

Mellanox Technologies, Ltd.
Form 10-K/A
January 29, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

(Amendment No. 1)

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

For the Fiscal Year Ended: December 31, 2013

OR

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

For the transition period from to

Commission File Number 001-33299

MELLANOX TECHNOLOGIES, LTD.

(Exact name of registrant as specified in its charter)

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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 No

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

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

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

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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
Non-accelerated filer
(Do not check if a smaller reporting company)

Accelerated filer
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 28, 2013, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$1.7 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, 2014, was 44,317,238.

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 2014 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, 2013.

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EXPLANATORY NOTE

The Registrant is filing this Amendment No. 1 on Form 10-K/A (this Amended Filing) to its Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (the Original Filing) to: (i) reissue the Report of the Independent Registered Public Accounting Firm to change the firm's opinion regarding the effectiveness of the Registrant's internal control over financial reporting as of December 31, 2013; (ii) restate management's conclusions regarding the effectiveness of disclosure controls and procedures and internal control over financial reporting as of December 31, 2013; (iii) add discussion of the risks associated with material weaknesses in internal control over financial reporting as of December 31, 2013; (iv) revise the consolidated financial statements to correct certain immaterial errors in the accounting for business combinations, net revenue, accounts receivable, accrued liabilities, cost of revenues, and operating expenses in fiscal years 2011, 2012 and 2013; and (v) revise the Selected Financial Data for 2010, 2011, 2012, and 2013 for the immaterial errors. Accordingly, the Registrant hereby amends and replaces in their entirety Items 1A, 6, 7, 8, 9A, and 15 in the Original Filing.

Management has concluded that its disclosure controls and procedures and internal controls over financial reporting were not effective and corrected immaterial errors in the consolidated financial statements. See Item 9A., Controls and Procedures, for discussion of management's disclosure controls and procedures, management's restated, annual report on internal control over financial reporting, status of remediation efforts, and changes in internal control over financial reporting.

As required by Rule 12b-15, the Registrant's principal executive officer and principal financial officer are providing new currently dated certifications. In addition, the Registrant is filing a new consent of PricewaterhouseCoopers LLP. Accordingly, the Registrant hereby amends Item 15 in the Original Filing to reflect the filing of the new certifications and consent.

Except as described above, this Amended Filing does not amend, update or change any other items or disclosures in the Original Filing and does not purport to reflect any information or events subsequent to the filing date of the Original Filing. As such, this Amended Filing speaks only as of the date the Original Filing was filed, and the Registrant has not undertaken herein to amend, supplement or update any information contained in the Original Filing to give effect to any subsequent events. Accordingly, this Amended Filing should be read in conjunction with the Registrant's filings made with the Securities and Exchange Commission subsequent to the filing of the Original Filing, including any amendment to those filings.

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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 InfiniBand;
- our ability to accurately forecast customer demand;
- our dependence on a relatively small number of customers;
- competition and competitive factors;
- our ability to successfully introduce new products and enhance existing products;

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- 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 as they relate to us, our business and our management, are intended to identify forward-looking statements. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

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

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

ITEM 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.

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Risks Related to Our Business

We have identified material weaknesses in our internal control over financial reporting as of December 31, 2013, March 31, 2014, June 30, 2014 and September 30, 2014. 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 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, 2013 using the criteria established in Internal Control Integrated Framework (1992), 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, 2013.

- 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

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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.

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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 chief executive officer (CEO), chief financial officer (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 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.

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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.

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

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

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

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

We have made, and could make in the future, investments in technology companies, including privately-held companies in a development stage. Many of these private equity investments are inherently risky because 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.

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

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

A small number of customers account for a significant portion of our revenues. For the year ended December 31, 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. For the year ended December 31, 2012, sales to Hewlett-Packard and IBM accounted for 20% and 19%, respectively, of our total revenues, while sales to our top ten customers accounted for 74% 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.

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.

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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 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.

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

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

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

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

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

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

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

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

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

- the loss of one or more of our customers, or a significant reduction or postponement of orders from our customers;
- our customers' sales outlooks, purchasing patterns and inventory levels based on end-user demands and general economic conditions;
- seasonal buying trends;
- the timing of new product announcements or introductions by us or by our competitors;
- our ability to successfully develop, introduce and sell new or enhanced products in a timely manner;
- product obsolescence and our ability to manage product transitions;
- changes in the relative sales mix of our products;
- decreases in the overall average selling prices of our products;
- changes in our cost of finished goods; and
- the availability, pricing and timeliness of delivery of other components used in our customers' products.

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

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

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

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

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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.

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.

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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 that could have a material adverse effect on us.

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

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

In addition, our third-party subcontractors, including our foundries, test and assembly houses and distributors, have access to certain portions of our sensitive data. In the event that these subcontractors do not properly safeguard our data that they hold, security breaches and loss of our data could result. Any such loss of data by our third-party service providers could have a material adverse effect on our business and financial condition.

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

Our U.S. corporate offices are located in the San Francisco Bay Area, a region known for seismic activity. A significant natural disaster, such as an earthquake, fire or flood, could have a material adverse impact on our business, operating results and financial condition. 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 may be subject to risks associated with laws, regulations and customer initiatives relating to the environment, conflict minerals or other social responsibility issues.

The Dodd-Frank Wall Street Reform and Consumer Protection Act included disclosure requirements regarding the use of conflict minerals mined from the Democratic Republic of Congo and adjoining countries (DRC) 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.

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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 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.

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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 47%, 51% and 51% of our revenues in the years ended December 31, 2011, 2012 and 2013, 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;

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- seasonal reductions in business activity;
- potentially adverse tax consequences;
- laws and business practices favoring local competition;
- costs and difficulties of customizing products for foreign countries;
- compliance with a wide variety of complex foreign laws and treaties;
- compliance with the United States Foreign Corrupt Practices Act and similar anti-bribery laws in other jurisdictions;
- compliance with export control and regulations;
- licenses, tariffs, other trade barriers, transit restrictions and other regulatory or contractual limitations on our ability to sell or develop our products in certain foreign markets;
- foreign currency exchange risks;
- fluctuations in freight rates and transportation disruptions;
- political and economic instability;
- variance and unexpected changes in local laws and regulations;

- natural disasters and public health emergencies; and
- trade and travel restrictions.

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

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

We are incorporated in Israel. Three of our executive officers and two of our directors, one 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. Furthermore, an Israeli District Court held that U.S. law is applicable to a claim for misrepresentation in periodic reports made against a public company whose shares are traded both in the United States and on the Tel Aviv Stock Exchange (the TASE). If U.S. law is found to be applicable, the content of applicable U.S. law must be proved in an Israeli court as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel addressing the matters described above, which are pending decision of the Israeli Supreme Court. On August 29, 2013 we delisted our ordinary shares from the TASE.

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

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

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

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

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

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

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

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

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

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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 Industry, Trade and Labor, (the OCS), for the financing of a portion of our research and development expenditures in Israel. When know-how is developed using OCS grants, the Encouragement of Industrial Research and Development Law 5744-1984, or the R&D Law, as well as the terms of these grants restrict the transfer of the know-how outside of Israel. Transfer of know-how outside of Israel requires pre-approval by the OCS which may at its sole discretion grant such approval and impose certain conditions, and is subject to the payment of a transfer fee calculated according to the formula provided in the R&D Law which takes into account the consideration for such know-how paid to us in the transaction in which the technology is transferred. In addition, any decrease of the percentage of manufacturing performed in Israel, as originally declared in the application to the OCS, requires us to notify, or to obtain the approval of the OCS and may result in increased 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.

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

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

Risks Related to Our Ordinary Shares

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

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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 2013, our shares traded as low as \$32.35 per share and as high as \$65.77 per share. Factors that could cause volatility in the market price of our ordinary shares include, but are not limited to:

- quarterly variations in our results of operations or those of our competitors;
- announcements by us, our competitors, our customers or rumors from sources other than our company related to acquisitions, new products, significant contracts, commercial relationships, capital commitments or changes in the competitive landscape;
- our ability to develop and market new and enhanced products on a timely basis;

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- 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.

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During 2013 we delisted our ordinary shares from the TASE. Although our ordinary shares will continue to be listed on NASDAQ, delisting from the TASE reduced the trading volume and liquidity of our ordinary shares, which could increase the volatility in the market price of our ordinary shares. In addition, the stock markets in general, and the markets for semiconductor stocks in particular, have experienced extreme volatility that often has been unrelated to the operating performance of the issuer. These broad market fluctuations may adversely affect the trading price or liquidity of our ordinary shares. When the market price of a stock has been volatile and declined, holders of that stock have sometimes instituted securities class action litigation against the issuer. Lawsuits brought against us by shareholders, such as the shareholder class action suits filed in February 2013 against us and certain of our current and former executive officers, could cause us to incur substantial costs defending the lawsuits and divert the attention of our management from the operation of our business.

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

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

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

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

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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, 2013, based on information filed with the SEC or reported to us, Oracle Corporation and certain entities affiliated with Fidelity Management & Research Company, Migdal Insurance and Financial Holdings, T. Rowe Price Associates, Inc. and Scopia Capital management, LLC beneficially owned an aggregate of approximately 45% of our outstanding ordinary shares, and taken together with our executive officers and directors and their affiliates, beneficially owned an aggregate of approximately 51% 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.

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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.

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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 Amendment No. 1 to our Annual Report on Form 10-K/A. We derived the consolidated balance sheet data as of December 31, 2009, 2010 and 2011 and our consolidated statements of operations data for the years ended December 31, 2009 and 2010, from our audited consolidated financial statements not included in this report as adjusted for the revisions described below. We derived the consolidated statements of operations data for each of the three years in the period ended December 31, 2013, as well the consolidated balance sheet data as of December 31, 2012 and 2013, 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.

We revised previously issued financial statements to correct certain immaterial errors in the accounting for liabilities for charitable contributions, warranty, distributor price adjustment claims, and certain purchase orders and the accounting for acquisitions in fiscal years 2011, 2012 and 2013. None of the errors were considered material to the periods impacted, as disclosed in 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 Amendment No. 1 to our Annual Report on Form 10-K/A.

	Year Ended December 31,				
	2013 (1)	2012	2011 (2)	2010	2009
	(In thousands, except per share data)				
Consolidated Statement of Operations Data:					
Total revenues	\$ 390,436	\$ 500,275	\$ 259,251	\$ 154,640	\$ 116,044
Cost of revenues	134,282	157,736	91,988	40,526	28,669
Gross profits	256,154	342,539	167,263	114,114	87,375
Operating expenses:					
Research and development	169,382	138,310	92,283	56,556	42,241
Sales and marketing	70,544	60,894	40,294	22,028	17,034
General and administrative	37,046	24,456	21,736	11,708	9,353
Total operating expenses	276,972	223,660	154,313	90,292	68,628
Income (loss) from operations	(20,818)	118,879	12,950	23,822	18,747
Other income (loss), net	1,228	1,259	759	(135)	518
Income (loss) before taxes on income	(19,590)	120,138	13,709	23,687	19,265
Provision for taxes on income	(3,752)	(8,187)	(3,375)	(9,763)	(6,379)
Net income (loss)	\$ (23,342)	\$ 111,951	\$ 10,334	\$ 13,924	\$ 12,886
Net income (loss) per share - basic	\$ (0.54)	\$ 2.71	\$ 0.29	\$ 0.41	\$ 0.40
Net income (loss) per share - diluted	\$ (0.54)	\$ 2.55	\$ 0.27	\$ 0.39	\$ 0.39
Shares used to compute net income (loss) per share	43,421	41,308	36,263	33,591	32,099
Shares used to compute diluted net income (loss) per share	43,421	43,901	38,562	35,483	33,400

	2013 (1)	2012	December 31, 2011 (2)	2010	2009
	(In thousands)				

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Consolidated Balance Sheet Data:

Cash and cash equivalents	\$ 63,164	\$ 117,054	\$ 181,258	\$ 107,994	\$ 43,640
Short-term investments	263,528	302,593	52,373	141,959	166,357
Working capital	352,161	433,404	252,274	266,009	231,226
Long-term assets	356,603	230,720	211,404	26,352	20,053
Total assets	\$ 806,826	\$ 769,330	\$ 530,030	\$ 315,755	\$ 275,386
Short-term liabilities	98,062	105,206	66,352	23,394	24,107
Long-term liabilities	41,953	35,004	20,590	10,287	8,396
Total liabilities	\$ 140,015	\$ 140,210	\$ 86,942	\$ 33,681	\$ 32,503
Total shareholders' equity	\$ 666,811	\$ 629,120	\$ 443,088	\$ 282,074	\$ 242,883

(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' 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.

