

Mellanox Technologies, Ltd.  
Form 10-Q  
May 04, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period to

Commission File No. 001-33299

**MELLANOX TECHNOLOGIES, LTD.**

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(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 No.)

**BEIT MELLANOX, YOKNEAM, ISRAEL**  
(Address of Principal Executive Offices)

**20692**  
(Zip Code)

Registrant's Telephone Number, Including Area Code: **+972-4-909-7200**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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   
(Do not check if a smaller reporting company)

Smaller reporting company

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

The total number of outstanding shares of the registrant's Ordinary Shares, nominal value of NIS 0.0175 per share, as of April 30, 2012, was 40,551,878.

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1 UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****MELLANOX TECHNOLOGIES, LTD.****CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	March 31, 2012	December 31, 2011
	(In thousands)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 111,190	\$ 181,258
Short-term investments	148,562	52,373
Restricted cash	4,437	4,452
Accounts receivable, net	47,109	48,215
Inventories	32,246	24,955
Deferred taxes and other current assets	7,817	7,373
Total current assets	351,361	318,626
Property and equipment, net	38,828	36,806
Severance assets	8,198	7,767
Intangible assets, net	23,286	25,657
Goodwill	132,885	132,885
Deferred taxes and other long-term assets	8,676	8,289
Total assets	\$ 563,234	\$ 530,030
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 32,193	\$ 30,132
Accrued liabilities	32,218	31,091
Deferred revenue	6,563	5,571
Capital lease liabilities	220	299
Total current liabilities	71,194	67,093
Accrued severance	10,803	10,433
Deferred revenue	3,633	3,664
Capital lease liabilities	279	279
Other long-term liabilities	6,938	6,214
Total liabilities	92,847	87,683
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Ordinary shares	168	165
Additional paid-in capital	432,650	418,255
Accumulated other comprehensive income (loss)	32	(1,164)
Retained earnings	37,537	25,091
Total shareholders' equity	470,387	442,347
Total liabilities and shareholders' equity	\$ 563,234	\$ 530,030

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

Table of Contents**MELLANOX TECHNOLOGIES, LTD.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

	<b>Three Months Ended</b>		
	<b>March 31,</b>		
	<b>2012</b>		<b>2011</b>
	<b>(In thousands, except per share data)</b>		
Total revenues	\$	88,738	\$ 55,057
Cost of revenues		28,888	19,416
Gross profit		59,850	35,641
Operating expenses:			
Research and development		28,958	20,310
Sales and marketing		12,805	8,555
General and administrative		4,857	8,445
Total operating expenses		46,620	37,310
Income (loss) from operations		13,230	(1,669)
Other income, net		184	48
Income (loss) before taxes		13,414	(1,621)
Provision for taxes on income		(968)	(3)
Net income (loss)	\$	12,446	\$ (1,624)
Net income (loss) per share   basic	\$	0.31	\$ (0.05)
Net income (loss) per share   diluted	\$	0.29	\$ (0.05)
Shares used in computing income per share:			
Basic		40,014	34,490
Diluted		42,427	34,490

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

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**MELLANOX TECHNOLOGIES, LTD.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

	<b>Three Months Ended March 31,</b>		
	<b>2012</b>		<b>2011</b>
	<b>(In thousands)</b>		
Net income (loss)	\$	12,446	\$ (1,624)
Other comprehensive income (loss), net of tax:			
Change in unrealized gains/losses on available-for-sale securities, net		(129)	(86)
Change in unrealized gains/losses on derivative contracts, net		1,325	453
Total comprehensive income (loss), net of tax	\$	13,642	\$ (1,257)

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

Table of Contents**MELLANOX TECHNOLOGIES, LTD.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(In thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 12,446	\$ (1,624)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,288	3,918
Deferred income taxes	(363)	450
Share-based compensation	7,242	4,278
Gain on sale of investments	(173)	(77)
Excess tax benefits from share-based compensation	(957)	
Changes in assets and liabilities, net of effect of acquisition:		
Accounts receivable, net	1,106	(3,136)
Inventories	(7,735)	1,027
Prepaid expenses and other assets	434	(1,586)
Accounts payable	2,061	6,826
Accrued liabilities and other payables	4,246	3,545
Net cash provided by operating activities	23,595	13,621
<b>Cash flows from investing activities:</b>		
Acquisition of Voltaire Ltd., net of cash acquired of \$3,961		(203,704)
Purchase of severance-related insurance policies	(194)	(201)
Purchases of short-term investments	(100,239)	(22)
Proceeds from sales of short-term investments	513	135,196
Proceeds from maturities of short-term investments	3,581	
Decrease in restricted cash deposit	94	
Purchase of property and equipment	(4,495)	(2,211)
Net cash used in investing activities	(100,740)	(70,942)
<b>Cash flows from financing activities:</b>		
Principal payments on capital lease obligations	(79)	(79)
Proceeds from exercise of share awards	6,199	3,902
Excess tax benefit from share-based compensation	957	
Net cash provided by financing activities	7,077	3,823
Net decrease in cash and cash equivalents	(70,068)	(53,498)
Cash and cash equivalents at beginning of period	181,258	107,994
Cash and cash equivalents at end of period	\$ 111,190	\$ 54,496
<b>Non-cash investing and financing activities:</b>		
Inventory capitalization	\$ 444	\$
Vested share awards issued in connection with acquisition of Voltaire Ltd.	\$	\$ 6,303

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





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**MELLANOX TECHNOLOGIES, LTD.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

*Company*

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

*Principles of presentation*

The unaudited condensed 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.

The unaudited condensed consolidated financial statements included in this quarterly report on Form 10-Q have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). The year-end unaudited condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures contained in this quarterly report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, for a quarterly report on Form 10-Q and are adequate to make the information presented not misleading. The unaudited condensed consolidated financial statements included herein reflect all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods presented. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the SEC on February 28, 2012. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results to be anticipated for the entire year ending December 31, 2012 or thereafter.

*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 material adverse impact on the Company's financial position and results of

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operations: unpredictable volume or timing of customer orders; ordered product mix; the sales outlook and purchasing patterns of the Company's customers based on consumer demands and general economic conditions; loss of one or more of the Company's customers; decreases in the average selling prices of products or increases in the average cost of finished goods; the availability, pricing and timeliness of delivery of components used in the Company's products; reliance on a limited number of subcontractors to manufacture, assemble, package and production test the Company's products; the Company's ability to successfully develop, introduce and sell new or enhanced products in a timely manner; product obsolescence and the Company's ability to manage product transitions; and the timing of announcements or introductions of new products by the Company's competitors.

Additionally, the Company has a significant presence in Israel, including research and development activities, corporate facilities and sales support operations. Uncertainty surrounding the political, economic and military conditions in Israel may directly impact the Company's financial results.

