

Mellanox Technologies, Ltd.  
Form 10-K  
March 02, 2015

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

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

**For the Fiscal Year Ended: December 31, 2014**

**OR**

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

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

**MELLANOX TECHNOLOGIES, LTD.**

(Exact name of registrant as specified in its charter)

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

**98-0233400**  
(I.R.S. Employer  
Identification Number)

**Mellanox Technologies, Ltd.  
Beit Mellanox, Yokneam, Israel 20692**

(Address of principal executive offices, including zip code)

**+972-4-909-7200**

(Registrant's telephone number, including area code)

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

**Title of Each Class:**

Ordinary shares, nominal value NIS 0.0175 per share

**Name of Each Exchange on Which Registered:**

The NASDAQ Stock Market, Inc.

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

(Title of Class)

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a  
smaller reporting company)

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

The aggregate market value of the registrant's ordinary shares, nominal value NIS 0.0175 per share, held by non-affiliates of the registrant on June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$1.5 billion (based on the closing sales price of the registrant's ordinary shares on that date). Ordinary shares held by each director and executive officer of the registrant, as well as shares held by each holder of more than 10% of the ordinary shares known to the registrant, have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not a determination for other purposes.

The total number of shares outstanding of the registrant's ordinary shares, nominal value NIS 0.0175 per share, as of February 20, 2015, was 45,706,062.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the 2015 Annual General Meeting of Shareholders of Mellanox Technologies, Ltd. (hereinafter referred to as the "Proxy Statement") are incorporated by reference in Part III of this report. Such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the conclusion of the registrant's fiscal year ended December 31, 2014.

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**PART I**

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

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

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

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

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

### **ITEM 1 BUSINESS**

#### **Overview**

We are a fabless semiconductor company that designs, manufactures and sells high-performance interconnect products and solutions primarily based on the InfiniBand and Ethernet standards. Our products facilitate efficient data transmission between servers, storage systems, communications infrastructure equipment and other embedded systems. We operate our business globally and offer

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products to customers at various levels of integration. The products we offer include integrated circuits ("ICs"), adapter cards, switch systems, cables, modules, software, services and accessories as an integral part of a total end-to-end networking solution focused on computing, storage and communication applications used in multiple markets, including high-performance computing ("HPC"), Web 2.0, storage, financial services, enterprise data center ("EDC"), and cloud. These solutions increase performance, application productivity and improve return on investment. Through the successful development and implementation of multiple generations of our products, we have established significant expertise and competitive advantages.

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 four of the five largest server vendors, Dell, HP, Lenovo, and Oracle, which collectively shipped the majority of servers in 2014, according to industry research firm Gartner. We supply our products to leading storage and communications infrastructure equipment vendors such as Data Direct Networks, Dell, EMC, Fujitsu, HP, IBM, Lenovo, NetApp, Nimbus Data, Oracle, Teradata, Toshiba and Seagate. Additionally, our products are used as embedded solutions by companies such as Fujitsu, GE Fanuc, Mercury, and Toshiba Medical.

We are one of the pioneers of InfiniBand, an industry-standard architecture for high-performance interconnects. We believe InfiniBand interconnect solutions deliver industry-leading performance, efficiency and scalability for clustered computing and storage systems that incorporate our products. In addition to supporting InfiniBand, our products also support industry-standard Ethernet transmission protocols providing unique product differentiation and connectivity flexibility. Our products serve as building blocks for creating reliable and scalable InfiniBand and Ethernet solutions with leading performance. We also believe that we are one of the early suppliers of 25/50/100Gb/s Ethernet adapters and 40Gb/s Ethernet switches to the market, and the only end-to-end 40 and 56Gb/s Ethernet supplier on the market today, which provides us with the opportunity to gain additional share in the Ethernet market as users upgrade from one or 10Gb/s directly to 25/40/50 or 56Gb/s.

On July 1, 2014, we completed the acquisition of privately-held Integrity Project ("Integrity Project"), which included an accomplished team of software technology veterans. Based in Ramat-Gan, Israel, Integrity Project was formed out of an elite military technology unit, specializing in the fields of connectivity, low-level development, real-time applications, and security. We acquired Integrity Project for its software expertise, to further enhance our commitment to providing superior solutions. The acquisition positions us to broaden our customer base by adding software solutions designed to enable customers to achieve optimal performance from all interconnect components.

On July 1, 2013, we completed the acquisition of a privately held company, IPtronics A/S ("IPtronics"). On August 15, 2013, we completed the acquisition of a privately held company, Kotura, Inc. ("Kotura"). Our primary reasons for the IPtronics and Kotura acquisitions were to enhance our ability to deliver cost-effective, high-speed networks with next generation optical connectivity at 100Gb/s and beyond. The acquisitions also enhanced our engineering team and added a strong patent portfolio in the field of silicon photonics.

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

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

processor and accelerator vendors such as AMD, ARM, IBM, Intel, Nvidia and Oracle;

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operating system vendors such as Microsoft, Novell and Red Hat; and

software applications vendors such as Oracle, IBM and VMware.

We are a Steering Committee member of the InfiniBand Trade Association, ("IBTA"), and the OpenFabrics Alliance, ("OFA"), both of which are industry trade organizations that maintain and promote InfiniBand technology. Additionally, OFA supports and promotes Ethernet solutions. We are also a participating member of the Institute of Electrical and Electronic Engineers, or IEEE, an organization which facilitates the advancement of the Ethernet standard, Ethernet Alliance and other industry organizations advancing various networking and storage related standards.

Our business headquarters are in Sunnyvale, California, and our engineering and manufacturing headquarters are in Yokneam, Israel. Our total assets as of December 31, 2014 and 2013 were approximately, \$863.2 million and \$806.8 million, respectively. During the years ended December 31, 2014, 2013 and 2012, we generated approximately \$463.6 million, \$390.4 million and \$500.3 million in revenues, respectively, and approximately \$(24.0) million, \$(23.3) million and \$112.0 million in net income (loss), respectively.

We manage our business based on one reportable segment: the development, manufacturing, marketing and sales of interconnect products. Additional information required by this item is incorporated herein by reference to our consolidated financial statements and Note 13, "Geographic information and revenues by product group," of the Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this report. The risks related to foreign operations and dependence on foreign operations are discussed under the section entitled "Risk Factors Risks Related to Operations in Israel and Other Foreign Countries" under Part I, Item 1A of this report.

**Industry Background**

***High-Performance Interconnect Market Overview and Trends***

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

Demand for computing power and data storage capacity continue to rise, fueled by the increasing reliance by enterprises on information technology, ("IT"), for everyday operations. Due to greater amounts of information to be processed, stored and retrieved, data centers rely on high-performance computing and high-capacity storage systems to optimize price/performance, minimize total cost of ownership, utilize power efficiently and simplify management. We believe that several IT trends impact the demand for interconnect solutions and the performance required from these solutions. These trends include:

Transition to clustered computing and storage using connections among multiple standard components;

Transition to multiple and multi-core processors in servers;

Use of solid state memory drives for data storage;

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Enterprise data center infrastructure consolidation;

Increasing deployments of mission critical, latency, or response time sensitive applications;

Increasing deployments of converged infrastructure;

Increasing deployment of virtualized computing and virtualized networking resources to improve server utilization;

Requirements by cloud providers to perform system provisioning, workload migrations and support multiple users' requests faster and more efficiently;

Requirements by Web 2.0 data centers to increase their hardware utilization and to instantly scale up to large capacities; and

Big Data Analytics requirements for faster data access and processing to analyze increasingly large datasets and to provide real-time analysis.

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

***Challenges Addressed by High-Performance Interconnect***

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

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

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

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

*Limited reliability and stability of connections.* Most interconnect solutions are not designed to provide reliable connections when utilized in a large clustered environment, causing data transmission interruption. As more applications in EDCs share the same interconnect, advanced traffic management and application partitioning become necessary to maintain stability and



reduce system down time. Such capabilities are not offered by most interconnect solutions.

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

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

Proprietary interconnect solutions have been designed for use in supercomputer applications by supporting low latency and increased reliability. These solutions are only supported by a single vendor for product and software support, and there is no standard organization maintaining and facilitating improvements and changes to the technology. The number of supercomputers that use proprietary interconnect solutions has been declining largely due to the required use of proprietary software solutions, a lack of compatible storage systems and the availability of industry standards-based interconnects that offer superior price/performance.

Fibre Channel is an industry standard interconnect solution limited to storage applications. The majority of Fibre Channel deployments support 2, 4, 8 and 16Gb/s. Fibre Channel lacks a standard software interface, does not provide server cluster capabilities and remains more expensive relative to other standards-based interconnects. There have been industry efforts to support the Fibre Channel data transmission protocol over interconnect technologies including Ethernet (Fibre Channel over Ethernet) and InfiniBand (Fibre Channel over InfiniBand).

Ethernet is an industry-standard interconnect solution that was initially designed to enable basic connectivity between a local area network of computers or over a wide area network, where latency, connection reliability and performance limitations due to communication processing are non-critical. While Ethernet has a broad installed base at 1Gb/s and lower data rates, its overall efficiency, scalability and reliability have been less optimal than certain alternative interconnect solutions in high-performance computing, storage and communication applications. An increase to 10/25/40/50/100Gb/s, a significant reduction in application latency and more efficient software solutions have improved Ethernet's capabilities to address specific high-performance applications that do not demand the highest scalability.

In the HPC, cloud, Web2.0 and storage markets the predominant interconnects today are InfiniBand and Ethernet. In the EDC and embedded markets, the predominant interconnects today are Ethernet, Fibre Channel and InfiniBand. Based on our knowledge of the industry, we believe there is significant demand for interconnect products that provide high bandwidth and better overall performance in these markets.

*Advantages of InfiniBand*

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

*Superior performance.* Compared to other interconnect technologies that were architected to have a heavy reliance on communication processing, InfiniBand was designed for implementation in an IC that relieves the CPU of communication processing functions. InfiniBand is able to provide superior bandwidth and latency relative to other existing interconnect technologies and has maintained this advantage with each successive generation of products. For example, our current InfiniBand adapters and switches provide bandwidth up to 100Gb/s, with end-to-end

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latency lower than a microsecond. In addition, InfiniBand fully leverages the I/O capabilities of PCI Express, a high-speed system bus interface standard.

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

	Proprietary	Fibre Channel	Ethernet	InfiniBand
Supported bandwidth of available solutions	2Gb/s - 10Gb/s	2Gb/s - 16Gb/s	1Gb/s - 100Gb/s	10Gb/s - 100Gb/s

Performance in terms of latency varies depending on system configurations and applications. According to independent benchmark reports, latency of InfiniBand solutions was less than half that of tested Ethernet and proprietary solutions. Fibre Channel, which is used only as a storage interconnect, is typically not benchmarked on latency performance. HPC typically demands low latency interconnect solutions. In addition, there are increasing numbers of latency-sensitive applications in the cloud, Web 2.0, storage and embedded markets, and, therefore, there is a trend towards using industry-standard InfiniBand and Ethernet solutions of 10Gb/s and faster, able to deliver lower latency than 1Gb/s Ethernet.

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

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

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

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

**Our InfiniBand Solutions**

We provide comprehensive end-to-end 40/56/100Gb/s InfiniBand solutions, including switch and gateway ICs, adapter cards, switch, gateway and long-haul systems, cables, modules and software. InfiniBand enables us to provide products that we believe offer superior performance and meet the needs of the most demanding applications, while also offering significant improvements in total cost of ownership compared to alternative interconnect technologies. As part of our comprehensive solution, we perform validation and interoperability testing from the physical interface to the applications software. Our expertise in performing validation and testing reduces time to market for our customers and improves the reliability of the fabric solution.

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**Our Ethernet Solutions**

Advances in server virtualization, network storage and compute clusters have driven the need for faster network throughput to address application latency and availability problems in the Enterprise. To service this need, we provide a competitive and complete end-to-end 10/40/56Gb/s Ethernet solution for use in EDC, HPC, embedded environments, hyperscale Web 2.0 and cloud data centers. In addition, we provide 10/25/40/50/56/100Gb/s Ethernet NICs which incorporate the latest in Ethernet bandwidth standards. These solutions remove I/O bottlenecks in mainstream servers that limit application performance and support hardware-based I/O virtualization, providing dedicated adapter resources and guaranteed isolation and protection for virtual machines within the server.

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

VPI enables us to offer fabric-flexible products that concurrently support both Ethernet and InfiniBand with network ports having the ability to auto sense the type of switch to which it is connected and then take on the characteristics of that fabric. In addition, these products extend certain InfiniBand advantages to Ethernet fabrics, such as reduced complexity and superior price/performance, by utilizing existing, field-proven InfiniBand software solutions.

**Our Strengths**

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

*We have expertise in developing high-performance interconnect solutions.* We were founded by a team with an extensive background in designing and marketing semiconductor solutions. Since our founding, we have been focused on high-performance interconnect and have successfully launched several generations of InfiniBand and Ethernet products. We believe we have developed strong competencies in integrating mixed-signal design and developing complex ICs. We also consider our software development capability as a key strength, and we believe that our software allows us to offer complete solutions. We have developed a significant portfolio of intellectual property, or IP, and have 247 issued patents. We believe our experience, competencies and IP will enable us to remain a leading supplier of high-performance interconnect solutions.

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

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

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definition, through IC design, and ultimately management of our high-volume manufacturing partners, we have better control over our production cycle and are able to improve the quality, availability and reliability of our products.

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

**Our Strategy**

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

*Continue to develop leading, high-performance interconnect products.* We will continue to expand our technical expertise and customer relationships to develop leading interconnect products. We are focused on extending our leadership position in high-performance interconnect technology and pursuing a product development plan that addresses emerging customer and end-user demands and industry standards. Our unified software strategy is to use a single software stack to support connectivity to InfiniBand and Ethernet with the same VPI enabled hardware adapter device.

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

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

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

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

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solutions to our customers. We plan to continue to leverage the flexibility and efficiency offered by our business.

**Our Products**

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

We have registered "Mellanox" and its logo, "BridgeX", "Connect-IB", "ConnectX", "CoolBox", "CORE-Direct", "GPUdirect", "InfiniHost", "InfiniScale", "Kotura" and its logo, "Mellanox Federal Systems", "Mellanox ScalableHPC", "Mellanox Technologies Connect. Accelerate. Outperform", "MetroX", "MLNX-OS", "PhyX", "SwitchX", "TestX", "UFM", "Virtual Protocol Interconnect" and "Voltaire" and its logo as trademarks in the United States.

We have trademark applications pending to register in the United States "Accelio", "CloudX" logo, "CompustorX", "ExtendX", "HPC-X", "InfiniBridge", "LinkX", "Mellanox Cloudrack", "Mellanox CloudX" and its logo, "Mellanox Hostdirect", "Mellanox Multi-host", "Mellanox Opencloud" and its logo, "Mellanox Open Ethernet", "Mellanox Peerdirect", "Mellanox Software Defined Storage", "Mellanox TuneX", "Mellanox Virtual Modular Switch", "MetroDX", "Open Ethernet" and its logo, "PlatformX", "PSiPHY", "SiPhy", "StoreX", "Switch-IB", "The Generation of Open Ethernet" and its logo, "TuneX" and "Unbreakable-Link".

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

We provide our switch ICs to server, storage, communications infrastructure and embedded systems OEMs to create switching equipment. To deploy an InfiniBand or Ethernet fabric, any number of server or storage systems that contain an adapter can be connected to a communications infrastructure system such as an InfiniBand or Ethernet switch. Our 6<sup>th</sup> generation switch IC (SwitchX-2) supports up to 56Gb/s InfiniBand and Ethernet throughput. Our 7<sup>th</sup> generation switch IC (Switch-IB) supports up to 100Gb/s InfiniBand throughput. We have introduced switch systems that include 8-port, 12-port, 18-port, 36-port, 48-port, 64-port, 108-port, 216-port, 324-port and 648-port.

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

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

We also provide our OEM customers software and tools that facilitate the use and management of our products. Developed in conjunction with the OFA, our Linux- and Windows-based software enables applications to efficiently utilize the features of the interconnect. We have expertise in optimizing the

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performance of software that spans the entire range of upper layer protocols down through the lower level drivers that interface to our products. We provide a suite of software tools and a comprehensive management software solution, Unified Fabric Manager ("UFM"), and MLNX-OS, for managing, optimizing, testing and verifying the operation of InfiniBand and Ethernet switch fabrics. In addition, we provide a full suite of acceleration software (Messaging Accelerator, ("VMA"), Fabric Collective Accelerator ("FCA"), and Unstructured Data Accelerator ("UDA"), that further reduce latency, increase throughput, and offload CPU cycles, enhancing the performance of applications in multiple markets while eliminating the need for large investments in hardware infrastructure.

We provide an extensive selection of passive and active copper and optical cables and modules to enable InfiniBand and Ethernet connectivity at speeds up to 100Gb/s.

**Technology**

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

***High-performance mixed-signal design***

One of the key technology differentiators of our ICs is our mixed-signal data transmission SerDes technology. SerDes I/O directly drives the interconnect interface, which provides signaling and transmission of data over copper interconnects and cables or fiber optic interfaces for longer distance connections. We are the only company that has shipped field-proven integrated controller ICs that operate with a 26Gb/s SerDes over an eight meter InfiniBand copper cable. Additionally, we are able to integrate several of these high-performance SerDes onto a single, low-power IC, enabling us to provide the highest bandwidth, merchant switch ICs based on an industry-standard specification. We have developed a 26Gb/s SerDes I/O that is used in our ConnectX-4 adapter that supports InfiniBand and Ethernet and Switch-IB switch silicon that supports InfiniBand. Our 26Gb/s SerDes enables our ConnectX adapters to support 100Gb/s bandwidth (four 26Gb/s SerDes operating in parallel) in addition to providing a direct 10Gb/s connection to standard XFP and SFP+ fiber modules to provide long range Ethernet connectivity without the requirement of additional components, which saves power, cost and board space.

***Specialized communication processing and switching functions***

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

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

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***Advanced interfaces***

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

***System hardware technology***

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

***Software technology***

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

**Customers**

HPC, cloud, Web 2.0 and embedded end-user markets for systems utilizing our products are mainly served by leading server, storage and communications infrastructure OEMs and original design manufacturers ("ODMs"). In addition, our customer base includes leading embedded systems OEMs that integrate computing, storage and communication functions that use high-performance interconnect solutions contained in a chassis which has been optimized for a particular environment.

Our products have broad adoption with multiple end customers across HPC, Web 2.0, cloud, EDC, financial services and storage markets; however, these markets are mainly served by leading server, storage, communications infrastructure and embedded system OEMs and ODMs. Therefore, we have derived a substantial portion of our revenues from a relatively small number of OEM and ODMs customers. A small number of customers account for a significant portion of our revenues. In the year ended December 31, 2014, sales to Dell accounted for 11% of our total revenues, sales to Hewlett-Packard accounted for 11% of our total revenues and sales to IBM accounted for 10% of our total revenues. In the year ended December 31, 2013, sales to IBM accounted for 17% of our total revenues and sales to Hewlett-Packard accounted for 13% of our total revenues. In the year ended December 31, 2012, sales to Hewlett-Packard accounted for 20% of our total revenues and sales to IBM accounted for 19% of our total revenues.

**Backlog**

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



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**Sales and Marketing**

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

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

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

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

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

assuming leadership roles within IBTA, OFA and other industry trade organizations;

participating in tradeshows, press and analyst briefings, conference presentations and seminars for end-user education; and

building and maintaining active partnerships with industry leaders whose products are important in driving InfiniBand and Ethernet adoption, including vendors of processors, operating systems and software applications.

**Research and Development**

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

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

In 2013, we extended our silicon design capabilities with the acquisition of IPtronics, which designs Trans Impedance Amplifiers and Laser drivers, and the acquisition of Kotura, a silicon photonics chip provider. Both companies provide Mellanox with greater depth and expertise relative to our interconnect solutions.

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

Frequent interaction between our silicon, software and systems design teams gives us a comprehensive view of the requirements necessary to deliver quality, high-performance products to our OEM customers. Our research and development expense was \$208.9 million in 2014, \$169.4 million in 2013 and \$138.3 million in 2012.

**Manufacturing**

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

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

*Quality Assurance.* We maintain an ongoing review of product manufacturing and testing processes. Our IC products are subjected to extensive testing to assess whether their performance exceeds the design specifications. We own an in-house Teradyne Tiger IC tester which provides us with

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immediate test data and the ability to generate characterization reports that are made available to our customers. Our adapter cards and custom switch system products are subject to similar levels of testing and characterization, and are additionally tested for regulatory agency certifications such as Safety and EMC (radiation test) which are made available to our customers. We only use components on these products that are qualified to be on our approved vendor list.

**Employees**

As of December 31, 2014, we had 1,549 full-time employees and 130 part-time employees, including 1,128 in research and development, 279 in sales and marketing, 182 in general and administrative and 90 in operations. 1,188 of our full-time employees and 127 of the part-time employees are located in Israel.

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

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

**Intellectual Property**

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

The semiconductor industry is characterized by frequent claims of infringement and litigation regarding patent and other IP rights. We, like other companies in the semiconductor industry, believe it is important to aggressively protect and pursue our IP rights. Accordingly, to protect our rights, we may file suit against parties whom we believe are infringing or misappropriating our IP rights. In addition, we are currently engaged in litigation and may engage in future litigation with parties that claim that we infringed their patents or misappropriated or misused their trade secrets. Such litigations could result in substantial cost and may divert management's attention away from day-to-day operations. We may not prevail in these lawsuits. If any party infringes or misappropriates our IP rights, this infringement or misappropriation could materially adversely affect our business and competitive position.

As of December 31, 2014, we had 199 issued patents in the United States, five issued patents in Israel and 43 issued patents in other countries. We had 120 patent applications pending in the United States and 37 patent applications pending in other countries, which cover aspects of the technology in our products. The term of any issued patent in the United States and Israel is 20 years from its filing

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date and if our applications are pending for a long time period, we may have a correspondingly shorter term for any patent that may be issued. In addition the lives of acquired patents may also be of shorter term depending upon their acquisition dates and the issued dates. Our present and future patents may provide only limited protection for our technology and may not be sufficient to provide competitive advantages to us. Furthermore, we cannot assure you that any patents will be issued to us as a result of our patent applications.

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

**Competition**

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

price/performance;

time to market;

features and capabilities;

wide availability of complementary software solutions;

reliability;

power consumption and latency;

customer and application support;

product roadmap;

intellectual property; and

reputation.