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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. Our adapters and switch ICs provide per port bandwidth up to 10Gb/s, 40Gb/s and 56Gb/s Ethernet, and 10Gb/s (Single Data Rate or SDR), 20Gb/s (Double Data Rate or DDR), 40Gb/s (Quad Data Rate or QDR) and 56Gb/s (Fourteen Data Rate or FDR) InfiniBand. Our switch systems range in port density from 8, 12, 18, 36, 48 and 64 port top-of-rack switches to director-class switches ranging in size from 108 to 648 ports. Connectivity between the adapters and switches is supported with our short reach copper cables and long reach active optical cables, and our management software provides visibility, monitoring and diagnostics for the system.

As a leader in developing multiple generations of high-speed interconnect solutions, we have established strong relationships with our customers. Our products are incorporated in servers and associated networking solutions produced by the four largest server vendors, IBM, HP, Dell and Oracle, which collectively shipped the majority of servers in 2013, according to industry research firm Gartner. We supply our products to leading storage and communications infrastructure equipment vendors such as Data Direct Networks, Fujitsu, Hewlett Packard, IBM, EMC/Isilon, NetApp, Nimbus Data, Oracle, Teradata, Toshiba and Seagate/Xyratex. 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 40Gb/s Ethernet adapters and switches to the market, and the only end-to-end 40Gb/s 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 1Gb/s or 10Gb/s directly to 40Gb/s or 56Gb/s.

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Our revenues for the year ended December 31, 2013 were \$390.4 million, a decrease from \$500.3 million in the year ended December 31, 2012. Our revenues increased from \$154.6 million for the year ended December 31, 2010 to \$259.3 million to \$500.3 million for the years ended December 31, 2011 and 2012, respectively. The 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

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environment and a build-up of inventory at an OEM customer. 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 67%, 74% and 70% of our total revenues for the years ended December 31, 2013, 2012 and 2011, respectively. Sales to customers representing 10% or more of revenues accounted for 30%, 39% and 36% of our total revenues for the years ended December 31, 2013, 2012 and 2011, respectively. The loss of one or more of our principal customers, the reduction or deferral of purchases, or changes in the mix of our products ordered by any one of these customers could cause our revenues to decline materially if we are unable to increase our revenues from other customers. Our customers, including our most significant customers, are not obligated by long-term contracts to purchase our products and may cancel orders with limited potential penalties. If any of our large customers reduces or cancels its purchases from us for any reason, it could have an adverse effect on our revenues and results of operations.

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

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

We expect our cost of revenues 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, which generally yield higher gross margins. This trend will depend on overall customer demand for our products, our product mix, competitive product offerings and related pricing and our ability to reduce manufacturing costs.

Operational expenses

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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 these expenses will increase in future periods based on an increase in personnel to support our product development activities and the introduction of new products.

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.

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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 Industry, Trade and Labor and *Beneficiary Enterprise* status by the Israeli Income Tax Authority, which makes us eligible for tax benefits under the Israeli Law for Encouragement of Capital Investments, 1959. Under the terms of the *Beneficiary Enterprise* program, income that is attributable to our operations in Yokneam, Israel will be exempt from income tax for a period of ten years commencing fiscal year 2011. Income that is attributable to our operations in Tel Aviv, Israel is subject to a reduced income tax rate (generally between 10% and the current corporate tax rate, depending on the percentage of foreign investment in the Company) for five to eight years beginning fiscal year 2013. The 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 25% in 2013 and will be 26.5% in 2014.

In the first quarter of 2013, we realigned some of our business activities and, as a result, may start utilizing carryforward net operating losses in one of our subsidiaries in the future. The valuation allowance established for deferred tax assets will be released if it becomes more likely than not that we will generate sufficient future taxable income in that subsidiary.

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

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

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Multiple Element Arrangements Excluding Software

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

Multiple Element Arrangements Including Software

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

Distributor Revenue

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

Shipping and Handling

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

Allowance for doubtful accounts

We estimate the allowance for doubtful accounts based on an assessment of the collectability of specific customer accounts. If we determine that a specific customer is unable to meet its financial obligations, we provide a specific allowance for credit losses to reduce the net recognized receivable to the amount we reasonably believe will be collected. Probability of collection is assessed on a customer-by-customer basis and our historical experience with each customer. Customers are subject to an ongoing credit review process that evaluates their respective financial positions. We review and update our estimates for allowance for doubtful accounts on a quarterly basis. Our allowance for doubtful accounts totaled approximately \$0.6 million at December 31, 2013 and 2012. Our bad debt expense totaled approximately less than \$0.1 million, \$0.1 million and \$0.2 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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.

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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. We charge unrealized losses against net income when a decline in fair value is determined to be other-than-temporary. We review several factors to determine whether a loss is other-than-temporary. These factors include but are not limited to: (1) the length of time a security is in an unrealized loss position, (2) the extent to which fair value is less than cost, (3) the financial condition and near term prospects of the issuer and (4) our intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

Inventory valuation

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

Property and equipment

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

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

Goodwill and intangible assets

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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 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, 2013, our 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 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.

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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, 2013, our assessment of intangibles indicated that intangible assets were not impaired.

Intangible assets with finite lives are tested for impairment in accordance with our policy for long-lived assets.

As of December 31, 2013, our assessment indicated that intangible assets were not impaired.

Investments in privately-held companies

As of December 31, 2013, we held \$7.5 million 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 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 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 is approximately 6.25 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.

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

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

Results of Operations

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

	Year Ended December 31,		
	2013	2012	2011
Total revenues	100%	100%	100%
Cost of revenues	(34)	(32)	(35)
Gross profit	66	68	65
Operating expenses:			
Research and development	43	27	36
Sales and marketing	18	12	16
General and administrative	10	5	8
Total operating expenses	71	44	60
Income (loss) from operations	(5)	24	5
Other income, net			
Provision for taxes on income	(1)	(2)	(1)
Net income (loss)	(6)	22	4

Comparison of the Year Ended December 31, 2013 to the Year Ended December 31, 2012 and Year Ended December 31, 2012 to the Year Ended December 31, 2011*Revenues.*

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,		% of Revenues
	2013 (In thousands)	% of Revenues	
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
Total revenue	\$ 390,436	100.0	\$ 500,275 100.0

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	Year Ended December 31,		% of Revenues
	2013 (In thousands)	2012 (In thousands)	
InfiniBand:			
FDR	\$ 200,300	\$ 236,728	47.3
QDR	86,784	175,650	35.1
DDR/SDR	21,211	33,457	6.7
Total	308,295	445,835	89.1
Ethernet	52,908	42,523	8.5
Other	29,233	11,917	2.4
Total revenue	\$ 390,436	\$ 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 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 the 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 revenues from other products category is explained by higher software and services revenues as well as sales by Kotura and IPtronics products from their respective acquisition dates. The 2013 revenues are not necessarily indicative of future results.

The following tables represent our total revenues for the years ended December 31, 2012 and 2011 by product type and interconnect protocol:

	Year Ended December 31,		% of Revenues
	2012 (In thousands)	2011 (In thousands)	
ICs	\$ 95,103	\$ 46,564	18.0
Boards	155,670	98,004	37.8
Switch systems	168,231	76,398	29.5
Cables, accessories and other	81,271	38,285	14.7
Total revenue	\$ 500,275	\$ 259,251	100.0

	Year Ended December 31,		% of Revenues
	2012 (In thousands)	2011 (In thousands)	
InfiniBand:			
FDR	\$ 236,728	\$ 13,853	5.3
QDR	175,650	173,412	66.9
DDR/SDR	33,457	34,157	13.2
Total	445,835	221,422	85.4
Ethernet	42,523	24,252	9.4
Other	11,917	13,577	5.2
Total revenue	\$ 500,275	\$ 259,251	100.0

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Revenues were \$500.3 million for the year ended December 31, 2012 compared to \$259.3 million for the year ended December 31, 2011, representing an increase of approximately 93%. Following the introduction of Romley and Sandy Bridge server and storage platforms by Intel Corporation in March 2012, end users had begun to upgrade their systems, placing an increased emphasis on the interconnects and associated performance. The year-over-year growth was primarily due to pent-up demand for our higher bandwidth FDR InfiniBand products in the HPC and Web 2.0 markets. Our Ethernet revenues also grew year-over-year primarily due to increased adoption of our products within the Web 2.0 market. Revenues in all of our product types increased with higher growth rates achieved in switch system and cable product families due to increased adoption of our end-to-end solutions.

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Gross Profit and Margin. 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 66% in the year ended December 31, 2013 from approximately 68% 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. Gross margin for 2013 is not necessarily indicative of future results.

Gross profit was \$342.5 million for the year ended December 31, 2012 compared to \$167.3 million for the year ended December 31, 2011, representing an increase of approximately 105%. As a percentage of revenues, gross margin increased to 68% in the year ended December 31, 2012 from approximately 65% in the year ended December 31, 2011. The gross margin percentage improvement was across all product categories and due primarily to the increased shipments of our FDR InfiniBand products, which typically yield higher gross margins, compared to our lower data rate products, and was partially offset by an increase in warranty expenses associated with our expansion into new markets.

Research and Development.

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

	2013		Year Ended December 31,		2011	
	(in thousands)	% of Revenues	(in thousands)	% of Revenues	(in thousands)	% of Revenues
Salaries and benefits	\$ 84,261	21.6%	\$ 76,194	15.2%	\$ 48,437	18.7%
Share-based compensation	25,956	6.6%	19,356	3.9%	11,906	4.6%
Development and tape-out costs	21,337	5.5%	16,545	3.3%	13,888	5.4%
Other	37,828	9.6%	26,215	5.2%	18,052	6.9%
Total Research and development	\$ 169,382	43.3%	\$ 138,310	27.6%	\$ 92,283	35.6%

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. 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 \$138.3 million for the year ended December 31, 2012 compared to \$92.3 million for the year ended December 31, 2011, representing an increase of approximately 50%. The increase in salaries and benefits and share-based compensation was

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attributable to headcount additions, merit increases and higher accrued bonuses under our annual discretionary bonus award program. The increase in development and tape-out costs was attributable to higher product test, qualification and software expenses, partially offset by lower tape-out costs. The increase in other research and development costs was primarily attributable to an increase in facilities and depreciation expenses.

Sales and Marketing.

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

	2013		Year Ended December 31,		2011	
	(in thousands)	% of Revenues	(in thousands)	% of Revenues	(in thousands)	% of Revenues
Salaries and benefits	\$ 39,252	10.0%	\$ 31,433	6.3%	\$ 20,884	8.1%
Share-based compensation	9,198	2.4%	8,055	1.6%	4,894	1.9%
Trade shows and promotions	10,456	2.7%	11,111	2.2%	7,309	2.8%
Other	11,638	2.9%	10,295	2.1%	7,207	2.7%
Total Sales and marketing	\$ 70,544	18.0%	\$ 60,894	12.2%	\$ 40,294	15.5%

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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.