### *Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles in United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of net revenues and expenses in the reporting period. The Company regularly evaluates estimates and assumptions related to revenue recognition, allowances for doubtful accounts, sales returns and allowances, warranty reserves, inventory reserves, share-based compensation expense, long-term asset valuations, investments, goodwill and purchased intangible asset valuation, deferred income tax asset valuation allowances, uncertain

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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 the Company experiences may differ materially and adversely from its 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.

***Significant accounting policies***

There have been no changes in the Company's significant accounting policies that were disclosed in its Annual Report on Form 10-K for the fiscal year ended December 31, 2011. See our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on February 28, 2012, for a discussion of significant accounting policies and estimates.

***Concentration of credit risk***

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
IBM	24%	14%
Hewlett Packard	18%	24%
Oracle	*	13%

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\* Less than 10%

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

	<b>March 31,</b>	<b>December 31,</b>
	<b>2012</b>	<b>2011</b>
IBM	22%	16%
Hewlett Packard	22%	15%

At March 31, 2012, Oracle held approximately 3.8 million ordinary shares of Mellanox. Sales to Oracle mainly through its contract manufacturers in the three months ended March 31, 2012 were \$4.8 million, and were conducted at arm's-length. At March 31, 2012, accounts receivable from Oracle totaled \$13,166. At March 31, 2011, Oracle held approximately 3.4 million ordinary shares of Mellanox. Sales to Oracle

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mainly through its contract manufacturers in the three months ended March 31, 2011 were \$7.2 million, and were conducted at arm's-length. At March 31, 2011, accounts receivable from Oracle totaled \$24,840.

### *Product warranty*

Changes in the Company's liability for product warranty during the three months ended March 31, 2012 and 2011 are included in Accrued liabilities and are as follows:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(In thousands)</b>	
Balance, beginning of the period	\$ 1,097	\$ 807
Warranties issued during the period	228	280
Reversal of warranty reserves	(35)	(90)
Settlements during the period	(175)	(100)
Balance, end of the period	\$ 1,115	\$ 897

Table of Contents*Net income per share*

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net income (loss)	\$ 12,446	\$ (1,624)
Basic and diluted shares:		
Weighted average ordinary shares outstanding used to compute basic net income per share	40,014	34,490
Dilutive effect of employee stock option plans	2,413	
Shares used to compute diluted net income per share	42,427	34,490
Net income (loss) per share basic	\$ 0.31	\$ (0.05)
Net income (loss) per share diluted	\$ 0.29	\$ (0.05)

The Company excluded 602,908 and 373,574 outstanding shares for the three months ended March 31, 2012 and March 31, 2011, respectively, from the computation of diluted net income (loss) per ordinary share, because including these outstanding shares would have had an anti-dilutive effect.

*Recent accounting pronouncements*

Effective January 1, 2012, the Company adopted the authoritative guidance, issued by FASB in May 2011, on fair value measurements that clarifies the application of existing guidance and disclosure requirements, changes certain fair value measurement principles and requires additional disclosures about fair value measurements. The adoption of this guidance had no impact on the Company's unaudited consolidated financial statements.

Effective January 1, 2012, the Company adopted the authoritative guidance, issued by FASB in June 2011, regarding the presentation of comprehensive income. The new standard requires companies to present net income and other comprehensive income in one continuous statement or in two separate, but consecutive statements. The adoption of this guidance had no impact on the Company's unaudited consolidated financial statements.

**NOTE 2 BALANCE SHEET COMPONENTS:**

	<b>March 31,</b>	<b>December 31,</b>
	<b>2012</b>	<b>2011</b>
	<b>(In thousands)</b>	
<b>Accounts receivable, net:</b>		

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Accounts receivable	\$	47,666	\$	48,772
Less: Allowance for doubtful accounts		(557)		(557)
	\$	47,109	\$	48,215
<b>Inventories:</b>				
Raw materials	\$	5,495	\$	5,983
Work-in-process		4,085		4,705
Finished goods		22,666		14,267
	\$	32,246	\$	24,955
<b>Deferred taxes and other current assets:</b>				
Prepaid expenses	\$	3,693	\$	2,406
Forward contracts receivable		176		
Deferred taxes		1,126		1,126
Other		2,822		3,841
	\$	7,817	\$	7,373
<b>Property and equipment, net:</b>				
Computer equipment and software	\$	52,254	\$	49,157
Furniture and fixtures		3,360		2,865
Leasehold improvements		20,194		18,899
		75,808		70,921
Less: Accumulated depreciation and amortization		(36,980)		(34,115)
	\$	38,828	\$	36,806
<b>Deferred taxes and other long-term assets:</b>				
Equity investments in private companies	\$	3,000	\$	3,000
Deferred taxes		1,679		1,316
Restricted cash		3,356		3,317
Other assets		641		656
	\$	8,676	\$	8,289
<b>Accrued liabilities:</b>				
Payroll and related expenses	\$	18,407	\$	15,018
Accrued expenses		5,849		6,026
Product warranty liability		1,115		1,097
Forward contracts payable				1,149
Development project		1,559		3,000
Other		5,288		4,801
	\$	32,218	\$	31,091
<b>Other long-term liabilities:</b>				
Income tax payable	\$	3,777	\$	3,365
Deferred rent		3,161		2,849
	\$	6,938	\$	6,214

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

The Company s allocation of the total purchase price is summarized below (in thousands):

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

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

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

In-process research and development ( IPR&D ) represents projects that have not yet reached technological feasibility. Technological feasibility is defined as being equivalent to completion of a beta-phase working prototype in which there is no remaining risk relating to the development. Acquired IPR&D consists of three projects: Unified Fabric Manager, or UFM , Acceleration software and Ethernet. Each of these projects is focused on integrating new technologies, improving product performance and broadening features and functionalities. The Acceleration software and Ethernet projects were completed during the year ended December 31, 2011. The UFM project had not been completed as of March 31, 2012.



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The goodwill recognized from the acquisition of Voltaire resulted primarily from the Company's anticipated enhanced position in providing end-to-end connectivity solutions, expanding its software and hardware offerings and strengthening its engineering team and sales force. Goodwill will not be amortized but instead will be tested for impairment annually or more frequently if certain indicators are present. Goodwill is not expected to be deductible for tax purposes.

*Supplemental pro forma data*

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

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

	<b>Three Months Ended March 31, 2011</b>	
Pro forma net revenue	\$	58,638
Pro forma net income (loss)	\$	(8,203)
Pro forma net income (loss) per share basic	\$	(0.24)
Pro forma net income (loss) per share diluted	\$	(0.24)

**NOTE 4 FAIR VALUE MEASUREMENTS:**

*Fair value hierarchy*

The Company measures its cash equivalents and marketable securities at fair value. The Company's cash equivalents are classified within Level 1. Cash equivalents are valued primarily using quoted market prices utilizing market observable inputs. The Company's investments in debt securities and certificates of deposits are classified within Level 2 as the market inputs to value these instruments consist of market yields, reported trades and broker/dealer quotes. In addition, foreign currency contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

The following table represents the fair value hierarchy of the Company's financial assets measured at fair value as of March 31, 2012. There were no financial liabilities as of March 31, 2012.