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

We compete with other providers of semiconductor-based high-performance interconnect products based on InfiniBand, Ethernet, Fibre Channel and proprietary technologies. With respect to InfiniBand products, we compete with Intel Corporation, which acquired the InfiniBand product lines from QLogic Corporation at the beginning of 2012. For Ethernet technology, the leading IC vendors include Intel and Broadcom Corporation. The leading IC vendors that provide Ethernet and Fibre Channel products to the market include Marvell Technology Group, Emulex Corporation and QLogic Corporation. The leading Ethernet switch system vendors include Cisco, Brocade, Juniper and Arista. In embedded markets, we typically compete with interconnect technologies that are developed in-house by system OEM vendors and created for specific applications.



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**Additional Information**

We were incorporated under the laws of Israel in March 1999. Our ordinary shares began trading on The NASDAQ Global Market as of February 8, 2007 under the symbol "MLNX". Our ordinary shares were also traded on the Tel-Aviv Stock Exchange from July 9, 2007 to August 29, 2013 under the symbol "MLNX". Prior to February 8, 2007, our ordinary shares were not traded on any public exchange.

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

**Available Information**

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

**ITEM 1A RISK FACTORS**

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

**Risks Related to Our Business**

*We have identified material weaknesses in our internal control over financial reporting as of December 31, 2014 and December 31, 2013. Our failure to establish and maintain effective internal control over financial reporting could result in material misstatements in our financial statements, our failure to meet our reporting obligations and cause investors to lose confidence in our reported financial information, which could in turn cause the trading price of our common stock to decline.*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the

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supervision and with the participation of our management, including the chief executive officer ("CEO") and the chief financial officer ("CFO"), we carried out an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2014 using the criteria established in "Internal Control - Integrated Framework" (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Management has identified the following control deficiencies that constituted material weaknesses in our internal control over financial reporting as of December 31, 2014:

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

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

We did not design, document and maintain effective controls over our period-end financial reporting processes, including controls over the preparation, analysis and review of certain significant account reconciliations required to assess the appropriateness of account balances at period-end; and controls over the preparation and review of the consolidated interim and annual financial statements, including effective controls related to identifying and accumulating all required supporting information to determine the completeness and accuracy of the consolidated financial statements and disclosures.

We did not design, document and maintain effective controls with respect to the accounting for revenue and related accounts receivable, including maintaining effective controls to prevent or detect errors in the processing of customer transactions. Specifically, we had insufficient controls related to the review of the accuracy of customer order entry and pricing.

We did not design, document and maintain effective controls with respect to the accounting for inventory and related cost of sales accounts. Specifically, our controls over perpetual inventory records, which include our cycle count and annual physical inventory programs, were not appropriately designed or executed to validate the existence, completeness and accuracy of physical inventory quantities. In addition, we did not appropriately design controls related to the validation of assumptions used in the calculation of the provision for excess and obsolete inventory, as well as the completeness and accuracy of the underlying data used in the calculation.

We did not design, document and maintain effective controls over access to the Company's financial applications and data. Specifically, access review controls were not effectively designed to validate that access to certain financial applications and data were adequately restricted, which impacted controls that were dependent on the effective operation of restricted access.

**Monitoring** We did not design and maintain effective monitoring controls related to the design and operating effectiveness of certain controls involving an inherent level of complexity,

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

While these material weaknesses did not result in any material misstatement of our historical financial statements, they did result in adjustments to the accounting for business combinations, net revenue, accounts receivable, accrued liabilities, cost of revenues, and operating expenses and revisions to our consolidated financial statements for fiscal years 2013, 2012 and 2011, and interim periods in 2014, 2013 and 2012. Additionally, these material weaknesses could result in a misstatement of the account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

In response to the identified material weaknesses, our management, with oversight from our audit committee, has dedicated significant resources and efforts to improve our control environment and to remedy the identified material weaknesses. These remediation measures will cause us to incur additional accounting expense and expend management time on compliance-related issues. We cannot predict the outcome of our assessment and that of our independent registered public accounting firm in future periods. If we do not successfully remediate these material weaknesses and conclude in future periods that our internal controls over financial reporting are effective, we may fail to meet our future reporting obligations on a timely basis, our financial statements may contain material misstatements, our operating results may be negatively impacted, and we may be subject to litigation and regulatory actions, causing investor perceptions to be adversely affected and potentially resulting in a decline in the market price of our common stock.

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

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

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

We operate primarily in the semiconductor industry, which is cyclical and subject to rapid change and evolving industry standards. From time to time, the semiconductor industry has experienced



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

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

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

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

Acquisitions present a number of other potential risks and challenges that could disrupt our business operations. For example, we may not be able to successfully negotiate or finance the acquisition on favorable terms. If an acquired company also has inventory that we assume, we will be required to write up the carrying value of that inventory to its fair value. When that inventory is sold, the gross margins for those products are reduced and our gross margins for that period are negatively affected. Furthermore, the purchase price of any acquired businesses may exceed the current fair values of the net tangible assets of such acquired businesses. As a result, we would be required to record material amounts of goodwill, acquired in-process research and development and other intangible assets, which could result in significant impairment and acquired in-process research and development charges and amortization expense in future periods. These charges, in addition to the results of operations of such acquired businesses and potential restructuring costs associated with an acquisition, could have a material adverse effect on our business, financial condition and results of operations. We cannot forecast the number, timing or size of future acquisitions, or the effect that any such acquisitions might have on our operating or financial results. Furthermore, potential acquisitions, whether or not consummated, will divert our management's attention and may require considerable cash outlays at the expense of our existing operations. In addition, to complete future acquisitions, we may issue equity securities, incur debt, assume contingent liabilities or have amortization expenses and write-downs of acquired assets, which could adversely affect our profitability.

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

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

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

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

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

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

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

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

A small number of customers account for a significant portion of our revenues. For the year ended December 31, 2014, sales to Hewlett-Packard, Dell and IBM accounted for 11%, 11% and 10%, respectively, of our total revenues, while sales to our top ten customers accounted for 62% of our revenues. For the year ended December 31, 2013, sales to IBM and Hewlett-Packard accounted for 17% and 13%, respectively, of our total revenues, while sales to our top ten customers accounted for 67% of our revenues. Because the majority of servers, storage, communications infrastructure equipment and embedded systems are sold by a relatively small number of vendors, we expect that we will continue to depend on a small number of customers to account for a significant percentage of our revenues for the foreseeable future. Our customers, including our most significant customers, are not obligated by long-term contracts to purchase our products and may cancel orders with limited potential penalties. If any of our large customers reduces or cancels its purchases from us for any reason, it could have an adverse effect on our revenues and results of operations.

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

The markets in which we operate are extremely competitive and are characterized by rapid technological change, continuously evolving customer requirements and fluctuating average selling prices. We may not be able to compete successfully against current or potential competitors. With respect to InfiniBand products, we compete with Intel Corporation. For Ethernet technology, the leading IC vendors include 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, Brocade, Juniper and Arista. In HPC, EDC, Web 2.0, cloud and financial services markets, products based on the InfiniBand standard primarily compete with the industry-standard Ethernet and Fibre Channel interconnect technologies. In embedded markets, we typically compete with interconnect technologies that are developed in-house by system OEM vendors and created for specific applications.

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

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

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

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

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

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

While we design and market our products and conduct test development in-house, we do not manufacture, assemble, package and production test our products, and we must rely on third-party subcontractors to perform these services. We use TSMC to manufacture and ASE to assemble, package and production test our IC products. We use Flextronics International Ltd., Sanmina-SCI Corporation, A.L Electronics Engineering, Production Services Ltd and USI to manufacture our standard and custom adapter card products and switch systems. In addition, we also use Comtel Electronics to manufacture some of our switch systems. We use several sub-contractors to manufacture our cables. If these subcontractors do not provide us with high-quality products, services and production and production test capacity in a timely manner, or if one or more of these subcontractors terminates its relationship with us, we may be unable to obtain satisfactory replacements to fulfill customer orders on a timely basis, our relationships with our customers could suffer, our sales could decrease and our growth could be limited. In particular, there are significant challenges associated with moving our IC production from our existing manufacturer to another manufacturer with whom we do not have a pre-existing relationship.

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

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

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short notice. Other customers that are larger and better financed than we are or that have long-term agreements with these subcontractors may cause these subcontractors to reallocate capacity to those customers, thereby decreasing the capacity available to us.

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

reduced control over product cost, delivery schedules and product quality;

potential price increases;

inability to achieve sufficient production, increase production or test capacity and achieve acceptable yields on a timely basis;

increased exposure to potential misappropriation of our intellectual property;

shortages of materials used to manufacture products;

capacity shortages;

labor shortages or labor strikes;

political instability in the regions where these subcontractors are located; and

natural disasters impacting these subcontractors.

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

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

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

The products we develop and sell are subject to declines in average selling prices. We have had to reduce our prices in the past and we may be required to reduce prices in the future. Reductions in our average selling prices to one customer could impact our average selling prices to other customers. If we are unable to reduce our associated manufacturing costs this reduction in average selling prices would cause our gross margin to decline. Our financial results will suffer if we are unable to offset any reductions in our average selling prices by increasing our sales volumes, reducing our costs or developing new or enhanced products with higher selling prices or gross margins.

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

## Edgar Filing: Mellanox Technologies, Ltd. - Form 10-K

Our product gross margins vary from quarter to quarter, and the recent level of gross margins may not be sustainable and may be adversely affected in the future by numerous factors, including product mix shifts, product transitions, increased price competition in one or more of the markets in which we compete, increases in material or labor costs, excess product component or obsolescence charges from

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our contract manufacturers, warranty related issues, or the introduction of new products or entry into new markets with different pricing and cost structures.

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

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

unpredictable volume and timing of customer orders, which are not fixed by contract but vary on a purchase order basis;

the loss of one or more of our customers, or a significant reduction or postponement of orders from our customers;

our customers' sales outlooks, purchasing patterns and inventory levels based on end-user demands and general economic conditions;

seasonal buying trends;

the timing of new product announcements or introductions by us or by our competitors;

our ability to successfully develop, introduce and sell new or enhanced products in a timely manner;

product obsolescence and our ability to manage product transitions;

changes in the relative sales mix of our products;

decreases in the overall average selling prices of our products;

changes in our cost of finished goods; and

the availability, pricing and timeliness of delivery of other components used in our customers' products.

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

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

## Edgar Filing: Mellanox Technologies, Ltd. - Form 10-K

We have developed relationships with third parties, which we refer to as ecosystem partners. Such partners provide their technology products, operating systems, tool support, reference designs and other elements necessary for the sale of our products into our markets. In addition, introduction of new products into the market by these partners may increase demand for our products. If we are unable to continue to develop or maintain these relationships, or if our ecosystem partners delay or fail to timely deliver their technology or products or other elements to the market, our revenues may be adversely



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impacted and we might not be able to enhance our customers' ability to commercialize their products in a timely manner and our ability to remain competitive may be harmed.

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

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

people may not be deterred from misappropriating our technologies despite the existence of laws or contracts prohibiting it;

policing unauthorized use of our intellectual property may be difficult, expensive and time-consuming, and we may be unable to determine the extent of any unauthorized use; and

the laws of other countries in which we market our products, such as some countries in the Asia/Pacific region, may offer little or no protection for our proprietary technologies.

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

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

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

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

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

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

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

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

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

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lack of resources or be unable to staff projects optimally. We believe that our future success is highly dependent on the contributions of our president and CEO and other senior executives. We do not have long-term employment contracts with our president and CEO, CFO or any other key personnel, and their knowledge of our business and industry would be extremely difficult to replace.

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

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

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

continue to enhance our customer relationship and supply chain management and supporting systems;

implement additional and enhance existing administrative, financial and operations systems, procedures and controls;

expand and upgrade our technological capabilities;

manage multiple relationships with our customers, distributors, suppliers, end users and other third parties;

manage the mix of our U.S., Israeli and other foreign operations; and

hire, train, integrate and manage additional qualified engineers for research and development activities, sales and marketing personnel and financial and IT personnel.

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

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

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

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

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

We are subject to income taxes in Israel, the United States and various foreign jurisdictions. Our effective income tax could be adversely affected by changes in tax laws or interpretations of those tax laws, by changes in the mix of earnings in countries with differing statutory tax rates, by discovery of new information in the course of our tax return preparation process, or by changes in the valuation of our deferred tax assets and liabilities. In addition, the tax rate due on dividends, interest and capital gains applicable to individuals will be increased as well. Our effective income tax rates are also affected by intercompany transactions for sales, services, funding and other items. Given the increased global scope of our operations, and the complexity of global tax and transfer pricing rules and regulations, it has become increasingly difficult to estimate earnings within each tax jurisdiction. If actual earnings within a tax jurisdiction differ materially from our estimates, we may not achieve our expected effective tax rate. Additionally, our effective tax rate may be affected by the tax effects of acquisitions, restructuring activities, newly enacted tax legislation, share-based compensation and uncertain tax positions. Finally, we are subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities which may result in the assessment of additional income taxes. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. However, unanticipated outcomes from these examinations could have a material adverse effect on our financial condition or results of operations.

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

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

***We may be subject to disruptions or failures in information technology systems and network infrastructures, including theft, misuse of our electronic data or cyber-attacks, that could have a material adverse effect on us.***

We rely on the efficient and uninterrupted operation of complex information technology systems and network infrastructures to operate our business. We also hold large amounts of data in various data center facilities upon which our business depends. A disruption, infiltration or failure of our information technology systems or any of our data centers as a result of software or hardware malfunctions, system implementations or upgrades, computer viruses, third-party security breaches, attempts by others that try to gain unauthorized access through the Internet to our information technology systems, employee error, theft or misuse, malfeasance, power disruptions, natural disasters

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or accidents could cause breaches of data security, loss of intellectual property and critical data and the release and misappropriation of sensitive competitive information and partner, customer and employee personal data. These attempts may be the result of industrial or other espionage, or actions by hackers seeking to harm us, our products, or our end users. Any of these events could harm our competitive position, result in a loss of customer confidence, cause us to incur significant costs to remedy any damages and ultimately materially adversely affect our business and financial condition.

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

In addition, our third-party subcontractors, including our foundries, test and assembly houses and distributors, have access to certain portions of our sensitive data. In the event that these subcontractors do not properly safeguard our data that they hold, security breaches and loss of our data could result. Any such loss of data by our third-party service providers, or theft, unauthorized use or publication of our trade secrets and other confidential business information as a result of such cyber threats, could adversely affect our competitive position and reduce marketplace acceptance of our products; the value of our investment in research and development and marketing could be reduced; and third parties may assert against us or our customers claims related to resulting losses of confidential or proprietary information or end-user data, or system reliability. Any such event could have a material adverse effect on our business, results of operations, and financial condition.

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

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

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

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

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

There have also been regulations to improve transparency and accountability concerning the supply of minerals coming from the conflict zones in and around the Democratic Republic of Congo. The Dodd-Frank Wall Street Reform and Consumer Protection Act includes disclosure requirements

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regarding the use of conflict minerals mined from the Democratic Republic of Congo and adjoining countries and procedures regarding a manufacturer's efforts to prevent the sourcing of such conflict minerals. The implementation of these requirements could affect the sourcing and availability of minerals used in the manufacture of semiconductor devices.

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

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

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

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

We have engineering facilities, corporate and sales support operations located in Israel. A significant number of our employees and material amount of assets are located in Israel. Accordingly, political, economic and military conditions in Israel may directly affect our business. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, as well as incidents of civil unrest. These conflicts negatively affected business conditions in Israel. In addition, Israel and companies doing business with Israel have, in the past, been the subject of an economic boycott. In addition, there has been recent civil unrest in certain areas in the Middle East, including Egypt, Syria and Libya. Any future armed conflicts or political instability in the region may negatively affect business conditions and adversely affect our results of operations. Parties with whom we do business have sometimes declined to travel to Israel during periods of heightened unrest or tension, forcing us to make alternative arrangements when necessary. In addition, the political and security situation in Israel may result in parties with whom we have agreements involving performance in Israel claiming that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions in the agreements.

We can give no assurance that security and political conditions will have no impact on our business in the future. Hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could adversely affect our operations and could make it more difficult for us to raise capital. Our Israeli operations, which are located in northern Israel, are within range of Hezbollah missiles and we or our immediate surroundings may sustain damages in a missile attack, which could adversely affect our operations.

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

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

Generally, all non-exempt male adult citizens and permanent residents of Israel under the age of 45 (or older, for citizens with certain occupations), including some of our employees, are obligated to perform military reserve duty annually, and are subject to being called to active duty at any time under emergency circumstances. In the event of severe unrest or other conflict, individuals could be

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required to serve in the military for extended periods of time. In response to increases in terrorist activity, there have been periods of significant call-ups of military reservists, and some of our employees, including those in key positions, have been called upon in connection with armed conflicts. It is possible that there will be additional call-ups in the future. Our operations could be disrupted by the absence for a significant period of one or more of our officers, directors or key employees due to military service. Any such disruption could adversely affect our operations.

***Our operations may be affected by labor unrest in Israel.***

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

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

We derived 51%, 51% and 52% of our revenues in the years ended December 31, 2012, 2013 and 2014, respectively, from sales outside North America. As a result, we face additional risks from doing business internationally, including:

reduced protection of intellectual property rights in some countries;

difficulties in staffing and managing foreign operations;

longer sales and payment cycles;

greater difficulties in collecting accounts receivable;

adverse economic conditions;

seasonal reductions in business activity;

potentially adverse tax consequences;

laws and business practices favoring local competition;

costs and difficulties of customizing products for foreign countries;

compliance with a wide variety of complex foreign laws and treaties;

compliance with the United States' Foreign Corrupt Practices Act and similar anti-bribery laws in other jurisdictions;

compliance with export control and regulations;

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

restrictive governmental actions, such as restrictions on the transfer or repatriation of funds and foreign investments;

foreign currency exchange risks;

fluctuations in freight rates and transportation disruptions;

political and economic instability;

variance and unexpected changes in local laws and regulations;



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natural disasters and public health emergencies; and

trade and travel restrictions.

A significant legal risk associated with conducting business internationally is compliance with various and differing anti-corruption and anti-bribery laws and regulations of the countries in which we do business, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and similar laws in China. In addition, the anti-corruption laws in various countries are constantly evolving and may, in some cases, conflict with each other. Our Code of Ethics and Business Conduct and other policies prohibit us and our employees from offering or giving anything of value to a government official for the purpose of obtaining or retaining business and from engaging in unethical business practices, including kick-backs to or from purely private parties. However, there can be no assurance that all of our employees or agents will refrain from acting in violation of such laws and our related anti-corruption policies and procedures. Any such violation could have a material adverse effect on our business.

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

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

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

In addition, it may be difficult for a shareholder to enforce civil liabilities under U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws because Israel is not the most appropriate forum to bring such a claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved in an Israeli court as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law.

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

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

Also, in certain circumstances, an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser would hold 25% or more of the voting rights in the company (unless there is already a 25% or greater shareholder of the company) or

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

In addition, the Israeli Companies Law allows us to create and issue shares having rights different from those attached to our ordinary shares, including rights that may delay or prevent a takeover or otherwise prevent our shareholders from realizing a potential premium over the market value of their ordinary shares. The authorization of a new class of shares would require an amendment to our articles of association, which requires the prior approval of the holders of a majority of our shares at a general meeting.

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

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

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

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

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

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

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

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

We have received grants from the government of Israel through the Office of the Chief Scientist of Israel's Ministry of Economy (the "OCS"), for the financing of a portion of our research and development expenditures in Israel. When know-how is developed using or in connection with OCS grants, the Encouragement of Industrial Research and Development Law 5744-1984, or the R&D Law, as well as the regulations, the OCS guidelines and the terms of these grants restrict the transfer of the know-how outside of Israel. Transfer of know-how outside of Israel requires pre-approval by the OCS which may at its sole discretion grant such approval and impose certain conditions, and is subject to the payment of a transfer fee calculated according to the formula provided in the R&D Law which takes into account, *inter alia*, the consideration for such know-how paid to us in the transaction in which the technology is transferred. In general, transfer fees are no less than the funding received plus interest less the royalties already paid for the transferred know-how. In addition, any decrease of the percentage of manufacturing performed in Israel, as originally declared in the application to the OCS, requires us to obtain the approval of the OCS and may result in increased amounts to be paid to the OCS or tax authorities. These restrictions may impair our ability to enter into agreements for those products or technologies without the approval of the OCS or tax authorities. We cannot be certain that any approval of the OCS or tax authorities will be obtained on terms that are acceptable to us, or at all. Furthermore, in the event that we undertake a transaction involving the transfer to a non-Israeli entity of technology developed with OCS funding pursuant to a merger or similar transaction, the consideration available to our shareholders may be reduced by the amounts we are required to pay to the OCS. Any approval, if given, will generally be subject to additional financial obligations. If we fail to comply with the conditions imposed by the OCS or tax authorities, we may be required to refund any payments previously received, together with interest and penalties as well as tax benefits. Also, failure to meet the restrictions concerning transfer of know-how outside of Israel may trigger criminal liability.

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

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

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company, including, among other things, in voting at the general meeting of shareholders on certain matters.

**Risks Related to Our Ordinary Shares**

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

We sold ordinary shares in our initial public offering in February 2007 at a price of \$17.00 per share, and our shares have subsequently traded as low as \$6.02 per share. During 2014, our shares traded as low as \$30.58 per share and as high as \$46.96 per share. Factors that could cause volatility in the market price of our ordinary shares include, but are not limited to:

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

announcements by us, our competitors, our customers or rumors from sources other than our company related to acquisitions, new products, significant contracts, commercial relationships, capital commitments or changes in the competitive landscape;

our ability to develop and market new and enhanced products on a timely basis;

disruption to our operations;

geopolitical instability;

the emergence of new sales channels in which we are unable to compete effectively;

any major change in our board of directors or management;

changes in financial estimates, including our ability to meet our future revenue and operating profit or loss projections;

changes in governmental regulations or in the status of our regulatory approvals;

general economic conditions and slow or negative growth of related markets;

commencement of, or our involvement in, litigation;

changes in earnings estimates or recommendations by securities analysts;

whether our operating results meet our guidance or the expectations of investors or securities analysts;

continuing international conflicts and acts of terrorism; and

changes in accounting rules.