Sales and marketing expenses were \$60.9 million for the year ended December 31, 2012 compared to \$40.3 million for the year ended December 31, 2011, representing an increase of approximately 51%. The increase in salaries and benefits and share-based compensation was attributable to headcount additions, merit increases and higher incentive compensation. The increase in trade show and promotion costs was primarily due to higher advertising and travel expenses. The increase in other sales and marketing costs was primarily attributable to higher facilities and maintenance related costs.

General and Administrative.

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

	2013		Year Ended December 31,		2011	
	(in thousands)	% of Revenues	(in thousands)	% of Revenues	(in thousands)	% of Revenues
Salaries and benefits	\$ 11,617	3.0%	\$ 10,343	2.1%	\$ 7,883	3.0%
Share-based compensation	8,156	2.0%	5,987	1.2%	3,632	1.4%
Professional services	13,964	3.6%	5,232	1.0%	7,433	2.9%
Other	3,309	0.9%	2,894	0.6%	2,788	1.1%
Total General and administrative	\$ 37,046	9.5%	\$ 24,456	4.9%	\$ 21,736	8.4%

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.

General and administrative expenses were \$24.5 million for the year ended December 31, 2012 compared to \$21.7 million for the year ended December 31, 2011, representing an increase of approximately 13%. The increase in salaries and benefits and share-based compensation was attributable to headcount additions, merit increases and higher accrued bonuses under our annual discretionary bonus award program. The decrease in professional services costs was primarily due to \$3.6 million of consulting fees associated with the Voltaire acquisition recognized in 2011, partially offset by an increase in legal and consulting expenses.

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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:

	2013	Year Ended December 31, 2012	2011
		(in thousands)	
Cost of goods sold	\$ 1,828	\$ 1,621	\$ 980
Research and development	25,956	19,356	11,906
Sales and marketing	9,198	8,055	4,894
General and administrative	8,156	5,987	3,632
	\$ 45,138	\$ 35,019	\$ 21,412

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The amount of unearned share-based compensation currently estimated to be expensed from 2014 through 2017 related to unvested share-based payment awards at December 31, 2013 is \$89.8 million. Of this amount, \$37.2 million, \$30.8 million, \$17.5 million and \$4.3 million are currently estimated to be recorded in 2014, 2015, 2016 and 2017, respectively. The weighted-average period over which the unearned share-based compensation is expected to be recognized is approximately 2.32 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 consists of interest earned on cash and cash equivalents and short-term investments and foreign currency exchange gains and losses. Other income, net was \$1.2 million for the year ended December 31, 2013 compared to \$1.3 million for the year ended December 31, 2012. The change was primarily attributable to higher foreign currency exchange losses and bank fees of \$0.1 million.

Other income, net was \$1.3 million for the year ended December 31, 2012 compared to \$0.8 million for the year ended December 31, 2011. The change was primarily attributable to an increase of \$1.1 million in interest income and gains on investments due to higher cash and investment balances, partially offset by higher foreign currency exchange losses of \$0.7 million.

Provision for Taxes on Income. 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-US subsidiaries without tax benefit, along with non-tax-deductible 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 \$3.2 million in 2013 and 2012, respectively.

Our tax expense was \$8.2 million for the year ended December 31, 2012 as compared to \$3.4 million for the year ended December 31, 2011. The U.S. federal statutory rate was 35% for 2012 and 34% for 2011. Our effective tax rates were 6.8% and 24.6% for 2012 and 2011, respectively. The difference between our effective tax rate in 2012 and the federal statutory tax rate is primarily due to profits earned in Israel where the tax rate is lower than the U.S. tax rate, partially offset by non-tax-deductible expenses such as share-based compensation expense and the accrual of unrecognized tax benefits, interest and penalties associated with unrecognized tax positions. The profits earned in Israel that were subject to tax holiday in the years ended December 31, 2012 and 2011 were \$125.6 million and \$17.4 million, 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, 2013, our principal source of liquidity consisted of cash and cash equivalents of \$63.2 million and short-term investments of \$263.5 million. During the year 2013, we completed acquisitions of IPtronics and Kotura and paid the total net cash purchase price of approximately \$123.5 million from our existing capital resources. 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.

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Our cash position, short-term investments, restricted cash and working capital at December 31, 2013 and December 31, 2012 were as follows:

	Year Ended December 31,	
	2013	2012
	(in thousands)	
Cash and cash equivalents	\$ 63,164	\$ 117,054
Short-term investments	263,528	302,593
Restricted cash, current		3,229
Restricted cash, long-term	3,514	3,388
Total	\$ 330,206	\$ 426,264
Working capital	\$ 352,161	\$ 433,404

Our ratio of current assets to current liabilities decreased to 4.6:1 at December 31, 2013 from 5.1:1 at December 31, 2012.

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Operating Activities

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 primarily 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 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.

Net cash provided by our operating activities amounted to \$182.5 million in the year ended December 31, 2012. Net cash provided by operating activities was primarily attributable to net income of \$112.0 million adjusted by net non-cash items of \$49.4 million and changes in assets and liabilities of \$21.1 million. Non-cash expenses consisted primarily of \$29.9 million for share-based compensation, net of the excess tax benefits, \$23.9 million for depreciation and amortization and were partially offset by deferred income taxes of \$3.5 million. The \$21.1 million cash inflow from changes in assets and liabilities resulted from an increase of \$49.0 million in accrued liabilities primarily due to higher profit sharing payroll obligations and an increase in accounts payable of \$3.4 million due to the higher volume of purchases during the period, and was partially offset by an increase in inventories of \$19.4 million due to higher expected sales volumes, an increase in accounts receivable of \$8.6 million and an increase in prepaid expenses and other assets of \$3.2 million.

Investing Activities

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 of \$3.1 million in private companies 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.

Net cash used in investing activities was \$280.9 million in the year ended December 31, 2012. Cash used in investing activities was primarily attributable to net purchases of short-term investments of \$249.5 million, purchases of property and equipment of \$30.5 million and an equity investment of \$1.4 million in a private company, partially offset by a decrease in restricted cash of \$1.3 million.

Financing Activities

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, and was partially offset by principal payments on capital lease obligations of \$1.1 million.

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Net cash provided by financing activities was \$34.2 million in the year ended December 31, 2012. Cash provided by financing activities was primarily due to proceeds of \$30.0 million from share option exercises and purchases pursuant to our employee share purchase plan, and an excess tax benefit from share-based compensation of \$5.1 million, and was partially offset by principal payments on capital lease obligations of \$0.9 million.

Table of Contents**Contractual Obligations**

The following table summarizes our contractual obligations at December 31, 2013 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 (in thousands)	3-5 Years	Beyond 5 Years
Commitments under capital lease	\$ 2,977	\$ 1,388	\$ 1,589	\$	\$
Non-cancelable operating lease commitments	53,351	16,300	19,789	10,835	6,427
Purchase commitments	44,719	43,894	825		
Total	\$ 101,047	\$ 61,582	\$ 22,203	\$ 10,835	\$ 6,427

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

The contractual obligation table excludes our unrecognized tax benefit liabilities because we cannot make a reliable estimate of the timing of cash payments. As of December 31, 2013, our unrecognized tax benefits totaled \$23.6 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, 2013, 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 2013, 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 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.

The Company has revised its previously-issued financial statements to correct errors identified primarily related to its accounting for liabilities for charitable contributions, warranty, certain purchase orders, distributor price adjustment claims and the purchase price allocation for its acquisitions of Kotura and IPtronics in fiscal years 2011, 2012 and 2013. None of the errors were considered material to the periods impacted, as disclosed in 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.

Table of Contents**Summary Quarterly Data Unaudited**

	As reported	Quarter Ended December 31, 2013(*)		As revised
		Adjustments (in thousands, except per share data)		
Statement of operations:				
Total revenues	\$ 105,544	\$ 16	\$	105,560
Cost of revenues	37,096	(471)		36,625
Gross profit	68,448	487		68,935
Operating expenses:				
Research and development	47,518	366		47,884
Sales and marketing	19,036	119		19,155
General and administrative	9,786	67		9,853
Total operating expenses	76,340	552		76,892
Income (loss) from operations	(7,892)	(65)		(7,957)
Other income, net	301			301
Income (loss) before taxes on income	(7,591)	(65)		(7,656)
Provision for taxes on income	340			340
Net income (loss)	\$ (7,251)	\$ (65)	\$	(7,316)
Net income (loss) per share basic	\$ (0.17)		\$	(0.17)
Net income (loss) per share diluted	\$ (0.17)		\$	(0.17)

	As reported()	Quarter Ended September, 2013 (*)		As revised
		Adjustments (Δ) (in thousands, except per share data)		
Statement of operations:				
Total revenues	\$ 104,067	\$ (437)	\$	103,630
Cost of revenues	37,027	(281)		36,746
Gross profit	67,040	(156)		66,884
Operating expenses:				
Research and development	44,185	422		44,607
Sales and marketing	18,071	133		18,204
General and administrative	9,600	74		9,674
Total operating expenses	71,856	629		72,485
Income (loss) from operations	(4,816)	(785)		(5,601)
Other income, net	482			482
Income (loss) before taxes on income	(4,334)	(785)		(5,119)
Provision for taxes on income	(1,080)			(1,080)
Net income (loss)	\$ (5,414)	\$ (785)	\$	(6,199)
Net income (loss) per share basic	\$ (0.12)	(0.02)	\$	(0.14)
Net income (loss) per share diluted	\$ (0.12)	(0.02)	\$	(0.14)

	As reported	Quarter Ended June 30, 2013		As revised
		Adjustments (in thousands, except per share data)		
Statement of operations:				
Total revenues	\$ 98,168	\$ 174	\$	98,342
Cost of revenues	32,168	6		32,174
Gross profit	66,000	168		66,168
Operating expenses:				
Research and development	38,869	(127)		38,742
Sales and marketing	16,797	(26)		16,771

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General and administrative	10,047	(13)	10,034
Total operating expenses	65,713	(166)	65,547
Income (loss) from operations	287	334	621
Other income, net	232		232
Income (loss) before taxes on income	519	334	853
Provision for taxes on income	(2,258)		(2,258)
Net income (loss)	\$ (1,739)	\$ 334	\$ (1,405)
Net income (loss) per share basic	\$ (0.04)	0.01	\$ (0.03)
Net income (loss) per share diluted	\$ (0.04)	0.01	\$ (0.03)

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	As reported	Quarter Ended March 31, 2013		As revised
		Adjustments (in thousands, except per share data)		
Statement of operations:				
Total revenues	\$ 83,080	\$ (176)	\$	82,904
Cost of revenues	28,948	(211)		28,737
Gross profit	54,132	35		54,167
Operating expenses:				
Research and development	38,149			38,149
Sales and marketing	16,414			16,414
General and administrative	7,485			7,485
Total operating expenses	62,048			62,048
Income (loss) from operations	(7,916)	35		(7,881)
Other income, net	213			213
Income (loss) before taxes on income	(7,703)	35		(7,668)
Provision for taxes on income	(754)			(754)
Net income (loss)	\$ (8,457)	\$ 35	\$	(8,422)
Net income (loss) per share basic	\$ (0.20)		\$	(0.20)
Net income (loss) per share diluted	\$ (0.20)		\$	(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.

() As originally reported in Form 10-Q for the quarter ended September 30, 2013.

(Δ) Includes adjustments previously reported in Form 10-Q for the quarter ended September 30, 2014.