Level 1	Level 2	Total
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	(in thousands)			
Money market funds	\$	24,188	\$	24,188
Certificates of deposits			62,829	62,829
U.S. Government and agency securities			73,532	73,532
Commercial paper			15,486	15,486
Corporate bonds			4,434	4,434
Foreign Government bonds			7,827	7,827
Forward contracts			176	176
Total financial assets	\$	24,188	\$	164,284
			\$	188,472

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

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

There were no transfers between Level 1 and Level 2 securities during the three months ended March 31, 2012.

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The short-term investments are classified as available-for-sale securities. The cash, cash equivalents and short-term investments at March 31, 2012 and December 31, 2011 were as follows:

	Amortized Cost	March 31, 2012 Gross Unrealized Gains (Losses) (in thousands)	Estimated Fair Value
Cash	\$ 71,456	\$	\$ 71,456
Money market funds	24,188		24,188
Certificates of deposits	62,843	(14)	62,829
U.S. Government and agency securities	73,695	(163)	73,532
Commercial paper	15,457	29	15,486
Corporate bonds	4,420	14	4,434
Foreign Government bonds	7,837	(10)	7,827
Total investments	\$ 259,896	\$ (144)	\$ 259,752
Less amounts classified as cash and cash equivalents	(111,190)		(111,190)
	\$ 148,706	\$ (144)	\$ 148,562

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

Realized gains upon the sale of marketable securities were \$173,000 and \$77,000 for the three months ended March 31, 2012 and March 31, 2011, respectively. At March 31, 2012, gross unrealized losses on our investments were not deemed to be other-than-temporarily impaired.

The contractual maturities of available-for-sale securities at March 31, 2012 and December 31, 2011 were as follows:

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	March 31, 2012		December 31, 2011	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
				(in thousands)
Due in less than one year	\$ 70,626	\$ 70,631	\$ 42,670	\$ 42,660
Due in one to three years	78,080	77,931	9,718	9,713
	\$ 148,706	\$ 148,562	\$ 52,388	\$ 52,373

Table of Contents***Restricted cash and deposits***

The Company maintains certain cash amounts restricted as to withdrawal or use. The Company maintained a balance of approximately \$1.9 million at March 31, 2012 and December 31, 2011 that represented tenant's security deposits restricted due to the tenancy agreements, and approximately \$2.5 million and \$2.6 million at March 31, 2012 and December 31, 2011, respectively, that represented security deposits restricted due to a foreign exchange management agreement with two banks.

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

As of March 31, 2012, the Company held a \$3.0 million investment in a privately-held company. This investment is accounted for under the cost method, net of impairment write down. The Company monitors the investment and if facts and circumstances indicate that the 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.

**NOTE 6 GOODWILL AND INTANGIBLE ASSETS:**

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

Balance as of December 31, 2011	\$	132,885
Adjustments		
Balance as of March 31, 2012	\$	132,885

The carrying amounts of intangible assets as of March 31, 2012 were as follows:

	Gross Carrying Value	Accumulated Amortization (in thousands)	Net Carrying Value
Licensed technology	\$ 946	\$ (892)	\$ 54
Developed technology	22,063	(9,088)	12,975
Customer relationships	10,956	(2,010)	8,946
Customer contract	1,529	(1,287)	242
Backlog	435	(435)	
Total amortizable intangible assets	\$ 35,929	\$ (13,712)	\$ 22,217
IPR&D	1,069		1,069
Total intangible assets	\$ 36,998	\$ (13,712)	\$ 23,286

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

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

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Amortization expense of intangible assets was \$2.4 million and \$1.9 million for the three months ended March 31, 2012 and 2011, respectively.

The estimated future amortization expenses from amortizable intangible assets were as follows (in thousands):

Remainder of 2012	\$	7,207
2013		9,000
2014		3,468
2015		970
2016 and thereafter		1,572
	\$	22,217

**NOTE 7 DERIVATIVES AND HEDGING ACTIVITIES:**

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

The Company uses forward contracts designated as cash flow hedges to hedge a substantial portion of future forecasted operating expenses in NIS. The gain or loss on the effective portion of a cash flow hedge is initially reported as a component of accumulated other comprehensive income (loss) ( OCI ), and subsequently reclassified into operating expenses in the same period in which the hedged operating expenses are recognized, or reclassified into other income, net, if the hedged transaction becomes probable of not occurring. Any gain or loss after a hedge is de-designated because it is no longer probable of occurring or related to an ineffective portion of a hedge, as well as any amount excluded from the Company's hedge effectiveness, is recognized as other income (expense) immediately. The net gains or losses relating to ineffectiveness were not material in the three months ended March 31, 2012 and 2011. As of March 31, 2012, the Company had forward contracts in place that hedged future operating expenses of approximately 136.2 million NIS, or approximately \$36.7 million based upon the exchange rate as of March 31, 2012. The forward contracts cover a substantial portion of future NIS denominated operating expenses expected to occur over the next twelve months.

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

*Fair value of derivative contracts*

Fair value of derivative contracts as of March 31, 2012 and December 31, 2011 were as follows:

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	Derivative Assets Reported in		Derivative Liabilities Reported in	
	Other Current Assets		Other Current Liabilities	
	March 31,	December 31,	March 31,	December 31,
	2012	2011	2012	2011
	(In thousands)			
Foreign exchange contracts designated as cash flow hedges	\$ 176	\$	\$	\$ (1,149)
Total derivatives designated as hedging instruments	\$ 176	\$	\$	\$ (1,149)

*Effect of designated derivative contracts on accumulated other comprehensive income*

The following table represents the balance of designated derivative contracts as cash flow hedges as of March 31, 2012 and December 31, 2011, and their impact on OCI for the three months ended March 31, 2012 (in thousands):

December 31, 2011	\$ (1,149)
Amount of gain recognized in OCI (effective portion)	1,188
Amount of loss reclassified from OCI to income (effective portion)	137
March 31, 2012	\$ 176



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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.

*Effect of derivative contracts on the condensed consolidated statement of operations*

The impact of derivative contracts on total operating expenses in the three months ended March 31, 2012 and 2011 was as follows:

	Three Months Ended	
	2012	March 31, 2011
	(In thousands)	
Gain (loss) on foreign exchange contracts designated as cash flow hedges	\$ (137)	\$ 447

**NOTE 8 COMMITMENTS AND CONTINGENCIES:**

*Leases*

As of March 31, 2012, future minimum lease payments under non-cancelable operating and capital leases were as follows:

Year Ended December 31,	Capital	(In thousands)		Operating
	Leases			Leases
2012	\$	228	\$	6,591
2013		140		6,783
2014		139		5,437
2015				4,410
2016 and beyond				21,911
Total minimum lease payments	\$	507	\$	45,132
Less: Amount representing interest		(8)		
Present value of capital lease obligations		499		
Less: Current portion		(220)		
Long-term portion of capital lease obligations	\$	279		

*Purchase commitments*

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At March 31, 2012, the Company had non-cancelable purchase commitments of \$57.0 million, \$53.9 million of which is expected to be paid in 2012 and \$3.1 million in 2013 and beyond.

