amount is made payable at a fixed time (whether on account of such share or by way of premium), such amount shall be payable at such time as if it were payable by virtue of a call made by the Board of Directors and for which notice was given in accordance with paragraphs (a) and (b) of this Article 12, and the provisions of these Articles with regard to calls (and the non-payment thereof) shall be applicable to such amount (and the non-payment thereof).

(d) Joint holders of a share shall be jointly and severally liable to pay all calls for payment in respect of such share and all interest payable thereon.

(e) Any amount called for payment which is not paid when due shall bear interest from the date fixed for payment until actual payment thereof, at such rate (not exceeding the then prevailing debitory rate charged by leading commercial banks in Israel), and payable at such time(s) as the Board of Directors may prescribe.

(f) Upon the allotment of shares, the Board of Directors may provide for differences among the allottees of such shares as to the amounts and times for payment of calls in respect of such shares.

#### **13. PREPAYMENT**

With the approval of the Board of Directors, any shareholder may pay to the Company any amount not yet payable in respect of his shares, and the Board of Directors may approve the payment by the Company of interest on any such amount until the same would be payable if it had not been paid in advance, at such rate and time(s) as may be approved by the Board of Directors. The Board of Directors may at any time cause the Company to repay all or any part of the money so advanced, without premium or penalty. Nothing in this Article 13 shall derogate from the right of the Board of Directors to make any call for payment before or after receipt by the Company of any such advance.

#### **14. FORFEITURE AND SURRENDER**

(a) If any shareholder fails to pay an amount payable by virtue of a call, or interest thereon as provided for in accordance herewith, on or before the day fixed for payment of the same, the Board of Directors may at any time

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after the day fixed for such payment, so long as such amount (or any portion thereof) or interest thereon (or any portion thereof) remains unpaid, resolve to forfeit all or any of the shares in respect of which such payment was called for. All expenses incurred by the Company in attempting to collect any such amount or interest thereon, including, without limitation, attorney's fees and costs of legal proceedings, shall be added to, and shall, for all purposes (including the accrual of interest thereon), constitute a part of, the amount payable to the Company in respect of such call.

(b) Upon the adoption of a resolution as to the forfeiture of a shareholder's share, the Board of Directors shall cause notice thereof to be given to such shareholder, which notice shall state that, in the event of the failure to pay the entire amount so payable by a date specified in the notice (which date shall be not less than fourteen (14) days after the date such notice is given and which may be extended by the Board of Directors), such shares shall be ipso facto forfeited, provided, however, that, prior to such date, the Board of Directors may nullify such resolution of forfeiture, but no such nullification shall stop the Board of Directors from adopting a further resolution of forfeiture in respect of the non-payment of the same amount.

(c) Without derogating from Articles 54 and 59 hereof, whenever shares are forfeited as herein provided, all dividends, if any, theretofore declared in respect thereof and not actually paid shall be deemed to have been forfeited at the same time.

(d) The Company, by resolution of the Board of Directors, may accept the voluntary surrender of any share not fully paid for.

(e) Any share forfeited or surrendered as provided herein, shall become the property of the Company, and the same, subject to the provisions of these Articles, may be sold, re-allotted or otherwise disposed of as the Board of Directors deems fit.

(f) Any shareholder whose shares have been forfeited or surrendered shall cease to be a shareholder in respect of the forfeited or surrendered shares, but shall, notwithstanding, be liable to pay, and shall forthwith pay, to the Company, all calls, interest and expenses owing upon or in respect of such shares at the time of forfeiture or surrender, together with interest thereon from the time of forfeiture or surrender until actual payment, at the rate prescribed in Article 12(e) above, and the Board of Directors, in its discretion, may, but shall not be obligated to, enforce the payment of such moneys, or any part thereof. In the event of such forfeiture or surrender, the Company, by resolution of the Board of Directors, may accelerate the date(s) of payment of any or all amounts then owing to the Company by the shareholder in question (but not yet due) in respect of all shares owned by such shareholder, solely or jointly with another.

(g) The Board of Directors may at any time, before any share so forfeited or surrendered shall have been sold, re-allotted or otherwise disposed of, nullify the forfeiture or surrender on such conditions as it deems fit, but no such nullification shall stop the Board of Directors from re-exercising its powers of forfeiture pursuant to this Article 14.

## **15. LIEN**

(a) Except to the extent the same may be waived or subordinated in writing, the Company shall have a first and paramount lien upon all the shares registered in the name of each shareholder (without regard to any equitable or other claim or interest in such shares on the part of any other person), and upon the proceeds of the sale thereof, for his debts, liabilities and engagements to the Company arising from any amount payable by such shareholder in respect of any unpaid or partly paid share, whether or not such debt, liability or engagement has matured. Such lien shall extend to all dividends from time to time declared or paid in respect of such share. Unless otherwise provided, the registration by the Company of a transfer of shares shall be deemed to be a waiver on the part of the Company of the lien (if any) existing on such shares immediately prior to such transfer.

(b) The Board of Directors may cause the Company to sell a share subject to such a lien when the debt, liability or engagement giving rise to such lien has matured, in such manner as the Board of Directors deems fit, but no such sale shall be made unless such debt, liability or engagement has not been satisfied within fourteen (14) days after written notice of the intention to sell shall have been served on such shareholder, his executors or administrators.

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(c) The net proceeds of any such sale, after payment of the costs thereof, shall be applied in or toward satisfaction of the debts, liabilities or engagements of such member in respect of such share (whether or not the same have matured), and the residue (if any) shall be paid to the shareholder, his executors, administrators or assigns.

#### **16. SALE AFTER FORFEITURE OR SURRENDER OR IN ENFORCEMENT OF LIEN**

Upon any sale of a share after forfeiture or surrender or for enforcing a lien, the Board of Directors may appoint any person to execute an instrument of transfer of the share so sold and cause the purchaser's name to be entered in the Shareholder Register in respect of such share. The purchaser shall be registered as the shareholder and shall not be bound to see to the regularity of the sale proceedings, or to the application of the proceeds of such sale, and after his name has been entered in the Shareholder Register in respect of such share, the validity of the sale shall not be impeached by any person, and the remedy of any person aggrieved by the sale shall be in damages only and against the Company exclusively.

#### **17. REDEEMABLE SHARES**

The Company may, subject to applicable law, issue redeemable shares and redeem the same.

### **TRANSFER OF SHARES**

#### **18. REGISTRATION OF TRANSFER**

(a) No transfer of shares shall be registered unless a proper writing or instrument of transfer (in any customary form or any other form satisfactory to the Board of Directors) has been submitted to the Company (or its transfer agent), together with the share certificate(s) and such other evidence of title as the Board of Directors may reasonably require. Until the transferee has been registered in the Shareholder Register (or with the transfer agent) in respect of the shares so transferred, the Company may continue to regard the transferor as the owner thereof. The Board of Directors, may, from time to time, prescribe a fee for the registration of a transfer.