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

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

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

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

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

As of December 31, 2014, based on information filed with the SEC or reported to us, Oracle Corporation and certain entities affiliated with Fidelity Management & Research Company, Scopia Capital Management, LLC, The Bank of New York Mellon Corporation and AllianceBernstein L.P. beneficially owned an aggregate of approximately 35% of our outstanding ordinary shares, and taken together with our executive officers and directors and their affiliates, beneficially owned an aggregate of approximately 41% of our outstanding ordinary shares. Accordingly, these shareholders, should they act as a group, would have significant influence over the outcome of corporate actions requiring shareholder approval, including the election of directors, any merger, consolidation or sale of all or substantially all of our assets or any other significant corporate transaction. These shareholders could delay or prevent a change of control of our company, even if such a change of control would benefit our other shareholders. The significant concentration of share ownership may adversely affect the trading price of our ordinary shares due to investors' perception that conflicts of interest may exist or arise.

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

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

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

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

no cumulative voting;

approval of merger requires a majority of our outstanding shares;

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a vote of at least 75% of the voting power at the general meeting required to remove any directors (not including external directors) from office, and elect directors instead of directors so removed; and

an advance notice requirement for shareholder proposals and nominations.

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

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

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

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

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

**ITEM 1B UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2 PROPERTIES**

As of December 31, 2014, our major facilities consisted of:

	Israel	United States	Other	Total
Leased facilities (in thousands of square feet))	655	85	16	756

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

**ITEM 3 LEGAL PROCEEDINGS**

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

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

**ITEM 4 MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

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

**Market Information**

Our ordinary shares began trading on The NASDAQ Global Market on February 8, 2007 under the symbol "MLNX". Prior to that date, our ordinary shares were not traded on any public exchange. Our ordinary shares were traded on the Tel-Aviv Stock Exchange from July 9, 2007 to August 29, 2013 under the symbol "MLNX."

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

<b>2014</b>	<b>High</b>	<b>Low</b>
First quarter	\$ 46.04	\$ 33.07
Second quarter	\$ 40.80	\$ 30.58
Third quarter	\$ 45.15	\$ 33.33
Fourth quarter	\$ 46.96	\$ 39.21

<b>2013</b>	<b>High</b>	<b>Low</b>
First quarter	\$ 65.77	\$ 41.75
Second quarter	\$ 63.09	\$ 42.58
Third quarter	\$ 54.89	\$ 33.69
Fourth quarter	\$ 42.45	\$ 32.35

As of February 9, 2015, we had approximately 185 holders of record of our ordinary shares. This number does not include the number of persons whose shares are in nominee or in "street name" accounts through brokers.



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The graph below compares the five-year cumulative total shareholder return on our ordinary shares with the cumulative total return on The NASDAQ Composite Index and The Philadelphia Semiconductor Index. The period shown commences on December 31, 2009 and ends on December 31, 2014, the end date of our last fiscal year. The graph assumes an investment of \$100 on December 31, 2009, and the reinvestment of any dividends. No cash dividends have been declared or paid on our ordinary shares during such period. Shareholder returns over the indicated periods should not be considered indicative of future share prices or shareholder returns.

	12/31/2009(*)	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Mellanox Technologies	100.00	138.54	172.00	314.35	211.59	226.20
NASDAQ Composite Index	100.00	116.91	114.81	133.07	184.06	208.71
Philadelphia Semiconductor Index	100.00	114.42	101.26	106.71	148.66	190.84

\*  
\$100 invested on December 31, 2009 in shares or index-including reinvestment of dividends.

**Dividends**

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

Table of Contents**Securities Authorized for Issuance under Equity Compensation Plans**

Our equity compensation plan information required by this item is incorporated by reference to the information in Part III, Item 12 of this report. For additional information on our share incentive plans and activity, see Note 10, "Share Incentive Plans" included in Part IV, Item 15 of this report.

**Recent Sales of Unregistered Securities**

None.

**ITEM 6 SELECTED FINANCIAL DATA**

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this report. We derived the consolidated balance sheet data for the years ended December 31, 2010, 2011 and 2012 and our consolidated statements of operations data for the years ended December 31, 2010 and 2011, from our audited consolidated financial statements not included in this report. We derived the consolidated statements of operations data for each of the three years in the period ended December 31, 2014, as well the consolidated balance sheet data as of December 31, 2013 and 2014, from our audited consolidated financial statements included elsewhere in this report. Our historical results are not necessarily indicative of results to be expected in any future period.

	Year Ended December 31,				
	2014	2013(1)	2012	2011(2)	2010
(In thousands, except per share data)					
<b>Consolidated Statement of Operations Data:</b>					
Total revenues	\$ 463,649	\$ 390,436	\$ 500,275	\$ 259,251	\$ 154,640
Cost of revenues	148,672	134,282	157,736	91,988	40,526
Gross profits	314,977	256,154	342,539	167,263	114,114
Operating expenses:					
Research and development	208,877	169,382	138,310	92,283	56,556
Sales and marketing	76,860	70,544	60,894	40,294	22,028
General and administrative	36,431	37,046	24,456	21,736	11,708
Total operating expenses	322,168	276,972	223,660	154,313	90,292
Income (loss) from operations	(7,191)	(20,818)	118,879	12,950	23,822
Other income (loss), net	1,449	1,228	1,259	759	(135)
Income (loss) before taxes on income	(5,742)	(19,590)	120,138	13,709	23,687
Provision for taxes on income	(18,267)	(3,752)	(8,187)	(3,375)	(9,763)
Net income (loss)	\$ (24,009)	\$ (23,342)	\$ 111,951	\$ 10,334	\$ 13,924
Net income (loss) per share basic	\$ (0.54)	\$ (0.54)	\$ 2.71	\$ 0.29	\$ 0.41
Net income (loss) per share diluted	\$ (0.54)	\$ (0.54)	\$ 2.55	\$ 0.27	\$ 0.39
Shares used to compute net income (loss) per share	44,831	43,421	41,308	36,263	33,591
Shares used to compute diluted net income (loss) per share	44,831	43,421	43,901	38,562	35,483

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	December 31,				
	2014	2013(1)	2012	2011(2)	2010
	(In thousands)				
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 51,326	\$ 63,164	\$ 117,054	\$ 181,258	\$ 107,994
Short-term investments	334,038	263,528	302,593	52,373	141,959
Working capital	398,862	352,161	433,404	252,274	266,009
Long-term assets	346,711	356,603	230,720	211,404	26,352
Total assets	\$ 863,218	\$ 806,826	\$ 769,330	\$ 530,030	\$ 315,755
Short-term liabilities	117,645	98,062	105,206	66,352	23,394
Long-term liabilities	43,821	41,953	35,004	20,590	10,287
Total liabilities	\$ 161,466	\$ 140,015	\$ 140,210	\$ 86,942	\$ 33,681
Total shareholders' equity	\$ 701,752	\$ 666,811	\$ 629,120	\$ 443,088	\$ 282,074

- (1) On July 1, 2013, we completed our acquisition of a privately held company, IPtronics A/S, and on August 15, 2013, we completed our acquisition of a privately held company, Kotura, Inc. IPtronics's and Kotura's results of operations and estimated fair value of assets acquired and liabilities assumed were included in our consolidated financial statements beginning as of their respective acquisition dates.
- (2) On February 7, 2011, we acquired Voltaire Ltd., an Israeli-based public company. Voltaire's results of operations and estimated fair value of assets acquired and liabilities assumed were included in our consolidated financial statements beginning February 7, 2011.

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

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

**Overview****General**

We are a fabless semiconductor company that designs, manufactures and sells high-performance interconnect products and solutions primarily based on the InfiniBand and Ethernet standards. Our products facilitate efficient data transmission between servers, storage systems, communications infrastructure equipment and other embedded systems. We operate our business globally and offer products to customers at various levels of integration. The products we offer include integrated circuits ("ICs"), adapter cards, switch systems, cables, modules, software, services and accessories as an integral part of a total end-to-end networking solution focused on computing, storage and communication applications used in multiple markets, including high-performance computing ("HPC"), Web 2.0, storage, financial services, enterprise data center ("EDC") and cloud. These solutions increase performance, application productivity and improve return on investment. Through the successful development and implementation of multiple generations of our products, we have established significant expertise and competitive advantages.

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We are one of the pioneers of InfiniBand, an industry-standard architecture for high-performance interconnects. We believe InfiniBand interconnect solutions deliver industry-leading performance, efficiency and scalability for clustered computing and storage systems that incorporate our products. In addition to supporting InfiniBand, our products also support industry-standard Ethernet transmission protocols providing unique product differentiation and connectivity flexibility. Our products serve as building blocks for creating reliable and scalable InfiniBand and Ethernet solutions with leading performance. We also believe that we are one of the early suppliers of 25/50/100Gb/s Ethernet adapters and 40Gb/s Ethernet switches to the market, and the only end-to-end 40 and 56Gb/s Ethernet supplier on the market today, which provides us with the opportunity to gain additional share in the Ethernet market as users upgrade from one or 10Gb/s directly to 25/40/50 or 56Gb/s.

As a leader in developing multiple generations of high-speed interconnect solutions, we have established strong relationships with our customers. Our products are incorporated in servers and associated networking solutions produced by server vendors. We supply our products to leading storage and communications infrastructure equipment vendors. Additionally, our products are used as embedded solutions.

Our revenues for the years ended December 31, 2014, 2013 and 2012 were \$463.6 million, \$390.4 million and \$500.3 million, respectively. The year-over-year revenue increase in 2014 from 2013 was primarily due to higher sales of InfiniBand products into the HPC market, which benefitted from the CPU refresh cycle that started in the third quarter of 2014, as well as higher sales into the storage market and increased sales of our 10Gb/s and 40Gb/s Ethernet products into Web 2.0 and cloud markets. In order to increase our annual revenues, we must continue to achieve design wins over other InfiniBand and Ethernet providers and providers of competing interconnect technologies. We consider a design win to occur when an original equipment manufacturer ("OEM"), or contract manufacturer notifies us that it has selected our products to be incorporated into a product or system under development. Because the life cycles for our customers' products can last for several years if these products have successful commercial introductions, we expect to continue to generate revenues over an extended period of time for each successful design win.

*Revenues.* We derive revenues from sales of our ICs, boards, switch systems, cables, modules, software, accessories and other product groups. Our products have broad adoption with multiple end customers across HPC, Web 2.0, cloud, EDC, financial services and storage markets; however, these markets are mainly served by leading server, storage and communications infrastructure OEMs. Therefore, we have derived a substantial portion of our revenues from a relatively small number of OEM customers. Sales to our top ten customers represented 62%, 67% and 74% of our total revenues for the years ended December 31, 2014, 2013 and 2012, respectively. Sales to customers representing 10% or more of revenues accounted for 32%, 30% and 39% of our total revenues for the years ended December 31, 2014, 2013 and 2012, respectively. The loss of one or more of our principal customers, the reduction or deferral of purchases, or changes in the mix of our products ordered by any one of these customers could cause our revenues to decline materially if we are unable to increase our revenues from other customers. Our customers, including our most significant customers, are not obligated by long-term contracts to purchase our products and may cancel orders with limited potential penalties. If any of our large customers reduces or cancels its purchases from us for any reason, it could have an adverse effect on our revenues and results of operations.

*Cost of revenues and gross profit.* The cost of revenues consists primarily of the cost of silicon wafers purchased from our foundry supplier, costs associated with the assembly, packaging and production testing of our ICs, outside processing costs associated with the manufacture of our products, royalties due to third parties, warranty costs, excess and obsolete inventory costs, depreciation and amortization, and costs of personnel associated with production management, quality assurance and services. In addition, after we purchase wafers from our foundries, we also face yield risk related to manufacturing these wafers into semiconductor devices. Manufacturing yield is the percentage of

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acceptable product resulting from the manufacturing process, as identified when the product is tested as a finished IC. If our manufacturing yields decrease, our cost per unit increases, which could have a significant adverse impact on our cost of revenues. We do not have long-term pricing agreements with foundry suppliers and contract manufacturers. Accordingly, our costs are subject to price fluctuations based on the overall cyclical demand for semiconductors.

We purchase our inventory pursuant to standard purchase orders. We estimate that lead times for delivery of our finished semiconductors from our foundry supplier and assembly, packaging and production testing subcontractor are approximately three to four months, lead times for delivery from our adapter card manufacturing subcontractor are approximately eight to ten weeks, and lead times for delivery from our switch systems manufacturing subcontractors are approximately twelve weeks. We build inventory based on forecasts of customer orders rather than the actual orders themselves.

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

***Operational expenses***

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

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

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

**Taxes on Income**

Our operations in Israel have been granted "Approved Enterprise" status by the Investment Center of the Israeli Ministry of Economy (formerly, the Ministry of Industry, Trade and Labor) and "Beneficiary Enterprise" status by the Israeli Income Tax Authority, which makes us eligible for tax benefits under the Israeli Law for Encouragement of Capital Investments, 1959. Under the terms of the Beneficiary Enterprise program, income that is attributable to our operations in Yokneam, Israel will be exempt from income tax for a period of ten years commencing fiscal year 2011. Income that is attributable to our operations in Tel Aviv, Israel is subject to a reduced income tax rate (generally between 10% and the current corporate tax rate, depending on the percentage of foreign investment in

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the Company) for five to eight years beginning fiscal year 2013. The Yokneam tax holiday is expected to expire in 2020 and the Tel Aviv tax holiday is expected to expire between 2017 and 2020. The corporate tax rate was increased to 26.5% in 2014.

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

**Critical Accounting Policies and Estimates**

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

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

***Revenue recognition***

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

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

***Multiple Element Arrangements Excluding Software***

For revenue arrangements that contain multiple deliverables, judgment is required to properly identify the accounting units of the transactions and to determine the manner in which revenue should be allocated among the accounting units. Moreover, judgment is used in interpreting the commercial

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

*Multiple Element Arrangements Including Software*

For multiple element arrangements that include a combination of hardware, software and services, such as post-contract customer support, the arrangement consideration is first allocated among the accounting units before revenue recognition criteria are applied. If an arrangement includes undelivered elements that are not essential to the functionality of the delivered elements, we defer revenue for the undelivered elements based on their fair value. The fair value for undelivered software elements is based on vendor specific evidence. If the undelivered elements are essential to the functionality of the delivered elements, no revenue is recognized. The revenues from fixed-price support or maintenance contracts, including extended warranty contracts and software post-contract customer support agreements are recognized ratably over the contract period and the costs associated with these contracts are recognized as incurred.

*Distributor Revenue*

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

*Deferred Revenue and Income*

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

*Shipping and Handling*

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

*Allowance for doubtful accounts*

We estimate the allowance for doubtful accounts based on an assessment of the collectibility of specific customer accounts. If we determine that a specific customer is unable to meet its financial obligations, we provide a specific allowance for credit losses to reduce the net recognized receivable to the amount we reasonably believe will be collected. Probability of collection is assessed on a customer-by-customer basis and our historical experience with each customer. Customers are subject to an ongoing credit review process that evaluates their respective financial positions. We review and update our estimates for allowance for doubtful accounts on a quarterly basis. Our allowance for

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doubtful accounts totaled approximately \$0.7 and \$0.6 million at December 31, 2014 and 2013, respectively. Our bad debt expense totaled approximately less than \$0.1 million for the years ended December 31, 2014, 2013 and 2012.

***Fair value of financial instruments***

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

***Short-term investments***

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

***Inventory valuation***

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

***Property and equipment***

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

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



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***Goodwill and intangible assets***

Goodwill represents the excess of the cost of acquired businesses over the fair market value of their identifiable net assets. We conduct a goodwill impairment qualitative assessment during the fourth quarter of each fiscal year or more frequently if facts and circumstances indicate that goodwill may be impaired. The goodwill impairment qualitative assessment requires us to perform an assessment to determine if it is more likely than not that the fair value of the business is less than its carrying amount. The qualitative assessment considers various factors, including the macroeconomic environment, industry and market specific conditions, market capitalization, stock price, financial performance, earnings multiples, budgeted-to-actual revenue performance from the prior year, gross margin and cash flow from operating activities and issues or events specific to the business. If adverse qualitative trends are identified that could negatively impact the fair value of the business, we perform a "two step" goodwill impairment test. "Step one" of the goodwill impairment test requires us to estimate the fair value of the reporting units. "Step two" of the test is only performed if a potential impairment exists in "step one" and it involves determining the difference between the fair value of the reporting unit's net assets other than goodwill and the fair value of the reporting unit. If the difference is less than the net book value of goodwill, an impairment exists and is recorded. As of December 31, 2014, our qualitative assessment of goodwill impairment indicated that goodwill was not impaired.

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

Indefinite-lived intangible assets are tested for impairment annually or more frequently when indicators of impairment exist. We first assess qualitative factors to determine if it is more likely than not that an indefinite-lived intangible asset is impaired and whether it is necessary to perform a quantitative impairment test. The qualitative assessment considers various factors, including reductions in demand, the abandonment of IPR&D projects or significant economic slowdowns in the semiconductor industry and macroeconomic environment. If adverse qualitative trends are identified that could negatively impact the fair value of the asset, then quantitative impairment tests are performed to compare the carrying value of the asset to its undiscounted expected future cash flows. If this test indicates that there is impairment, the impaired asset is written down to fair value, which is typically calculated using: (i) quoted market prices or (ii) discounted expected future cash flows utilizing an appropriate discount rate. Impairment is based on the excess of the carrying amount over the fair value of those assets. As of December 31, 2014, there were no indicators that impairment existed or assets were not recoverable. Intangible assets with finite lives are tested for impairment in accordance with our policy for long-lived assets.

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

As of December 31, 2014, we held \$10.7 million of investments in privately-held companies. We account for these investments under the cost method, reduced by any impairment write-downs, because we do not have the ability to exercise significant influence over the operating and financial policies of these companies. To determine if an investment is recoverable, we monitor the investments and if facts and circumstances indicate the investment may be impaired, conduct an impairment test. The impairment test considers multiple factors including a review of the privately-held company's revenue and earnings trends relative to pre-defined milestones and overall business prospects, the general

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market conditions in its industry and other factors related to its ability to remain in business, such as liquidity and receipt of additional funding.

***Warranty provision***

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

***Share-based compensation***

We account for share-based compensation expense based on the estimated fair value of the equity awards as of the grant dates. The fair value of restricted share units ("RSUs") is based on the closing market price of our ordinary shares on the date of grant. We estimate the fair value of share option awards using the Black-Scholes option valuation model, which requires the input of subjective assumptions including the expected share price volatility and the calculation of expected term as well as and the fair value of the underlying ordinary share on the date of grant, among other inputs.

We base our estimate of expected volatility on the historical volatility of our shares. We calculate the expected term of our options using the simplified method as prescribed by the authoritative guidance. The expected term for newly granted options in fiscal year 2014 was approximately 5.77 years.

Share compensation expense is recognized on a straight-line basis over each recipient's requisite service period, which is generally the vesting period. Share-based compensation expense is recorded net of estimated forfeitures. Forfeitures are estimated at the time of grant and this estimate is revised, if necessary, in subsequent periods. If the actual number of forfeitures differs from that estimated, adjustments may be required to share-based compensation expense in future periods.

***Income taxes***

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

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

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

### Results of Operations

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

	Year Ended December 31,		
	2014	2013	2012
Total revenues	100%	100%	100%
Cost of revenues	(32)	(34)	(32)
<b>Gross profit</b>	<b>68</b>	<b>66</b>	<b>68</b>
Operating expenses:			
Research and development	45	43	27
Sales and marketing	16	18	12
General and administrative	8	10	5
Total operating expenses	69	71	44
Income (loss) from operations	(1)	(5)	24
Other income, net			
Provision for taxes on income	(4)	(1)	(2)
Net income (loss)	(5)	(6)	22

### Comparison of the Year Ended December 31, 2014 to the Year Ended December 31, 2013 and Year Ended December 31, 2013 to the Year Ended December 31, 2012

#### *Revenues.*

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

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



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	Year Ended December 31,		Year Ended December 31,	
	2014	% of Revenues	2013	% of Revenues
	(In thousands)		(In thousands)	
<b>InfiniBand:</b>				
FDR	\$ 264,785	57.1	\$ 200,300	51.3
QDR	56,711	12.2	86,784	22.2
DDR/SDR	16,179	3.5	21,211	5.4
<b>Total</b>	<b>337,675</b>	<b>72.8</b>	<b>308,295</b>	<b>78.9</b>
Ethernet	83,470	18.0	52,908	13.6
Other	42,504	9.2	29,233	7.5
<b>Total revenue</b>	<b>\$ 463,649</b>	<b>100.0</b>	<b>\$ 390,436</b>	<b>100.0</b>

Revenues were \$463.6 million for the year ended December 31, 2014 compared to \$390.4 million for the year ended December 31, 2013, representing an increase of approximately 19%. The year-over-year revenue increase in 2014 from 2013 was primarily due to higher sales of InfiniBand products into the HPC market, which benefitted from the CPU refresh cycle that started in the third quarter of 2014, as well as higher sales into the storage market and increased sales of our 10Gb/s and 40Gb/s Ethernet products into Web 2.0 and cloud markets. Revenues from Infiniband FDR products increased as customers continued transitioning from QDR and lower data rate to the latest generation products. The increase in Other product revenues was primarily due to higher cable and component sales. The 2014 revenues are not necessarily indicative of future results.

The following tables represent our total revenues for the years ended December 31, 2013 and 2012 by product type and interconnect protocol:

	Year Ended December 31,		Year Ended December 31,	
	2013	% of Revenues	2012	% of Revenues
	(In thousands)		(In thousands)	
ICs	\$ 56,817	14.5	\$ 95,103	19.0
Boards	119,399	30.6	155,670	31.1
Switch systems	145,184	37.2	168,231	33.6
Cables, accessories and other	69,036	17.7	81,271	16.3
<b>Total revenue</b>	<b>\$ 390,436</b>	<b>100.0</b>	<b>\$ 500,275</b>	<b>100.0</b>

	Year Ended December 31,		Year Ended December 31,	
	2013	% of Revenues	2012	% of Revenues
	(In thousands)		(In thousands)	
<b>InfiniBand:</b>				
FDR	\$ 200,300	51.3	\$ 236,728	47.3
QDR	86,784	22.2	175,650	35.1
DDR/SDR	21,211	5.4	33,457	6.7
<b>Total</b>	<b>308,295</b>	<b>78.9</b>	<b>445,835</b>	<b>89.1</b>
Ethernet	52,908	13.6	42,523	8.5

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Other	29,233	7.5	11,917	2.4
Total revenue	\$ 390,436	100.0	\$ 500,275	100.0

Revenues were \$390.4 million for the year ended December 31, 2013 compared to \$500.3 million for the year ended December 31, 2012, representing a decrease of approximately 22%. The

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year-over-year revenue decrease from sales of InfiniBand products was primarily due to increased revenues in 2012 related to pent-up demand associated with the launch of Romley and Sandy Bridge platforms by Intel Corporation. In addition, our revenues in 2013 were negatively impacted by the weaker demand environment and a build-up of inventory at an OEM customer. Revenues in all of our product types declined. The revenues for the higher bandwidth FDR InfiniBand products as a percentage of revenue increased to 51% while the lower bandwidth InfiniBand products revenues declined as a percentage of revenues due to increased adoption of the fastest product generation. Our Ethernet revenues also grew year-over-year primarily due to increased adoption of our products within the Web 2.0 market. The increase in other product revenues is explained by higher software and services revenues as well as sales by Kotura and IPtronics from their respective acquisition dates.