At March 31, 2011, the Company had non-cancelable purchase commitments of \$24.7 million, \$24.0 of which was expected to be paid within one year, and \$0.7 million in 2012 and beyond.

### *Legal contingencies*

At March 31 2012, the Company was not subject to any material legal proceedings. The Company may, from time to time, become a party to various legal proceedings arising in the ordinary course of business. The Company may also be indirectly affected by administrative or court proceedings or actions in which the Company is not involved, but which have general applicability to the semiconductor industry.

Table of Contents**NOTE 9 SHARE INCENTIVE PLANS:***Stock option and restricted stock units activity*

The following tables summarize the activities under all equity incentive plans during the three months ended March 31, 2012:

	<b>Options Outstanding</b>		
	<b>Number</b>		<b>Weighted</b>
	<b>of</b>		<b>Average</b>
	<b>Shares</b>		<b>Exercise</b>
			<b>Price</b>
Outstanding at December 31, 2011	4,706,349	\$	13.42
Options granted	190,310		33.44
Options exercised	(331,585)		10.10
Options cancelled	(58,293)		14.75
Outstanding at March 31, 2012	4,506,781	\$	14.49

The weighted average fair value of options granted was \$17.58 and \$19.44 for the three months ended March 31, 2012 and 2011, respectively.

The total pretax intrinsic value of options exercised in the three months ended March 31, 2012 and 2011 was \$9.0 million and \$5.8 million, respectively. 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 \$41.83 on March 31, 2012, the total pretax intrinsic value of all outstanding options was \$188.5 million. The total pretax intrinsic value of exercisable options at March 31, 2011 was \$126.5 million.

Restricted stock units activity in the three months ended March 31, 2012 is set forth below:

	<b>Restricted Stock Units Outstanding</b>		
	<b>Number</b>		<b>Weighted</b>
	<b>of</b>		<b>Average</b>
	<b>Shares</b>		<b>Grant Date</b>
			<b>Fair Value</b>
Non vested restricted stock units at December 31, 2011	1,191,673	\$	26.05
Restricted stock units granted	914,500		37.09
Restricted stock units vested	(98,339)		24.89
Restricted stock units canceled	(26,251)		25.29
Non vested restricted stock units at March 31, 2012	1,981,583	\$	31.22

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The weighted average fair value of RSUs granted in the three months ended March 31, 2012 was \$37.09. The total intrinsic value of all outstanding restricted stock units was \$82.9 million as of March 31, 2012. The weighted average fair value of RSUs granted in the three months ended March 31, 2011 was \$26.95. The total intrinsic value of all outstanding restricted stock units was \$18.0 million as of March 31, 2011.

The Company had the following ordinary shares reserved for future issuance under its equity incentive plans as of March 31, 2012:

	<b>Number of Shares</b>
Stock options outstanding	4,506,781
Restricted stock units	1,981,583
Stock authorized for future issuance	1,690,861
ESPP shares available for future issuance	100,890
Total shares reserved for future issuance as of March 31, 2012	8,280,115

Table of Contents*Share-based compensation*

The following weighted average assumptions are used to value stock options and ESPP shares issued pursuant to the Company's equity incentive plans for the three months ended March 31, 2012 and 2011:

	Employee Share Options		Employee Share Purchase Plan	
	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Dividend yield, %				
Expected volatility, %	54.6	57.8	49.2	34.3
Risk free interest rate, %	1.38	2.75	0.10	0.10
Expected life, years	6.25	6.25	0.53	0.53
Estimated forfeiture rate, %	7.80	8.53		

The following table summarizes the distribution of total share-based compensation expense in the unaudited condensed consolidated statements of operations:

	Three months ended March 31,	
	2012	2011
	(In thousands)	
Cost of goods sold	\$ 329	\$ 144
Research and development	4,181	2,353
Sales and marketing	1,642	1,019
General and administrative	1,090	762
Total share-based compensation expense	\$ 7,242	\$ 4,278

At March 31, 2012, there was \$66.6 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 3.29 years.

At March 31, 2011, there was \$36.2 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 2.07 years.

**NOTE 10 INCOME TAXES:**

As of March 31, 2012 and December 31, 2011, the Company had unrecognized tax benefits of \$5.4 million and \$4.1 million, respectively. It is the Company's policy to classify accrued interest and penalties as part of the unrecognized tax benefits, or tax contingencies, and record the expense in the provision for income taxes. As of March 31, 2012 and December 31, 2011, the amount of accrued interest and penalties totaled

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\$264,000 and \$231,000, respectively. As of March 31, 2012, calendar years 2008 through 2011 were open and subject to potential examination in one or more jurisdictions.

The Company's effective tax rate is highly dependent upon the geographic distribution of its worldwide earnings or losses, tax regulations and tax holiday benefits in Israel, and the effectiveness of the Company's tax planning strategies. The Company's effective tax rates were 7.2% and (0.2%) for the three months ended March 31, 2012 and 2011, respectively. The difference between the Company's effective tax rates and the 34% federal statutory rate resulted primarily from foreign earnings taxed at rates lower than the federal statutory rate, offset by non-tax-deductible expenses such as share-based compensation expense and the accrual of unrecognized tax benefits, and interest and penalties associated with unrecognized tax positions. The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous, and the Company is required to make many subjective assumptions and judgments regarding its income tax exposures. In addition, interpretations of and guidance surrounding income tax laws and regulations are subject to change over time. Any changes in the Company's subjective assumptions and judgments could materially affect amounts recognized in its consolidated balance sheets and statements of income.

### **ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis of our financial condition as of March 31, 2012 and results of operations for the three months ended March 31, 2012 and March 31, 2011 should be read together with our financial statements and related notes included elsewhere in this report. This discussion and analysis contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks,*

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*uncertainties and assumptions. Words such as 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, but are not the exclusive means of identifying forward-looking statements in this report. The identification of certain statements as forward-looking is not intended to mean that other statements not specifically identified are not forward-looking. All statements other than statements about historical facts are statements that could be deemed forward-looking statements, including, but not limited to, statements that relate to our future revenues, product development and introductions, customer demand, our dependence on key customers for a substantial portion of our revenue, performance of our subcontractors, our ability to consummate acquisitions and integrate their operations successfully, growth rates, market adoption of InfiniBand, competitive factors, gross margins, levels of research, development and other related costs, expenditures, protection of our proprietary rights and patents, tax expenses and benefits, cash flows, management's plans and objectives for current and future operations, conditions in the Middle East and worldwide economic conditions.*

*Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those set forth under the section entitled Risk Factors in Part II, Item 1A of this report and in the section entitled Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for fiscal year ended December 31, 2011. We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. All forward-looking statements included in this report are based on information available to us on the date of this report, and we assume no obligation to update any forward-looking statements contained in this report. Quarterly financial results may not be indicative of the financial results of future periods.*

**Overview**

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

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

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

solutions with leading performance.