	As reported	Quarter Ended December 31, 2012		As revised
		Adjustments (in thousands, except per share data)		
Statement of operations:				
Total revenues	\$ 122,118	\$ (110)	\$	122,008
Cost of revenues	38,973	139		39,112
Gross profit	83,145	(249)		82,896
Operating expenses:				
Research and development	36,101	380		36,481
Sales and marketing	16,002	107		16,109
General and administrative	7,136	58		7,194
Total operating expenses	59,239	545		59,784
Income (loss) from operations	23,906	(794)		23,112
Other income, net	269			269
Income (loss) before taxes on income	24,175	(794)		23,381
Provision for taxes on income	(5,733)			(5,733)
Net income (loss)	\$ 18,442	\$ (794)	\$	17,648
Net income (loss) per share basic	\$ 0.43	(0.01)	\$	0.42
Net income (loss) per share diluted	\$ 0.41	(0.01)	\$	0.40

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	Quarter Ended September, 2012		
	As reported	Adjustments	As revised
	(in thousands, except per share data)		
Statement of operations:			
Total revenues	\$ 156,471	\$ (54)	\$ 156,417
Cost of revenues	48,375	(267)	48,108
Gross profit	108,096	213	108,309
Operating expenses:			
Research and development	36,229	(593)	35,636
Sales and marketing	16,451	(153)	16,298
General and administrative	6,212	(79)	6,133
Total operating expenses	58,892	(825)	58,067
Income (loss) from operations	49,204	1,038	50,242
Other income, net	585		585
Income (loss) before taxes on income	49,789	1,038	50,827
Provision for taxes on income	(1,386)		(1,386)
Net income (loss)	\$ 48,403	\$ 1,038	\$ 49,441
Net income (loss) per share basic	\$ 1.16	0.02	\$ 1.18
Net income (loss) per share diluted	\$ 1.09	0.02	\$ 1.11

	Quarter Ended June 30, 2012		
	As reported	Adjustments	As revised
	(in thousands, except per share data)		
Statement of operations:			
Total revenues	\$ 133,472	\$ (268)	\$ 133,204
Cost of revenues	41,700	47	41,747
Gross profit	91,772	(315)	91,457
Operating expenses:			
Research and development	37,658	(423)	37,235
Sales and marketing	15,810	(128)	15,682
General and administrative	6,336	(64)	6,272
Total operating expenses	59,804	(615)	59,189
Income (loss) from operations	31,968	300	32,268
Other income, net	221		221
Income (loss) before taxes on income	32,189	300	32,489
Provision for taxes on income	(100)		(100)
Net income (loss)	\$ 32,089	\$ 300	\$ 32,389
Net income (loss) per share basic	\$ 0.79		\$ 0.79
Net income (loss) per share diluted	\$ 0.74	0.01	\$ 0.75

	Quarter Ended March 31, 2012		
	As reported	Adjustments	As revised
	(in thousands, except per share data)		
Statement of operations:			
Total revenues	\$ 88,738	\$ (92)	\$ 88,646
Cost of revenues	28,888	(119)	28,769
Gross profit	59,850	27	59,877
Operating expenses:			
Research and development	28,958		28,958
Sales and marketing	12,805		12,805
General and administrative	4,857		4,857
Total operating expenses	46,620		46,620
Income (loss) from operations	13,230	27	13,257
Other income, net	184		184
Income (loss) before taxes on income	13,414	27	13,441

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Provision for taxes on income		(968)			(968)
Net income (loss)	\$	12,446	\$	27	\$ 12,473
Net income (loss) per share basic	\$	0.31			\$ 0.31
Net income (loss) per share diluted	\$	0.29			\$ 0.29

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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 chief executive officer (CEO) (principal executive officer) and chief financial officer (CFO) (principal financial officer), as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures as of December 31, 2013. At the time that our Annual Report on Form 10-K for the year ended December 31, 2013 was filed on February 28, 2014, our CEO and CFO concluded that our disclosure controls and procedures were effective as of December 31, 2013. Subsequent to that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were not effective as of December 31, 2013 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/A 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 (As Restated)

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, 2013 using the criteria established in Internal Control - Integrated Framework (1992), 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, 2013.

- 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.

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- 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, 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 Management's Annual Report on Internal Control Over Financial Reporting included in our original Annual Report on Form 10-K for the year-ended December 31, 2013, our management, including our CEO and CFO, concluded that we maintained effective internal control over financial reporting as of December 31, 2013. We have subsequently concluded that the material weaknesses described above existed as of December 31, 2013. As a result, we have concluded that we did not maintain effective internal control over financial reporting as of December 31, 2013, based on the criteria in Internal Control - Integrated Framework (1992), issued by the COSO. Accordingly, management has restated its report on internal control over financial reporting.

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The effectiveness of our internal control over financial reporting as of December 31, 2013 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;

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- Commenced 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;
- 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 that occurred during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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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:

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	45
<u>Consolidated Balance Sheets</u>	46
<u>Consolidated Statements of Operations</u>	47
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	48
<u>Consolidated Statements of Shareholders' Equity</u>	49
<u>Consolidated Statements of Cash Flows</u>	50
<u>Notes to Consolidated Financial Statements</u>	51

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>	81
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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

Exhibit No.	Description of Exhibit
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/A).
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.

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32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document

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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

-
- (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) Incorporated by reference to Exhibit 10.12 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on November 14, 2006.
 - (11) Incorporated by reference to Exhibit 10.13 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on November 14, 2006.
 - (12) Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A (SEC File No. 001-33299) filed on April 19, 2012.
 - (13) Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (SEC File No. 001-33299) filed on November 7, 2008.
 - (14) Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (SEC File No. 001-33299) filed on February 7, 2011.
 - (15) Incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K (SEC File No. 001-33299) filed on March 7, 2011.

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- (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, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 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. Management and we previously concluded that the Company maintained effective internal control over financial reporting as of December 31, 2013. However, management has subsequently determined that material weaknesses in internal control over financial reporting existed as of that date. The material weaknesses 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. Accordingly, management's report has been restated and our opinion on internal control over financial reporting, as presented herein, is different from that expressed in our previous report. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) 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 2013 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 design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other

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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, CA

February 28, 2014, except for the effects of the revision discussed in Note 1 to the consolidated financial statements and the matter described in the penultimate paragraph of Management's Annual Report on Internal Control Over Financial Reporting, as to which the date is January 28, 2015

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

	December 31,	
	2013	2012
	(In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 63,164	\$ 117,054
Short-term investments	263,528	302,593
Restricted cash		3,229
Accounts receivable, net	69,480	56,800
Inventories	36,470	43,318
Deferred taxes and other current assets	17,581	15,616
Total current assets	450,223	538,610
Property and equipment, net	71,915	62,375
Severance assets	10,630	8,907
Intangible assets, net	54,249	16,134
Goodwill	199,196	132,885
Deferred taxes and other long-term assets	20,613	10,419
Total assets	\$ 806,826	\$ 769,330
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 29,964	\$ 37,431
Accrued liabilities	51,011	55,696
Deferred revenue	15,710	10,826
Capital lease liabilities, current	1,377	1,253
Total current liabilities	98,062	105,206
Accrued severance	13,418	11,821
Deferred revenue	9,045	8,366
Capital lease liabilities	1,600	2,835
Other long-term liabilities	17,890	11,982
Total liabilities	140,015	140,210
Commitments and Contingencies (Note 9)		
Shareholders' equity		
Ordinary shares: NIS 0.0175 par value, 137,143 shares authorized, 43,999 and 42,596 shares issued and outstanding at December 31, 2013 and 2012, respectively	185	178
Additional paid-in capital	550,795	488,365
Accumulated other comprehensive income	1,390	2,794
Retained earnings	114,441	137,783
Total shareholders' equity	666,811	629,120
Total liabilities and shareholders' equity	\$ 806,826	\$ 769,330

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

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

	2013	Year Ended December 31, 2012		2011
		(In thousands, except per share data)		
Total revenues	\$ 390,436	\$ 500,275	\$ 259,251	
Cost of revenues	134,282	157,736	91,988	
Gross profit	256,154	342,539	167,263	
Operating expenses:				
Research and development	169,382	138,310	92,283	
Sales and marketing	70,544	60,894	40,294	
General and administrative	37,046	24,456	21,736	
Total operating expenses	276,972	223,660	154,313	
Income (loss) from operations	(20,818)	118,879	12,950	
Other income, net	1,228	1,259	759	
Income (loss) before taxes on income	(19,590)	120,138	13,709	
Provision for taxes on income	(3,752)	(8,187)	(3,375)	
Net income (loss)	\$ (23,342)	\$ 111,951	\$ 10,334	
Net income (loss) per share basic	\$ (0.54)	\$ 2.71	\$ 0.29	
Net income (loss) per share diluted	\$ (0.54)	\$ 2.55	\$ 0.27	
Shares used in computing income (loss) per share:				
Basic	43,421	41,308	36,263	
Diluted	43,421	43,901	38,562	

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

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

	2013	Year Ended December 31, 2012	2011
		(In thousands)	
Net income (loss)	\$ (23,342)	\$ 111,951	\$ 10,334
Other comprehensive income (loss), net of tax:			
Change in unrealized gains/losses on available-for-sale securities, net (net of tax effect of \$2, \$0, \$0)	142	(133)	(109)
Change in unrealized gains/losses on derivative contracts, net (net of tax effect of \$28, \$0, \$0)	(1,546)	4,091	(2,009)
Total comprehensive income (loss), net of tax	\$ (24,746)	\$ 115,909	\$ 8,216

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	Amount	Additional Paid-in Capital (In thousands, except share data)	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders Equity
Balance at December 31, 2010	34,231,204	\$ 141	\$ 265,481	\$ 954	\$ 15,498	\$ 282,074
Net income					10,334	10,334
Unrealized losses on available-for-sale securities, net of taxes				(109)		(109)
Unrealized losses on derivative contracts, net of taxes				(2,009)		(2,009)
Comprehensive net income						8,216
Share-based compensation			21,412			21,412
Exercise of share awards	1,810,582	7	13,993			14,000
Issuance of shares pursuant to employee share purchase plan	243,256	1	4,454			4,455
Issuance of shares in connection with public offering	3,450,000	16	104,201			104,217
Share-based compensation related to acquisitions			6,303			6,303
Income tax benefit from share options exercised			2,411			2,411
Balance at December 31, 2011	39,735,042	\$ 165	\$ 418,255	\$ (1,164)	\$ 25,832	\$ 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

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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

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

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

	2013	Year Ended December 31, 2012 (In thousands)		2011
Cash flows from operating activities:				
Net income (loss)	\$ (23,342)	\$ 111,951		\$ 10,334
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	35,646	23,868		19,745
Deferred income taxes	(1,240)	(3,454)		(228)
Share-based compensation	45,138	35,019		21,412
Gain on investments	(1,219)	(896)		(15)
Excess tax benefit from share-based compensation	(2,662)	(5,141)		(2,411)
Changes in assets and liabilities, net of effect of acquisitions:				
Accounts receivable	(9,500)	(8,585)		(15,899)
Inventories	9,472	(19,436)		(8,639)
Prepaid expenses and other assets	1,414	(3,239)		(513)
Accounts payable	(4,447)	3,430		21,065
Accrued liabilities and other liabilities	2,610	48,972		18,288
Net cash provided by operating activities	51,870	182,489		63,139
Cash flows from investing activities:				
Acquisition of Kotura, Inc., net of cash acquired of \$101	(80,671)			
Acquisition of IPtronics A/S, net of cash acquired of \$2,077	(42,848)			
Acquisition of Voltaire Ltd., net of cash acquired of \$3,961				(203,704)
Purchase of severance-related insurance policies	(849)	(783)		(832)
Purchase of short-term investments	(200,377)	(328,998)		(45,600)
Proceeds from sales of short-term investments	122,997	14,860		149,889
Proceeds from maturities of short-term investments	117,806	64,683		12,128
Purchase of property and equipment	(30,911)	(30,544)		(24,680)
Decrease(Increase) in restricted cash deposit	3,468	1,327		(1,700)
Purchase of intangible assets	(7,440)			
Purchase of equity investments in private companies	(3,123)	(1,424)		
Net cash used in investing activities	(121,948)	(280,879)		(114,499)
Cash flows from financing activities:				
Proceeds from public offering, net				104,201
Principal payments on capital lease obligations	(1,111)	(918)		(459)
Proceeds from exercise of share awards	14,637	29,963		18,471
Excess tax benefit from share-based compensation	2,662	5,141		2,411
Net cash provided by financing activities	16,188	34,186		124,624
Net (decrease) increase in cash and cash equivalents	(53,890)	(64,204)		73,264
Cash and cash equivalents at beginning of period	117,054	181,258		107,994
Cash and cash equivalents at end of period	\$ 63,164	\$ 117,054		\$ 181,258
Supplemental disclosures of cash flow information				
Interest paid	\$ 57	\$		\$
Income taxes paid	\$ 1,305	\$ 852		\$ 469
Supplemental disclosure of noncash investing and financing activities				
Software acquired under capital leases	\$	\$ 4,428		\$ 563
Unpaid property and equipment	\$ 3,326	\$ 3,869		\$

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Inventory capitalization	\$	1,837	\$	1,073	\$
Vested share awards issued in connection with the Voltaire acquisition	\$		\$		\$ 6,303

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, 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.