**Gross Profit and Margin.** Gross profit was \$315.0 million for the year ended December 31, 2014 compared to \$256.2 million for the year ended December 31, 2013, representing an increase of approximately 23%. As a percentage of revenues, gross margin increased to 67.9% in the year ended December 31, 2014 from approximately 65.6% in the year ended December 31, 2013. The gross margin percentage increase was mainly due to lower warranty expenses of \$7.6 million and lower amortization expenses of \$5.6 million related to intangible assets from the acquisition of Voltaire Ltd. Gross margin for 2014 is not necessarily indicative of future results.

Gross profit was \$256.2 million for the year ended December 31, 2013 compared to \$342.5 million for the year ended December 31, 2012, representing a decrease of approximately 25%. As a percentage of revenues, gross margin decreased to 65.6% in the year ended December 31, 2013 from approximately 68.5% in the year ended December 31, 2012. The gross margin percentage decrease was mainly due to product mix and increased warranty expenses associated with our expansion into new markets. Specifically, the portion of revenues attributed to ICs and boards declined in 2013 while the portion of revenues attributable to switch systems, cables and other product types increased. We garnish higher gross margins on sales of ICs and boards than the other product types. In addition, gross profit in 2013 was impacted by higher amortization of acquired intangible assets from the Kotura and IPtronics acquisitions in the amount of \$3.4 million and acquisition related charges of \$0.9 million.

*Research and Development.*

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

	2014		Year Ended December 31,		2012	
	(in thousands)	% of Revenues	(in thousands)	% of Revenues	(in thousands)	% of Revenues
Salaries and benefits	\$ 105,376	22.7%	\$ 84,261	21.6%	\$ 76,194	15.2%
Share-based compensation	26,979	5.8%	25,956	6.6%	19,356	3.9%
Development and tape-out costs	28,443	6.2%	21,337	5.5%	16,545	3.3%
Other	48,079	10.4%	37,828	9.6%	26,215	5.2%
<b>Total Research and development</b>	<b>\$ 208,877</b>	<b>45.1%</b>	<b>\$ 169,382</b>	<b>43.3%</b>	<b>\$ 138,310</b>	<b>27.6%</b>

Research and development expenses were \$208.9 million for the year ended December 31, 2014 compared to \$169.4 million for the year ended December 31, 2013, representing an increase of \$39.5 million, or approximately 23%, \$14.7 million of which related to the Kotura and IPtronics acquisitions. In particular, 2014 had the entire year of expenses related to these acquisitions compared to approximately one and a half quarters of expenses for Kotura and a half year for IPtronics in 2013.

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The increase in salaries and benefits and share-based compensation was primarily attributable to increased expenses related to the Kotura and IPtronics acquisitions. In addition, the increase in salaries and benefits expenses was also attributable to head count additions and higher accrued bonuses under our annual discretionary bonus award program. The increase in development and tape-out costs was attributable to increased tape-out costs, higher equipment expenses and software costs. The increase in other research and development costs was primarily attributable to higher amortization expenses of acquired intangibles, higher professional services expenses, as well as increased facilities and maintenance expenses. We expect that research and development expenses will increase in absolute dollars in future periods as we continue to devote more resources to develop new products, meet the changing requirements of our customers, expand into new markets and technologies and hire additional personnel.

Research and development expenses were \$169.4 million for the year ended December 31, 2013 compared to \$138.3 million for the year ended December 31, 2012, representing an increase of approximately 22%. The increase in salaries and benefits and share-based compensation was attributable to headcount additions, including those associated with the Kotura and IPtronics acquisitions, partially offset by lower accrued bonuses under our annual discretionary bonus award program. The increase in development and tape-out costs was attributable due to higher equipment expense, increased non-recurring engineering expenses, higher software expenses, increased outsourcing expenses and higher tape-out costs. The increase in other research and development costs was primarily attributable to higher depreciation and amortization expenses due to amortization of acquired intangibles, as well as increased facilities and maintenance expenses and acquisition related charges.

*Sales and Marketing.*

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

	Year Ended December 31,					
	2014 (in thousands)	% of Revenues	2013 (in thousands)	% of Revenues	2012 (in thousands)	% of Revenues
Salaries and benefits	\$ 43,550	9.4%	\$ 39,252	10.0%	\$ 31,433	6.3%
Share-based compensation	9,755	2.1%	9,198	2.4%	8,055	1.6%
Trade shows and promotions	10,033	2.2%	10,456	2.7%	11,111	2.2%
Other	13,522	2.9%	11,638	2.9%	10,295	2.1%
<b>Total Sales and marketing</b>	<b>\$ 76,860</b>	<b>16.6%</b>	<b>\$ 70,544</b>	<b>18.0%</b>	<b>\$ 60,894</b>	<b>12.2%</b>

Sales and marketing expenses were \$76.9 million for the year ended December 31, 2014 compared to \$70.5 million for the year ended December 31, 2013, representing an increase of \$6.3 million, or approximately 9%, \$1.3 million of which related to the Kotura, and IPtronics acquisitions. In particular, 2014 had the entire year of expenses related to these acquisitions compared to approximately one and a half quarters of expenses for Kotura and a half year for IPtronics in 2013. The increase in salaries and benefits and share-based compensation was primarily attributable to increased expenses related to the Kotura and IPtronics acquisitions. In addition, the increase in salaries and benefits expenses was also attributable to head count additions and higher accrued bonuses under our annual discretionary bonus award program. The decrease in trade show and promotion costs was primarily due to a decrease in professional services expenses. The increase in other sales and marketing costs was primarily attributable to higher amortization expenses of acquired intangible assets, as well an increase in facilities and maintenance costs.



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Sales and marketing expenses were \$70.5 million for the year ended December 31, 2013 compared to \$60.9 million for the year ended December 31, 2012, representing an increase of approximately 16%. The increase in salaries and benefits and share-based compensation was attributable to headcount additions, including those associated with the Kotura and IPtronics acquisitions, partially offset by lower accrued bonuses under our annual discretionary bonus award program. The decrease in trade show and promotion costs was primarily due to lower advertising expenses, lower external sales commission and decreased equipment expenses. The increase in other sales and marketing costs was primarily attributable to higher facilities, depreciation, higher amortization expenses of acquired intangible assets and acquisition related charges.

*General and Administrative.*

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

	2014		Year Ended December 31,		2012	
	(in thousands)	% of Revenues	(in thousands)	% of Revenues	(in thousands)	% of Revenues
Salaries and benefits	\$ 12,181	2.7%	\$ 11,617	3.0%	\$ 10,343	2.1%
Share-based compensation	8,339	1.8%	8,156	2.0%	5,987	1.2%
Professional services	11,229	2.4%	13,964	3.6%	5,232	1.0%
Other	4,682	1.0%	3,309	0.9%	2,894	0.6%
<b>Total General and administrative</b>	<b>\$ 36,431</b>	<b>7.9%</b>	<b>\$ 37,046</b>	<b>9.5%</b>	<b>\$ 24,456</b>	<b>4.9%</b>

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

General and administrative expenses were \$37.0 million for the year ended December 31, 2013 compared to \$24.5 million for the year ended December 31, 2012, representing an increase of approximately 51%. The increase in salaries and benefits and share-based compensation was attributable to headcount additions including those associated with the Kotura and IPtronics acquisitions, partially offset by lower accrued bonuses under our annual discretionary bonus award program. The increase in professional services costs was primarily due to \$6.2 million of legal, accounting and other consulting fees associated with the acquisitions of Kotura and IPtronics, as well as legal expenses related to the legal proceedings in which we are currently involved.

Table of Contents*Share-based Compensation Expense.*

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

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Cost of goods sold	\$ 2,162	\$ 1,828	\$ 1,621
Research and development	26,979	25,956	19,356
Sales and marketing	9,755	9,198	8,055
General and administrative	8,339	8,156	5,987
	\$ 47,235	\$ 45,138	\$ 35,019

The amount of unearned share-based compensation currently estimated to be expensed from 2015 through 2018 related to unvested share-based payment awards at December 31, 2014 is \$74.5 million. Of this amount, \$37.0 million, \$23.4 million, \$10.8 million and \$3.3 million are currently estimated to be recorded in 2015, 2016, 2017 and 2018, respectively. The weighted-average period over which the unearned share-based compensation is expected to be recognized is approximately 1.97 years. If there are any modifications or cancellations of the underlying unvested awards, we may be required to accelerate, increase or cancel any remaining unearned share-based compensation expense. Future share-based compensation expense and unearned share-based compensation will increase to the extent that we grant additional equity awards to employees or assume unvested equity awards in connection with other acquisitions.

*Other Income (Loss), Net.* Other income, net primarily consists of interest earned on cash and cash equivalents and short-term investments and foreign currency exchange gains and losses. Other income, net was \$1.4 million for the year ended December 31, 2014 compared to \$1.2 million for the year ended December 31, 2013.

Other income, net was \$1.2 million for the year ended December 31, 2013 compared to \$1.3 million for the year ended December 31, 2012.

*Provision for Taxes on Income.* Our tax expense was \$18.3 million for the year ended December 31, 2014 as compared to \$3.8 million for the year ended December 31, 2013. Our effective tax rates were (318.1)% and (19.2)% for 2014 and 2013, respectively. The difference between our effective tax rates for the year ended December, 2014 and the 35% federal statutory rate resulted primarily from the establishment of a valuation allowance of \$17.2 million against deferred tax assets in U.S. income tax jurisdictions in the fourth quarter of 2014 as we believed these assets are not more likely than not to be realized based upon consideration of the available positive and negative evidence. In reaching this conclusion, objective and verifiable negative evidence related to current and historical cumulative losses in US income tax jurisdictions outweighed available positive evidence in our consideration of the realizability of the related deferred tax assets. The effective tax rate was also affected by the accrual of unrecognized tax benefits along with interest and penalties associated with unrecognized tax positions in the amount of \$5.0 million, partially offset by foreign earnings taxed at rates lower than the federal statutory rates. The Israeli tax holidays resulted in cash tax savings of \$6.9 million, \$6.4 million and \$33.2 million in 2014, 2013 and 2012, respectively.

Our tax expense was \$3.8 million for the year ended December 31, 2013 as compared to \$8.2 million for the year ended December 31, 2012. Our effective tax rates were (19.2)% and 6.8% for 2013 and 2012, respectively. The difference between the Company's effective tax rates for the year ended December, 2013 and the 35% federal statutory rate resulted primarily from losses of \$17.0 million generated from non-U.S. subsidiaries without tax benefit, along with non-tax-deductible

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expenses of \$1.2 million, and the accrual of unrecognized tax benefits along with interest and penalties associated with unrecognized tax positions in the amount of \$2.4 million, partially offset by foreign earnings taxed at rates lower than the federal statutory rates. The Israeli tax holidays resulted in cash tax savings of \$6.4 million and \$33.2 million in 2013 and 2012, respectively.

**Liquidity and Capital Resources**

Historically, we have financed our operations through a combination of sales of equity securities and cash generated by operations. As of December 31, 2014, our principal source of liquidity consisted of cash and cash equivalents of \$51.3 million and short-term investments of \$334.0 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, capital expenditures to support our infrastructure and growth, and potential acquisitions. We are an Israeli company and as of December 31, 2014 our subsidiaries outside of Israel held approximately \$25.1 million in cash and cash equivalents and short term investments.

Our cash position, short-term investments, restricted cash and working capital at December 31, 2014 and December 31, 2013 were as follows:

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Cash and cash equivalents	\$ 51,326	\$ 63,164
Short-term investments	334,038	263,528
Restricted cash, current	3,604	
Restricted cash, long-term		3,514
<b>Total</b>	<b>\$ 388,968</b>	<b>\$ 330,206</b>

Working capital	\$ 398,862	\$ 352,161
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Our ratio of current assets to current liabilities decreased to 4.4:1 at December 31, 2014 from 4.6:1 at December 31, 2013.

***Operating Activities***

Net cash provided by our operating activities amounted to \$80.1 million in the year ended December 31, 2014. Net cash provided by operating activities was attributable to net loss of \$24.0 million adjusted by net non-cash items of \$99.8 million and changes in assets and liabilities of \$4.3 million. Non-cash expenses consisted primarily of \$46.9 million of share-based compensation, net of excess tax benefits, and \$38.7 million for depreciation and amortization, deferred income taxes of \$13.8 million and losses on investments of \$0.4 million. The \$4.3 million cash inflow from changes in assets and liabilities resulted from an increase in accounts payable of \$9.7 million primarily due to the timing of payments, an increase of \$6.5 million in accrued liabilities and decreases in accounts receivable of \$5.4 million primarily due to timing of sales and improved collectibility, partially offset by an increase in inventories of \$9.6 million as a result of our effort to fulfill forecasted sales and an increase in prepaid expenses and other assets of \$7.7 million.

Net cash provided by our operating activities amounted to \$51.9 million in the year ended December 31, 2013. Net cash provided by operating activities was attributable to net loss of \$23.3 million adjusted by net non-cash items of \$75.7 million partially offset by changes in assets and liabilities of \$0.5 million. Non-cash expenses consisted primarily of \$42.5 million of share-based

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compensation, net of excess tax benefits, and \$35.6 million for depreciation and amortization, partially offset by deferred income taxes of \$1.2 million and gains on investments of \$1.2 million. The \$0.5 million cash outflow from changes in assets and liabilities resulted from an increase in accounts receivable of \$9.5 million primarily due to higher sales in the last month of the year and a decrease in accounts payable of \$4.4 million primarily due to timing of payments during the year, partially offset by a decrease in inventories of \$9.5 million as a result of our effort to reduce inventory levels, an increase of \$2.6 million in accrued liabilities and a decrease in prepaid expenses and other assets of \$1.4 million.

***Investing Activities***

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

Net cash used in investing activities was \$121.9 million in the year ended December 31, 2013. Cash used in investing activities was primarily attributable to the acquisitions of Kotura and IPtronics in the amount of \$123.5 million, purchases of property and equipment of \$30.9 million, purchases of intangible assets of \$7.4 million and an equity investment in private companies of \$3.1 million partially offset by net sales and maturities of short-term investments of \$40.4 million and a decrease in restricted cash deposits by \$3.5 million.

***Financing Activities***

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

Net cash provided by financing activities was \$16.2 million in the year ended December 31, 2013. Cash provided by financing activities was primarily due to proceeds of \$14.6 million from share option exercises and purchases pursuant to our employee share purchase plan, and an excess tax benefit from share-based compensation of \$2.7 million, partially offset by principal payments on capital lease obligations of \$1.1 million.

**Contractual Obligations**

The following table summarizes our contractual obligations at December 31, 2014 and the effect those obligations are expected to have on our liquidity and cash flow in future periods:

Contractual Obligations:	Total	Less Than 1 Year	Payments Due by Period		
			1 - 3 Years	3 - 5 Years	Beyond 5 Years
			(in thousands)		
Commitments under capital lease	\$ 1,627	\$ 1,115	\$ 512	\$	\$
Non-cancelable operating lease commitments	44,270	15,253	16,417	7,721	4,879
Purchase commitments	67,861	67,695	166		
Total	\$ 113,758	\$ 84,063	\$ 17,095	\$ 7,721	\$ 4,879

For purposes of this table, purchase commitments are defined as agreements that are enforceable and legally binding and that specify all significant terms including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

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Our purchase orders are based on our current manufacturing needs and are fulfilled by our vendors within relatively short time horizons. In addition, we have purchase orders that represent authorizations to purchase rather than binding agreements. We do not have significant agreements for the purchase of raw materials or other goods specifying minimum quantities or set prices that exceed our expected requirements.

The contractual obligation table excludes our unrecognized tax benefit liabilities because we cannot make a reliable estimate of the timing of cash payments. As of December 31, 2014, our unrecognized tax benefits totaled \$18.0 million, which would reduce our income tax expense and effective tax rate, if recognized.

***Recent accounting pronouncements***

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

**Off-Balance Sheet Arrangements**

As of December 31, 2014, we did not have any off-balance sheet arrangements.

**Impact of Currency Exchange Rates**

Exchange rate fluctuations could have a material adverse effect on our business, financial condition and results of operations. Our most significant foreign currency exposure is the new Israeli shekel, ("NIS"). We do not enter into derivative transactions for speculative or trading purposes. In fiscal year 2014, we used foreign currency derivative contracts to hedge a portion of operating expenses denominated in NIS. Our derivative instruments are recorded at fair value in assets or liabilities with gains or losses recorded as a component of accumulated Other Comprehensive Income and subsequently reclassified into operating expenses in the same period in which the hedged operating expenses are recognized. The ineffective portion of a derivative's change in fair value is immediately recognized in other income, net. See Note 7, "Derivatives and Hedging Activities," of the Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this report.

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

***Interest rate fluctuation risk***

We do not have any long-term borrowings. Our investments consist of cash and cash equivalents, time deposits, money market funds and interest bearing investments in government debt securities, commercial paper and corporate bonds with an average maturity of 13 months. The primary objective of our investment activities is to preserve principal and ensure liquidity while maximizing income without significantly increasing risk. By policy, we limit the amount of our credit exposure through diversification and restricting our investments to highly rated securities. At the time of purchase, we do not invest more than 4% of the total investment portfolio in individual securities, except U.S. Treasury or agency securities. Highly rated long-term securities are defined as having a minimum Moody's, Standard & Poor's or Fitch rating of A2 or A, respectively. Highly rated short-term securities are defined as having a minimum Moody's, Standard & Poor's or Fitch rating of P-1, A-1 or F-1, respectively. We have not experienced any significant losses on our cash equivalents or short-term investments. We do not enter into investments for trading or speculative purposes. Our investments are exposed to market risk due to a fluctuation in interest rates, which may affect our interest income and the fair market value of our investments. Due to the short-term nature of our investment portfolio, we do not believe an immediate 1% change in interest rates would have a material effect on the fair

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market value of our portfolio, and therefore we do not expect our operating results or cash flows to be materially affected by a sudden change in market interest rates.

***Foreign currency exchange risk***

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

To protect against reductions in value and the volatility of future cash flows caused by changes in foreign currency exchange rates, we have established a balance sheet and anticipated transaction risk management program. Currency derivative instruments and natural hedges are generally utilized in this hedging program. We do not enter into derivative instruments for trading or speculative purposes. Our hedging program reduces, but does not eliminate the impact of currency exchange rate movements (see Part I, Item 1A, "Risk Factors"). If we were to experience a strengthening of USD against NIS of 10%, the impact on assets and liabilities denominated in currencies other than the U.S. dollar, after taking into account hedges and offsetting positions, would result in a loss before taxes of approximately \$0.4 million at December 31, 2014. There would also be an impact on future operating expenses denominated in currencies other than the U.S. dollar. For the month of December 31, 2014, approximately \$12.2 million of our monthly operating expenses were denominated in NIS. As of December 31, 2014, we had derivative contracts in place that hedged future operating expenses of approximately 344.3 million NIS, or approximately \$88.5 million based upon the exchange rate on that day. The derivative contracts cover a significant portion of future NIS denominated operating expenses expected to occur over the next twelve months. Our derivatives expose us to credit risk to the extent that the counterparties may be unable to meet the terms of the agreement. We seek to mitigate such risk by limiting our counterparties to major financial institutions and by spreading the risk across a number of major financial institutions. However, under current market conditions, failure of one or more of these financial institutions is possible and could result in incurred losses.

***Inflation related risk***

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

**ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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

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	Q4	Q3(**)	Q2(**)	Q1(**)	Q4(*)	Q3(*)	Q2	Q1
	2014	2014	2014	2014	2013	2013	2013	2013
(in thousands, except per share data)								
Total revenues	\$ 141,116	\$ 120,708	\$ 102,823	\$ 99,002	\$ 105,560	\$ 103,630	\$ 98,342	\$ 82,904
Cost of revenues	41,131	39,377	34,433	33,731	36,625	36,746	32,174	28,737
Gross profit	99,985	81,331	68,390	65,271	68,935	66,884	66,168	54,167
Operating expenses:								
Research and development	56,814	54,220	49,506	48,337	47,884	44,607	38,742	38,149
Sales and marketing	19,995	18,863	18,723	19,279	19,155	18,204	16,771	16,414
General and administrative	9,570	9,185	9,461	8,215	9,853	9,674	10,034	7,485
Total operating expenses	86,379	82,268	77,690	75,831	76,892	72,485	65,547	62,048
Income (loss) from operations	13,606	(937)	(9,300)	(10,560)	(7,957)	(5,601)	621	(7,881)
Other income, net	497	361	357	234	301	482	232	213
Income (loss) before taxes on income	14,103	(576)	(8,943)	(10,326)	(7,656)	(5,119)	853	(7,668)
Provision for taxes on income	(18,856)	1,167	76	(654)	340	(1,080)	(2,258)	(754)
Net income (loss)	\$ (4,753)	\$ 591	\$ (8,867)	\$ (10,980)	\$ (7,316)	\$ (6,199)	\$ (1,405)	\$ (8,422)
Net income (loss) per share basic	\$ (0.10)	\$ 0.01	\$ (0.20)	\$ (0.25)	\$ (0.17)	\$ (0.14)	\$ (0.03)	\$ (0.20)
Net income (loss) per share diluted	\$ (0.10)	\$ 0.01	\$ (0.20)	\$ (0.25)	\$ (0.17)	\$ (0.14)	\$ (0.03)	\$ (0.20)

(\*)

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

(\*\*)

Quarterly results have been revised from those originally reported to correct immaterial errors. We have revised our previously-issued financial statements to correct errors identified primarily related to our accounting for liabilities for warranty, certain purchase orders, distributor price adjustment claims and the purchase price allocation for our acquisitions of Kotura and IPtronics. The tables below reconcile originally reported amounts to these revised results:

	Quarter Ended September 30, 2014(*)		
	As reported	Adjustments	As revised
(in thousands, except per share data)			
Statement of operations:			
Total revenues	\$ 120,708	\$	\$ 120,708
Cost of revenues	39,540	(163)	39,377

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Gross profit	81,168	163	81,331
Operating expenses:			
Research and development	54,220		54,220
Sales and marketing	18,863		18,863
General and administrative	9,185		9,185
Total operating expenses	82,268		82,268
Loss from operations	(1,100)	163	(937)
Other income, net	361		361
Loss before taxes on income	(739)	163	(576)
Benefit from taxes on income	1,167		1,167
Net income	\$ 428	\$ 163	\$ 591
Net income per share basic	\$ 0.01		\$ 0.01
Net income per share diluted	\$ 0.01		\$ 0.01



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**As reported      Adjustments      As revised**  
**(in thousands, except per share data)**

<b>Statement of operations:</b>			
Total revenues	\$ 102,574	\$ 249	\$ 102,823
Cost of revenues	34,292	141	34,433
Gross profit	68,282	108	68,390
<b>Operating expenses:</b>			
Research and development	49,506		49,506
Sales and marketing	18,723		18,723
General and administrative	9,461		9,461
Total operating expenses	77,690		77,690
Loss from operations	(9,408)	108	(9,300)
Other income, net	357		357
Loss before taxes on income	(9,051)	108	(8,943)
Benefit from taxes on income	76		76
Net loss	\$ (8,975)	\$ 108	\$ (8,867)
Net loss per share basic	\$ (0.20)		\$ (0.20)
Net loss per share diluted	\$ (0.20)		\$ (0.20)

**Quarter Ended March 31, 2014**

**As reported      Adjustments      As revised**  
**(in thousands, except per share data)**

<b>Statement of operations:</b>			
Total revenues	\$ 98,705	\$ 297	\$ 99,002
Cost of revenues	33,819	(88)	33,731
Gross profit	64,886	385	65,271
<b>Operating expenses:</b>			
Research and development	48,337		48,337
Sales and marketing	19,279		19,279
General and administrative	8,215		8,215
Total operating expenses	75,831		75,831
Loss from operations	(10,945)	385	(10,560)
Other income, net	234		234
Loss before taxes on income	(10,711)	385	(10,326)
Provision for taxes on income	(654)		(654)
Net loss	\$ (11,365)	\$ 385	\$ (10,980)

Net loss per share basic	\$	(0.26)	0.01	\$	(0.25)
Net loss per share diluted	\$	(0.26)	0.01	\$	(0.25)

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

None.