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



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*Revenues.* We derive revenues from sales of our ICs, cards, switch systems, cables, software and accessories. Our sales have historically been made on the basis of purchase orders rather than long-term agreements. Revenues were \$88.7 million for the three months ended March 31, 2012, compared to \$55.1 million for the three months ended March 31, 2011, representing an increase of approximately 61%. To date, we have derived a substantial portion of our revenues from a relatively small number of customers. Sales to our top ten customers represented 79% and 75% of our total revenues for the three months ended March 31, 2012 and 2011, respectively. Sales to customers representing 10% or more of revenues accounted for 42% and 51% of our total revenues for the three months ended March 31, 2012 and 2011, 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.

At March 31, 2012, Oracle Corporation held approximately 3.8 million of our ordinary shares. Sales to Oracle mainly through its contract manufacturers in the three months ended March 31, 2012 were \$4.8 million, and were conducted at arm's-length. There were no other material transactions with Oracle during 2012. At March 31, 2012, accounts receivable from Oracle totaled \$13,166. At March 31, 2011, Oracle held approximately 3.4 million of our ordinary shares. Sales to Oracle mainly through its contract manufacturers for three months ending March 31, 2011 were \$7.2 million, and were conducted at arm's-length. At March 31, 2011, accounts receivable from Oracle totaled \$24,840.

*Cost of revenues and gross profit.* The cost of revenues consists primarily of the cost of silicon wafers purchased from our foundry supplier, costs associated with the assembly, packaging and production testing of our ICs, outside processing costs associated with the manufacture of our host channel adapters, or HCA cards, and switch systems, purchased cable costs, royalties due to third parties, warranty costs, excess and obsolete inventory costs and costs of personnel associated with production management, quality assurance and services. In addition, after we purchase wafers from our foundry supplier, 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 our foundry supplier and contract manufacturers. Accordingly, our costs are subject to price fluctuations based on the overall cyclical demand for semiconductors.

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

We expect our cost of revenues to increase over time as a result of the expected increase in our sales volume. Our cost of revenues as a percentage of sales will fluctuate in the future due to expected reductions in the average sale price of our products, and the percentage of revenue deriving from sales of switch systems and cables, which generally yield lower gross margins. This fluctuation will also depend on overall customer demand for our products, introduction of new products, our product mix, composition of our revenues by respective data rate, competitive product offerings and related pricing, and our ability to reduce manufacturing costs.

*Operational Expenses*

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

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*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 business development, commission payments to external, third party sales representatives, advertising, and charges for trade shows, promotions, travel and allocable facilities related expenses. We expect these expenses will increase in absolute dollars in future periods based on an increase in sales, marketing and business development personnel and increased marketing activities.

*General and Administrative Expenses.* General and administrative expenses consist primarily of salaries, share-based compensation and associated costs for employees engaged in finance, legal, human resources and administrative activities, and other professional 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 to support our business activities.

*Amortization of Acquired Intangible Assets.* Amortization of acquired intangible assets relates to acquired identified intangible assets resulting from our acquisition of Voltaire, which will be amortized over their estimated useful lives. Amortization of customer relationships is included in Sales and marketing expenses. Amortization of all other intangible assets is included in cost of revenues.

*Acquisition Related Charges.* Acquisition-related charges include expenses incurred in connection with the Voltaire acquisition including severance costs related to employees terminated post acquisition, consulting and legal fees. Acquisition related charges were included in General and administrative expenses.

*Taxes on Income.* Our operations in Israel have been granted Approved Enterprise status by the Investment Center of the Israeli Ministry of Industry, Trade and Labor and 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 Approved Enterprise program, income that is attributable to our operations in Yokneam, Israel will be exempt from income tax for a period of ten years commencing in fiscal year 2011. Income that is attributable to our operations in Tel Aviv, Israel will be exempt from income tax for a period of two years commencing fiscal year 2011 and will be subject to a reduced income tax rate (generally 10-25%, depending on the percentage of foreign investment in the Company) for the following five to eight years. The Yokneam tax holiday is expected to expire in 2020 and the Tel Aviv tax holiday is expected to expire between 2017 and 2020. In accordance with recent amendments to the Israeli tax laws, effective January 1, 2012, the corporate income tax rate was increased to 25%.

**Critical Accounting Policies and Estimates**

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

We believe that the assumptions and estimates associated with revenue recognition, allowance for doubtful accounts, fair value of financial instruments, short-term investments, inventory valuation, valuation and impairment of goodwill and acquired intangibles, warranty provision, share-based compensation and income taxes have the greatest potential impact on our consolidated financial statements. Therefore, we consider

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these to be our critical accounting policies and estimates. For further information on all of our significant accounting policies, please see Note 1 of the accompanying notes to our consolidated financial statements.

See our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on February 28, 2012, for a discussion of additional critical accounting policies and estimates. There have been no changes in our critical accounting policies as compared to what was previously disclosed in the Form 10-K for the year ended December 31, 2011.

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**Results of Operations**

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

	Three Months Ended March 31,	
	2012	2011
Total revenues	100%	100%
Cost of revenues	33	35
Gross profit	67	65
Operating expenses:		
Research and development	33	37
Sales and marketing	14	16
General and administrative	5	15
Total operating expenses	52	68
Income (loss) from operations	15	(3)
Other income, net	0	0
Provision for taxes on income	(1)	0
Net income (loss)	14%	(3)%

**Comparison of the Three Months Ended March 31, 2012 to the Three Months Ended March 31, 2011**

The following table represents our total revenues for the three months ended March 31, 2012 and 2011 by product category, interconnect protocol and data rate.