(b) The Board of Directors may, in its discretion to the extent it deems necessary, close the Shareholder Register for registrations of transfers of shares during any year for a period determined by the Board of Directors, and no registrations of transfers of shares shall be made by the Company during any such period during which the Shareholder Register is so closed.

#### **19. RECORD DATE FOR NOTICES OF GENERAL MEETINGS AND OTHER ACTION**

(a) Notwithstanding any provision of these Articles to the contrary, and to allow the Company to determine the shareholders entitled to notice of, or to vote at, any Annual or Extraordinary General Meeting or any adjournment thereof, or to express consent to or dissent from any corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of, or to take or be the subject to, any other action, the Board of Directors may fix, a record date, which shall not be more than forty (40), or any longer period required under the Companies Law, nor less than four (4) days, or any longer period required under the Companies Law, before the date of such meeting or other action. A determination of shareholders of record entitled to notice of or to vote at a meeting shall apply to any adjournment of the meeting: provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

(b) Any shareholder or shareholders of the Company holding, at least one percent (1%) of the voting rights in the issued share capital of the Company may, pursuant to the Companies Law, request that the Board of Directors include a subject in the agenda of a General Meeting to be held in the future. Any such request must be in writing, must include all information related to subject matter and the reason that such subject is proposed to be brought before the General Meeting and must be signed by the shareholder or shareholders making such request. In addition, subject to the Companies Law and the provisions of Article 39, the Board of Directors may include such subject in the agenda of a General Meeting only if the request has been delivered to the Secretary of the Company not later than sixty (60) days and not more than one hundred and twenty (120) days prior to the General Meeting in which the subject is to be considered by the shareholders of the Company. Each such request shall also set forth: (a) the name and address of the shareholder making the request; (b) a representation that the shareholder is a holder of record of shares of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting; (c) a description of all arrangements or understandings between the shareholder and any other person

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or persons (naming such person or persons) in connection with the subject which is requested to be included in the agenda; and (d) a declaration that all the information that is required under the Companies Law and any other applicable law to be provided to the Company in connection with such subject, if any, has been provided. Furthermore, the Board of Directors, may, in its discretion to the extent it deems necessary, request that the shareholders making the request provide additional information necessary so as to include a subject in the agenda of a General Meeting, as the Board of Directors may reasonably require.

## **TRANSMISSION OF SHARES**

### **20. DECEDENTS' SHARES**

(a) In case of death of a registered holder of a share registered in the names of two or more holders, the Company may recognize the survivor(s) as the sole owner(s) thereof unless and until the provisions of Article 20(b) have been effectively invoked.

(b) Any person becoming entitled to a share in consequence of the death of any shareholder, upon producing evidence of the grant of probate or letters of administration or declaration of succession (or such other evidence as the Board of Directors may reasonably deem sufficient), shall be registered as a shareholder in respect of such share, or may, subject to the regulations as to transfer herein contained, transfer such share.

### **21. RECEIVERS AND LIQUIDATORS**

(a) The Company may recognize any receiver, liquidator or similar official appointed to wind-up, dissolve or otherwise liquidate a corporate shareholder, and a trustee, manager, receiver, liquidator or similar official appointed in bankruptcy or in connection with the reorganization of, or similar proceeding with respect to a shareholder or its properties, as being entitled to the shares registered in the name of such member.

(b) Such receiver, liquidator or similar official appointed to wind-up, dissolve or otherwise liquidate a corporate shareholder and such trustee, manager, receiver, liquidator or similar official appointed in bankruptcy or in connection with the reorganization of, or similar proceedings with respect to a shareholder or its properties, upon producing such evidence as the Board of Directors may deem sufficient as to his authority to act in such capacity or under this Article, shall with the consent of the Board of Directors (which the Board of Directors may grant or refuse in its absolute discretion), be registered as a shareholder in respect of such shares, or may, subject to the regulations as to transfer herein contained, transfer such shares.

## **GENERAL MEETINGS**

### **22. ANNUAL GENERAL MEETING**

(a) An Annual General Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen (15) months after the last preceding Annual General Meeting) and at such place, either within or without the State of Israel, as may be determined by the Board of Directors.

(b) Subject to the provisions of these Articles, the function of the Annual General Meeting shall be to elect the members of the Board of Directors; to receive the Financial Statements; to appoint the Company's auditors and to fix their remuneration and to transact any other business which under these Articles or the Companies Law are to be transacted at a General Meeting.

### **23. EXTRAORDINARY GENERAL MEETINGS**

All General Meetings other than Annual General Meetings shall be called "Extraordinary General Meetings". The Board of Directors may, whenever it thinks fit, convene an Extraordinary General Meeting, at such time and place, within or out of the State of Israel, as may be determined by the Board of Directors, and shall be obliged to do so upon a requisition in writing in accordance with Section 63 of the Companies Law.

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## **24. NOTICE OF GENERAL MEETINGS; OMISSION TO GIVE NOTICE**

(a) Not less than twenty-one (21) days' prior notice, or thirty-five (35) days' prior notice to the extent required under regulations promulgated under the Companies Law, shall be given of every General Meeting. Each such notice shall specify the place and the day and hour of the meeting and the general nature of each item to be acted upon thereat, said notice to be given to all members who would be entitled to attend and vote at such meeting. Anything therein to the contrary notwithstanding, with the consent of all members entitled to vote thereon, a resolution may be proposed and passed at such meeting although a lesser notice than hereinabove prescribed has been given.

(b) The accidental omission to give notice of a meeting to any member, or the non-receipt of notice sent to such member, shall not invalidate the proceedings at such meeting.

(c) Notwithstanding anything to the contrary in this Article 24, and subject to any applicable stock exchange rules or regulations, notice of general meetings does not have to be delivered to shareholders, and notice by the Company of a General Meeting which is published in two daily newspapers in Israel shall be deemed to have been duly given on the date of such publication to any shareholder whose address as listed in the Register of Shareholders (or as designated in writing for the receipt of notices and other documents) is located in the State of Israel, and notice by the Company of a General Meeting which is publicized on the United States Securities and Exchange Commission's EDGAR Database or similar publication via the internet shall be deemed to have been duly given on the date of such publication to any shareholder whose address as registered in the Register of Shareholders (or as designated in writing for the receipt of notices and other documents) is located outside of Israel.

## **25. MANNER OF MEETING**

The Board may, in its absolute discretion, resolve to enable persons entitled to attend a general meeting to do so by simultaneous attendance and participation at the principal meeting place and a satellite meeting place or places anywhere in the world and the shareholders present in person, by proxy or by written ballot at satellite meeting places shall be counted in the quorum for and entitled to vote at the general meeting in question, and that meeting shall be duly constituted and its proceedings valid, provided that the chairman of the general meeting is satisfied that adequate facilities are available throughout the general meeting to ensure that shareholders attending at all the meeting places are able to:

(a) participate in the business for which the meeting has been convened;

(b) hear all persons who speak (whether by the use of microphones, loudspeakers audio-visual communications equipment or otherwise) in the principal meeting place and any satellite meeting place(s); and

(c) be heard by all other persons so present in the same way.