**ITEM 9A CONTROLS AND PROCEDURES**

***Disclosure Controls and Procedures***

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO (principal executive officer) and CFO (principal financial officer), as appropriate, to allow for timely decisions regarding required

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disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of our disclosure controls and procedures as of December 31, 2014. Per this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were not effective as of December 31, 2014 because of the material weaknesses in our internal control over financial reporting described below. The material weaknesses described below also existed as of March 31, 2014, June 30, 2014 and September 30, 2014. As a result, our CEO and CFO have concluded that we did not maintain effective disclosure controls and procedures as of March 31, 2014, June 30, 2014 or September 30, 2014. Notwithstanding the material weaknesses described below, our management has concluded that the Company's consolidated financial statements for the periods covered by and included in this Annual Report on Form 10-K are fairly stated in all material respects in accordance with generally accepted accounting principles in the United States of America for each of the periods presented.

***Management's Annual Report on Internal Control Over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including the CEO and the CFO, we carried out an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2014 using the criteria established in "Internal Control Integrated Framework" (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Management has identified the following control deficiencies that constituted material weaknesses in our internal control over financial reporting as of December 31, 2014:

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

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

We did not design, document and maintain effective controls over our period-end financial reporting processes, including controls over the preparation, analysis and review of certain significant account reconciliations required to assess the appropriateness of account balances at period-end; and controls over the preparation and review of the consolidated interim and annual financial statements, including effective controls related to identifying and accumulating all required supporting information to determine the completeness and accuracy of the consolidated financial statements and disclosures.

We did not design, document and maintain effective controls with respect to the accounting for revenue and related accounts receivable, including maintaining effective controls to

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prevent or detect errors in the processing of customer transactions. Specifically, we had insufficient controls related to the review of the accuracy of customer order entry and pricing.

We did not design, document and maintain effective controls with respect to the accounting for inventory and related cost of sales accounts. Specifically, our controls over perpetual inventory records, which include our cycle count and annual physical inventory programs, were not appropriately designed or executed to validate the existence, completeness and accuracy of physical inventory quantities. In addition, we did not appropriately design controls related to the validation of assumptions used in the calculation of the provision for excess and obsolete inventory, as well as the completeness and accuracy of the underlying data used in the calculation.

We did not design, document and maintain effective controls over access to the Company's financial applications and data. Specifically, access review controls were not effectively designed to validate that access to certain financial applications and data were adequately restricted, which impacted controls that were dependent on the effective operation of restricted access.

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

While these material weaknesses did not result in any material misstatement of our historical financial statements, they did result in adjustments to the accounting for business combinations, net revenue, accounts receivable, accrued liabilities, cost of revenues, and operating expenses and revisions to our consolidated financial statements for fiscal years 2013 and 2012, and interim periods in 2014, 2013 and 2012. Additionally, these material weaknesses could result in a misstatement of the account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included in Part IV, Item 15 of this Annual Report.

***Status of Remediation Efforts***

In response to the identified material weaknesses, our management, with oversight from our audit committee, has dedicated significant resources and efforts to improve our control environment and to remedy the identified material weaknesses. The following actions have been taken:

Expanded and strengthened our internal audit organization, which reports directly to our audit committee, by hiring an Internal Audit Director as well as increasing the number of external consultants engaged by our internal audit organization;

Devoted substantial effort in performing a comprehensive risk assessment process to identify, design, implement, and re-evaluate our control activities related to internal control over financial reporting, including monitoring controls related to the design and operating effectiveness of certain control activities;

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Instituted additional training programs for our world-wide finance and accounting personnel; and

Strengthened procedures and set guidelines for documentation of review controls throughout our domestic and international locations for consistency of application.

We believe that the foregoing actions will support the improvement of our internal control over financial reporting, and through our efforts to identify, design and implement the necessary control activities, will be effective in remediating the material weaknesses described above. We will continue to devote significant time and attention to these remediation efforts. As we continue to evaluate and work to improve our internal control over financial reporting, management may determine to take additional measures to address the material weaknesses or determine to modify the remediation plan described above. Until the remediation steps set forth above, including the efforts to implement the necessary control activities we identify, are fully completed, the material weaknesses described above will continue to exist.

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

There were no changes in our internal control over financial reporting during the Company's fiscal quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**ITEM 9B OTHER INFORMATION**

None.

**PART III**

**ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

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

The other information required by this item will be contained in our definitive proxy statement to be filed with the SEC in connection with the Annual General Meeting of our Shareholders, or the Proxy Statement, which is expected to be filed no later than 120 days after the end of our fiscal year ended December 31, 2014, and is incorporated in this report by reference.

**ITEM 11 EXECUTIVE COMPENSATION**

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

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

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

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

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

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**ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES**

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

**PART IV**

**ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) Documents filed as part of this report.

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

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>70</u>
<u>Consolidated Balance Sheets</u>	<u>72</u>
<u>Consolidated Statements of Operations</u>	<u>73</u>
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	<u>74</u>
<u>Consolidated Statements of Shareholders' Equity</u>	<u>75</u>
<u>Consolidated Statements of Cash Flows</u>	<u>76</u>
<u>Notes to Consolidated Financial Statements</u>	<u>77</u>

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

<u>Schedule II Consolidated Valuation and Qualifying Accounts</u>	<u>115</u>
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All other schedules have been omitted because they are not applicable or not required, or the information is included in the Consolidated Financial Statements or Notes thereto.

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

(b) Exhibits.

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#### INDEX TO EXHIBITS

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
2.1(1)	Agreement of Merger, dated as of November 29, 2010, among Mellanox Technologies, Ltd., Mondial Acquisition Corporation Ltd. and Voltaire Ltd.
2.1(2)	Agreement of Merger, dated as of May 14, 2013, by and among Mellanox Technologies, Ltd., Mellanox Technologies, Inc., Karate Sub, Inc., Kotura, Inc. and GF Private Equity Group, LLC, as the Shareholder Representative.
3.1(3)	Amended and Restated Articles of Association of Mellanox Technologies, Ltd. (as amended on May 16, 2011).
10.1(4)*	Mellanox Technologies, Ltd. 1999 United States Equity Incentive Plan and forms of agreements relating thereto.
10.2(5)*	Mellanox Technologies, Ltd. 1999 Israeli Share Option Plan and forms of agreements relating thereto.
10.3(6)*	Mellanox Technologies, Ltd. 2003 Israeli Share Option Plan and forms of agreements relating thereto.
10.4(7)	Amended Form of Indemnification Undertaking made by and between Mellanox Technologies, Ltd. and each of its directors and executive officers as amended on May 16, 2011.
10.5(8)*	Mellanox Technologies, Ltd. Global Share Incentive Plan (2006) and forms of agreements and appendices relating thereto.
10.6(9)*	Mellanox Technologies, Ltd. Non-Employee Director Option Grant Policy.
10.7(10)*	Form of Mellanox Technologies, Ltd. Executive Severance Benefits Agreement for U.S. Executives.
10.8(11)*	Form of Mellanox Technologies, Ltd. Executive Severance Benefits Agreement for Israel Executives.
10.9(12)*	Mellanox Technologies, Ltd. Amended and Restated 2006 Employee Share Purchase Plan.
10.10(13)	Office Space Lease dated September 30, 2008 by and between Oakmead Parkway Properties Partnership, a California general partnership, as landlord, and Mellanox Technologies, Inc., as tenant.
10.11(14)*	Mellanox Technologies, Ltd., Global Share Incentive Assumption Plan (2010).
10.12(15)	Lease Contract, dated March 1, 2011, by and between the Company, as tenant, and Sha'ar Yokneam, Registered Limited Partnership, as landlord (as translated from Hebrew).
10.13(16)*	IPtronics, Inc. 2013 Restricted Stock Unit Plan.
10.14(17)*	Kotura, Inc. Second Amended and Restated 2003 Stock Plan.
21.1	List of Company Subsidiaries.
23.1	Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm.
24.1	Power of Attorney (included on signature page to this annual report on Form 10-K).

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<b>Exhibit No.</b>	<b>Description of Exhibit</b>
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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- (1) Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K (SEC File No. 001-33299) filed on November 29, 2010.
- (2) Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K (SEC File No. 001-33299) filed on May 15, 2013
- (3) Incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement on Schedule 14A (File No. 001-33299) filed on April 11, 2011.
- (4) Incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on September 28, 2006.
- (5) Incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on September 28, 2006.
- (6) Incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on September 28, 2006.
- (7) Incorporated by reference to Exhibit B to the Company's Definitive proxy statement on Schedule 14A (File No. 001-33299) filed on April 11, 2011.
- (8) Incorporated by reference to Exhibit 10.10 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on November 14, 2006.
- (9) Incorporated by reference to Exhibit 10.11 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on November 14, 2006.
- (10)



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

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

(12) Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A (SEC File No. 001-33299) filed on April 19, 2012.

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- (13) Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (SEC File No. 001-33299) filed on November 7, 2008.
- (14) Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (SEC File No. 001-33299) filed on February 7, 2011.
- (15) Incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K (SEC File No. 001-33299) filed on March 7, 2011.
- (16) Incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 (File No. 333-189720) filed on July 1, 2013.
- (17) Incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 (File No. 333-190631) filed on August 15, 2013.
- \*
- Indicates management contract or compensatory plan, contract or arrangement.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows present fairly, in all material respects, the financial position of Mellanox Technologies, Ltd. and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also, in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because material weaknesses in internal control over financial reporting existed as of that date related to deficiencies in the control environment due to the lack of sufficient oversight of activities related to internal control over financial reporting and an insufficient complement of personnel with an appropriate level of knowledge, experience and training in internal control over financial reporting commensurate with the financial reporting requirements of the Company; deficiencies in risk assessment as the Company did not design controls in response to the risk of misstatement; and deficiencies in monitoring as the Company did not design and maintain effective controls related to the design and operating effectiveness of certain controls involving an inherent level of complexity, subjectivity, and judgment related to the following business processes: revenue and accounts receivable, purchases and payables, period-end financial reporting, goodwill, intangible and finite-lived assets, hedging, income taxes, business combinations, and stock-based compensation. The risk assessment material weakness contributed to additional material weaknesses as the Company did not design, document and maintain effective controls over the period-end financial reporting process, the accounting for revenue and related accounts receivables, the accounting for inventory and related cost of sales accounts, and access to financial applications and data. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses referred to above are described in Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 9A. We considered these material weaknesses in determining the nature, timing, and extent of audit tests applied in our audit of the 2014 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in management's report referred to above. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the

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design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

San Jose, California  
February 27, 2015

Table of Contents**MELLANOX TECHNOLOGIES, LTD.****CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2014	2013
	(In thousands, except par value)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 51,326	\$ 63,164
Short-term investments	334,038	263,528
Restricted cash	3,604	
Accounts receivable, net	64,922	69,480
Inventories	44,470	36,470
Deferred taxes and other current assets	18,147	17,581
<b>Total current assets</b>	<b>516,507</b>	<b>450,223</b>
Property and equipment, net	78,827	71,915
Severance assets	9,474	10,630
Intangible assets, net	42,067	54,249
Goodwill	200,743	199,196
Deferred taxes and other long-term assets	15,600	20,613
<b>Total assets</b>	<b>\$ 863,218</b>	<b>\$ 806,826</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 39,811	\$ 29,964
Accrued liabilities	61,974	51,011
Deferred revenue	14,758	15,710
Capital lease liabilities, current	1,102	1,377
<b>Total current liabilities</b>	<b>117,645</b>	<b>98,062</b>
Accrued severance	11,850	13,418
Deferred revenue	8,942	9,045
Capital lease liabilities	494	1,600
Other long-term liabilities	22,535	17,890
<b>Total liabilities</b>	<b>161,466</b>	<b>140,015</b>
Commitments and Contingencies (Note 9)		
Shareholders' equity		
Ordinary shares: NIS 0.0175 par value, 137,143 shares authorized, 45,488 and 43,999 shares issued and outstanding at December 31, 2014 and 2013, respectively	192	185
Additional paid-in capital	615,148	550,795
Accumulated other comprehensive income (loss)	(4,020)	1,390
Retained earnings	90,432	114,441
<b>Total shareholders' equity</b>	<b>701,752</b>	<b>666,811</b>

Total liabilities and shareholders' equity	\$	863,218	\$	806,826
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The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**MELLANOX TECHNOLOGIES, LTD.****CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended December 31,		
	2014	2013	2012
	(In thousands, except per share data)		
Total revenues	\$ 463,649	\$ 390,436	\$ 500,275
Cost of revenues	148,672	134,282	157,736
Gross profit	314,977	256,154	342,539
Operating expenses:			
Research and development	208,877	169,382	138,310
Sales and marketing	76,860	70,544	60,894
General and administrative	36,431	37,046	24,456
Total operating expenses	322,168	276,972	223,660
Income (loss) from operations	(7,191)	(20,818)	118,879
Other income, net	1,449	1,228	1,259
Income (loss) before taxes on income	(5,742)	(19,590)	120,138
Provision for taxes on income	(18,267)	(3,752)	(8,187)
Net income (loss)	\$ (24,009)	\$ (23,342)	\$ 111,951
Net income (loss) per share basic	\$ (0.54)	\$ (0.54)	\$ 2.71
Net income (loss) per share diluted	\$ (0.54)	\$ (0.54)	\$ 2.55
Shares used in computing net income (loss) per share:			
Basic	44,831	43,421	41,308
Diluted	44,831	43,421	43,901

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

Table of Contents**MELLANOX TECHNOLOGIES, LTD.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Net income (loss)	\$ (24,009)	\$ (23,342)	\$ 111,951
Other comprehensive income (loss), net of tax:			
Change in unrealized gains/losses on available-for-sale securities, net (net of tax effect of \$138, \$2, \$0)	(368)	142	(133)
Change in unrealized gains/losses on derivative contracts, net (net of tax effect of \$0, \$28, \$0)	(5,042)	(1,546)	4,091
Other comprehensive income (loss)	(5,410)	(1,404)	3,958
Total comprehensive income (loss), net of tax	\$ (29,419)	\$ (24,746)	\$ 115,909

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



Table of Contents**MELLANOX TECHNOLOGIES, LTD.****CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

	Ordinary Shares		Additional	Accumulated	Retained	Total
	Shares	Amount	Paid-in	Other	Earnings	Shareholders'
			Capital	Comprehensive		Equity
				Income		
				(Loss)		
	(In thousands, except share data)					
Balance at December 31, 2011	39,735,042	\$ 165	\$ 418,255	\$ (1,164)	\$ 25,832	\$ 443,088
Net income					111,951	111,951
Unrealized losses on available-for-sale securities, net of taxes				(133)		(133)
Unrealized gains on derivative contracts, net of taxes				4,091		4,091
Comprehensive net income						115,909
Share-based compensation			35,019			35,019
Exercise of share awards	2,641,607	12	23,676			23,688
Issuance of shares pursuant to employee share purchase plan	219,613	1	6,274			6,275
Income tax benefit from share options exercised			5,141			5,141
Balance at December 31, 2012	42,596,262	\$ 178	\$ 488,365	\$ 2,794	\$ 137,783	\$ 629,120
Net loss					(23,342)	(23,342)
Unrealized gains on available-for-sale securities, net of taxes				142		142
Unrealized losses on derivative contracts, net of taxes				(1,546)		(1,546)
Comprehensive net income(loss)						(24,746)
Share-based compensation			45,138			45,138
Exercise of share awards	1,154,672	5	5,299			5,304
Issuance of shares pursuant to employee share purchase plan	248,486	2	9,331			9,333
Income tax benefit from share options exercised			2,662			2,662
Balance at December 31, 2013	43,999,420	\$ 185	\$ 550,795	\$ 1,390	\$ 114,441	\$ 666,811
Net loss					(24,009)	(24,009)
Unrealized losses on available-for-sale securities, net of taxes				(368)		(368)
Unrealized losses on derivative contracts, net of taxes				(5,042)		(5,042)

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Comprehensive net income(loss)							(29,419)
Share-based compensation				47,235			47,235
Exercise of share awards	1,093,429	5		4,842			4,847
Issuance of shares pursuant to employee share purchase plan	394,915	2		11,934			11,936
Income tax benefit from share options exercised				342			342
Balance at December 31, 2014	45,487,764	\$	192	\$	615,148	\$	(4,020) \$ 90,432 \$ 701,752

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

Table of Contents**MELLANOX TECHNOLOGIES, LTD.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ (24,009)	\$ (23,342)	\$ 111,951
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>			
Depreciation and amortization	38,671	35,646	23,868
Deferred income taxes	13,832	(1,240)	(3,454)
Share-based compensation	47,235	45,138	35,019
(Gain) loss on investments, net	425	(1,219)	(896)
Excess tax benefit from share-based compensation	(342)	(2,662)	(5,141)
<b>Changes in assets and liabilities, net of effect of acquisitions:</b>			
Accounts receivable	5,421	(9,500)	(8,585)
Inventories	(9,624)	9,472	(19,436)
Prepaid expenses and other assets	(7,687)	1,414	(3,239)
Accounts payable	9,659	(4,447)	3,430
Accrued liabilities and other liabilities	6,549	2,610	48,972
<b>Net cash provided by operating activities</b>	<b>80,130</b>	<b>51,870</b>	<b>182,489</b>
<b>Cash flows from investing activities:</b>			
Acquisitions, net of cash acquired of \$2,464	(2,253)	(123,519)	
Purchase of severance-related insurance policies	(777)	(849)	(783)
Purchase of short-term investments	(307,924)	(200,377)	(328,998)
Proceeds from sales of short-term investments	158,054	122,997	14,860
Proceeds from maturities of short-term investments	78,567	117,806	64,683
Purchase of property and equipment	(29,924)	(30,911)	(30,544)
Decrease in restricted cash deposit		3,468	1,327
Purchase of intangible assets		(7,440)	
Purchase of equity investments in private companies	(3,455)	(3,123)	(1,424)
<b>Net cash used in investing activities</b>	<b>(107,712)</b>	<b>(121,948)</b>	<b>(280,879)</b>
<b>Cash flows from financing activities:</b>			
Principal payments on capital lease obligations	(1,381)	(1,111)	(918)
Proceeds from exercise of share awards	16,783	14,637	29,963
Excess tax benefit from share-based compensation	342	2,662	5,141
<b>Net cash provided by financing activities</b>	<b>15,744</b>	<b>16,188</b>	<b>34,186</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(11,838)</b>	<b>(53,890)</b>	<b>(64,204)</b>
Cash and cash equivalents at beginning of period	63,164	117,054	181,258
<b>Cash and cash equivalents at end of period</b>	<b>\$ 51,326</b>	<b>\$ 63,164</b>	<b>\$ 117,054</b>
<b>Supplemental disclosures of cash flow information</b>			
Interest paid	\$ 31	\$ 57	\$

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Income taxes paid	\$	913	\$	1,305	\$	852
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**Supplemental disclosure of noncash investing and financing activities**

Software acquired under capital leases	\$		\$		\$	4,428
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Unpaid property and equipment	\$	5,121	\$	3,326	\$	3,869
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Transfer from inventory to property and equipment	\$	1,624	\$	1,837	\$	1,073
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The accompanying notes are an integral part of these consolidated financial statements.

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**MELLANOX TECHNOLOGIES, LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

*Company*

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

*Principles of presentation*

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

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

On July 1, 2013, the Company completed its acquisition of a privately held company, IPtronics A/S ("IPtronics"), and on August 15, 2013, the Company completed its acquisition of a privately held company, Kotura, Inc. ("Kotura"). The consolidated financial statements include the results of operations of IPtronics and Kotura commencing as of their respective acquisition dates.

Certain prior year amounts have been reclassified to conform to 2014 presentation. These changes and reclassifications did not impact net or comprehensive income.

*Risks and uncertainties*

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

*Use of estimates*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of net revenue and expenses in the reporting periods. The Company regularly evaluates estimates and assumptions related to revenue recognition, allowances for doubtful accounts, sales returns and allowances, investment valuation, warranty reserves, inventory reserves, share-based compensation expense, long-term asset valuations, goodwill and purchased intangible asset valuation, hedge effectiveness, deferred income tax asset valuation, uncertain tax

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**MELLANOX TECHNOLOGIES, LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

positions, litigation and other loss contingencies. These estimates and assumptions are based on current facts, historical experience and various other factors that the Company believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of revenue, costs and expenses that are not readily apparent from other sources. The actual results that the Company experiences may differ materially and adversely from the Company's original estimates. To the extent there are material differences between the estimates and actual results, the Company's future results of operations will be affected.