In February 2011, the Company completed its acquisition of Voltaire Ltd. (Voltaire), an Israeli-based public company. The consolidated financial statements include the results of operations of Voltaire commencing as of the acquisition date.

Certain prior year amounts have been reclassified to conform to 2013 presentation. These changes and reclassifications did not impact net or comprehensive income.

Revision to Prior Period Financial Statements

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Subsequent to the filing of the Company's 2013 Form 10-K on February 28, 2014, the Company identified and corrected an error in accounting for liabilities for charitable contributions. The error had accumulated over a number of years, resulting in a \$0.6 million and \$1.7 million cumulative overstatement of the liability as of December 31, 2013 and 2012, respectively. The Company also identified and corrected an overstatement of liabilities in the amount of \$0.7 million related to certain purchase orders as of December 31, 2013.

The Company also identified and corrected additional errors in warranty and distributor price adjustment reserves and the purchase price allocation for its acquisitions of Kotura and IPtronics. The error related to distributor price adjustments resulted in a cumulative understatement of the sales reserve of \$0.9 million and \$0.5 million as of December 31, 2013 and 2012, respectively. The error for the warranty reserve resulted in a \$0.6 million and \$0.1 million cumulative overstatement of the warranty reserve as of December 31, 2013 and 2012, respectively. The error for the purchase price allocation for the acquisitions of Kotura and IPtronics, resulted in a \$0.4 million increase in the value of acquired inventory, a \$0.1 million decrease in the value of intangible assets, and a \$0.4 million decrease in the value of goodwill as of December 31, 2013.

The Company identified and corrected classification errors in its balance-sheets for fiscal years 2013 and 2012. These corrections impacted accounts receivables, inventory, property and equipment, accrued liabilities, warranty, deferred revenue, short-term and long-term capital lease liabilities and long-term liabilities.

The Company identified and corrected classification errors in the presentation of the net deferred tax assets included within Note 12 to these consolidated financial statements. The Company incorrectly netted certain deferred tax liabilities against the valuation allowance. There was no change to net deferred tax assets disclosed in Note 12 of the balance sheet as a result of the error. This error also required the revision of the financial statement schedule appearing under Item 15(a)(2) to reflect the change in the income tax valuation allowance for each period presented.

The Company evaluated these errors and determined that the impact of the errors was not material to its results of operations, financial position or cash flows in previously issued interim and annual financial statements. The Company has retrospectively revised financial information including the related footnotes, for all prior periods presented to reflect this correction.

The correction of these errors increased net income by \$0.4 million and \$0.6 million in fiscal years 2011 and 2012, respectively; and increased the net loss by \$0.5 million for fiscal year 2013. The impact of these revisions for periods presented within this annual report on Form 10K/A is shown in the tables below:

	As reported	Year Ended December 31, 2013		As revised
		Adjustments (in thousands, except per share data)		
Statement of operations:				
Total revenues	\$ 390,859	\$ (423)		\$ 390,436
Cost of revenues	135,239	\$ (957)		134,282
Gross profit	255,620	534		256,154
Operating expenses:				
Research and development	168,721	661		169,382
Sales and marketing	70,318	226		70,544
General and administrative	36,918	128		37,046
Total operating expenses	275,957	1,015		276,972
Loss from operations	(20,337)	(481)		(20,818)
Loss before taxes on income	(19,109)	(481)		(19,590)
Net loss	(22,861)	(481)		(23,342)
Net loss per share - basic	(0.53)	(0.01)		(0.54)
Net loss per share - diluted	(0.53)	(0.01)		(0.54)

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	Year Ended December 31, 2012		
	As reported	Adjustments (in thousands, except per share data)	As revised
Statement of operations:			
Total revenues	\$ 500,799	\$ (524)	\$ 500,275
Cost of revenues	\$ 157,936	\$ (200)	157,736
Gross profit	342,863	(324)	342,539
Operating expenses:			
Research and development	138,946	(636)	138,310
Sales and marketing	61,068	(174)	60,894
General and administrative	24,541	(85)	24,456
Total operating expenses	224,555	(895)	223,660
Income from operations	118,308	571	118,879
Income before taxes on income	119,567	571	120,138
Net income	111,380	571	111,951
Net income per share basic	2.70	0.01	2.71
Net income per share diluted	2.54	0.01	2.55

	Year Ended December 31, 2011		
	As reported	Adjustments (in thousands, except per share data)	As revised
Statement of operations:			
Cost of revenues	\$ 92,015	\$ (27)	\$ 91,988
Gross profit	167,236	27	167,263
Operating expenses:			
Research and development	92,508	(225)	92,283
Sales and marketing	40,366	(72)	40,294
General and administrative	21,769	(33)	21,736
Total operating expenses	154,643	(330)	154,313
Income from operations	12,593	357	12,950
Income before taxes on income	13,352	357	13,709
Net income	9,977	357	10,334
Net income per share basic	0.28	0.01	0.29
Net income per share diluted	0.26	0.01	0.27

	December 31, 2013		
	As reported	Adjustments (in thousands)	As revised
Balance sheet:			
Accounts receivable, net	\$ 70,566	\$ (1,086)	\$ 69,480
Inventories	35,963	507	36,470
Total current assets	450,802	(579)	450,223
Property and equipment, net	70,815	1,100	71,915
Intangible assets, net	54,362	(113)	54,249
Goodwill	199,558	(362)	199,196
Total assets	806,780	46	806,826
Accrued liabilities	52,588	(1,577)	51,011
Deferred revenue, current	15,849	(139)	15,710
Capital lease liabilities, current	1,245	132	1,377
Total current liabilities	99,646	(1,584)	98,062
Other long-term liabilities	17,091	799	17,890
Total liabilities	140,800	(785)	140,015
Retained earnings	113,610	831	114,441
Total shareholders equity	665,980	831	666,811
Total liabilities and shareholders equity	806,780	46	806,826

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	As reported	December 31, 2012 Adjustments (in thousands)	As revised
Balance sheet:			
Accounts receivable, net	\$ 58,516	\$ (1,716)	\$ 56,800
Total current assets	540,326	(1,716)	538,610
Total assets	771,046	(1,716)	769,330
Accrued liabilities	57,879	(2,183)	55,696
Deferred revenue, current	12,018	(1,192)	10,826
Total current liabilities	108,581	(3,375)	105,206
Other long-term liabilities	11,635	347	11,982
Total liabilities	143,238	(3,028)	140,210
Retained earnings	136,471	1,312	137,783
Total shareholders' equity	627,808	1,312	629,120
Total liabilities and shareholders' equity	771,046	(1,716)	769,330

	As reported	Year Ended December 31, 2013 Adjustments (in thousands)	As revised
Statement of comprehensive loss:			
Net loss	\$ (22,861)	\$ (481)	\$ (23,342)
Total comprehensive loss, net of tax	(24,265)	(481)	(24,746)

	As reported	Year Ended December 31, 2012 Adjustments (in thousands)	As revised
Statement of comprehensive income:			
Net income	\$ 111,380	\$ 571	\$ 111,951
Total comprehensive income, net of tax	115,338	571	115,909

	As reported	Year Ended December 31, 2011 Adjustments (in thousands)	As revised
Statement of comprehensive income:			
Net income	\$ 9,977	\$ 357	\$ 10,334
Total comprehensive income, net of tax	7,859	357	8,216

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	As reported	Year Ended December 31, 2013		As revised
		Adjustments	(in thousands)	
Cash flow statement:				
Net loss	\$ (22,861)	\$ (481)		\$ (23,342)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization	35,886	(240)		35,646
Accounts receivable	(8,870)	(630)		(9,500)
Inventories	9,264	208		9,472
Accrued liabilities and other liabilities	1,599	1,011		2,610
Net cash provided by operating activities	52,002	(132)		51,870
Principal payments on capital lease obligations	(1,243)	132		(1,111)
Cash flows from financing activities	16,056	132		16,188
Unpaid property and equipment	2,226	1,100		3,326

	As reported	Year Ended December 31, 2012		As revised
		Adjustments	(in thousands)	
Cash flow statement:				
Net income	\$ 111,380	\$ 571		\$ 111,951
Adjustments to reconcile net loss to net cash provided by operating activities:				
Accounts receivable	(10,301)	1,716		(8,585)
Accrued liabilities and other liabilities	51,259	(2,287)		48,972

	As reported	Year Ended December 31, 2011		As revised
		Adjustments	(in thousands)	
Cash flow statement:				
Net income	\$ 9,977	\$ 357		\$ 10,334
Adjustments to reconcile net loss to net cash provided by operating activities:				
Accrued liabilities and other liabilities	18,645	(357)		18,288

Risks and uncertainties

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

Use of estimates

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

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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, 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 \$0.6 million at December 31, 2012, that represented tenants' security deposits restricted due to the tenancy agreements, and \$2.6 million at December 31, 2012, that represented security deposits restricted due to foreign exchange management agreements with two banks.

The Company also maintains certain cash amounts classified as other long-term assets which are restricted as to withdrawal or use over long term. The Company maintained a balance of long-term restricted cash in amount of \$3.5 million and \$3.4 million at December 31, 2013 and December 31, 2012, respectively.

Fair value of financial instruments

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

Derivatives

The Company recognizes derivative instruments as either assets or liabilities and measures those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. The Company enters into derivative contracts designated as cash flow hedges. For a derivative instrument designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of accumulated OCI, and subsequently reclassified into earnings when the hedged exposure affects earnings.

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 contracts expose the Company to credit risk to the extent that the counterparties may be unable to meet the terms of the agreement. The Company seeks to mitigate such risk by limiting its counterparties to major financial institutions and by spreading the risk across a number of major financial institutions. In addition, the potential risk of loss with any one counterparty resulting from this type of credit risk is monitored on an ongoing basis.

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The Company uses derivative contracts designated as cash flow hedges to hedge a substantial portion of forecasted operating expenses in NIS. The gain or loss on the effective portion of a cash flow hedge is initially reported as a component of OCI and subsequently reclassified into operating expenses in the same period in which the hedged operating expenses are recognized, or reclassified into other income, net, if the hedged transaction becomes probable of not occurring. Any gain or loss after a hedge is de-designated because it is no longer probable of occurring or related to an ineffective portion of a hedge, as well as any amount excluded from the Company's hedge effectiveness, is recognized as other income, net immediately.

Concentration of credit risk

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

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

	Year Ended December 31,		
	2013	2012	2011
IBM	17%	19%	17%
Hewlett-Packard	13%	20%	19%

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

	December 31,	December 31,
	2013	2012
IBM	11%	22%
Hewlett Packard	12%	*

* 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 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.

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

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 units. 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, 2013, the Company's assessment of goodwill impairment indicated that goodwill was not impaired.