## **PROCEEDINGS AT GENERAL MEETINGS**

## **26. QUORUM**

(a) No business shall be transacted at a General Meeting, or at any adjournment thereof, unless the quorum required under these Articles for such General Meeting or such adjourned meeting, as the case may be, is present when the meeting proceeds to business.

(b) In the absence of contrary provisions in these Articles, two or more shareholders (not in default in payment of any sum referred to in Article 32(a) hereof), present in person or by proxy and holding shares conferring in the aggregate more than thirty three and a third ( $33\frac{1}{3}\%$ ) percent of the voting power of the Company, shall constitute a quorum of General Meetings.

(c) If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon requisition under Sections 64 or 65 of the Companies Law, shall be dissolved, but in any other case it shall be adjourned to the same day in the next week, at the same time and place, or to such day and at such time and place as the Chairman may determine. No business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called.

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(d) The Board of Directors may determine, in its discretion, the matters that may be voted upon at the meeting by proxy or written ballot in addition to the matters listed in Section 87(a) to the Companies Law.

## **27. CHAIRMAN**

The Chairman, if any, of the Board of Directors, shall preside as Chairman at every General Meeting of the Company. If at any meeting the Chairman is not present within fifteen (15) minutes after the time fixed for holding the meeting or is unwilling to act as Chairman, the Co-Chairman shall preside at the meeting. If at any such meeting both the Chairman and the Co-Chairman are not present or are unwilling to act as Chairman, the shareholders present shall choose someone of their number to be Chairman. The office of Chairman shall not, by itself, entitle the holder thereof to vote at any General Meeting nor shall it entitle such holder to a second or casting vote (without derogating, however, from the rights of such Chairman to vote as a shareholder or proxy of a shareholder if, in fact, he is also a shareholder or proxy).

## **28. ADOPTION OF RESOLUTIONS AT GENERAL MEETINGS**

(a) A resolution shall be deemed adopted if approved by the holders of a majority of the voting power represented at the meeting in person or by proxy or by written ballot and voting thereon.

(b) Every question submitted to a General Meeting shall be decided by a show of hands, but the Chairman of the Meeting may determine that a resolution shall be decided by a written ballot. A written ballot may be implemented before the proposed resolution is voted upon or immediately after the declaration by the Chairman of the results of the vote by a show of hands. If a vote by written ballot is taken after such declaration, the results of the vote by a show of hands shall be of no effect, and the proposed resolution shall be decided by such written ballot.

(c) A declaration by the Chairman of the meeting that a resolution has been carried unanimously, or carried by a particular majority, or lost, and an entry to that effect in the minute book of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favor of or against such resolution.

(d) Notwithstanding any of the other provisions of these Articles, any resolution to consummate a Merger, as defined in Section 1 of the Law, shall require the approval of the holders of at least a majority of the voting power of the Company. For the avoidance of doubt, any amendment to this Article 28(d) shall require the approval of the holders of at least a majority of the voting power of the Company.

## **29. RESOLUTIONS IN WRITING**

A resolution in writing signed by all shareholders of the Company then entitled to attend and vote at General Meetings or to which all such shareholders have given their written consent (by letter, telegram, telex, facsimile, e-mail or otherwise) shall be deemed to have been unanimously adopted by a General Meeting duly convened and held.

## **30. POWER TO ADJOURN**

(a) The Chairman of a General Meeting at which a quorum is present may, with the consent of the holders of a majority of the voting power represented in person or by proxy and voting on the question of adjournment (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called.

(b) It shall not be necessary to give notice of an adjournment, whether pursuant to Article 26(c) or Article 30(a), unless the meeting is adjourned for twenty-one (21) days or more in which event notice thereof shall be given in the manner required for the meeting as originally called.

## **31. VOTING POWER**

Subject to the provisions of Article 32(a) and subject to any provision hereof conferring special rights as to voting, or restricting the right to vote, every shareholder shall have one vote for each share held by him of record, on every

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resolution, without regard to whether the vote thereon is conducted by a show of hands, by written ballot or by any other means.

### 32. VOTING RIGHTS

- (a) No shareholder shall be entitled to vote at any General Meeting (or be counted as a part of the quorum thereat), unless all calls and other sums then payable by him in respect of his shares in the Company have been paid, but this Article 32(a) shall not apply to separate General Meetings of the holders of a particular class of shares pursuant to Article 6(b).
- (b) A company or other corporate body being a shareholder of the Company may duly authorize any person to be its representative at any meeting of the Company or to execute or deliver a proxy on its behalf. Any person so authorized shall be entitled to exercise on behalf of such shareholder all the power which the latter could have exercised if it were an individual shareholder. Upon the request of the Chairman of the meeting, written evidence of such authorization (in form acceptable to the Chairman) shall be delivered to him.
- (c) Any shareholder entitled to vote may vote either in person or by proxy (who need not be a shareholder of the Company), or, if the shareholder is a company or other corporate body, by a representative authorized pursuant to Article 32(b).
- (d) If two or more persons are registered as joint holders of any share, the vote of the senior who tenders a vote, in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s). For the purpose of this Article 32(d), seniority shall be determined by the order of registration of the joint holders in the Shareholder Register.

### PROXIES

### 33. INSTRUMENT OF APPOINTMENTS

- (a) An instrument appointing a proxy shall be in writing and shall be substantially in the following form:

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"I, [insert name of shareholder] of [insert address of shareholder], being a member of Mellanox Technologies Ltd. (the "Company"), hereby appoints [insert name of proxy] or [insert address of proxy] as my proxy to vote for me and on my behalf at the [Annual / Extraordinary] General Meeting of the Company to be held on the day of \_\_\_\_\_, 20\_\_\_\_ and at any adjournment(s) thereof.

Signed this day of \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_  
(Signature of Appointor)"

or in any usual or common form or in such other form as may be approved by the Board of Directors. Such proxy shall be duly signed by the appointor or such person's duly authorized attorney or, if such appointor is a company or other corporate body, under its common seal or stamp or the hand of its duly authorized agent(s) or attorney(s).

- (b) The instrument appointing a proxy (and the power of attorney or other authority, if any, under which such instrument has been signed) shall either be presented to the Chairman at the meeting at which the person named in the instrument proposes to vote or be delivered to the Company (at its Registered Office, at its principal place of business, or at the offices of its registrar or transfer agent, or at such place as the Board of Directors may specify) not less than two (2) hours before the time fixed for such meeting, except that the instrument shall be delivered (i) twenty-four (24) hours before the time fixed for the meeting where the meeting is to be held in the United States of America and the instrument is delivered to the Company at its Registered Office or principal place of business, or (ii) forty-eight (48) hours before the time fixed for the meeting where the meeting is to be held outside of the United States of America and Israel and the instrument is delivered to the Company's registrar or transfer agent. Notwithstanding the above, the Chairman shall have the right to waive the time requirement provided above with
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respect to all instruments of proxies and to accept any and all instruments of proxy received prior to the beginning of a General Meeting.