***Cash and cash equivalents***

The Company considers all highly liquid investments with a maturity of three months or less from the date of purchase to be cash equivalents. Cash and cash equivalents consist of cash on deposit with banks, money market funds, U.S. government agency discount notes, municipal bonds, foreign government bonds, corporate bonds and commercial paper.

***Short-term investments***

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

***Restricted cash and deposits***

The Company maintains certain cash amounts restricted as to withdrawal or use. It maintained a balance of \$3.6 million at December 31, 2014, designated for contingent payments related to acquisitions. At December 31, 2013, the restricted cash balance was \$3.5 million and was classified as other long-term assets.

***Fair value of financial instruments***

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

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**MELLANOX TECHNOLOGIES, LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

*Derivatives*

The Company recognizes derivative instruments as either assets or liabilities and measures those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. The Company enters into derivative instruments designated as cash flow hedges. For a derivative instrument designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of accumulated OCI, and subsequently reclassified into earnings when the hedged exposure affects earnings. Any gain or loss after a hedge is de-designated because it is no longer probable of occurring or related to an ineffective portion of a hedge, as well as any amount excluded from the Company's hedge effectiveness, is recognized as other income, net immediately.

The Company uses derivative instruments primarily to manage exposures to foreign currency. The Company enters into derivative contracts to manage its exposure to changes in the exchange rate of the NIS against the U.S. dollar. The Company's primary objective in entering these arrangements is to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. The program is not designated for trading or speculative purposes. The Company's derivative instruments expose the Company to credit risk to the extent that the 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.

*Concentration of credit risk*

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

Table of Contents**MELLANOX TECHNOLOGIES, LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

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

	Year Ended December 31,		
	2014	2013	2012
Hewlett-Packard	11%	13%	20%
Dell	11%	*	*
IBM	10%	17%	19%

\*  
Less than 10%

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

	December 31, 2014	December 31, 2013
Hewlett Packard	17%	12%
IBM	11%	11%
Ingram Micro	10%	*

\*  
Less than 10%

***Inventory***

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

***Property and equipment***

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

The Company incurs costs for the fabrication of masks used by its contract manufacturers to manufacture wafers that incorporate its products. The Company capitalizes the costs of fabrication



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**MELLANOX TECHNOLOGIES, LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

masks that are reasonably expected to be used during production manufacturing. These amounts are included within property and equipment and are generally depreciated over a period of 12 months to cost of revenue. If it does not reasonably expect to use the fabrication mask during production manufacturing, it expenses the related mask costs to research and development in the period in which the costs are incurred.

***Business combinations***

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

***Goodwill and intangible assets***

Goodwill represents the excess of the cost of acquired businesses over the fair market value of their identifiable net assets. The Company conducts a goodwill impairment qualitative assessment during the fourth quarter of each fiscal year or more frequently if facts and circumstances indicate that goodwill may be impaired. The goodwill impairment qualitative assessment requires the Company to perform an assessment to determine if it is more likely than not that the fair value of the business is less than its carrying amount. The qualitative assessment considers various factors, including the macroeconomic environment, industry and market specific conditions, market capitalization, stock price, financial performance, earnings multiples, budgeted-to-actual revenue performance from prior year, gross margin and cash flow from operating activities and issues or events specific to the business. If adverse qualitative trends are identified that could negatively impact the fair value of the business, the Company performs a "two step" goodwill impairment test. "Step one" of the goodwill impairment test requires the Company to estimate the fair value of the reporting unit "Step two" of the test is only performed if a potential impairment exists in "step one" and involves determining the difference between the fair value of the reporting unit's net assets other than goodwill to the fair value of the reporting unit. If the difference is less than the net book value of goodwill, an impairment exists and is recorded. As of December 31, 2014, the Company's qualitative assessment of goodwill impairment indicated that goodwill was not impaired.

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**MELLANOX TECHNOLOGIES, LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

Indefinite-lived intangible assets are tested for impairment annually or more frequently when indicators of impairment exist. The Company first assesses qualitative factors to determine if it is more likely than not that an indefinite-lived intangible asset is impaired and whether it is necessary to perform a quantitative impairment test. The qualitative assessment considers various factors, including reductions in demand, the abandonment of IPR&D projects or significant economic slowdowns in the semiconductor industry and macroeconomic environment. If adverse qualitative trends are identified that could negatively impact the fair value of the asset, then quantitative impairment tests are performed to compare the carrying value of the asset to its undiscounted expected future cash flows. If this test indicates that there is impairment, the impaired asset is written down to fair value, which is typically calculated using: (i) quoted market prices or (ii) discounted expected future cash flows utilizing an appropriate discount rate. Impairment is based on the excess of the carrying amount over the fair value of those assets. As of December 31, 2014, there were no indicators that impairment existed or assets were not recoverable. Intangible assets with finite lives are tested for impairment in accordance with our policy for long-lived assets.

***Investments***

The Company has equity investments in privately-held companies. These investments are recorded at cost reduced by any impairment write-downs because the Company does not have the ability to exercise significant influence over the operating and financial policies of the company. The investments are included in other long-term assets on the accompanying balance sheets. The Company monitors the investments and if facts and circumstances indicate an investment may be impaired, then it conducts an impairment test of its investment. To determine if the investment is recoverable, it reviews the privately-held company's revenue and earnings trends relative to pre-defined milestones and overall business prospects, the general market conditions in its industry and other factors related to its ability to remain in business, such as liquidity and receipt of additional funding.

***Impairment of long-lived assets***

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

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**MELLANOX TECHNOLOGIES, LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

*Revenue recognition*

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

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

*Multiple Element Arrangements Excluding Software*

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

*Multiple Element Arrangements Including Software*

For multiple element arrangements that include a combination of hardware, software and services, such as post-contract customer support, the arrangement consideration is first allocated among the accounting units before revenue recognition criteria are applied. If an arrangement includes undelivered elements that are not essential to the functionality of the delivered elements, the Company defers revenue for the undelivered elements based on their fair value. The fair value for undelivered software elements is based on vendor specific evidence. If the undelivered elements are essential to the functionality of the delivered elements, no revenue is recognized. The revenues from fixed-price

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**MELLANOX TECHNOLOGIES, LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

support or maintenance contracts, including extended warranty contracts and software post-contract customer support agreements are recognized ratably over the contract period and the costs associated with these contracts are recognized as incurred.

*Distributor Revenue*

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

*Deferred Revenue and Income*

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

*Shipping and Handling*

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

*Product warranty*

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

Table of Contents**MELLANOX TECHNOLOGIES, LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

future periods. Changes in the Company's liability for product warranty during the years ended December 31, 2014 and 2013 are as follows:

	December 31,	
	2014	2013
	(In thousands)	
Balance, beginning of the period	\$ 3,633	\$ 4,318
New warranties issued during the period	3,072	8,584
Reversal of warranty reserves	(197)	
Settlements during the period	(4,576)	(9,269)
Balance, end of the period	\$ 1,932	\$ 3,633
Less: long term portion of product warranty liability	(424)	(424)
Balance, end of the period	\$ 1,508	\$ 3,209

***Research and development***

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

***Advertising***

Costs related to advertising and promotion of products are charged to sales and marketing expense as incurred. Advertising expense was approximately \$0.7 million, \$0.9 million and \$1.1 million for the years ended December 31, 2014, 2013 and 2012, respectively.

***Share-based compensation***

The Company accounts for share-based compensation expense based on the estimated fair value of the equity awards as of the grant dates. The fair value of RSUs is based on the closing market price of our ordinary shares on the date of grant. The Company estimates the fair value of share option awards using the Black-Scholes option valuation model, which requires the input of subjective assumptions including the expected share price volatility and the calculation of expected term, as well as the fair value of the underlying ordinary share on the date of grant, among other inputs.

The Company bases its estimate of expected volatility on the of historical volatility of the Company's shares. The Company calculates the expected term of its option awards using the simplified method as prescribed by the authoritative guidance. The expected term for newly granted option awards in 2014 was approximately 5.77 years.

Share compensation expense is recognized on a straight-line basis over each recipient's requisite service period, which is generally the vesting period. Share-based compensation expense is recorded net of estimated forfeitures. Forfeitures are estimated at the time of grant and this estimate is revised, if necessary, in subsequent periods. If the actual number of forfeitures differs from the estimate, adjustments may be required to share-based compensation expense in future periods.

Table of Contents**MELLANOX TECHNOLOGIES, LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)***Comprehensive income (loss)*

Accumulated other comprehensive income (loss), net of tax on the consolidated balance sheets at December 31, 2014 and 2013, represents the accumulated unrealized gains (losses) on available-for-sale securities, and the accumulated unrealized gains (losses) related to derivative instruments accounted for as cash flow hedges. The amount of income tax expense allocated to unrealized gains (losses) on available-for-sale securities and derivative instruments was \$0.1 million at December 31, 2014 and was immaterial for 2013.

*Foreign currency translation*

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

*Net income per share*

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

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

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>(In thousands, except per share data)</b>		
Net income (loss)	\$ (24,009)	\$ (23,342)	\$ 111,951
Basic and diluted shares:			
Weighted average ordinary shares outstanding used to compute basic net income (loss) per share	44,831	43,421	41,308
Dilutive effect of employee share option and purchase plan			2,593
Shares used to compute diluted net income (loss) per share	44,831	43,421	43,901
Net income (loss) per share basic	\$ (0.54)	\$ (0.54)	\$ 2.71
Net income (loss) per share diluted	\$ (0.54)	\$ (0.54)	\$ 2.55

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**MELLANOX TECHNOLOGIES, LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

The Company excluded 0.7 million, 0.8 million and 0.3 million outstanding shares for the years ended December 31, 2014, 2013 and 2012, respectively, from the computation of diluted net income per share because including them would have had an anti-dilutive effect.

***Segment reporting***

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

***Income taxes***

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

The Company must also make judgments regarding the realizability of deferred tax assets. The carrying value of the Company's net deferred tax assets is based on its belief that it is more likely than not that the Company will generate sufficient future taxable income in certain jurisdictions to realize these deferred tax assets. A valuation allowance has been established for deferred tax assets which the Company does not believe meet the "more likely than not" criteria. The Company's judgments regarding future taxable income may change due to changes in market conditions, changes in tax laws, tax planning strategies or other factors. If the Company's assumptions and consequently its estimates change in the future, the valuation allowances it has established may be increased or decreased, resulting in a respective increase or decrease in income tax expense. The Company's effective tax rate is highly dependent upon the geographic distribution of its worldwide earnings or losses, the tax regulations and tax holidays in each geographic region, the availability of tax credits and carryforwards, and the effectiveness of its tax planning strategies.

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

***Recent accounting pronouncements***

Effective January 1, 2014, the Company adopted the authoritative guidance, issued by the Financial Accounting Standards Board ("FASB") in July 2013, which requires that an unrecognized tax benefit, or portion of an unrecognized tax benefit, be presented as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. If an applicable deferred tax asset is not available or a company does not expect to use the applicable deferred tax asset, the unrecognized tax benefit should be presented as a liability in the financial statements and should not be

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**MELLANOX TECHNOLOGIES, LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

combined with an unrelated deferred tax asset. The adoption of this guidance had no significant impact on the Company's consolidated financial statements.

On May 28, 2014, the FASB issued new accounting guidance related to revenue recognition. This new standard will replace all current GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. This guidance will be effective for the Company for the fiscal year beginning January 1, 2017 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is not permitted. The Company is currently evaluating the impact of adopting this new accounting standard on its consolidated financial statements.

In August 2014, the FASB issued new guidance related to the disclosures around going concern. The new standard provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard will be effective for the Company for the fiscal year ending December 31, 2016. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's financial statements.



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## MELLANOX TECHNOLOGIES, LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 2 BALANCE SHEET COMPONENTS:

	December 31, 2014	December 31, 2013
(In thousands)		
<b>Accounts receivable, net:</b>		
Accounts receivable	\$ 65,594	\$ 70,119
Less: allowance for doubtful accounts	(672)	(639)
	\$ 64,922	\$ 69,480

<b>Inventories:</b>		
Raw materials	\$ 5,725	\$ 4,385
Work-in-process	13,874	12,694
Finished goods	24,871	19,391
	\$ 44,470	\$ 36,470

<b>Deferred taxes and other current assets:</b>		
Prepaid expenses	\$ 8,040	\$ 5,929
Derivative contracts receivable		1,396
Deferred taxes	2,271	7,336
VAT receivable	6,117	1,900
Other	1,719	1,020
	\$ 18,147	\$ 17,581

<b>Property and equipment, net:</b>		
Computer equipment and software	\$ 124,370	\$ 92,468
Furniture and fixtures	3,256	3,809
Leasehold improvements	33,295	31,608
	160,921	127,885
Less: Accumulated depreciation and amortization	(82,094)	(55,970)
	\$ 78,827	\$ 71,915

<b>Deferred taxes and other long-term assets:</b>		
Equity investments in private companies	\$ 10,736	\$ 7,548
Deferred taxes	389	7,155
Restricted cash		3,514
Other assets	4,475	2,396

	\$	15,600	\$	20,613
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**Accrued liabilities:**

Payroll and related expenses	\$	31,254	\$	27,822
Accrued expenses		21,171		16,106
Derivative contracts payable		3,562		
Product warranty liability		1,508		3,209
Other		4,479		3,874
	\$	61,974	\$	51,011

**Other long-term liabilities:**

Income tax payable	\$	18,174	\$	13,026
Deferred rent		2,337		3,072
Other		2,024		1,792
	\$	22,535	\$	17,890

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On July 1, 2014, Mellanox completed its acquisition of Integrity Project, Ltd. ("Integrity"), a privately held company. Based in Ramat-Gan, Israel, Integrity specializes in the fields of connectivity, low-level development, real-time applications, and security. The Company's primary reason for the Integrity acquisition was for Integrity's software expertise, which further enhances the Company's commitment to provide superior solutions. The acquisition positions the Company to broaden its customer base by adding software solutions designed to enable customers to achieve optimal performance from all interconnect components.

The Company accounted for this transaction using the acquisition method, and accordingly, the consideration has been allocated to tangible and intangible assets acquired and liabilities assumed on the basis of their respective estimated fair values on the acquisition date. The purchase consideration paid, assets acquired and liabilities assumed were immaterial to the Company's financial statements. There were no intangible assets identified in this transaction other than goodwill. The goodwill arising from this acquisition was primarily attributable to the assembled workforce. Goodwill is not deductible for tax purposes. Goodwill is not being amortized but is reviewed annually for impairment or more frequently if impairment indicators arise, in accordance with authoritative accounting guidance.

On July 1, 2013, the Company completed its acquisition of a privately held company, IPtronics A/S. On August 15, 2013, the Company completed its acquisition of a privately held company, Kotura, Inc. The Company's primary reasons for the IPtronics and Kotura acquisitions was to enhance its ability to deliver cost-effective, high-speed networks with next generation optical connectivity at 100Gb/s and beyond. The acquisitions also enhanced the Company's engineering team and added a strong patent portfolio in the field of silicon photonics.

The following table presents details of the purchase consideration related to each acquisition:

Company Acquired	Cash Consideration Paid	Cash Assumed (in thousands)	Net Cash Paid
IPtronics	\$ 44,925	\$ 2,077	\$ 42,848
Kotura.	80,772	101	80,671
Total	\$ 125,697	\$ 2,178	\$ 123,519

In conjunction with the IPtronics acquisition, the Company issued 60,508 restricted stock units ("RSUs") of the Company's ordinary shares with an aggregate value of \$3.0 million in exchange for RSUs of IPtronics. The fair value of the RSUs is based on the closing price of the Company's ordinary shares on July 1, 2013 of \$49.92. The RSU grants will result in compensation expense of \$3.0 million which will be recognized over the vesting period of four years beginning from the acquisition date of July 1, 2013.

In conjunction with the Kotura acquisition, the Company issued options to purchase 31,653 shares of the Company's ordinary shares and 145,425 RSUs of the Company's ordinary shares with an aggregate value of \$6.4 million, in exchange for options to purchase shares and RSUs of Kotura. This grant will result in compensation expense of \$6.4 million which will be recognized over the remaining vesting period of these equity awards, which ranges from one day to four years from the acquisition date of August 15, 2013.

Table of Contents**MELLANOX TECHNOLOGIES, LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 3 BUSINESS COMBINATION: (Continued)**

The fair value of the exchanged options was determined using a Black-Scholes valuation model with the following weighted-average assumptions: expected life of 4.72 years, volatility of 57.5%, risk-free interest rate of 1.54%, and dividend yield of zero. The fair value of the exchanged RSUs was determined based on the per share value of the underlying Company ordinary shares of \$42.19 per share at August 15, 2013.

The Company accounted for both transactions using the acquisition method, and accordingly, the consideration has been allocated to tangible and intangible assets acquired and liabilities assumed on the basis of their respective estimated fair values on the respective acquisition date. The Company's allocation of the total purchase price for each transaction is summarized below:

	IPtronics	Kotura	Total
	(in thousands)		
Current assets, net of cash	\$ 2,534	\$ 5,606	\$ 8,140
Other long-term assets	974	10,603	11,577
Intangible assets	17,229	27,517	44,746
Goodwill	25,630	40,681	66,311
<b>Total assets</b>	<b>46,367</b>	<b>84,407</b>	<b>130,774</b>
Current liabilities	(2,668)	(3,357)	(6,025)
Long-term liabilities	(851)	(379)	(1,230)
<b>Total liabilities</b>	<b>(3,519)</b>	<b>(3,736)</b>	<b>(7,255)</b>
<b>Total purchase price allocation</b>	<b>\$ 42,848</b>	<b>\$ 80,671</b>	<b>\$ 123,519</b>

***Identifiable intangible assets***

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

Purchased intangible assets:	Fair value	Weighted Average Useful life
	(in thousands)	(in years)
Licensed technology	\$ 135	6
Developed technology	27,701	5
In-process research and development	13,764	
Customer relationship	2,420	1 - 2
Backlog	726	Less than 1
<b>Total purchased intangible assets</b>	<b>\$ 44,746</b>	

Developed technology represents completed technology that has reached technological feasibility and/or is currently offered for sale to customers. The Company used the income approach to value the developed technology. Under the income approach, the expected future cash flows from each technology are estimated and discounted to their net present values at an appropriate risk-adjusted rate of return. Significant factors considered in the calculation of the rate of return are the weighted average cost of capital and the return on assets. The Company applied

a discount rate of 17.5% for

Table of Contents**MELLANOX TECHNOLOGIES, LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 3 BUSINESS COMBINATION: (Continued)**

IPtronics and 15.5% for Kotura to value the developed technology assets taking into consideration market rates of return on debt and equity capital and the risk associated with achieving forecasted revenues related to these assets.

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. As of the acquisition date, IPtronics was involved in research and development projects related to its laser-drivers, modulator-drivers, and trans-impedance-amplifier for 25Gb/s, enabling fast communication at 4x25Gb/s for interconnect solutions. Each of these projects is focused on developing and later on integrating new technologies while broadening features and functionalities. There is a risk that these development efforts and enhancements will not be competitive with other products on cost and functionality.

As of the acquisition date, Kotura was involved in research and development projects related to its silicon photonics modulator for 25Gb/s, enabling fast communication at 4x25Gb/s and wavelength-division multiplexing "WDM" for interconnect products. Each of these projects is focused on developing and later on integrating new technologies and broadening features and functionalities. There is a risk that these development efforts and enhancements will not be competitive with other products using alternative technologies that offer comparable functionality.

Upon successful completion of the development process for the acquired IPR&D projects, the assets will then be considered finite-lived intangible assets and amortization of the assets will commence. None of the projects has been completed as of December 31, 2014 and both have progressed as previously estimated.

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

Company	Development Projects	Average Estimated time to complete (in months)	Estimated cost to complete (in thousands)	Risk Adjusted Discount Rate (%)	Fair value (in thousands)
IPtronics	Modulator drivers 4x25Gb/s Silicon photonics	18	\$ 9,549	19.5%	\$ 4,121
Kotura	modulator 4x25Gb/s	18	17,210	16.5%	9,643
			\$ 26,759		\$ 13,764

Customer relationships represent the fair value of future projected revenues that will be derived from the sale of products to existing customers of the acquired company. The Company used the comparative method ("with/without") of the income approach to determine the fair value of this intangible asset and utilized a discount rate of 15.5%.

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

The goodwill arising from these acquisitions is primarily attributed to sales of future products and the assembled workforce. Goodwill is not deductible for tax purposes. Goodwill is not being amortized but is reviewed annually for impairment or more frequently if impairment indicators arise, in accordance with authoritative guidance.

Table of Contents**MELLANOX TECHNOLOGIES, LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 3 BUSINESS COMBINATION: (Continued)**

The following table presents certain unaudited pro forma information for illustrative purposes only, for fiscal 2013 and fiscal 2012 as if IPtronics and Kotura had been acquired on January 1, 2012. The unaudited estimated pro forma information combines the historical results of IPtronics and Kotura with the Company's consolidated historical results and includes certain adjustments reflecting the estimated impact of fair value adjustments for the respective periods. The pro forma information is not indicative of what would have occurred had the acquisitions taken place on January 1, 2012. Additionally, the pro forma financial information does not include the impact of possible business model changes between IPtronics, Kotura and the Company. The Company expects to achieve further business synergies, as a result of the acquisitions that are not reflected in the pro forma amounts that follow. As a result, actual results will differ from the unaudited pro forma information presented (in thousands, except per share data):

	Year Ended	
	December 31, 2013	December 31, 2012
	(in thousands, except per share data)	
Pro forma net revenue	\$ 402,107	\$ 521,780
Pro forma net income (loss)	\$ (30,613)	\$ 100,748
Pro forma net income (loss) per share basic	\$ (0.71)	\$ 2.44
Pro forma net income (loss) per share diluted	\$ (0.71)	\$ 2.29

**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 Level 3 valuation inputs include the Company's best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instrument's valuation. As of December 31, 2014 and December 31, 2013, the Company did not have any assets or liabilities valued based on Level 3 valuations.

Table of Contents**MELLANOX TECHNOLOGIES, LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 4 FAIR VALUE MEASUREMENTS: (Continued)**

The following table represents the fair value hierarchy of the Company's financial assets and liabilities measured at fair value as of December 31, 2014.

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

The following table represents the fair value hierarchy of the Company's financial assets and liabilities measured at fair value as of December 31, 2013.