Intangible assets primarily represent acquired intangible assets including developed technology, customer relationships and IPR&D. The Company amortizes its 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, 2013, the Company's assessment of intangibles indicated that indefinite-lived intangible assets were not impaired. Intangible assets with finite lives are tested for impairment in accordance with our policy for long-lived assets as described below.

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

Revenue recognition

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

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

Multiple Element Arrangements Excluding Software

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

Multiple Element Arrangements Including Software

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

Table of Contents*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 these programs based on the identifiable benefit received as either a reduction of revenue, a cost of revenues or an operating expense.

Deferred Revenue and Income

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

Shipping and Handling

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

Product warranty

The Company typically offers a limited warranty for its products for periods up to three years. The Company accrues for estimated returns of defective products at the time revenue is recognized based on historical activity. The determination of these accruals requires the Company to make estimates of the frequency and extent of warranty activity and estimated future costs to either replace or repair the products under warranty. If the actual warranty activity and/or repair and replacement costs differ significantly from these estimates, adjustments to record additional cost of revenues may be required in future periods. Changes in the Company's liability for product warranty during the years ended December 31, 2013 and 2012 are as follows:

	2013	December 31, (In thousands)	2012
Balance, beginning of the period	\$	4,318	\$ 1,097
New warranties issued during the period		8,584	5,290
Reversal of warranty reserves			(535)
Settlements during the period		(9,269)	(1,534)
Balance, end of the period	\$	3,633	\$ 4,318
Less: long term portion of product warranty liability		(424)	(348)
Current portion of product warranty liability	\$	3,209	\$ 3,970

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 \$0.9 million, \$1.1 million and \$0.4 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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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 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 awards is approximately 6.25 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.

Comprehensive income (loss)

Accumulated other comprehensive income (loss), net of tax on the consolidated balance sheets at December 31, 2013 and 2012, 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 gain on available-for-sale securities and derivative instruments was not material at December 31, 2013 and 2012.

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

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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:

	2013	Year Ended December 31,		2011
		2012		
	(In thousands, except per share data)			
Net income (loss)	\$	(23,342)	\$	111,951
			\$	10,334
Basic and diluted shares:				
Weighted average ordinary shares outstanding used to compute				
basic net income (loss) per share		43,421		41,308
				36,263
Dilutive effect of employee share option and purchase plan				2,593
				2,299
Shares used to compute diluted net income (loss) per share		43,421		43,901
				38,562
Net income (loss) per share basic	\$	(0.54)	\$	2.71
			\$	0.29
Net income (loss) per share diluted	\$	(0.54)	\$	2.55
			\$	0.27

The Company excluded 0.8 million, 0.3 million and 0.5 million outstanding shares for the years ended December 31, 2013, 2012 and 2011, respectively, from the computation of diluted net income per share because including them would have had an anti-dilutive effect.

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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, 2013, the Company adopted the authoritative guidance, issued by the Financial Accounting Standards Board (FASB) in February 2013, related to reclassifications out of accumulated other comprehensive income (OCI). Under this guidance, an entity is required to report, in one place, information about reclassifications out of accumulated OCI and changes in its accumulated OCI balances. For significant items reclassified out of accumulated OCI to net income in their entirety in the same reporting period, reporting is required about the effect of the reclassifications on the respective line items in the statement where net income is presented. For items that are not reclassified to net income in their entirety in the same reporting period, a cross reference to other disclosures currently required under GAAP is required in the notes to the financial statements. The Company elected to present the information in the notes to the Company's consolidated financial statements. The adoption of this guidance had no impact on the Company's consolidated financial statements other than the additional required disclosures.

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In July 2013, the FASB issued authoritative guidance 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 combined with an unrelated deferred tax asset. This guidance is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date; however, retrospective application is permitted. The Company will provide the required disclosures beginning in the first quarter of fiscal year 2014 and does not expect the adoption of this guidance to have a significant impact on its consolidated results of operations and financial condition.

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	December 31, 2013	December 31, 2012
	(In thousands)	
Accounts receivable, net:		
Accounts receivable	\$ 70,119	\$ 57,439
Less: allowance for doubtful accounts	(639)	(639)
	\$ 69,480	\$ 56,800
Inventories:		
Raw materials	\$ 4,385	\$ 6,240
Work-in-process	12,694	4,667
Finished goods	19,391	32,411
	\$ 36,470	\$ 43,318
Deferred taxes and other current assets:		
Prepaid expenses	\$ 5,929	\$ 5,346
Derivative contracts receivable	1,396	2,942
Deferred taxes	7,336	3,813
VAT receivable	1,900	3,000
Other	1,020	515
	\$ 17,581	\$ 15,616
Property and equipment, net:		
Computer equipment and software	\$ 92,468	\$ 80,203
Furniture and fixtures	3,809	3,890
Leasehold improvements	31,608	26,590
	127,885	110,683
Less: Accumulated depreciation and amortization	(55,970)	(48,308)
	\$ 71,915	\$ 62,375
Deferred taxes and other long-term assets:		
Equity investments in private companies	\$ 7,548	\$ 4,424
Deferred taxes	7,155	2,083
Restricted cash	3,514	3,388
Other assets	2,396	524
	\$ 20,613	\$ 10,419
Accrued liabilities:		
Payroll and related expenses	\$ 27,822	\$ 35,348
Accrued expenses	16,106	12,931
Product warranty liability	3,209	3,970
Other	3,874	3,447
	\$ 51,011	\$ 55,696
Other long-term liabilities:		
Income tax payable	\$ 13,026	\$ 8,838
Deferred rent	3,072	2,797
Other	1,792	347
	\$ 17,890	\$ 11,982

NOTE 3 BUSINESS COMBINATION:

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

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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.

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.

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 preliminary allocation of the total purchase price for each transaction is summarized below:

	IPtronics	Kotura (in thousands)	Total
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
Total assets	46,367	84,407	130,774
Current liabilities	(2,668)	(3,357)	(6,025)
Long-term liabilities	(851)	(379)	(1,230)
Total liabilities	(3,519)	(3,736)	(7,255)
Total purchase price allocation	\$ 42,848	\$ 80,671	\$ 123,519

The preliminary estimates above are subject to change once the Company receives certain information it believes is necessary to finalize its determination of the fair value of assets acquired and liabilities assumed under the acquisition.

Identifiable intangible assets

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

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	Fair value (in thousands)	Weighted Average Useful life (in years)
Purchased intangible assets:		
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
Total purchased intangible assets	\$ 44,746	

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 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.

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In-process research and development (IPR&D) represents projects that have not yet reached technological feasibility. Technological feasibility is defined as being equivalent to completion of a beta-phase working prototype in which there is no remaining risk relating to the development. 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, 2013.

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	18	\$ 9,549	19.5%	\$ 4,121
Kotura	Silicon photonics 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.

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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):

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	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

On February 7, 2011, the Company acquired Voltaire Ltd. (Voltaire), an Israeli-based public company.

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

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

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

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

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

Acquired IPR&D consisted of three projects: Unified Fabric Manager, or UFM , Acceleration software and Ethernet. Each of these projects is focused on integrating new technologies, improving product performance and broadening features and functionalities. The Acceleration software and Ethernet projects were completed during the year ended December 31, 2011. The UFM project was completed during the second quarter of 2012.

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

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, 2013 and December 31, 2012, the Company did not have any assets or liabilities valued based on Level 3 valuations.

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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 (in thousands)	Total
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

The following table represents the fair value hierarchy of the Company's financial assets and liabilities measured at fair value as of December 31, 2012.

	Level 1	Level 2 (in thousands)	Total
Certificates of deposit	\$	\$ 90,431	\$ 90,431
U.S. Government and agency securities		115,129	115,129
Commercial paper		34,947	34,947
Corporate bonds		61,462	61,462
Foreign government bonds		7,530	7,530
Derivative contracts		2,942	2,942
Total financial assets	\$	\$ 312,441	\$ 312,441

There were no transfers between Level 1 and Level 2 securities during the years ended December 31, 2013 and 2012.

NOTE 5 INVESTMENTS:

Cash, cash equivalents and short-term investments:

At December 31, 2013 and 2012, the Company held short-term investments classified as available-for-sale securities as follows:

	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

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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
Total investments	\$ 326,698	\$	48	\$	(54)	\$	326,692
Less amounts classified as cash and cash equivalents	(63,164)						(63,164)
	\$ 263,534	\$	48	\$	(54)	\$	263,528

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	Amortized Cost	December 31, 2012		Estimated Fair Value
		Unrealized Gains	Unrealized Losses	
(in thousands)				
Cash	\$ 110,148	\$	\$	\$ 110,148
Certificates of deposit	90,437	1	(7)	90,431
U.S. Government and agency securities	115,179	9	(59)	115,129
Commercial paper	34,977		(30)	34,947
Corporate bonds	61,543	3	(84)	61,462
Foreign government bonds	7,511	19		7,530
Total investments	\$ 419,795	\$ 32	\$ (180)	\$ 419,647
Less amounts classified as cash and cash equivalents	(117,054)			(117,054)
	\$ 302,741	\$ 32	\$ (180)	\$ 302,593

Realized gains upon the sale of marketable securities were \$1.2 million and \$0.9 million for the years ended December 31, 2013 and December 31, 2012, respectively. At December 31, 2013, investments with gross unrealized losses were not deemed to be other-than-temporarily impaired and the unrealized losses were recorded in OCI.

The contractual maturities of short-term investments at December 31, 2013 and December 31, 2012 were as follows:

	December 31, 2013		December 31, 2012	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
(in thousands)				
Due in less than one year	\$ 190,172	\$ 190,189	\$ 172,941	\$ 172,880
Due in one to three years	73,362	73,339	129,800	129,713
	\$ 263,534	\$ 263,528	\$ 302,741	\$ 302,593

Previously reported amounts have been revised to correct for an error in the classification of debt securities due in less than one year and debt securities due in one to three years.

Investments in privately-held companies:

As of December 31, 2013, the Company held a total of \$7.5 million investments in two privately-held companies and as of December 31, 2012, the Company held a \$4.4 million investment in a privately-held company.

NOTE 6 GOODWILL AND INTANGIBLE ASSETS:

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

Balance as of December 31, 2012	\$	132,885
Goodwill from IPtronics acquisition		25,630
Goodwill from Kotura acquisition		40,681
Adjustments		
Balance as of December 31, 2013	\$	199,196

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

	Gross Carrying Value	Accumulated Amortization (in thousands)	Net Carrying Value
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

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

	Gross Carrying Value	Accumulated Amortization (in thousands)	Net Carrying Value
Licensed technology	\$ 946	\$ (946)	\$
Developed technology	23,132	(14,695)	8,437
Customer relationships	10,956	(3,328)	7,628
Customer contract	1,529	(1,460)	69
Total intangible assets	\$ 36,563	\$ (20,429)	\$ 16,134

Amortization expense of intangible assets totaled approximately \$14.0 million, \$9.3 million and \$9.4 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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

2014	\$ 12,869
2015	10,761
2016	9,945
2017	9,882
2018 and thereafter	10,792
	\$ 54,249

NOTE 7 DERIVATIVES AND HEDGING ACTIVITIES:

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 derivative contracts cover future NIS denominated operating expenses expected to occur over the next twelve months. As of December 31, 2012, the Company had derivative contracts in place that hedged future operating expenses of approximately 219.9 million NIS, or approximately \$58.9 million based upon the exchange rate as of December 31, 2012.