#### **34. EFFECT OF DEATH OF APPOINTOR OR TRANSFER OF SHARE OR REVOCATION OF APPOINTMENT**

(a) A vote cast in accordance with an instrument appointing a proxy shall be valid notwithstanding the prior death or bankruptcy of the appointing member (or of his attorney-in-fact, if any, who signed such instrument), or the transfer of the share in respect of which the vote is cast, unless written notice of such matters shall have been received by the Company or by the Chairman of such meeting prior to such vote being cast.

(b) An instrument appointing a proxy shall be deemed revoked (i) upon receipt by the Company or the Chairman, subsequent to receipt by the Company of such instrument, of written notice signed by the person signing such instrument or by the member appointing such proxy canceling the appointment thereunder (or the authority pursuant to which such instrument was signed) or of an instrument appointing a different proxy (and such other documents, if any, required under Article 33(b) for such new appointment), provided such notice of cancellation or instrument appointing a different proxy were so received at the place and within the time for delivery of the instrument revoked thereby as referred to in Article 33(b) hereof, or (ii) if the appointing shareholder is present in person at the meeting for which such instrument of proxy was delivered, upon receipt by the Chairman of such meeting of written notice from such member of the revocation of such appointment, or if and when such shareholder votes at such meeting. A vote cast in accordance with an instrument appointing a proxy shall be valid notwithstanding the revocation or purported cancellation of the appointment, or the presence in person or vote of the appointing shareholder at a meeting for which it was rendered, unless such instrument of appointment was deemed revoked in accordance with the foregoing provisions of this Article 34(b) at or prior to the time such vote was cast.

### **BOARD OF DIRECTORS**

#### **35. POWERS OF BOARD OF DIRECTORS**

(a) *General* . The management of the business of the Company shall be vested in the Board of Directors, which may exercise all such powers and do all such acts and things as the Company is authorized to exercise and do, and are not by these Articles or by law required to be exercised or done by the Company by action of its shareholders at a General Meeting. The authority conferred on the Board of Directors by this Article 35 shall be subject to the provisions of the Companies Law, these Articles and any regulation or resolution consistent with these Articles adopted from time to time by the Company by action of its shareholders at a General Meeting, provided, however, that no such regulation or resolution shall invalidate any prior act done by or pursuant to a decision of the Board of Directors which would have been valid if such regulation or resolution had not been adopted.

(b) *Borrowing Power* . The Board of Directors may from time to time, at its discretion, cause the Company to borrow or secure the payment of any sum or sums of money for the purposes of the Company, and may secure or provide for the repayment of such sum or sums in such manner, at such times and upon such terms and conditions as it deems fit, and, in particular, by the issuance of bonds, perpetual or redeemable debentures, debenture stock, or any mortgages, charges, or other securities on the undertaking or the whole or any part of the property of the Company, both present and future, including its uncalled or called but unpaid capital for the time being.

(c) *Reserves* . The Board of Directors may, from time to time, set aside any amount(s) out of the profits of the Company as a reserve or reserves for any purpose(s) which the Board of Directors, in its absolute discretion, shall deem fit, including without limitation, capitalization and distribution of bonus shares, and may invest any sum so set aside in any manner and from time to time deal with and vary such investments and dispose of all or any part thereof, and employ any such reserve or any part thereof in the business of the Company without being bound to keep the same separate from other assets of the Company, and may subdivide or redesignate any reserve or cancel the same or apply the funds therein for another purpose, all as the Board of Directors may from time to time think fit.

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### **36. EXERCISE OF POWERS OF BOARD OF DIRECTORS**

(a) A meeting of the Board of Directors at which a quorum is present shall be competent to exercise all the authorities, powers and discretion vested in or exercisable by the Board of Directors, whether in person or by any other means by which the Directors may hear each other simultaneously.

(b) A resolution proposed at any meeting of the Board of Directors shall be deemed adopted if approved by a majority of the Directors present when such resolution is put to a vote and voting thereon.

(c) The Board of Directors may adopt resolutions without holding a meeting of the Board of Directors, provided that all of the Directors then in office and lawfully entitled to vote thereon shall have agreed to vote on the matters underlying such resolutions without convening a meeting of the Board of Directors. If the Board of Directors adopts resolutions as set forth in the immediately preceding sentence, minutes including such resolutions, including a resolution to vote on such matters without convening a meeting of the Board of Directors, shall be prepared and the Chairman of the Board of Directors (or in his or her absence the Co-Chairman) will sign such minutes.

### **37. DELEGATION OF POWERS**

(a) The Board of Directors may, subject to the provisions of the Companies Law, delegate any or all of its powers to committees, each consisting of one or more persons (who are Directors), and it may from time to time revoke such delegation or alter the composition of any such committee. Any Committee so formed (in these Articles referred to as a "Committee of the Board of Directors"), shall, in the exercise of the powers so delegated, conform to any regulations imposed on it by the Board of Directors. The meetings and proceedings of any such Committee of the Board of Directors shall, *mutatis mutandis*, be governed by the provisions herein contained for regulating the meetings of the Board of Directors, so far as not superseded by any regulations adopted by the Board of Directors under this Article. Unless otherwise expressly provided by the Board of Directors in delegating powers to a Committee of the Board of Directors, such Committee shall not be empowered to further delegate such powers.

(b) Without derogating from the provisions of Article 50, the Board of Directors may from time to time appoint a Secretary to the Company, as well as officers, agents, employees and independent contractors, as the Board of Directors deems fit, and may terminate the service of any such person. The Board of Directors may, subject to the provisions of the Companies Law, determine the powers and duties, as well as the salaries and emoluments, of all such persons, and may require security in such cases and in such amounts as it deems fit.

(c) The Board of Directors may from time to time, by power of attorney or otherwise, appoint any person, company, firm or body of persons to be the attorney or attorneys of the Company at law or in fact for such purpose(s) and with such powers, authorities and discretions, and for such period and subject to such conditions, as it deems fit, and any such power of attorney or other appointment may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board of Directors deems fit, and may also authorize any such attorney to delegate all or any of the powers, authorities and discretion vested in him.

### **38. NUMBER OF DIRECTORS**

The Board of Directors of the Company shall consist of not less than two (2) nor more than eleven (11) Directors.

### **39. ELECTION AND REMOVAL OF DIRECTORS**

(a) Subject to the provisions of these Articles and the Companies Law, Directors shall be elected at the Annual General Meeting or an Extraordinary Meeting of the Company by the vote of the holders of a majority of the voting power represented at such meeting in person or by proxy and voting on the election of directors.