Product category:	2012 (In thousands)	Three Months Ended March 31, % of		2011 (In thousands)	% of Revenues
		Revenues	Revenues		
ICs	\$ 14,938	16.8%	\$ 11,820	21.5%	
Boards	28,165	31.8%	18,196	33.0%	
Switch systems and gateways	31,414	35.4%	18,228	33.1%	
Cables, accessories and other	14,221	16.0%	6,813	12.4%	
Total revenue	\$ 88,738	100.0%	\$ 55,057	100.0%	

Interconnect protocol and data rate:	2012 (In thousands)	Three Months Ended March 31, % of		2011 (In thousands)	% of Revenues
		Revenues	Revenues		
Infiniband:					
FDR	\$ 27,730	31.2%	\$ 42,696	77.5%	
QDR	40,296	45.4%	6,535	11.9%	
DDR	8,049	9.1%	1,351	2.5%	
SDR	232	0.3%			
Total	76,307	86.0%	50,582	91.9%	

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Ethernet	8,671	9.8%	2,830	5.1%
Other	3,760	4.2%	1,645	3.0%
Total revenue	\$ 88,738	100.0%	\$ 55,057	100.0%

*Revenues.* Revenues were \$88.7 million for the three months ended March 31, 2012 compared to \$55.1 million for the three months ended March 31, 2011, representing an increase of 61.2%. This year-over-year growth was primarily due to incremental new revenues associated with the Voltaire acquisition, as well as increased market demand for our higher bandwidth FDR products. With the recent introduction of Romley and Sandy Bridge server and storage platforms by Intel Corporation, end-users have begun to upgrade their systems with a strong emphasis on the interconnects. This trend resulted in an increase in customer demand for our FDR products. Our Ethernet revenues also grew year-over-year primarily due to increased adoption of our products within the Web 2.0 market. Revenues in all of our product categories increased with the highest growth in absolute dollars being in switch systems and boards. Revenues for the three months ended March 31, 2012 are not necessarily indicative of future results. Due to the current pent-up demand associated with the general availability of Romley and Sandy Bridge platforms, we expect our second quarter revenue to increase sequentially from the first quarter and include approximately \$30 million of one-time revenue opportunities related to these platform releases. This expected sequential increase in quarterly revenues may not be sustainable and we may experience a decline in our quarterly revenues later on this year.

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*Gross Profit and Margin.* Gross profit was \$59.9 million for the three months ended March 31, 2012 compared to \$35.6 million for the three months ended March 31, 2011, representing an increase of approximately 67.9%. As a percentage of revenues, gross margin increased to 67.4% in the three months ended March 31, 2012 from 64.7% in the three months ended March 31, 2011. The gross margin percentage improved across all product categories due primarily to the increased shipments of FDR InfiniBand products, which typically yield higher gross margins. Gross margin for the three months ended March 31, 2012 is not necessarily indicative of future results.

*Research and Development.*

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

	2012 (In thousands)	Three Months Ended March 31, % of Revenues	2011 (In thousands)	% of Revenues
Salaries and benefits	\$ 16,151	18.2%	\$ 10,075	18.3%
Share-based compensation	4,181	4.7%	2,353	4.3%
Development and tape-out costs	2,999	3.4%	4,694	8.5%
Other	5,627	6.3%	3,188	5.8%
Total Research and development	\$ 28,958	32.6%	\$ 20,310	36.9%

Research and development expenses were \$29.0 million in the three months ended March 31, 2012 compared to \$20.3 million in the three months ended March 31, 2011, representing an increase of 42.6%. The increase in salaries and benefits and share-based compensation was attributable to headcount additions, increased bonuses and merit increases. Development and design costs decreased due to tape-out costs associated with the launch of our switch IC product that were recognized in the three months ended March 31, 2011. The increase in *other* costs was primarily attributable to an increase in facilities, depreciation and travel related expenses. We expect that research and development expenses will increase in absolute dollars in future periods as we continue to devote more resources to develop new products, meet the changing requirements of our customers, expand into new markets and technologies and hire additional personnel.

For a further discussion of share-based compensation included in research and development expense, see [Share-based Compensation Expense](#) below.

*Sales and Marketing.*

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

2012	Three Months Ended March 31, % of Revenues	2011	% of Revenues
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	(In thousands)		(In thousands)			
Salaries and benefits	\$	6,907	7.8%	\$	4,836	8.8%
Share-based compensation		1,642	1.8%		1,019	1.9%
Trade shows and promotions		2,007	2.3%		1,388	2.5%
Other		2,249	2.5%		1,312	2.3%
Total Sales and marketing	\$	12,805	14.4%	\$	8,555	15.5%

Sales and marketing expenses were \$12.8 million for the three months ended March 31, 2012 compared to \$8.6 million for the three months ended March 31, 2011, representing an increase of 49.7%. The increase in salaries and benefits and share-based compensation was attributable to headcount additions, increased bonuses and merit increases. The increase in trade show and promotion costs was primarily due to higher expenses related to equipment for customer product evaluations and an increase in sales and marketing activities. The increase in *other* costs was primarily attributable to the amortization of customer relationship intangible assets associated with the Voltaire acquisition and higher facilities related costs.



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For a further discussion of share-based compensation included in sales and marketing expense, see [Share-based Compensation Expense](#) below.

*General and Administrative.*

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

	2012		Three Months Ended March 31,		2011	
	(In thousands)		% of Revenues		(In thousands)	
Salaries and benefits	\$	2,224	2.5%	\$	2,561	4.7%
Share-based compensation		1,090	1.2%		762	1.4%
Professional services		1,220	1.4%		4,516	8.2%
Other		323	0.4%		606	1.0%
Total General and administrative	\$	4,857	5.5%	\$	8,445	15.3%

General and administrative expenses were \$4.9 million for the three months ended March 31, 2012 compared to \$8.4 million for the three months ended March 31, 2011, representing a decrease of 42.5%. The decrease in salaries and benefits was primarily due to \$0.8 million of employee termination costs associated with the Voltaire acquisition recognized in the three months ended March 31, 2011, partially offset by higher salaries and benefits in the three months ended March 31, 2012 associated with headcount additions, increased bonuses and merit increases. The decrease in professional services costs were primarily due to \$3.6 million of consulting fees associated with the Voltaire acquisition recognized in the three months ended March 31, 2011. The decrease in *other* costs was due to lower depreciation and facilities related expenses.

For a further discussion of share-based compensation included in general and administrative expense, see [Share-based Compensation Expense](#) below.

*Share-based Compensation Expense.*

The following table summarizes the distribution of total share-based compensation expense in the consolidated statements of operations:

	2012		Three months ended		2011	
			March 31,			
Cost of goods sold	\$		329	\$		144
Research and development			4,181			2,353
Sales and marketing			1,642			1,019

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General and administrative	1,090		762
Total share-based compensation expense	\$ 7,242	\$	4,278

Share-based compensation expenses were \$7.2 million for the three months ended March 31, 2012, compared to \$4.3 million for the three months ended March 31, 2011, representing an increase of 69.3%. The increase in share-based compensation was primarily due to new restricted stock units granted to existing employees in April 2011 and in the first quarter of fiscal 2012.

At March 31, 2012, there was \$66.6 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 3.29 years.

*Other Income, Net.* Other income, net consists of interest earned on cash and cash equivalents and short-term investments, and foreign currency exchange gains and losses. Other income, net was \$184,000 for the three months ended March 31, 2012, compared to \$48,000 for the three months ended March 31, 2011. The increase consisted of higher interest income, net of \$379,000, partially offset by foreign currency exchange losses of \$195,000.