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

Fair Value of Derivative Contracts

The fair value of derivative contracts as of December 31, 2013 and December 31, 2012 was as follows:

	Derivative Assets Reported in		Derivative Liabilities Reported in	
	Other Current Assets		Other Current Liabilities	
	December 31,		December 31,	
	2013	2012	2013	2012
	(in thousands)			
Foreign exchange contracts designated as cash flow hedges	\$ 1,396	\$ 2,942	\$	\$
Total derivatives designated as hedging instruments	\$ 1,396	\$ 2,942	\$	\$

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, 2013 and 2012, and their impact on OCI for the year ended December 31, 2013 (in thousands):

December 31, 2012	\$	2,942
Amount of gain recognized in OCI (effective portion)		4,481
Amount of gain reclassified from OCI to income (effective portion)		(6,027)
December 31, 2013	\$	1,396

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

Effect of Derivative Contracts on the Condensed Consolidated Statement of Operations

The impact of derivative contracts on total operating expenses in the years ended December 31, 2013, 2012 and 2011 was:

	2013	Year Ended December 31, 2012		2011
		(in thousands)		
Gain (loss) on foreign exchange contracts designated as cash flow hedges	\$ 6,027	\$ (893)	\$	1,223

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

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 \$0.8 million, \$0.5 million and \$0.4 million for the years ended December 31, 2013, 2012 and 2011, 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 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:

	2013	December 31, 2012	
		(in thousands)	
Accrued severance liability	\$ 13,418	\$	11,821

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Severance assets		10,630		8,907
Unfunded portion	\$	2,788	\$	2,914

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, 2013, 2012 and 2011 were \$6.1 million, \$4.3 million and \$3.9 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 \$4.5 million, \$3.2 million and \$2.5 million in the years ended December 31, 2013, 2012 and 2011, respectively.

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The Company leases office space and motor vehicles under operating leases with various expiration dates through 2021. Rent expense was approximately \$8.9 million, \$6.8 million and \$6.6 million for the years ended December 31, 2013, 2012 and 2011, respectively. The terms of the facility lease provide for rental payments on a graduated scale. The Company recognizes rent expense on a straight-line basis over the lease period, and has accrued for rent expense incurred but not paid.

The Company has entered into capital lease agreements for electronic design automation software. The total amount of assets under capital lease agreements within Property and equipment, net was approximately \$2.8 million and \$4.1 million for the years ended December 31, 2013 and 2012, respectively.

For the years ended December 31, 2013 and 2012, the accumulated amortization for assets under capital lease agreements totaled approximately \$1.2 million and \$0.6 million, respectively. At December 31, 2013, future minimum payments under non-cancelable operating and capital leases are as follows:

Year Ended December 31,	Capital Leases	(in thousands)	Operating Leases
2014	\$	1,445	\$ 16,333
2015		1,097	11,851
2016		492	7,906
2017			6,393
2018 and beyond			10,869
Total minimum lease payments	\$	3,034	\$ 53,352
Less: Amount representing interest		(57)	
Present value of capital lease obligations		2,977	
Less: Current portion		(1,377)	
Long-term portion of capital lease obligations	\$	1,600	

Purchase commitments

At December 31, 2013, the Company had non-cancelable purchase commitments of \$44.7 million, \$43.9 million of which is expected to be paid in 2014 and \$0.8 million in 2015 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.

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.

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Pending legal proceedings as of December 31, 2013 were as follows:

Avago Technologies Fiber (IP) Singapore Pte. Ltd.

On September 24, 2012, Avago Technologies Fiber (IP) Singapore Pte. Ltd., Avago Technologies General IP (Singapore) Pte. Ltd. and Avago Technologies U.S. Inc. (collectively, Avago) filed a complaint against Mellanox Technologies, Ltd., Mellanox Technologies, Inc., IPtronics A/S, IPtronics, Inc., FCI USA, LLC, FCI Deutschland GmbH and FCI SA (collectively, Respondents) with the United States International Trade Commission (Inv. No. 337-TA-860). The complaint alleges that the Respondents have engaged in unfair acts in violation of Section 337 of the Tariff Act of 1930, as amended, through allegedly unlicensed importation, sale for importation and/or sale after importation of products covered by patents asserted by Avago. With regard to the patents asserted against Mellanox, on December 13, 2013 the Administrative Law Judge, in an initial determination reviewable by the International Trade Commission, found no violation with regard to U.S. Patent Number 5,596,456 (456), but found a violation of US Patent No. 5,596,595 (595). Respondents and the staff attorney for the Office of Unfair Import Investigations filed petitions asking the International Trade Commission to review the 595 findings. Avago filed a petition asking the International Trade Commission to review the findings related to the 456 patent. Respondents, the staff attorney, and Avago each filed replies to the opposing parties petitions. A final determination by the International Trade Commission is expected in mid-April 2014. Pursuant to the complaint, Avago seeks as permanent relief a limited exclusion order barring from entry into the United States, among other Respondent products, all imported Mellanox optoelectronic devices and products containing the same that allegedly infringe the patents asserted by Avago, and a cease and desist order prohibiting the importation, sale, offer for sale, advertising, solicitation, use and/or warehousing of inventory for distribution of such imported products in the United States. 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 Respondents are not successful in defending the Avago claims, 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.

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 (collectively, Respondents) in the United States District Court, Northern District of California, San Francisco Division (Case No.: CV- 0-2863). On September 11, 2012, Avago Technologies U.S. Inc., Avago Technologies General IP (Singapore) Pte. Ltd., Avago Technologies Trading Ltd., Avago Technologies International Sales Pte., Ltd. and Avago Technologies Fiber (IP) Singapore Pte. Ltd. (collectively, Avago) filed a second amended and supplemental complaint (the Complaint) against IPtronics, Inc. and IPtronics A/S (collectively, 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 in this case and alleges that the Respondents: infringed certain of Avago s 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. 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 Respondents 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.

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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 legal complaints filed in the United States District Court for the Southern District of New York naming the Company and them each as defendants and respectively entitled, *Patrick Barnicle, on behalf of himself and others similarly situated v. Mellanox Technologies, Ltd., Eyal Waldman, Michael Gray and Jacob Shulman*, Case No. 13 CIV 925, *David R. Ryan, Jr., on behalf of himself and others similarly situated v. Mellanox Technologies, Ltd., Eyal Waldman, Michael Gray and Jacob Shulman*, Case No. 13 CV 1047 and *Valentin Petrov, on behalf of himself and others similarly situated v. Mellanox Technologies, Ltd., Eyal Waldman, Michael Gray and Jacob Shulman*, Case No. 13 CV 1225. The complaints were filed by Patrick Barnicle, David R. Ryan and Valentin Petrov, respectively, each for himself as a plaintiff and, purportedly, on behalf of persons purchasing the Company's ordinary shares between April 19, 2012 and January 2, 2013 (the Class Period).

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On May 14, 2013, the Court consolidated the Barnicle, Ryan and Petrov complaints and appointed lead plaintiffs and lead counsel. On July 12, 2013, an Amended Consolidated Complaint was filed against the same defendants. The Amended Consolidated Complaint alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. The Amended Consolidated Complaint alleges that, during the Class Period, the defendants made false or misleading statements (or failed to disclose certain facts) regarding the Company's business and outlook.

In the amended complaint, plaintiffs seek unspecified damages, an award of reasonable costs and expenses, including reasonable attorney's fees, and any other relief deemed just and proper by the court. 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 consolidated action is captioned, *In re Mellanox Technologies, Ltd. Securities Litigation*, Case No. 3:13-cv-04909-JST.

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.

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 Barnicle, Ryan and Petrov cases disclosed herein. On April 24, 2013, the Israeli court approved this procedural agreement and stayed the Israeli proceedings. 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.

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 include 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 have tendered indemnification requests to the Company on the basis of existing contractual or asserted statutory obligations imposed on the Company to provide such indemnification. Neither the outcome of the proceedings nor the amount and range of potential damages or exposure associated with the proceedings can be assessed with certainty. 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.

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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. 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 Company is not successful in defending the Counterclaims, the Company could be forced to license technology from Infinite Data 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.

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Israeli Class Action Claim in re TASE Delisting

On June 6, 2013, a complaint was filed in the Tel-Aviv District court (the Israeli Court) in Tel Aviv, Israel (*Mordechay Turgeman v. Mellanox et. al.* (Case No.: 13189-06-13)), in which the plaintiff alleged that the Company's decision to delist from the Tel Aviv Stock Exchange (TASE) was a breach of the duty of loyalty of the Company's board of directors (the Board), as well as a breach of fiduciary duty and duty of care by the Company's president and chief executive officer (the Claim). In addition, the plaintiff filed a motion to certify the complaint as a class action. The Company was served with the complaint on June 16, 2013. On December 22, 2013, the Company and the Board filed their Response to the motion to certify the complaint as a class action (the Response).

On January 7, 2014 the plaintiff, with the consent of the Company, filed a request to withdraw the Claim (and related class action claim) against the Company and the Board (the Withdrawal Petition) after the plaintiff, in view of the facts and arguments presented in the Response, reached the conclusion that it would be difficult for the plaintiff to prove the Claim and have the complaint approved as a class action. Neither the plaintiff nor its attorneys have received or will receive any benefit in return for their withdrawal.

On January 8, 2014, the Israeli Court ordered that a notice should be published in two newspapers in Israel in which potential class members, the Israeli attorney general, the director of Israeli courts and the Israeli Securities Authority were notified that any such party has 45 days from the date of the notice to present its position to the Israeli Court objecting to or relating to the Withdrawal Petition. On January 9, 2014 the Israeli court approved the form of the notice, and the notice was published on Sunday, January 12, 2014. While any withdrawal of the Claim (and related class action claim) is ultimately within the discretion of the Israeli Court, the Company believes that the Israeli Court will approve such withdrawal if none of such parties make a filing objecting to such withdrawal. Based on currently available information, no such objection has occurred and the Company believes that the resolution of this claim is not likely to have a material adverse effect on the Company's business, financial position, results of operations or cash flows.

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, beginning in 2008, by a number of ordinary shares equal to the lower of: (i) 2% of total number of ordinary shares outstanding on a fully diluted basis on the date of the increase, (ii) 685,714 ordinary shares, or (iii) a smaller number determined by the board of directors. In any event, the maximum aggregate number of ordinary shares that may be issued or transferred under the Global Plan during the term of the Global Plan may in no event exceed 15,474,018 ordinary shares. The Global Plan was automatically increased by 685,714 ordinary shares on January 1, 2014, 2013 and 2012, respectively.

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

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the Board. The Assumption Plan was automatically increased by 281,625 ordinary shares on January 1, 2014, and 2013, respectively.

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

	Number of Shares	Options Outstanding Weighted Average Exercise Price
Outstanding at December 31, 2010	5,434,974	\$ 10.56
Options granted	1,060,938	\$ 21.80
Options exercised	(1,586,577)	\$ 8.83
Options canceled	(202,986)	\$ 16.46
Outstanding at December 31, 2011	4,706,349	\$ 13.42
Options granted	879,160	\$ 70.72
Options exercised	(2,161,628)	\$ 10.96
Options canceled	(137,959)	\$ 28.33
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

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The weighted average fair value of options granted was approximately \$8.91, \$38.66 and \$18.51 for the years ended December 31, 2013, 2012 and 2011, respectively. The options grant of 31,653 shares in 2013 are related to the assumption plan for the Kotura acquisition.

The total pretax intrinsic value of options exercised in 2013 was \$12.9 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 \$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.

The total pretax intrinsic value of options exercised in 2012 was \$136.1 million. Based on the closing price of the Company's ordinary shares of \$59.38 on December 31, 2012, the total pretax intrinsic value of all outstanding options awards was \$112.4 million. The total pretax intrinsic value of exercisable options at December 31, 2012 was \$88.4 million.