(b) Nominations for the election of Directors may be made by the Board of Directors or a committee appointed by the Board of Directors or by any shareholder holding at least 1% of the outstanding voting power in the Company. However, and without limitation of Sections 63 or 64 of the Companies Law, any such shareholder may nominate one or more persons for election as Directors at a General Meeting only if a written notice of such shareholder's intent to make such nomination or nominations has been given to the Secretary of the Company not later than (i) with respect to an election to be held at an Annual General Meeting of shareholders, ninety (90) days prior to the anniversary date of the immediately preceding annual meeting, and (ii) with respect to an election to be held at a Extraordinary General Meeting of shareholders for the election of Directors, at least ninety (90) days prior to the

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date of such meeting. Each such notice shall set forth: (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the shareholder is a holder of record of shares of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; and (d) the consent of each nominee to serve as a Director of the Company if so elected and a declaration signed by each of the nominees declaring that there is no limitation under the Companies Law for the appointment of such a nominee and that all the information that is required under the Companies Law to be provided to the Company in connection with such an appointment has been provided. The Chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

(c) The General Meeting may, by a vote of the holders of at least 75% of the voting power represented at the meeting, remove any Director(s) from office, and elect Directors instead of Directors so removed or fill any Vacancy (as defined in Article 41), however created, in the Board of Directors unless such Vacancy was filled by the Board of Directors under Article 41.

(d) In the event of any contradiction between the provisions of this Article 39 and the provisions of the Companies Law relating to the election and term of External Directors, the applicable provisions of the Companies Law shall govern, and the External Directors shall be elected and hold office in accordance with the provisions of the Companies Law.

#### **40. QUALIFICATION OF DIRECTORS**

No person shall be disqualified to serve as a Director by reason of his not holding shares in the Company or by reason of his having served as a Director in the past.

#### **41. CONTINUING DIRECTORS IN THE EVENT OF VACANCIES**

(a) In the event that one or more vacancies is created in the Board of Directors, including without limitation, a situation in which the number of Directors is less than the minimum number permitted under Article 38 (a "Vacancy"), the continuing Directors may continue to act in every matter, and, may appoint Directors to temporarily fill any such Vacancy, provided, however, that if the number of Directors is less than two (2), they may only act in (i) an emergency; or (ii) to fill the office of director which has become vacant; or (iii) in order to call a General Meeting of the Company for the purpose of electing Directors to fill any or all Vacancies, so that at least two (2) Directors are in office as a result of said meeting. Notwithstanding the foregoing, in the event of Vacancy of an External Director, the Company shall call a General Meeting to elect a new External Director or take such other action as required under the Companies Law.

(b) As long as the number of Directors is less than the maximum number of Directors permitted under Article 38, the continuing directors may appoint additional Directors, up to the maximum number permitted under Article 38, to hold office until the next Annual General Meeting following such appointment by the continuing Directors.

#### **42. VACATION OF OFFICE**

(a) The office of a Director shall be vacated, ipso facto, upon his or her death, or if he or she be found lunatic or become of unsound mind, or if he or she becomes bankrupt, or if the Director is a company, upon its winding-up, or if he is found by a court guilty of any of the felonies listed in Section 226 of the Companies Law.

(b) The office of a Director may also be vacated by the written resignation of the Director. Such resignation shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later. Such written resignation shall include the reasons that lead the Director to resign from his office.

#### **43. REMUNERATION OF DIRECTORS**

A Director shall be paid remuneration by the Company for his services as Director to the extent such remuneration shall have been approved by the Company in accordance with the Companies Law.

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#### **44. CONFLICT OF INTEREST**

Subject to the provisions of the Companies Law, no Director shall be disqualified by virtue of his office from holding any office or place of profit in the Company or in any company in which the Company shall be a shareholder or otherwise interested, or from contracting with the Company as vendor, purchaser or otherwise, nor shall any such contract, or any contract or arrangement entered into by or on behalf of the Company in which any Director shall be in any way interested, be voided, nor, other than as required under the Companies Law, shall any Director be liable to account to the Company for any profit arising from any such office or place of profit or realized by any such contract or arrangement by reason only of such Director's holding that office or of the fiduciary relations thereby established, but the nature of his interest, as well as any material fact or document, must be disclosed by him at the meeting of the Board of Directors at which the contract or arrangement is first considered, if his interest then exists, or, in any other case, at no later than the first meeting of the Board of Directors after the acquisition of his interest.

#### **45. [RESERVED]**

### **PROCEEDINGS OF THE BOARD OF DIRECTORS**

#### **46. MEETINGS**

(a) The Board of Directors may meet and adjourn its meetings and otherwise regulate such meetings and proceedings as the Directors think fit.

(b) Any Director may at any time, and the Secretary, upon the request of such Director, shall, convene a meeting of the Board of Directors, but not less than two (2) days' notice shall be given of any meetings so convened. Notice of any such meeting shall be given to all the Directors and may be given orally, by telephone, in writing or by mail, email or facsimile. Notwithstanding anything to the contrary herein, failure to deliver notice to a director of any such meeting in the manner required hereby may be waived by such Director, and a meeting shall be deemed to have been duly convened notwithstanding such defective notice if such failure or defect is waived prior to action being taken at such meeting, by all Directors entitled to participate at such meeting to whom notice was not duly given as aforesaid.

#### **47. RESOLUTIONS IN WRITING**

A resolution in writing signed by the Chairman of the Board of Directors, or of a committee, provided that all the members of the Board of Directors or a committee have agreed to adopt such resolution without convening a meeting, shall be valid for every purpose as a resolution adopted at a Board of Directors' or committee meeting, as the case may be, that was duly convened and held. In place of a Director the aforesaid resolution may be signed and delivered by his attorney.

#### **48. QUORUM**

Until otherwise unanimously decided by the Board of Directors, a quorum at a meeting of the Board of Directors shall be constituted by the presence in person or by telephone conference of half (50%) of the Directors then in office who are lawfully entitled to participate in the meeting. No business shall be transacted at a meeting of the Board of Directors unless the requisite quorum is present (in person or by telephone conference or by other means by which all directors may hear and be heard) when the meeting proceeds to business.

#### **49. CHAIRMAN OF THE BOARD OF DIRECTORS**

The Board of Directors may from time to time, elect one of its members to be the Chairman of the Board of Directors, and another of its members as Co-Chairman, remove such Chairman and Co-Chairman from office and appoint others in their place. The Chairman of the Board of Directors shall preside at every meeting of the Board of Directors, but if there is no such Chairman, or if at any meeting he is not present within fifteen (15) minutes of the time fixed for the meeting or if he is unwilling to take the chair, the Co-Chairman shall preside. If both the Chairman and the Co-Chairman are not present within such fifteen (15) minutes or are unwilling to take the chair the Directors present shall choose one of their number to be the Chairman of such meeting.