	Level 1	Level 2	Total
	(in thousands)		
Money market funds	\$ 20,000	\$	\$ 20,000
Certificates of deposit		67,769	67,769
U.S. Government and agency securities		69,879	69,879
Commercial paper		33,606	33,606
Corporate bonds		92,274	92,274
Derivative contracts		1,396	1,396
Total financial assets	\$ 20,000	\$ 264,924	\$ 284,924

There were no transfers between Level 1 and Level 2 securities during the years ended December 31, 2014 and 2013.



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## MELLANOX TECHNOLOGIES, LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 5 INVESTMENTS:

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

At December 31, 2014 and 2013, the Company held cash and short-term investments classified as available-for-sale securities as follows:

	Amortized Cost	December 31, 2014		Estimated Fair Value
		Unrealized Gains	Unrealized Losses	
(in thousands)				
Cash	\$ 46,900	\$	\$	\$ 46,900
Money market funds	4,426			4,426
Certificates of deposit	80,304	1	(30)	80,275
U.S. Government and agency securities	99,236	9	(131)	99,114
Commercial paper	23,017	3	(1)	23,019
Corporate bonds	112,033	16	(313)	111,736
Municipal bonds	13,151		(47)	13,104
Foreign government bonds	6,809		(19)	6,790
<b>Total</b>	<b>\$ 385,876</b>	<b>\$ 29</b>	<b>\$ (541)</b>	<b>\$ 385,364</b>
Less amounts classified as cash and cash equivalents	(51,326)			(51,326)
	<b>\$ 334,550</b>	<b>\$ 29</b>	<b>\$ (541)</b>	<b>\$ 334,038</b>

	Amortized Cost	December 31, 2013		Estimated Fair Value
		Unrealized Gains	Unrealized Losses	
(in thousands)				
Cash	\$ 43,164	\$	\$	\$ 43,164
Money market funds	20,000			20,000
Certificates of deposit	67,775	1	(7)	67,769
U.S. Government and agency securities	69,859	22	(2)	69,879
Commercial paper	33,602	9	(5)	33,606
Corporate bonds	92,298	16	(40)	92,274
<b>Total</b>	<b>\$ 326,698</b>	<b>\$ 48</b>	<b>\$ (54)</b>	<b>\$ 326,692</b>
Less amounts classified as cash and cash equivalents	(63,164)			(63,164)
	<b>\$ 263,534</b>	<b>\$ 48</b>	<b>\$ (54)</b>	<b>\$ 263,528</b>

Realized gains (losses), net upon the sale of marketable securities were \$(0.4) million and \$1.2 million for the years ended December 31, 2014 and December 31, 2013, respectively. At December 31, 2014, gross unrealized losses on investments that were in a gross unrealized loss position for greater than 12 months were immaterial. These investments were not deemed to be other-than-temporarily impaired and the gross unrealized losses were recorded in OCI.



Table of Contents**MELLANOX TECHNOLOGIES, LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 5 INVESTMENTS: (Continued)**

The contractual maturities of short-term investments at December 31, 2014 and December 31, 2013 were as follows:

	December 31, 2014		December 31, 2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in thousands)			
Due in less than one year	\$ 129,150	\$ 129,155	\$ 190,172	\$ 190,189
Due in one to three years	205,400	204,883	73,362	73,339
	\$ 334,550	\$ 334,038	\$ 263,534	\$ 263,528

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

As of December 31, 2014, the Company held a total of \$10.7 million investments in three privately-held companies and as of December 31, 2013, the Company held a total of \$7.5 million investments in two privately-held companies.

**NOTE 6 GOODWILL AND INTANGIBLE ASSETS:**

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

Balance as of December 31, 2013	\$ 199,196
Goodwill from Integrity acquisition	1,547
Adjustments	
Balance as of December 31, 2014	\$ 200,743

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

	Gross	Accumulated	Net
	Carrying Value	Amortization	Carrying Value
	(in thousands)		
Licensed technology	\$ 2,344	\$ (917)	\$ 1,427
Developed technology	56,064	(32,130)	23,934
Customer relationships	13,376	(10,434)	2,942
Total amortizable intangible assets	\$ 71,784	\$ (43,481)	\$ 28,303
IPR&D	13,764		13,764
Total intangible assets	\$ 85,548	\$ (43,481)	\$ 42,067



Table of Contents**MELLANOX TECHNOLOGIES, LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 6 GOODWILL AND INTANGIBLE ASSETS: (Continued)**

The carrying amounts of intangible assets as of December 31, 2013 were as follows:

	<b>Gross Carrying Value</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Value</b>
	(in thousands)		
Licensed technology	\$ 2,344	\$ (366)	\$ 1,978
Developed technology	56,064	(24,654)	31,410
Customer relationships	13,376	(6,279)	7,097
Customer contract	1,529	(1,529)	
Backlog	726	(726)	
Total amortizable intangible assets	\$ 74,039	\$ (33,554)	\$ 40,485
IPR&D	13,764		13,764
Total intangible assets	\$ 87,803	\$ (33,554)	\$ 54,249

Amortization expense of intangible assets totaled approximately \$12.2 million, \$14.0 million and \$9.3 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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

2015	\$ 8,007
2016	7,194
2017	7,128
2018	4,148
2019	779
2020 and thereafter	1,047
	\$ 28,303

**NOTE 7 DERIVATIVES AND HEDGING ACTIVITIES:**

As of December 31, 2014, the Company had derivative contracts in place that hedged future operating expenses of approximately 344.3 million NIS, or approximately \$88.5 million based upon the exchange rate as of December 31, 2014. The derivative contracts cover future NIS denominated operating expenses expected to occur over the next twelve months. As of December 31, 2013, the Company had derivative contracts in place that hedged future operating expenses of approximately 108.8 million NIS, or approximately \$31.3 million based upon the exchange rate as of December 31, 2013.

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

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## MELLANOX TECHNOLOGIES, LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 7 DERIVATIVES AND HEDGING ACTIVITIES: (Continued)

*Fair Value of Derivative Contracts*

The fair value of derivative contracts as of December 31, 2014 and December 31, 2013 was as follows:

	Derivative Assets Reported in Other Current Assets		Derivative Liabilities Reported in Other Current Liabilities	
	December 31,		December 31,	
	2014	2013	2014	2013
	(in thousands)			
Foreign exchange contracts designated as cash flow hedges	\$	\$ 1,396	\$ 3,562	\$
Total derivatives designated as hedging instruments	\$	\$ 1,396	\$ 3,562	\$

*Effect of Designated Derivative Contracts on Accumulated Other Comprehensive Income*

The following table represents the balance of derivative contracts designated as cash flow hedges as of December 31, 2014 and 2013, and their impact on OCI for the year ended December 31, 2014 (in thousands):

December 31, 2013	\$	1,396
Amount of loss recognized in OCI (effective portion)		(6,281)
Amount of loss reclassified from OCI to income (effective portion)		1,239
December 31, 2014	\$	(3,646)

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 years ended December 31, 2014, 2013 and 2012 was:

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Gain (loss) on foreign exchange contracts designated as cash flow hedges	\$ (1,239)	\$ 6,027	\$ (893)

The net gains or losses relating to the ineffective portion of derivative contracts were not material in the years ended December 31, 2014, 2013 and 2012.

Table of Contents**MELLANOX TECHNOLOGIES, LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 8 EMPLOYEE BENEFIT PLANS:**

The Company has established a pretax savings plan under Section 401(k) of the Internal Revenue Code. The 401(k) Plan allows eligible employees in the United States to voluntarily contribute a portion of their pre-tax salary, subject to a maximum limit specified in the Internal Revenue Code. The Company matches employee contributions of up to 4% of their annual base salaries. The total expenses for these contributions were \$0.9 million, \$0.8 million and \$0.5 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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

The severance pay detail is as follows:

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Accrued severance liability	\$ 11,850	\$ 13,418
Severance assets	9,474	10,630
Unfunded portion	\$ 2,376	\$ 2,788

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

Severance expenses for the years ended December 31, 2014, 2013 and 2012 were \$6.8 million, \$6.1 million and \$4.3 million, respectively.

In addition, the Company has established a pension contribution plan with respect to its employees in Israel. Under the plan, the Company contributes up to 6% of employee monthly salary toward the plan. Employees are entitled to amounts accumulated in the plan upon reaching retirement age, subject to any applicable law. Defined pension contribution plan expenses were \$4.9 million, \$4.5 million and \$3.2 million in the years ended December 31, 2014, 2013 and 2012, respectively.

**NOTE 9 COMMITMENTS AND CONTINGENCIES:***Leases*

The Company leases office space and motor vehicles under operating leases with various expiration dates through 2021. Rent expense was approximately \$9.9 million, \$8.9 million and \$6.8 million for the years ended December 31, 2014, 2013 and 2012, respectively. The terms of the facility lease provide for



Table of Contents**MELLANOX TECHNOLOGIES, LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 9 COMMITMENTS AND CONTINGENCIES: (Continued)**

rental payments on a graduated scale. The Company recognizes rent expense on a straight-line basis over the lease period, and has accrued for rent expense incurred but not paid.

The Company has entered into capital lease agreements for electronic design automation software. The total amount of assets under capital lease agreements within "Property and equipment, net" was approximately \$1.6 million and \$2.8 million for the years ended December 31, 2014 and 2013, respectively.

At December 31, 2014, future minimum payments under non-cancelable operating and capital leases are as follows:

Year Ended December 31,	Capital Leases	Operating Leases
	(in thousands)	
2015	\$ 1,115	\$ 15,253
2016	512	9,730
2017		6,687
2018		4,398
2019 and beyond		8,202
 Total minimum lease payments	 \$ 1,627	 \$ 44,270
 Less: Amount representing interest	 (31)	
 Present value of capital lease obligations	 1,596	
Less: Current portion	(1,102)	
 Long-term portion of capital lease obligations	 \$ 494	

***Purchase commitments***

At December 31, 2014, the Company had non-cancelable purchase commitments of \$67.9 million, \$67.7 million of which is expected to be paid in 2015 and \$0.2 million in 2016 and beyond.

***Legal proceedings***

The Company considers all legal claims on a quarterly basis in accordance with GAAP and, based on known facts, assesses whether potential losses are considered reasonably possible, probable and estimable.

The Company makes a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Unless otherwise specifically disclosed in this note, the Company has determined that no provision for liability nor disclosure is required related to any claim against us because: (a) there is not a reasonable possibility that a loss exceeding amounts already recognized (if any) may be incurred with respect to such claim; (b) a reasonably possible loss or range of loss cannot be estimated; or (c) such estimate is immaterial. All legal costs associated with litigation are expensed as

incurred.

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**MELLANOX TECHNOLOGIES, LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 9 COMMITMENTS AND CONTINGENCIES: (Continued)**

Litigation is inherently unpredictable. However, the Company believes that it has valid defenses with respect to the pending legal matters. It is possible, nevertheless, that the consolidated financial position, cash flows or results of operations could be negatively affected by an unfavorable resolution of one or more of such proceedings, claims or investigations.

Pending legal proceedings as of December 31, 2014 were as follows:

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

On September 29, 2010, Avago Technologies Fiber (IP) Singapore Pte. Ltd. ("Avago IP") filed a complaint for patent infringement against IPtronics, Inc. and IPtronics A/S (now Mellanox Technologies Denmark Aps) (collectively, "IPtronics") in the United States District Court, Northern District of California, San Francisco Division (Case No.: CV- 0-2863), asserting infringement of the 456 patent and U.S. Patent No. 5,359,447 (the "447 patent"). On September 11, 2012, Avago IP along with additional subsidiaries of Avago Technologies Limited (collectively, "Avago") filed a second amended and supplemental complaint (the "Complaint") against the Respondents in the United States District Court, Northern District of California, San Jose Division (Case No.: 5:10-CV-02863-EJD (PSG)). The Complaint amends and supplements all complaints previously filed by Avago IP in this case and alleges that the Defendants: infringed the 456 patent and 447 patents; engaged in violations of the Lanham Act, Section 43 (A); misappropriated Avago's trade secrets; engaged in unfair competition against Avago; intentionally interfered with Avago's contractual relations; and were unjustly enriched by and through the conduct complained of by Avago in the Complaint. A motion to file a third amended complaint was filed but never granted.

Avago's motion to file a Fourth Amended and Supplemental Complaint to add the Company and a new claim for interference with prospective economic advantage against IPtronics was granted. The Company and IPtronics have answered the new complaint and the new schedule for the case is expected to set trial in 2016. IPtronics' motion to add an antitrust counterclaim against Avago for pursuing an action was denied and, as explained below, that claim is being pursued in a separate action.

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

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

IPtronics has filed an antitrust Complaint against the US and foreign Avago entities for pursuing what the Company believes to be a baseless ITC action against IPtronics. The Complaint seeks unspecified damages in an amount to compensate IPtronics for the damages resulting from the Avago Entities' illegal conduct. The U.S. Avago Entity has been served and the foreign Avago Entities are in the process of being served. No case schedule has been set.

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**MELLANOX TECHNOLOGIES, LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 9 COMMITMENTS AND CONTINGENCIES: (Continued)**

*In re Mellanox Technologies, Ltd. Securities Litigation*

On February 7, February 14 and February 22, 2013, Mellanox Technologies, Ltd., the Company's President and CEO, former CFO and CFO were sued in three separate putative class action complaints filed in the United States District Court for the Southern District of New York alleging purported violations of the securities laws. On May 14, 2013, the court consolidated the complaints and appointed lead plaintiffs and lead counsel. On July 12, 2013, lead plaintiffs filed an Amended Consolidated Complaint against the same defendants. On October 11, 2013, the United States District Court for the Southern District of New York transferred the consolidated action to the United States District Court for Northern California ("the Court"). On March 31, 2014, the Court dismissed the Amended Consolidated Complaint for its failure to allege adequately falsity or scienter.

On May 19, 2014, lead plaintiffs filed a Second Amended Consolidated Complaint. The Second Amended Consolidated Complaint alleges violations of Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), and Rule 10b-5 thereunder, violations of Section 20(a) of the Exchange Act, and violations of Israel Securities Law, 1968. It alleges that defendants made false or misleading statements (or failed to disclose certain facts) regarding the Company's business and outlook and seeks unspecified damages, an award of reasonable costs and expenses, including reasonable attorney's fees, and any other relief deemed just and proper. On July 7, 2014, defendants moved to dismiss the Second Amended Consolidated Complaint. The Court heard oral argument on August 20, 2014 and on December 17, 2014 dismissed the Second Amended Consolidated Complaint with prejudice. The matter was captioned, *In re Mellanox Technologies, Ltd. Securities Litigation*, Case No. 3:13-cv-04909-JD.

*Weinberger Case*

On February 20, 2013, a request for approval of a class action was filed in the Economic Division of the District Court of Tel Aviv-Jaffa against Mellanox Technologies, Ltd., the Company's President and CEO, former CFO, CFO and each of the members of the Company's board of directors (the "Israeli Claim"). The Israeli Claim was filed by Mr. Avigdor Weinberger (the "Claimant"). The Israeli Claim alleges that the Company, the board members, the Company's President and CEO, its former CFO and its current CFO are responsible for making misleading statements (or failing to disclose certain facts) and filings to the public, as a result of which the shares of the Company were allegedly traded at a higher price than their true value during a period commencing on April 19, 2012 and ending January 2, 2013 and, therefore, these parties are responsible for damages caused to the purchasers of the Company's shares on the Tel Aviv Stock Exchange during this time. The Claimant seeks an award of compensation to the relevant shareholders for all damages caused to them, including attorney fees and Claimant's fee and any other relief deemed just and proper by the court. On April 24, 2013, the Claimant and the Company filed a procedural agreement with the court to stay the Israeli Claim pending the completion of the *In re Mellanox Technologies, Ltd. Securities Litigation* disclosed herein. On April 24, 2013, the Israeli court approved this procedural agreement and stayed the Israeli proceedings.

On January 7, 2015 the plaintiff, with the consent of the Company, filed a request to withdraw the Israeli Claim (and related class action claim) against the Company and the Board (the "Withdrawal Petition") after the plaintiff, in view of the decision to dismiss the U. S. Class Action (*In re Mellanox Technologies, Ltd. Securities Litigation* disclosed herein), reached the conclusion that it would be difficult

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**MELLANOX TECHNOLOGIES, LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 9 COMMITMENTS AND CONTINGENCIES: (Continued)**

for the plaintiff to prove the Israeli Claim and have the complaint approved as a class action. Neither the plaintiff nor its attorneys received or will receive any benefit in return for their withdrawal.

On January 8, 2015, the Israeli Court approved the Withdrawal Petition and dismissed the Israeli Claim.

*Infinite Data Case*

On February 19, 2013, Infinite Data LLC, a Delaware limited liability company ("Infinite Data") and a non-practicing entity and exclusive licensee of U.S. patent number 5,790,530 (the "Patent"), filed suit against approximately 25 of the Company's end users and direct customers of its InfiniBand products in the United States District Court in Delaware. All actions included the same allegation of infringement regarding the Patent and seek the payment of damages, costs, expenses and injunctive relief. Several of the end users and direct customers sued by Infinite Data tendered indemnification requests to the Company on the basis of existing contractual or asserted statutory obligations imposed on the Company to provide such indemnification. All of these cases were stayed pending the outcome of the declaratory judgment action filed by Mellanox. Based on currently available information, the Company believes that the resolution of these proceedings is not likely to have a material adverse effect on the Company's business, financial position, results of operations or cash flows.

In response to these filings and accusations of infringement of Mellanox's products, on May 21, 2013, Mellanox filed a declaratory judgment complaint against Infinite Data asking for a declaration that the Patent is invalid and that the Company's products do not infringe. On November 14, 2013, Infinite Data filed its answer denying that the Patent was invalid and counterclaimed that the Company's products infringe. Pursuant to the Counterclaims, Infinite Data seeks unspecified damages, treble damages, injunctive relief and any other relief deemed just and proper by the court.

Infinite Data, Mellanox Technologies, Ltd. and Mellanox Technologies, Inc. each entered into settlement agreements in which Infinite Data agreed to dismiss Mellanox Technologies, Ltd., with no liability or payment made by Mellanox Technologies, Ltd. and to dismiss Mellanox Technologies, Inc. in exchange for a payment of \$1.3M. The case against Mellanox Technologies, Ltd. was dismissed with prejudice on December 3, 2014 and the case against Mellanox Technologies, Inc. was dismissed with prejudice on January 5, 2015. In accordance with the terms of the settlement agreement, Infinite Data is dismissing with prejudice its complaints against Mellanox Technologies, Inc.'s direct and indirect customers.

**NOTE 10 SHARE INCENTIVE PLANS:**

The Company has seven option plans: the 1999 United States Equity Incentive Plan, 1999 Israeli Share Option Plan, 2003 Israeli Share Option Plan (collectively, the "Prior Plans"), the 2006 Global Share Incentive Plan (the "Global Plan"), the Global Share Incentive Assumption Plan 2010 (the "Assumption Plan"), the Kotura, Inc. Second Amended and Restated 2003 Stock Plan (the "Kotura Plan") and the IPtronics, Inc. 2013 Restricted Stock Unit Plan (the "IPtronics Plan").

The number of ordinary shares reserved for issuance under the Company's Global Plan will increase automatically on the first day of each fiscal year, by a number of ordinary shares equal to the lower of: (i) 2% of total number of ordinary shares outstanding on a fully diluted basis on the date of the increase, (ii) 685,714 ordinary shares, or (iii) a smaller number determined by the board of

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directors. In any event, the maximum aggregate number of ordinary shares that may be issued or transferred under the Global Plan during the term of the Global Plan may in no event exceed 15,474,018 ordinary shares. The Global Plan was automatically increased by 685,714 ordinary shares on January 1, 2015, 2014 and 2013, respectively.

The number of ordinary shares reserved for issuance under the Company's Assumption Plan will increase automatically on the first day of each fiscal year, by a number of ordinary shares equal to the lower of: (i) 281,625 ordinary shares or (ii) an amount determined by the Board. The Assumption Plan was automatically increased by 281,625 ordinary shares on January 1, 2015, 2014 and 2013, respectively. There were no ordinary shares reserved for future issuance under any of the other plans.

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

	<b>Options Outstanding</b>	
	<b>Number</b>	<b>Weighted</b>
	<b>of Shares</b>	<b>Average</b>
		<b>Exercise</b>
		<b>Price</b>
Outstanding at December 31, 2012	3,285,922	\$ 29.74
Options granted	31,653	\$ 18.30
Options exercised	(376,588)	\$ 14.08
Options canceled	(134,763)	\$ 62.47
Outstanding at December 31, 2013	2,806,224	\$ 30.14
Options granted	50,000	\$ 32.64
Options exercised	(265,990)	\$ 18.23
Options canceled	(122,711)	\$ 69.01
Outstanding at December 31, 2014	2,467,523	\$ 29.55

The weighted average fair value of options granted was approximately \$17.22, \$8.91 and \$38.66 for the years ended December 31, 2014, 2013 and 2012, respectively.

The total pretax intrinsic value of options exercised in 2014 was \$6.0 million. This intrinsic value represents the difference between the fair market value of the Company's ordinary shares on the date of exercise and the exercise price of each option. Based on the closing price of the Company's ordinary shares of \$42.73 on December 31, 2014, the total pretax intrinsic value of all outstanding options awards was \$51.4 million. The total pretax intrinsic value of exercisable options at December 31, 2014 was \$50.1 million.

The total pretax intrinsic value of options exercised in 2013 was \$12.9 million. Based on the closing price of the Company's ordinary shares of \$39.97 on December 31, 2013, the total pretax intrinsic value of all outstanding options awards was \$51.8 million. The total pretax intrinsic value of exercisable options at December 31, 2013 was \$48.6 million.