*Provision for Taxes on Income.* Provision for taxes on income was \$968,000 for the three months ended March 31, 2012, compared to \$3,000 for the three months ended March 31, 2011. The effective tax rate was approximately 7.2% and (0.2%) for the three months ended March 31, 2012 and 2011, respectively. The difference between our effective tax rates and the 34% federal statutory rate resulted primarily from profits earned in Israel and subject to the tax holiday, partially offset by non-tax-deductible expenses such as share-based compensation expense and the accrual of unrecognized tax benefits, and interest and penalties associated with unrecognized tax positions.

Table of Contents**Liquidity and Capital Resources**

Since our inception, we have financed our operations through a combination of sales of equity securities and cash generated by operations. As of March 31, 2012, our principal source of liquidity consisted of cash and cash equivalents of \$111.2 million and short-term investments of \$148.6 million. We expect that our current cash and cash equivalents and short-term investments, and our cash flows from operating activities will be sufficient to fund our operations over the next twelve months after taking into account expected increases in research and development expenses, including tape out costs, higher sales and marketing and general and administrative expenses, and capital expenditures to support our infrastructure and growth.

Our cash position, short-term investments, restricted cash and working capital at March 31, 2012 and December 31, 2011 were as follows:

	March 31, 2012		December 31, 2011
	(In thousands)		
Cash and cash equivalents	\$ 111,190	\$	181,258
Short-term investments	148,562		52,373
Restricted cash, current	4,437		4,452
Restricted cash, long-term	3,356		3,317
Total	\$ 267,545	\$	241,400
Working capital	\$ 280,167	\$	251,533

Our ratio of current assets to current liabilities was 4.9:1 at March 31, 2012 compared to 4.7:1 at December 31, 2011. The increase in our ratio from December 31, 2011 to March 31, 2012 was primarily due to increases in cash and short-term investments.

***Operating activities***

Net cash provided by our operating activities amounted to \$23.6 million and \$13.6 million in the three months ended March 31, 2012 and 2011, respectively. Net cash provided by operating activities in the three months ended March 31, 2012 was primarily attributable to the net income of \$12.4 million, adjusted by net non-cash items of \$11.0 million and changes in assets and liabilities of \$0.1 million. Non-cash expenses consisted primarily of \$6.3 million of share-based compensation, net of the excess tax benefits, and \$5.3 million for depreciation and amortization. The \$0.1 million cash inflow from changes in assets and liabilities resulted from an increase in accounts payable of \$2.1 million due to the timing of purchases during the quarter, an increase of \$4.2 million in accrued liabilities primarily due to higher payroll obligations and decreases in accounts receivable of \$1.1 million and in prepaid expense and other assets of \$0.4 million, partially offset by an increase in inventories of \$7.7 million to support increased demand from our customers.

Net cash provided by our operating activities amounted to \$13.6 million in the three months ended March 31, 2011. Net cash provided by operating activities in the three months ended March 31, 2011 was primarily attributable to net non-cash items of \$8.6 million and changes in assets and liabilities of \$6.7 million, partially offset by a net loss of \$1.6 million. Non-cash expenses consisted primarily of \$4.3 million for share-based compensation, net of the excess tax benefits, and \$3.9 million for depreciation and amortization. Changes in assets and liabilities resulted from an increase in accounts payable of \$6.8 million, an increase in accrued liabilities and other payables of \$3.5 million, and a decrease in inventory of \$1.0 million, partially offset by an increase in accounts receivable of \$3.1 million and an increase in prepaid expenses of \$1.6

million.

*Investing activities*

Net cash used in investing activities was \$100.7 million in the three months ended March 31, 2012. Cash used in investing activities was primarily attributable to net purchases of short-term investments of \$96.1 million and purchases of property and equipment of \$4.5 million.

Net cash used in investing activities was approximately \$70.9 million in the three months ended March 31, 2011 and was primarily attributable to the acquisition of Voltaire in the amount of \$203.7 million and purchases of property and equipment of \$2.2 million, partially offset by proceeds from sales of short-term investments of \$135.2 million.

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**Financing activities**

Our financing activities generated \$7.1 million in the three months ended March 31, 2012. Cash provided by financing activities was primarily due to proceeds of approximately \$6.2 million from stock option exercises and purchases pursuant to our employee stock purchase plan, and an excess tax benefit from share-based compensation of approximately \$1.0 million, partially offset by principal payments on capital lease obligations of \$79,000.

Our financing activities generated \$3.8 million in the three months ended March 31, 2011 and were primarily due to proceeds from stock option exercises and purchases pursuant to our employee stock purchase plan of \$3.9 million, partially offset by principal payments on capital lease obligations of \$79,000.

**Off-Balance Sheet Arrangements**

As of March 31, 2012, we did not have any off-balance sheet arrangements.

**Contractual Obligations**

The following table summarizes our contractual obligations at March 31, 2012, and the effect those obligations are expected to have on our liquidity and cash flows in future periods:

	Total	Payments Due by Period		
		Less Than 1 Year	1-3 Years	Beyond 3 Years
		(In thousands)		
Commitments under capital lease	\$ 507	\$ 228	\$ 279	\$
Non-cancelable operating lease commitments	45,132	8,490	12,356	24,286
Service commitments	3,828	3,428	400	
Purchase commitments	53,170	50,873	1,530	767
Total	\$ 102,637	\$ 63,019	\$ 14,565	\$ 25,053

For purposes of this table, purchase obligations for the purchase of goods or services are defined as agreements that are enforceable and legally binding and that specify all significant terms including: fixed or minimum purchase quantities; 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 short time horizons. 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.

**Recent Accounting Standards**

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

**ITEM 3 *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

**Interest Rate Fluctuation Risk**

We do not have any long-term borrowings. Our investments consist of cash and cash equivalents, short-term deposits, money market funds and interest bearing investments in U.S. government debt securities and corporate bonds with an average maturity of less than one year. The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. By policy, we limit the amount of our credit exposure through diversification and restricting our investments to highly rated securities. Individual securities are limited to comprising no more than 10% of the portfolio value at the time of purchase, except U.S. Treasury or Agency securities. Highly rated securities are defined as having a minimum Moody or Standard & Poor's rating of A2 or A, respectively. We have not experienced any material losses on 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.

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**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 expenses, and our Israeli facility 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 profits.

To protect against reductions in the value and the volatility of future cash flows caused by changes in foreign currency exchange rates, we have established a balance sheet and anticipated transaction risk management program. Currency forward contracts and natural hedges are generally utilized in this hedging program. We do not enter into forward contracts for trading or speculative purposes. Our hedging program reduces, but does not eliminate, the impact of currency exchange rate movements (see Part II, Item 1A, Risk Factors ). If we were to experience a 10% change in currency exchange rates, the impact on assets and liabilities denominated in currencies other than the U.S. dollar, after taking into account hedges and offsetting positions, would result in a loss before taxes of approximately \$251,000 at March 31, 2012. There would also be an impact on future operating expenses denominated in currencies other than the U.S. dollar. At March 31, 2012, approximately \$8.2 million of our monthly operating expenses were denominated in NIS. As of March 31, 2012, we had forward contracts in place that hedged future operating expenses of approximately 136.2 million NIS, or approximately \$36.7 million based upon the exchange rate on March 31, 2012. The forward 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.