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## **50. VALIDITY OF ACTS DESPITE DEFECTS**

All acts done bona fide at any meeting of the Board of Directors, or of a Committee of the Board of Directors, or by any person(s) acting as Director(s), shall, notwithstanding that it may afterwards be discovered that there was some defect in the appointment of the participants in such meetings or any of them or any person(s) acting as aforesaid, or that they or any of them were disqualified, be as valid as if there were no such defect or disqualification.

## **CHIEF EXECUTIVE OFFICER AND PRESIDENT**

### **51. CHIEF EXECUTIVE OFFICER AND PRESIDENT**

The Board of Directors may from time to time appoint one or more persons, whether or not Directors, as Chief Executive Officer or Officers, General Manager or Managers, or President of the Company and may confer upon such person(s), and from time to time modify or revoke, such title(s) and such duties and authorities of the Board of Directors as the Board of Directors may deem fit, subject to such limitations and restrictions as the Board of Directors may from time to time prescribe. Unless otherwise determined by the Board of Directors, the Chief Executive Officer shall have authority with respect of the management of the Company in the ordinary course of business. Such appointment(s) may be either for a fixed term or without any limitation of time, and the Board of Directors may from time to time (subject to the provisions of the Companies Law and of any contract between any such person and the Company) fix his or their salaries and emoluments, remove or dismiss him or them from office and appoint another or others in his or their place or places.

## **MINUTES**

### **52. MINUTES**

(a) Minutes of each General Meeting and of each meeting of the Board of Directors or of any Committee of the Board of Directors shall be recorded and duly entered in books provided for that purpose, and shall be held by the Company at its principal place of office or its Registered Office or such other place as shall have been determined by the Board of Directors. Such minutes shall, in all events, set forth the names of the persons present at the meeting and all resolutions adopted thereat.

(b) Any minutes as aforesaid, if purporting to be signed by the chairman of the meeting or by the chairman of the next succeeding meeting, shall constitute prima facie evidence of the matters recorded therein.

## **DIVIDENDS**

### **53. DECLARATION OF DIVIDENDS**

The Board of Directors may, subject to the applicable provisions of the Companies Law, from time to time declare, and cause the Company to pay, such dividend as may appear to the Board of Directors to be justified by the profits of the Company. The Board of Directors shall determine the time for payment of such dividends, both interim and final, and the record date for determining the shareholders entitled thereto.

### **54. FUNDS AVAILABLE FOR PAYMENT OF DIVIDEND**

No dividend shall be paid otherwise than out of the profits of the Company.

### **55. AMOUNT PAYABLE BY WAY OF DIVIDENDS**

Subject to the provisions of these Articles and subject to any rights or conditions attached at that time to any share in the capital of the Company granting preferential, special or deferred rights or not granting any rights with respect to dividends, the profits of the Company which shall be declared as dividends shall be distributed according to the proportion of the nominal value paid up on account of the shares held at the date so appointed by

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the Company, without regard to the premium paid in excess of the nominal value, if any. No amount paid or credited as paid on a share in advance of calls shall be treated for purposes of this Article as paid on a share.

**56. INTEREST**

No dividend shall carry interest as against the Company.

**57. PAYMENT IN SPECIE**

Upon the determination of the Board of Directors, the Company (i) may cause any monies, investments, or other assets forming part of the undivided profits of the Company, standing to the credit of a reserve fund, or to the credit of a reserve fund for the redemption of capital, or in the hands of the Company and available for dividends, or representing premiums received on the issuance of shares and standing to the credit of the share premium account, to be capitalized and distributed among such of the shareholders as would be entitled to receive the same if distributed by way of dividend and in the same proportion, on the footing that they become entitled thereto as capital, or may cause any part of such capitalized fund to be applied on behalf of such shareholders in paying up in full, either at par or at such premium as the resolution may provide, any unissued shares or debentures or debenture stock of the Company which shall be distributed accordingly or in payment, in full or in part, of the uncalled liability on all issued shares or debentures or debenture stock if such liability exists, on a pro rata basis; and (ii) may cause such distribution or payment to be accepted by such shareholders in full satisfaction of their interest in the said capitalized sum.

**58. IMPLEMENTATION OF POWERS UNDER ARTICLE 57**

For the purpose of giving full effect to any resolution under Article 57, and without derogating from the provisions of Article 7(b) hereof, the Board of Directors may settle any difficulty which may arise in regard to the distribution as it thinks expedient, and, in particular, may issue fractional certificates, and may fix the value for distribution of any specific assets, and may determine that cash payments shall be made to any members upon the footing of the value so fixed, or that fractions of less value than the nominal value of one share may be disregarded in order to adjust the rights of all parties, and may vest any such cash, shares, debentures, debenture stock or specific assets in trustees upon such trusts for the persons entitled to the dividend or capitalized fund as may seem expedient to the Board of Directors.

**59. DIVIDEND ON UNPAID SHARES**

Without derogating from Article 54 hereof, the Board of Directors may give an instruction which shall prevent the distribution of a dividend to the registered holders of share the full nominal amount of which has not been paid up.

**60. RETENTION OF DIVIDENDS**

(a) The Board of Directors may retain any dividend or other monies payable or property distributable in respect of a share on which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities, or engagements in respect of which the lien exists.

(b) The Board of Directors may retain any dividend or other monies payable or property distributable in respect of a share in respect of which any person is, under Article 20 or 21, entitled to become a member, or which any person, is, under said Articles, entitled to transfer, until such person shall become a member in respect of such share or shall transfer the same.

**61. UNCLAIMED DIVIDENDS**

All unclaimed dividends or other moneys payable in respect of a share may be invested or otherwise made use of by the Board of Directors for the benefit of the Company until claimed. The payment by the Directors of any unclaimed dividend or such other moneys into a separate account shall not cause the Company to be a trustee in respect thereof. The principal (and only the principal) of an unclaimed dividend or such other moneys shall be, if claimed, paid to the person entitled thereto.

**62. MECHANICS OF PAYMENT**

The Board of Directors may fix the mechanics for payment of dividends as it deems fit. However, if nothing to the contrary is provided in the resolution of the Board of Directors, than all dividends or other moneys payable in cash in

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respect of a share may be paid by check or warrant sent through the post to, or left at, the registered address of the person entitled thereto or by transfer to a bank account specified by such person (or, if two or more persons are registered as joint holders of such share or are entitled jointly thereto in consequence of the death or bankruptcy of the holder or otherwise, to the joint holder whose name is registered first in the Shareholder Register or his bank account or the person who the Company may then recognize as the owner thereof or entitled thereto under Article 20 or 21 hereof, as applicable, or such person's bank account), or to such person and at such other address as the person entitled thereto may by writing direct. Every such check or warrant shall be made payable to the order of the person to whom it is sent, or to such person as the person entitled thereto as aforesaid may direct, and payment of the check or warrant by the banker upon whom it is drawn shall be a good discharge to the Company.