Table of Contents**MELLANOX TECHNOLOGIES, LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 10 SHARE INCENTIVE PLANS: (Continued)**

The following tables provide additional information about all options outstanding and exercisable at December 31, 2014:

Range of Exercise Price	Options Outstanding at December 31, 2014			Options Exercisable at December 31, 2014		
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$3.13 - \$8.23	287,784	3.56	\$ 7.96	287,784	\$ 7.96	
\$8.45 - \$9.19	271,468	2.44	\$ 9.06	271,468	\$ 9.06	
\$10.23 - \$10.23	504,293	4.29	\$ 10.23	504,293	\$ 10.23	
\$10.50 - \$18.87	249,923	4.50	\$ 14.37	246,273	\$ 14.33	
\$18.97 - \$29.03	287,210	5.54	\$ 24.38	279,027	\$ 24.28	
\$29.58 - \$35.12	312,872	7.11	\$ 32.66	214,539	\$ 32.63	
\$35.60 - \$57.41	170,860	7.17	\$ 51.14	116,225	\$ 51.08	
\$66.07 - \$66.07	141,478	7.34	\$ 66.07	89,004	\$ 66.07	
\$79.38 - \$79.38	17,700	7.83	\$ 79.38	9,334	\$ 79.38	
\$101.37 - \$101.37	223,935	7.37	\$ 101.37	132,968	\$ 101.37	
<b>\$3.13 - \$101.37</b>	<b>2,467,523</b>	<b>5.20</b>	<b>\$ 29.55</b>	<b>2,150,915</b>	<b>\$ 24.76</b>	

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

	Restricted Share Units Outstanding	
	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested restricted share units at December 31, 2012	1,763,160	\$ 36.29
Restricted share units granted	1,162,133	49.05
Restricted share units vested	(778,084)	31.16
Restricted share units canceled	(172,755)	42.49
<b>Non-vested restricted share units at December 31, 2013</b>	<b>1,974,454</b>	<b>\$ 43.81</b>
Restricted share units granted	970,970	37.35
Restricted share units vested	(827,396)	42.03
Restricted share units canceled	(206,862)	40.91
<b>Non-vested restricted share units at December 31, 2014</b>	<b>1,911,166</b>	<b>\$ 41.61</b>

The weighted average fair value of restricted share units granted was \$37.35, \$49.05 and \$42.88 for the years ended December 31, 2014, 2013 and 2012, respectively. The total intrinsic value of all outstanding restricted share units was \$81.7 million as of December 31, 2014.

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The Employee Share Purchase Plan, ("ESPP"), is designed to allow eligible employees to purchase the Company's ordinary shares, at semi-annual intervals, with their accumulated payroll deductions. A participant may contribute up to 15% of his or her base compensation through payroll deductions, and



Table of Contents**MELLANOX TECHNOLOGIES, LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 10 SHARE INCENTIVE PLANS: (Continued)**

the accumulated deductions will be applied to the purchase of shares on the purchase date, which is the last trading day of the offering period. The purchase price per share will be equal to 85% of the fair market value per share on the start date of the offering period in which the participant is enrolled or, if lower, 85% of the fair market value per share on the purchase date. In any event, the maximum aggregate number of ordinary shares that may be issued over the term of the ESPP may in no event exceed 2,585,712 shares. 1,085,712 shares were initially reserved for issuance pursuant to purchase rights under the ESPP. In August 2012, the Company reserved for issuance 1,500,000 additional shares under the ESPP. No participant in the ESPP may be issued or transferred more than \$25,000 worth of ordinary shares pursuant to purchase rights under the ESPP per calendar year. During the years ended December 31, 2014 and 2013, 394,915 and 248,486 shares, respectively, were issued under the ESPP at weighted average per share prices of \$30.22 and \$37.56, respectively.

The Company had the following ordinary shares reserved for future issuance under its equity incentive plans as of December 31, 2014:

	<b>Number of Shares</b>
Share options outstanding	2,467,523
Restricted share units outstanding	1,911,166
Shares authorized for future issuance	1,510,930
ESPP shares available for future issuance	851,059
<b>Total shares reserved for future issuance as of December 31, 2014</b>	<b>6,740,678</b>

**Share-based compensation**

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

The following weighted average assumptions are used to value share options granted in connection with the Company's share incentive plans for the years ended December 31, 2014, 2013 and 2012:

	<b>Employee Share Options Year Ended December 31,</b>			<b>Employee Share Purchase Plan Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Dividend yield, %						
Expected volatility, %	56.07	57.5	56.6	46.63	56.18	68.05
Risk free interest rate, %	1.98	1.54	1.02	0.05	0.07	0.12
Expected life, years	5.77	4.72	6.25	0.50	0.53	0.53

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

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Share-based compensation expense by caption:			
Cost of goods sold	\$ 2,162	\$ 1,828	\$ 1,621
Research and development	26,979	25,956	19,356
Sales and marketing	9,755	9,198	8,055
General and administrative	8,339	8,156	5,987
Total share-based compensation expense	\$ 47,235	\$ 45,138	\$ 35,019
Share-based compensation expense by type of award:			
Share options	\$ 8,974	\$ 12,460	\$ 14,104
ESPP	3,976	3,938	2,851
RSU	34,285	28,740	18,064
Total share-based compensation expense	\$ 47,235	\$ 45,138	\$ 35,019

At December 31, 2014, there was \$74.5 million of total unrecognized share-based compensation costs related to non-vested share-based compensation arrangements. The costs are expected to be recognized over a weighted average period of approximately 1.97 years.

**NOTE 11 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):**

The following table summarizes the changes in accumulated balances of other comprehensive income (loss) for the years ended December 31, 2014 and 2013:

	Unrealized Gains / Losses on Available-for- Sale Securities		Gains / Losses on Derivatives	Total
	(in thousands)			
Balance at December 31, 2013	\$	(6)	\$ 1,396	\$ 1,390
Other comprehensive income/loss before reclassifications		(378)	(6,281)	(6,659)
Amounts reclassified from accumulated other comprehensive income/loss		10	1,239	1,249
Net current-period other comprehensive income/loss, net of taxes		(368)	(5,042)	(5,410)
Balance at December 31, 2014	\$	(374)	\$ (3,646)	\$ (4,020)
Balance at December 31, 2012	\$	(148)	\$ 2,942	\$ 2,794

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Other comprehensive income/loss before reclassifications	148	4,481	4,629
Amounts reclassified from accumulated other comprehensive income/loss	(6)	(6,027)	(6,033)
Net current-period other comprehensive income/loss, net of taxes	142	(1,546)	(1,404)
Balance at December 31, 2013	\$ (6)	\$ 1,396	\$ 1,390

Table of Contents**MELLANOX TECHNOLOGIES, LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 11 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS): (Continued)**

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

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

The following table provides details about reclassifications out of accumulated other comprehensive income (loss) for the year ended December 31, 2013:

Details about Accumulated Other Comprehensive Income / Loss Components	Amount Reclassified from Other Comprehensive Income / Loss (in thousands)	Affected Line Item in the Statement of Operations
Gains on Derivatives	\$ 6,027	Cost of revenues and Operating expenses
	363	Cost of revenues
	4,653	Research and development
	508	Sales and marketing
	503	General and administrative
	6,027	
Unrealized gains (losses) on Available-for-Sale Securities	6	Other income, net
Total reclassifications for the period	\$ 6,033	Total

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The components of income (loss) before income taxes are as follows:

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>(in thousands)</b>		
United States	\$ (10,260)	\$ (2,463)	\$ 6,343
Foreign	4,518	(17,127)	113,795
<b>Income (loss) before income taxes</b>	<b>\$ (5,742)</b>	<b>\$ (19,590)</b>	<b>\$ 120,138</b>

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

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>(in thousands)</b>		
<b>Current:</b>			
U.S. federal	\$ 162	\$ 1,989	\$ 6,178
State and local	163	508	890
Foreign	4,683	3,110	4,573
	5,008	5,607	11,641
<b>Deferred:</b>			
U.S. federal	\$ 12,140	\$ (1,174)	\$ (2,805)
State and local	1,539	(219)	(226)
Foreign	(420)	(462)	(423)
	13,259	(1,855)	(3,454)
<b>Provision for taxes on income</b>	<b>\$ 18,267</b>	<b>\$ 3,752</b>	<b>\$ 8,187</b>

At December 31, 2014 and 2013, significant deferred tax assets and liabilities are as follows:

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
<b>Deferred tax assets:</b>		
Net operating loss and credit carryforwards	\$ 25,614	\$ 44,706
Reserves and accruals	7,633	8,961
Depreciation and amortization	16,487	942
Other	8,555	2,285

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Gross deferred tax assets	58,289	56,894
Valuation allowance	(46,220)	(27,365)
Total deferred tax assets	12,069	29,529
Intangible assets	(11,551)	(15,038)
Total deferred tax liabilities	(11,551)	(15,038)
Net deferred tax assets	\$ 518	\$ 14,491

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and

Table of Contents**MELLANOX TECHNOLOGIES, LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 12 INCOME TAXES: (Continued)**

negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance. The Company has established a valuation allowance of \$17.2 million against deferred tax assets in U.S. income tax jurisdictions in the fourth quarter of 2014 as it is believed these assets are not more likely than not to be realized based upon consideration of the available positive and negative evidence. In reaching this conclusion, objective and verifiable negative evidence related to current and historical cumulative losses in U.S. income tax jurisdictions outweighed available positive evidence in the Company's consideration of the realizability of the related deferred tax assets.

At December 31, 2014, the Company had net operating loss carryforwards ("NOLs") of approximately \$65.5 million in Israel, \$58.6 million in the United States ("U.S.") for federal tax purposes, \$28.7 million in the U.S. for state tax purposes and \$13.3 million in Denmark. The US net operating losses begin to expire in 2017 and the non-U.S. net operating losses have no expiration date.

Included in the U.S. federal and state NOLs are \$19.4 million of NOLs which have not been recognized for financial reporting purposes due to unrecognized tax benefits and excess tax benefits related to stock-based compensation. Excess tax benefits related to option exercises cannot be recognized until realized through a reduction of current taxes payable.

Utilization of U.S. federal and state net operating losses and tax credit carryforwards may be limited by "ownership change" rules, as defined in Section 382 of the Internal Revenue Code. Similar rules may apply under state tax laws. The Company has assessed the application of Internal Revenue Code Section 382 and has reflected the impact of such limitations in the related deferred tax assets recorded related to net operating losses and tax credit carryforwards.

The Company has not provided for Israeli income and foreign withholding taxes on \$1.3 million of its non-Israeli subsidiaries' undistributed earnings as of December 31, 2014. The Company currently has no plans to repatriate those funds and intends to indefinitely reinvest them in its non-Israeli operations. The Company cannot determine the impact of local taxes, withholding taxes and foreign tax credits associated with future repatriation of such earnings because the time or manner of the repatriation is uncertain and therefore, quantification of the related tax liability is impracticable.

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

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Tax at statutory rate	35.0%	35.0%	35.0%
State, net of federal benefit	(28.6)	2.9	0.5
Meals and entertainment	(1.3)	(0.4)	0.1
Tax at rates other than the statutory rate	56.1	(35.7)	(32.9)
Valuation allowance	(280.6)		
Share-based compensation	(4.0)	(4.6)	(0.1)
Net change in tax reserves	(87.4)	(15.9)	4.8
Other, net	(7.3)	(0.5)	(0.6)
<b>Provision for taxes</b>	<b>(318.1)%</b>	<b>(19.2)%</b>	<b>6.8%</b>

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**MELLANOX TECHNOLOGIES, LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 12 INCOME TAXES: (Continued)**

The Company calculates the pool of excess tax benefits resulting from share based compensation available to absorb tax deficiencies recognized using the method under which each award grant is tracked on an employee-by-employee basis and grant-by-grant basis to determine if there is a tax benefit situation or tax deficiency situation for such award. The Company then compares the fair value expense to the tax deduction received for each grant and aggregates the benefits and deficiencies to determine whether there is a hypothetical additional paid in capital ("APIC") pool. For the years ended December 31, 2014 and 2013, the Company recognized a tax benefit to APIC of \$0.3 million and \$2.7 million, respectively.

The Company's operations in Israel were granted "Approved Enterprise" status by the Investment Center in the Israeli Ministry of Economy (formerly, the Ministry of Industry Trade and Labor) and "Beneficiary Enterprise" status from the Israeli Income Tax Authority, which makes the Company eligible for tax benefits under the Israeli Law for Encouragement of Capital Investments, 1959. Under the terms of the Beneficiary Enterprise program, income that is attributable to the Company's operations in Yokneam, Israel, will be exempt from income tax for a period of ten years commencing 2011. Income that is attributable to the Company's operations in Tel Aviv, Israel, was exempted from income tax for a period of two years commencing 2011, and will be subject to a reduced income tax rate (generally between 10% and the current corporate tax rate, depending on the percentage of foreign investment in the Company) for five to eight years beginning fiscal year 2013. The corporate tax rate increased to 26.5% in 2014. The tax holiday for the Company's Yokneam operations will expire in 2020 and the tax holiday for the Company's Tel-Aviv operations will expire between the years 2017 and 2020. The tax holiday has resulted in a cash tax savings of \$6.9 million, \$6.4 million and \$33.2 million in 2014, 2013 and 2012 respectively, increasing diluted earnings per share by approximately \$0.15, \$0.15 and \$0.76 in the years ended December 31, 2014, 2013, 2012, respectively.

As a multinational corporation, the Company conducts business in many countries and is subject to taxation in many jurisdictions. The taxation of the Company's business is subject to the application of multiple and sometimes conflicting tax laws and regulations as well as multinational tax conventions. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws themselves are subject to change as a result of changes in fiscal policy, changes in legislation and the evolution of regulations and court rulings. Consequently, taxing authorities may impose tax assessments or judgments against the Company that could materially impact its tax liability and/or its effective income tax rate.

As of December 31, 2014, the income tax returns of the Company and one of its subsidiaries in Israel are under examination by the Israeli Tax Authority for certain years from 2009 to 2012.

The Company accounts for uncertainty in income taxes following a two-step approach for recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining whether the weight of available evidence indicates that it is more likely than not that, based on the technical merits, the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement.



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

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Gross unrecognized tax benefits, beginning of the period	\$ 23,585	\$ 9,716	\$ 4,063
Increases in tax positions for prior years	299	444	120
Decreases in tax positions for prior years	(10,339)	(11)	
Increases in tax positions for current year	5,170	3,029	5,533
Increases in tax positions acquired or assumed in a business combination		11,037	
Decreases due to statute of limitations	(678)	(630)	
Gross unrecognized tax benefits, end of the period	\$ 18,037	\$ 23,585	\$ 9,716

As of December 31, 2014, 2013 and 2012, the total amount of gross unrecognized tax benefits was \$18.0 million, \$23.6 million and \$9.7 million, respectively. Of these amounts as of December 31, 2014, 2013 and 2012, \$15.3 million, \$12.5 and \$9.7, respectively would impact the effective tax rate if recognized. The remaining unrecognized tax benefits are associated with deferred tax assets subject to a full valuation allowance.

It is the Company's policy to classify accrued interest and penalties as part of the accrued unrecognized tax benefits liability and record the expense in the provision for income taxes. For the years ended December 31, 2014, 2013 and 2012, the amount of accrued interest or penalties related to unrecognized tax benefit totaled \$1.0 million, \$0.6 million and \$0.4 million, respectively. For unrecognized tax benefits that existed at December 31, 2014, the Company does not anticipate any significant changes within the next twelve months.

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. The associated tax filings remain subject to examination by applicable tax authorities for a certain length of time following the tax year to which those filings relate. As of December 31, 2014, the 2009 through 2014 tax years are open and may be subject to potential examinations in Israel, the United States and Denmark.

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

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

Table of Contents**MELLANOX TECHNOLOGIES, LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 13 GEOGRAPHIC INFORMATION AND REVENUES BY PRODUCT GROUP: (Continued)**

Revenues by geographic region are as follows:

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
United States	\$ 202,921	\$ 175,491	\$ 220,157
China	65,204	67,517	102,957
Europe	72,181	51,973	62,788
Other Americas	19,760	16,869	26,000
Other Asia	103,583	78,586	88,373
Total revenue	\$ 463,649	\$ 390,436	\$ 500,275

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

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

	Year Ended December 31,	
	2014	2013
	(in thousands)	
Israel	\$ 69,004	\$ 66,983
United States	7,849	3,094
Other	1,974	1,838
Total property and equipment, net	\$ 78,827	\$ 71,915

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

Revenues by product type and interconnect protocol are as follows:

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
ICs	\$ 70,840	\$ 56,817	\$ 95,103
Boards	147,738	119,399	155,670
Switch systems	147,403	145,184	168,231
Cables, accessories and other	97,668	69,036	81,271
Total revenue	\$ 463,649	\$ 390,436	\$ 500,275



Table of Contents**MELLANOX TECHNOLOGIES, LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 13 GEOGRAPHIC INFORMATION AND REVENUES BY PRODUCT GROUP: (Continued)**

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
<b>InfiniBand:</b>			
FDR	\$ 264,785	\$ 200,300	\$ 236,728
QDR	56,711	86,784	175,650
DDR/SDR	16,179	21,211	33,457
<b>Total</b>	<b>337,675</b>	<b>308,295</b>	<b>445,835</b>
Ethernet	83,470	52,908	42,523
Other	42,504	29,233	11,917
<b>Total revenue</b>	<b>\$ 463,649</b>	<b>\$ 390,436</b>	<b>\$ 500,275</b>

**NOTE 14 OTHER INCOME, NET:**

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

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Interest income and gain on sale of investments, net	\$ 1,952	\$ 1,738	\$ 1,699
Foreign exchange gain (loss)	(245)	(309)	(294)
Other	(258)	(201)	(146)
<b>Total other income, net</b>	<b>\$ 1,449</b>	<b>\$ 1,228</b>	<b>\$ 1,259</b>

Table of Contents**SCHEDULE II CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS****MELLANOX TECHNOLOGIES, LTD.**

Description:	Balance at Beginning of Year	Charged (Credited) to Costs and Expenses	Deductions (Recovery)	Balance at End of Year
	(in thousands)			
Year ended December 31, 2014:				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$ 639	\$ 33	\$	\$ 672
Allowance for sales returns and adjustments				
Income tax valuation allowance	27,365	18,855		46,220
Total	\$ 28,004	\$ 18,888	\$	\$ 46,892
Year ended December 31, 2013:				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$ 639	\$	\$	\$ 639
Allowance for sales returns and adjustments	79	(79)		
Income tax valuation allowance	28,039		(674)	27,365
Total	\$ 28,757	\$ (79)	\$ (674)	\$ 28,004
Year ended December 31, 2012:				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$ 557	\$ 82	\$	\$ 639
Allowance for sales returns and adjustments	337	(258)		79
Income tax valuation allowance	22,095	5,944		28,039
Total	\$ 22,989	\$ 5,768	\$	\$ 28,757



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<b>Signature</b>	<b>Title</b>	<b>Date</b>
<hr/> <i>/s/ AMAL JOHNSON</i> Amal Johnson	Director	February 27, 2015
<hr/> <i>/s/ DAVID PERLMUTTER</i> David Perlmutter	Director	February 27, 2015
<hr/> <i>/s/ THOMAS J. RIORDAN</i> Thomas J. Riordan	Director	February 27, 2015
<hr/> <i>/s/ THOMAS WEATHERFORD</i> Thomas Weatherford	Director	February 27, 2015

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#### INDEX TO EXHIBITS

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
2.1(1)	Agreement of Merger, dated as of November 29, 2010, among Mellanox Technologies, Ltd., Mondial Acquisition Corporation Ltd. and Voltaire Ltd.
2.1(2)	Agreement of Merger, dated as of May 14, 2013, by and among Mellanox Technologies, Ltd., Mellanox Technologies, Inc., Karate Sub, Inc., Kotura, Inc. and GF Private Equity Group, LLC, as the Shareholder Representative.
3.1(3)	Amended and Restated Articles of Association of Mellanox Technologies, Ltd. (as amended on May 16, 2011).
10.1(4)*	Mellanox Technologies, Ltd. 1999 United States Equity Incentive Plan and forms of agreements relating thereto.
10.2(5)*	Mellanox Technologies, Ltd. 1999 Israeli Share Option Plan and forms of agreements relating thereto.
10.3(6)*	Mellanox Technologies, Ltd. 2003 Israeli Share Option Plan and forms of agreements relating thereto.
10.4(7)	Amended Form of Indemnification Undertaking made by and between Mellanox Technologies, Ltd. and each of its directors and executive officers as amended on May 16, 2011.
10.5(8)*	Mellanox Technologies, Ltd. Global Share Incentive Plan (2006) and forms of agreements and appendices relating thereto.
10.6(9)*	Mellanox Technologies, Ltd. Non-Employee Director Option Grant Policy.
10.7(10)*	Form of Mellanox Technologies, Ltd. Executive Severance Benefits Agreement for U.S. Executives.
10.8(11)*	Form of Mellanox Technologies, Ltd. Executive Severance Benefits Agreement for Israel Executives.
10.9(12)*	Mellanox Technologies, Ltd. Amended and Restated 2006 Employee Share Purchase Plan.
10.10(13)	Office Space Lease dated September 30, 2008 by and between Oakmead Parkway Properties Partnership, a California general partnership, as landlord, and Mellanox Technologies, Inc., as tenant.
10.11(14)*	Mellanox Technologies, Ltd., Global Share Incentive Assumption Plan (2010).
10.12(15)	Lease Contract, dated March 1, 2011, by and between the Company, as tenant, and Sha'ar Yokneam, Registered Limited Partnership, as landlord (as translated from Hebrew).
10.13(16)*	IPtronics, Inc. 2013 Restricted Stock Unit Plan.
10.14(17)*	Kotura, Inc. Second Amended and Restated 2003 Stock Plan.
21.1	List of Company Subsidiaries.
23.1	Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm.
24.1	Power of Attorney (included on signature page to this annual report on Form 10-K).



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<b>Exhibit No.</b>	<b>Description of Exhibit</b>
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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- (1) Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K (SEC File No. 001-33299) filed on November 29, 2010.
- (2) Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K (SEC File No. 001-33299) filed on May 15, 2013
- (3) Incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement on Schedule 14A (File No. 001-33299) filed on April 11, 2011.
- (4) Incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on September 28, 2006.
- (5) Incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on September 28, 2006.
- (6) Incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on September 28, 2006.
- (7) Incorporated by reference to Exhibit B to the Company's Definitive proxy statement on Schedule 14A (File No. 001-33299) filed on April 11, 2011.
- (8) Incorporated by reference to Exhibit 10.10 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on November 14, 2006.
- (9) Incorporated by reference to Exhibit 10.11 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on November 14, 2006.
- (10)

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

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

(12) Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A (SEC File No. 001-33299) filed on April 19, 2012.

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- (13) Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (SEC File No. 001-33299) filed on November 7, 2008.
- (14) Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (SEC File No. 001-33299) filed on February 7, 2011.
- (15) Incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K (SEC File No. 001-33299) filed on March 7, 2011.
- (16) Incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 (File No. 333-189720) filed on July 1, 2013.
- (17) Incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 (File No. 333-190631) filed on August 15, 2013.
- \*
- Indicates management contract or compensatory plan, contract or arrangement.