**ITEM 4 CONTROLS AND PROCEDURES**

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

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

**PART II. OTHER INFORMATION**

**ITEM 1 LEGAL PROCEEDINGS**

We are not currently party to any material legal proceedings.

**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 risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011, the other information set forth in this report and our other filings with the SEC, 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.*



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There have been no material changes from risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011, except for the following:

**Risks Related to Our Business**

*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 three months ended March 31, 2012, sales to IBM and Hewlett-Packard accounted for 24% and 18%, respectively, of our total revenues, while sales to our top ten customers accounted for 79% of our revenues. For the three months ended March 31, 2011, sales to Hewlett-Packard, IBM and Oracle accounted for 24%, 14% and 13%, respectively, of our total revenues, while sales to our top ten customers accounted for 75% of our revenues. For the year ended December 31, 2011, sales to Hewlett-Packard and IBM accounted for 19% and 17%, respectively, of our total revenues, while sales to our top ten customers accounted for 70% of our revenues. 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 which acquired the product lines and certain assets and assumed certain liabilities of QLogic's InfiniBand business in the first quarter of 2012. In Enterprise Data Centers, products based on the InfiniBand standard primarily compete with two different industry-standard interconnect technologies, namely Ethernet and Fibre Channel. For Ethernet technology, the leading IC vendors include Emulex, Intel and Broadcom Corporation. The leading IC vendors that provide Ethernet and Fibre Channel products to the market include Marvell Technology Group, Emulex Corporation and QLogic Corporation. The leading Ethernet switch system vendors include Cisco and Arista. In HPC, products based on the InfiniBand standard compete primarily with the industry-standard Ethernet and Fibre Channel interconnect technologies. In embedded markets, we typically compete with interconnect technologies that are developed in-house by system OEM vendors and created for specific applications.

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

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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.

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**Risks Related to Operations in Israel and Other Foreign Countries**

*We are susceptible to additional risks from our international operations.*

We derived 50% and 53% of our revenues in the three months ended March 31, 2012 and 2011, respectively, from sales outside of 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;

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- compliance with a wide variety of complex foreign laws and treaties;
- compliance with the United States Foreign Corrupt Practices Act and similar anti-bribery laws in other jurisdictions;
- compliance with export control and regulations;
- licenses, tariffs, other trade barriers, transit restrictions and other regulatory or contractual limitations on our ability to sell or develop our products in certain foreign markets;
- foreign currency exchange risks;
- fluctuations in freight rates and transportation disruptions;
- political and economic instability;
- variance and unexpected changes in local laws and regulations;
- natural disasters and public health emergencies; and
- trade and travel restrictions.

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

*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 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

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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

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U.S. dollar, our expenses on a U.S. dollar cost basis increase. We cannot predict any future trends in the rate of inflation in Israel or the rate of appreciation of the NIS against the U.S. dollar. The Israeli rate of inflation amounted to 3.9%, 2.7% and 2.2% for the years ended December 31, 2009, 2010 and 2011, respectively, and to 0.7% and 0.4% for the three months ended March 31, 2011 and 2012, respectively. The increase in value of the NIS against the U.S. dollar amounted to 0.7%, 6.0% and 7.7% in the years ended December 31, 2009, 2010 and 2011, respectively. The increase in value of the U.S. dollar against the NIS amounted to 1.9% and 2.8% in the three months ended March 31, 2011 and 2012, respectively. 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 collection of 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.

**Risks Related to Our Ordinary Shares**

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

As of March 31, 2012, based on information filed with the SEC or reported to us, Oracle Corporation and certain entities affiliated with Fidelity Management & Research Company, beneficially owned an aggregate of approximately 24% of our outstanding ordinary shares, and taken together with our executive officers and directors and their affiliates, beneficially owned an aggregate of approximately 30% of our outstanding ordinary shares. Accordingly, these shareholders, should they act as a group, would have significant influence over the outcome of corporate actions requiring shareholder approval, including the election of directors, any merger, consolidation or sale of all or substantially all of our assets or any other significant corporate transaction. These shareholders could delay or prevent a change of control of our company, even if such a change of control would benefit our other shareholders. The significant concentration of share ownership may adversely affect the trading price of our ordinary shares due to investors' perception that conflicts of interest may exist or arise.

*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 the three months ended March 31 2012, our shares traded as low as \$31.16 and as high as \$41.91 per share. During the month of April 2012, our shares traded as high as \$67.20 and experienced an intra-day increase of approximately 50%. We also experienced intra-day declines of more than 10%. Factors that could cause volatility in the market price of our ordinary shares include, but are not limited to:

- quarterly variations in our results of operations or those of our competitors;
- announcements by us, our customers or rumors from sources other than our company related to acquisitions, new products, significant contracts, commercial relationships or capital commitments;

- our ability to develop and market new and enhanced products on a timely basis;
- disruption to our operations;
- geopolitical instability;
- the emergence of new sales channels in which we are unable to compete effectively;
- any major change in our board of directors or management;
- changes in financial estimates, including our ability to meet our future revenue and operating profit or loss projections;
- changes in governmental regulations or in the status of our regulatory approvals;
- general economic conditions and slow or negative growth of related markets;

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- commencement of, or our involvement in, litigation;
- changes in earnings estimates or recommendations by securities analysts;
- continuing international conflicts and acts of terrorism; and
- changes in accounting rules.

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

**ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Not applicable.

**ITEM 3 DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4 MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5 OTHER INFORMATION**



None.

**ITEM 6 EXHIBITS**

- 3.1 (1) Amended and Restated Articles of Association of Mellanox Technologies, Ltd. (as amended on May 16, 2011).
- 31.1 Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Company's Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Company's Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS (2) XBRL Instance Document
- 101.SCH (2) XBRL Taxonomy Extension Schema Document
- 101.CAL (2) XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB (2) XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE (2) XBRL Taxonomy Extension Presentation Linkbase Document
- 101.DEF (2) XBRL Taxonomy Extension Definition Linkbase Document

- 
- (1) Incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement on Schedule 14A (File No. 001-33299) filed on April 11, 2011.
  - (2) Pursuant to Rule 406T of SEC Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, and are deemed not filed for the purpose of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

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

Date: May 4, 2012

Mellanox Technologies, Ltd.

/s/ Michael Gray  
Michael Gray  
Chief Financial Officer  
(Duly Authorized Officer and Principal Financial Officer)

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**Exhibit Index**

3.1 (1)	Amended and Restated Articles of Association of Mellanox Technologies, Ltd. (as amended on May 16, 2011).
31.1	Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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- (2) Pursuant to Rule 406T of SEC Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, and are deemed not filed for the purpose of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.