**63. RECEIPT FROM A JOINT HOLDER**

If two or more persons are registered as joint holders of any share, or are entitled jointly thereto in consequence of the death or bankruptcy of the holder or otherwise, any one of them may give effectual receipts for any dividend or other moneys payable or property distributable in respect of such share.

**ACCOUNTS**

**64. BOOKS OF ACCOUNT**

The Board of Directors shall cause accurate books of account to be kept in accordance with the provisions of the Companies Law and of any other applicable law. Such books of account shall be kept at the Registered Office of the Company, or at such other place or places as the Board of Directors may think fit, and they shall always be open to inspection by all Directors. No member, not being a Director, shall have any right to inspect any account or book or other similar document of the Company, except as conferred by law or authorized by the Board of Directors or by resolution of the shareholders of the Company.

**65. AUDIT**

At least once in every fiscal year the accounts of the Company shall be audited and the correctness of the profit and loss account and balance sheet certified by one or more duly qualified auditors.

**66. AUDITORS**

The appointment, authorities, rights and duties of the auditor(s) of the Company, shall be regulated by applicable law, provided, however, that in exercising its authority to fix the remuneration of the auditor(s), the shareholders by resolution in a General Meeting may act (and in the absence of any action in connection therewith shall be deemed to have so acted) to authorize the Board of Directors or a committee thereof to fix such remuneration subject to such criteria or standards, if any, as may be provided in such resolution, and if no such criteria or standards are so provided, such remuneration shall be fixed in an amount commensurate with the volume and nature of the services rendered by such auditor(s).

**BRANCH REGISTERS**

**67. BRANCH REGISTERS**

Subject to and in accordance with the provisions of Sections 130 to 139, inclusive, of the Companies Law and to all orders and regulation issued thereunder, the Company may cause branch registers to be kept in any place outside Israel as the Board of Directors may think fit, and, subject to all applicable requirements of law, the Board of Directors may from time to time adopt such rules and procedures as it may think fit in connection with the keeping of such branch registers.

**INSURANCE, INDEMNITY AND EXEMPTION**

**68. INDEMNITY, INSURANCE AND EXEMPTION**

(a) Exemption From Liability. Subject to the provisions of the Companies Law, the Company may exempt an Office Holder in advance from all or part of such Office Holder's responsibility or liability for damages caused to

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the Company due to any breach of such Office Holder's duty of care towards the Company to the maximum extent permitted by law. Notwithstanding, the Company shall not exempt a director in advance from its responsibility or liability towards the Company due to a breach of such director's duty of care in distribution.

(b) Indemnification.

(i) Subject to the provisions of the Companies Law and the Securities Law, the Company may indemnify an Office Holder to the fullest extent permitted by the Companies Law and the Securities Law, with respect to the following liabilities, expenses and payments, provided that such liabilities, expenses and payments were incurred by such Office Holder in such Office Holder's capacity as an Office Holder of the Company:

(A) a financial obligation imposed on an Office Holder in favor of another person by a court judgment, including a compromise judgment or an arbitrator's award approved by a court of law;

(B) reasonable litigation expenses, including legal fees, incurred by an Office Holder as a result of Criminal Inquiry or an investigation or proceeding instituted against such Office Holder by a competent authority, which inquiry or investigation or proceeding has ended without the filing of an indictment and without an imposition of financial liability in lieu of a criminal proceeding, or has ended in the imposition of a financial obligation in lieu of a criminal proceeding without the filing of an indictment for an offense that does not require proof of mens rea (the phrases "proceeding that has ended without the filing of an indictment" and "financial obligation in lieu of a criminal proceeding" shall have the meanings ascribed to such phrases in Section 260(a)(1a) of the Companies Law);

(C) expenses, including reasonable litigation expenses and legal fees, incurred by an Office Holder as a result of a proceeding instituted against such Office Holder in relation to (1) infringements that may impose financial sanction pursuant to the provisions of Chapter H'3 under the Securities Law or (2) administrative infringements pursuant to the provisions of Chapter H'4 under the Securities Law or (3) infringements pursuant to the provisions of Chapter I'1 under the Securities Law;

(D) reasonable legal expenses, including attorney's fees, which the Office Holder incurred or with which the Office Holder was charged by a court of law, in a proceeding brought against the Office Holder, by the Company or on its behalf or by another person, or in a criminal prosecution in which the Office Holder was acquitted, or in a criminal prosecution in which the Office Holder was convicted of an offense that does not require proof of mens rea (criminal intent); and

(E) payments to an injured party of infringement under Section 52ND(a)(1)(a) of the Securities Law.

(ii) Subject to the provisions of the Companies Law and the Securities Law, the Company may undertake to indemnify an Office Holder in advance with respect to (i) financial obligations as specified in Article 68(B)(a)(i), provided, that the undertaking is limited to categories of events which, in the opinion of the Board of Directors can be foreseen, based on the Company's actual activities at the time the undertaking to indemnify is given, and in amounts set by the Board of Directors as reasonable, and (ii) expenses, fees and payments as specified in Sub-Sections 68(B)(a)(ii), (iii), (iv) and (v). Subject to the provisions of the Companies Law and the Securities Law, the Company may also undertake to indemnify an Office Holder retroactively for expenses, fees and payments as specified in Section 68(B).

(c) Insurance.

(i) Subject to the provisions of the Companies Law and the Securities Law, the Company may enter into a contract to insure an Office Holder for all or part of the liability that may be imposed on such Office Holder in connection with an act performed by such Office Holder in such Office Holder's capacity as an Office Holder of the Company, with respect to each of the following:

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(A) breach of his duty of care to the Company or to another person;

(B) breach of his duty of loyalty to the Company, provided that the Office Holder acted in good faith and had reasonable grounds to assume that the action in question would not prejudice the interests of the Company;

(C) a financial obligation imposed on him in favor of another person; and

(ii) Subject to the provisions of the Companies Law and the Securities Law, the Company may also enter into a contract to insure an Office Holder for (A) expenses, including reasonable litigation expenses and legal fees, incurred by the Office Holder as a result of a proceeding instituted against such Office Holder in relation to (1) infringements that may impose financial sanction pursuant to the provisions of Chapter H'3 under the Securities Law or (2) administrative infringements pursuant to the provisions of Chapter H'4 under the Securities Law or (3) infringements pursuant to the provisions of Chapter I'1 under the Securities Law and (B) payments made to the injured parties of such infringement under Section 52ND(a)(1)(a) of the Securities Law.

(d) (i) The Company shall not indemnify, exculpate or insure any Office Holder under any of the following circumstances:

(A) a breach of duty of loyalty, except, with respect to indemnification and insurance, to the extent that the Office Holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;

(B) a breach of duty of care committed intentionally or recklessly, excluding a breach arising out of the negligent conduct of the office holder;

(C) an act or omission committed with intent to derive illegal personal benefit; or

(D) a fine, civil fine, financial sanction or levied against the office holder.

(ii) The Company shall not indemnify or insure any Office Holder for a proceeding instituted against such Office Holder pursuant to the provisions of Chapter H'3, H'4 and I'1 under the Securities Law.

(e) Any amendment to the Companies Law and the Securities Law adversely affecting the right of any Office Holder to be indemnified or insured pursuant to this Article 68 shall be prospective in effect, and shall not affect the Company's obligation or ability to indemnify or insure an Office Holder for any act or omission occurring prior to such amendment, unless otherwise provided by the Companies Law and the Securities Law.

(f) The provisions of this Article 68 are not intended, and shall not be interpreted so as to restrict the Company, in any manner in respect of the procurement of insurance and/or indemnification and/or exculpation, in favor of any person who is not an Office Holder, including, without limitation, any employee, agent, consultant or contractor of the Company who is not an Office Holder.

## **WINDING UP**

### **69. WINDING UP**

If the Company is wound up, then subject to applicable law and to the rights of the holders of shares with special rights upon winding up, the assets of the Company available for distribution among the shareholders shall be distributed to them in proportion to the respective holdings of the shares in respect of which such distribution is being made.

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## **RIGHTS OF SIGNATURE, STAMP, AND SEAL**

### **70. RIGHTS OF SIGNATURE, STAMP, AND SEAL**

(a) The Board of Directors shall be entitled to authorize any person or persons (who need not be Directors) to act and sign on behalf of the Company, and the acts and signature of such person (s) on behalf of the Company shall bind the Company insofar as such person (s) acted and signed within the scope of his or their authority.

(b) The Board of Directors may provide for a seal. If the Board of Directors so provides, it shall also provide for the safe custody thereof. Such seal shall not be used except by the authority of the Board of Directors and in the presence of the person (s) authorized to sign on behalf of the Company, who shall sign every instrument to which such seal is affixed.

## **NOTICES**

### **71. NOTICES**

(a) Any written notice or other document may be served by the Company upon any shareholder either personally or by sending it by prepaid mail (airmail if sent internationally) addressed to such member at his address as described in the Shareholder Register. Any written notice or other document may be served by any shareholder upon the Company by tendering the same in person to the Secretary or the General Manager or Chief Executive Officer of the Company at the principal office of the Company or by sending it by prepaid registered mail (airmail if posted outside Israel) to the Company at its Registered Address. Any such notice or other document shall be deemed to have been served two (2) business days after it has been posted (seven (7) business days if posted internationally), or when actually tendered in person, to such shareholder (or to the Secretary or the General Manager), whichever is earlier. Notice sent by email or facsimile shall be deemed to have been served two business days after the notice is sent to the addressee, or when in fact received, whichever is earlier, notwithstanding that if it was defectively addressed or failed, in some other respect, to comply with the provisions of this Article 71(a).

(b) All notices to be given to the shareholders shall, with respect to any share to which persons are jointly entitled, be given to whichever of such persons is named first in the Shareholder Register, and any notice so given shall be sufficient notice to the holders of such share.

(c) If requested by the Company, each shareholder shall provide the Company with the shareholder's full street and mailing address, as well, if available with facsimile number and email address. Any shareholder whose address is not set out in the Shareholder Register, and who shall not have designated in writing delivered to the Company an address for the receipt of notices, shall not be entitled to receive any notice from the Company.

**List of Company Subsidiaries**

Mellanox Technologies, Inc., a California corporation, formed on March 5, 1999, is the wholly-owned subsidiary of Mellanox Technologies, Ltd.

Mellanox Technologies TLV Ltd. (formerly known as Voltaire Ltd.), incorporated on April 9, 1997, is the wholly-owned subsidiary of Mellanox Technologies, Ltd.

Mellanox Technologies Japan K.K. (formerly known as Voltaire Japan K.K.) incorporated on January 23, 2007, is the wholly-owned subsidiary of Mellanox Technologies, TLV Ltd.

Mellanox Technologies UK, Ltd. (formerly known as Voltaire (UK), Ltd.) incorporated on May 17, 2007, is the wholly-owned subsidiary of Mellanox Technologies, TLV Ltd.

Mellanox Technologies Distribution, Ltd., incorporated on March 3, 2011, is the wholly-owned subsidiary of Mellanox Technologies, Ltd.

Mellanox Federal Systems, LLC, incorporated on April 25, 2012, is the wholly-owned subsidiary of Mellanox Technologies, Inc.

Beijing Mellanox Technologies Co. Ltd., incorporated on June 29, 2012, is the wholly-owned subsidiary of Mellanox Technologies, Ltd.

Mellanox Technologies Denmark Holding ApS incorporated on June 28, 2013, is a wholly owned subsidiary of Mellanox Technologies UK Ltd.

Mellanox Technologies Denmark A/S (formerly known as IPtronics A/S), incorporated on September 30, 2003, is a wholly owned subsidiary of Mellanox Technologies Denmark Holding ApS.

Mellanox Technologies Silicon Photonics Inc. (formerly known as Kotura, Inc.), incorporated on September 29, 1994, is a wholly owned subsidiary of Mellanox Technologies, Inc.

Integrity Project Ltd., incorporated on October 12, 1999, is a wholly owned subsidiary of Mellanox Technologies TLV Ltd.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-202424, 333-194276, 333-190631, 333-189720, 333-186875, 333-183028, 333-179772, 333-172632, 333-172093, 333-165350, 333-157931, 333-152174 and 333-140581) of Mellanox Technologies, Ltd. of our report dated February 26, 2016 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/PricewaterhouseCoopers LLP

San Jose, California  
February 26, 2016

**Certification of Chief Executive Officer**  
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Eyal Waldman, certify that:

1. I have reviewed this annual report on Form 10-K of Mellanox Technologies, Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2016

By:	/s/ EYAL WALDMAN
Name:	Eyal Waldman
Title:	<i>President and Chief Executive Officer</i>

**Certification of Chief Financial Officer****Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jacob Shulman, certify that:

1. I have reviewed this annual report on Form 10-K of Mellanox Technologies, Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2016

By: /s/ JACOB SHULMAN

Name: Jacob Shulman

Title: *Chief Financial Officer*



**Certification of Chief Financial Officer**  
**Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to**  
**Section 906 of the Sarbanes-Oxley Act of 2002**

I, Jacob Shulman, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (i) the Annual Report of Mellanox Technologies, Ltd. on Form 10-K for the year ended December 31, 2015, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods covered by the Annual Report.

In Witness Whereof, the undersigned has set his hand hereto as of the 26th day of February, 2016.

By:           /s/ JACOB SHULMAN            
Name:           Jacob Shulman  
Title:           *Chief Financial Officer*

Dated: February 26, 2016

This certification accompanies the Form 10-K to which it relates to, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by references into any filings of Mellanox Technologies, Ltd. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.