The following tables provide additional information about all options outstanding and exercisable at December 31, 2013:

Range of Exercise Price	Options Outstanding at December 31, 2013			Options Exercisable at December 31, 2013		
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$ 3.13 - \$ 8.23	323,962	4.44	\$ 7.83	323,962	\$ 7.83	
\$ 8.45 - \$ 9.19	286,867	3.51	\$ 9.04	286,867	\$ 9.04	
\$ 10.23 - \$ 10.23	556,177	5.19	\$ 10.23	556,177	\$ 10.23	
\$10.50 - \$ 18.87	295,314	5.63	\$ 14.43	273,517	\$ 14.27	
\$18.97 - \$ 27.72	299,958	6.54	\$ 23.06	229,353	\$ 23.08	
\$29.03 - \$34.00	312,905	7.54	\$ 31.22	175,519	\$ 31.08	
\$35.12 - \$57.41	274,664	8.10	\$ 46.39	125,973	\$ 45.52	
\$66.07 - \$66.07	162,188	8.44	\$ 66.07	62,250	\$ 66.07	
\$79.38 - \$79.38	20,700	8.83	\$ 79.38	5,909	\$ 79.38	
\$101.37 - \$101.37	273,489	8.39	\$ 101.37	95,126	\$ 101.37	
\$3.13 - \$101.37	2,806,224	6.20	\$ 30.14	2,134,653	\$ 21.28	

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, 2010	414,945	\$ 19.86
Restricted share units granted	1,143,142	27.00
Restricted share units vested	(224,005)	20.02

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Restricted share units canceled	(142,409)		24.97
Non-vested restricted share units at December 31, 2011	1,191,673	\$	26.05
Restricted share units granted	1,110,230		42.88
Restricted share units vested	(480,150)		24.65
Restricted share units canceled	(58,593)		30.39
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
Non-vested restricted share units at December 31, 2013	1,974,454	\$	43.81

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The weighted average fair value of restricted share units granted was \$49.05, \$42.88 and \$27.00 for the years ended December 31, 2013, 2012 and 2011, respectively. The total intrinsic value of all outstanding restricted share units was \$78.9 million as of December 31, 2013.

The Employee Share Purchase Plan, (ESPP), is designed to allow eligible employees to purchase the Company's ordinary shares, at semi-annual intervals, with their accumulated payroll deductions. A participant may contribute up to 15% of his or her base compensation through payroll deductions, and the accumulated deductions will be applied to the purchase of shares on the purchase date, which is the last trading day of the offering period. The purchase price per share will be equal to 85% of the fair market value per share on the start date of the offering period in which the participant is enrolled or, if lower, 85% of the fair market value per share on the purchase date. In any event, the maximum aggregate number of ordinary shares that may be issued over the term of the ESPP may in no event exceed 2,585,712 shares. 1,085,712 shares were initially reserved for issuance pursuant to purchase rights under the ESPP. In August 2012, the Company reserved for issuance 1,500,000 additional shares under the ESPP. No participant in the ESPP may be issued or transferred more than \$25,000 worth of ordinary shares pursuant to purchase rights under the ESPP per calendar year. During the years ended December 31, 2013 and 2012, 248,486 and 219,442 shares, respectively, were issued under the ESPP at weighted average per share prices of \$37.56 and \$28.57, respectively.

The Company had the following ordinary shares reserved for future issuance under its equity incentive plans as of December 31, 2013:

	Number of Shares
Share options outstanding	2,806,224
Restricted share units outstanding	1,974,454
Share authorized for future issuance	1,236,003
ESPP shares available for future issuance	1,245,974
Total shares reserved for future issuance as of December 31, 2013	7,262,655

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, 2013, 2012 and 2011:

	Employee Share Options			Employee Share Purchase Plan		
	2013	2012	2011	2013	2012	2011
Dividend yield, %						
Expected volatility, %	57.5	56.6	55.9	56.18	68.05	41.8
Risk free interest rate, %	1.54	1.02	1.72	0.07	0.12	0.10
Expected life, years	4.72	6.25	6.25	0.53	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:

	2013	Year Ended December 31, 2012 (in thousands)		2011
Share-based compensation expense by caption:				
Cost of goods sold	\$ 1,828	\$ 1,621	\$ 980	
Research and development	25,956	19,356	11,906	
Sales and marketing	9,198	8,055	4,894	
General and administrative	8,156	5,987	3,632	
Total share-based compensation expense	\$ 45,138	\$ 35,019	\$ 21,412	
Share-based compensation expense by type of award:				
Share options	\$ 12,460	\$ 14,104	\$ 12,568	
ESPP	3,938	2,851	1,686	
RSU	28,740	18,064	7,158	
Total share-based compensation expense	\$ 45,138	\$ 35,019	\$ 21,412	

At December 31, 2013, there was \$89.8 million of total unrecognized share-based compensation costs related to non-vested share-based compensation arrangements. The costs are expected to be recognized over a weighted average period of approximately 2.32 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, 2013 and 2012:

	Unrealized Gains / Losses on Available-for- Sale Securities	Gains / Losses on Derivatives (in thousands)	Total
Balance at December 31, 2012	\$ (148)	\$ 2,942	\$ 2,794
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
Balance at December 31, 2011	\$ (15)	\$ (1,149)	\$ (1,164)
Other comprehensive income/loss before reclassifications	(129)	3,198	3,069
Amounts reclassified from accumulated other comprehensive income/loss	(4)	893	889
Net current-period other comprehensive income/loss, net of taxes	(133)	4,091	3,958
Balance at December 31, 2012	\$ (148)	\$ 2,942	\$ 2,794

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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

Table of Contents**NOTE 12 INCOME TAXES:**

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

	2013	Year Ended December 31, 2012 (in thousands)	2011
United States	\$ (2,463)	\$ 6,343	\$ 3,550
Foreign	(17,127)	113,795	10,159
Income (loss) before taxes on income	\$ (19,590)	\$ 120,138	\$ 13,709

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

	2013	Year Ended December 31, 2012 (in thousands)	2011
Current:			
U.S. federal	\$ 1,989	\$ 6,178	\$ 2,838
State and local	508	890	437
Foreign	3,110	4,573	907
	5,607	11,641	4,182
Deferred:			
U.S. federal	\$ (1,174)	\$ (2,805)	\$ (658)
State and local	(219)	(226)	(149)
Foreign	(462)	(423)	(807)
	(1,855)	(3,454)	(807)
Provision for taxes on income	\$ 3,752	\$ 8,187	\$ 3,375

At December 31, 2013 and 2012, temporary differences which gave rise to significant deferred tax assets and liabilities are as follows:

	2013	December 31, 2012 (in thousands)	2012
Deferred tax assets:			
Net operating loss and credit carryforwards	\$ 44,706	\$ 30,644	
Reserves and accruals	8,961	7,499	
Depreciation and amortization	942	(174)	
Other	2,285		
Gross deferred tax assets	56,894	37,969	
Valuation allowance	(27,365)	(28,039)	
Total deferred tax assets	29,529	9,930	
Intangible assets	(15,038)	(4,034)	
Total deferred tax liabilities	(15,038)	(4,034)	
Net deferred tax assets	\$ 14,491	\$ 5,896	

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

At December 31, 2013, the Company had foreign net operating loss carryforwards of approximately \$82.1 million in Israel, \$61.2 million in the United States, and \$14.2 million in Denmark. The US net operating losses expire in 2033 and the non-US net operating losses have no expiration date.

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The Company has not provided for Israeli income and foreign withholding taxes on \$11.7 million of its non-Israeli subsidiaries' undistributed earnings as of December 31, 2013. 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 cannot quantify the related tax liability.

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

	Year Ended December 31,		
	2013	2012	2011
Tax at statutory rate	35.0%	35.0%	34.0%
State, net of federal benefit	2.9	0.5	2.2
Meals and entertainment	(0.4)	0.1	0.4
Tax at rates other than the statutory rate	(35.7)	(32.9)	(15.6)
Share-based compensation	(4.6)	(0.1)	3.2
Net change in tax reserves	(15.9)	4.8	
Other, net	(0.5)	(0.6)	0.4
Provision for taxes	(19.2)%	6.8%	24.6%

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, 2013 and 2012, the Company recognized a tax benefit to APIC of \$2.7 million and \$5.1 million, respectively.

The Company's operations in Israel were granted Approved Enterprise status by the Investment Center in the Israeli Ministry of Industry Trade and Labor 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 when the Company first generates taxable income (after setting off its losses from prior years). Income that is attributable to the Company's operations in Tel Aviv, Israel, will be exempt from income tax for a period of two years commencing when the Company first generates taxable income (after setting off its losses from prior years), and will be subject to a reduced income tax rate (generally 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 was 25% in 2013 and will be 26.5% in 2014. The Beneficiary Enterprise tax holiday associated with the Company's Yokneam and Tel Aviv operations began in 2011. The tax holiday for the Company's Yokneam operations will expire in 2020 and the Tax Holiday for the Company's Tel-Aviv operations will expire between the years 2017 and 2020. The tax holiday has resulted in a cash tax savings of \$6.4 million and \$33.2 million in 2013 and 2012 respectively, increasing diluted earnings per share by approximately \$0.15 and \$0.76 in the year ended December 31, 2013 and 2012.

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.

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As of December 31, 2013 and 2012, unrecognized tax benefits totaled approximately \$23.6 million and \$9.7 million, respectively, which would reduce the Company's income tax expense and effective tax rate, if recognized.

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

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

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, 2013, 2012 and 2011, the amount of accrued interest or penalties related to unrecognized tax benefit totaled \$0.6 million, \$0.4 million and \$0.2 million, respectively. For unrecognized tax benefits that existed at December 31, 2013, the Company does not anticipate any significant changes within the next twelve months.

The Company files income tax returns in the U.S. federal jurisdictions, and various states and foreign jurisdictions. The 2009 through 2012 tax years are open and may be subject to potential examination in one or more jurisdictions.

NOTE 13 GEOGRAPHIC INFORMATION AND REVENUES BY PRODUCT GROUP:

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

Revenues by geographic region are as follows:

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
United States	\$ 175,491	\$ 220,157	\$ 120,385
China	67,517	102,957	33,681
Israel	2,479	2,483	1,867
Europe	51,973	62,788	39,566
Other Americas	16,869	26,000	15,912
Other Asia	76,107	85,890	47,840
Total revenue	\$ 390,436	\$ 500,275	\$ 259,251

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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,	
	2013	2012
	(in thousands)	
Israel	\$ 66,983	\$ 61,388
United States	3,094	987
Other	1,838	
Total property and equipment, net	\$ 71,915	\$ 62,375

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

Revenues by product group are as follows:

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
ICs	\$ 56,817	\$ 95,103	\$ 46,564
Boards	119,399	155,670	98,004
Switch systems	145,184	168,231	76,398
Cables, accessories and other	69,036	81,271	38,285
Total revenue	\$ 390,436	\$ 500,275	\$ 259,251

Table of Contents**NOTE 14 OTHER INCOME, NET:**

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

	2013	Year Ended December 31, 2012 (in thousands)		2011
Interest income and gain on sale of investments, net	\$ 1,738	\$ 1,699	\$ 630	
Foreign exchange gain (loss)	(309)	(294)	374	
Other	(201)	(146)	(245)	
Total other income, net	\$ 1,228	\$ 1,259	\$ 759	

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 (in thousands)	Deductions (Recovery)	Balance at End of Year
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
Year ended December 31, 2011:				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$ 402	\$ 155	\$	\$ 557
Allowance for sales returns and adjustments	75	262		337
Income tax valuation allowance	3,245	18,871	(21)	22,095
Total	\$ 3,722	\$ 19,288	\$ (21)	\$ 22,989

The Company identified and corrected errors in the roll-forward of the income tax valuation allowance for each of the three years in the period ended December 31 2013 included in the Valuation and Qualifying Accounts Schedule. Prior to the correction of the errors, the income tax valuation allowance was \$29.1 million, \$32.1 million and \$28.5 million as of December 31, 2013, December 31, 2012, and December 31, 2011, respectively. The amount of recovery was \$(2.9) million for the year ended December 31, 2013. The amounts charged to costs and expenses were \$3.6 million and \$25.3 million for the years ended December 31, 2012 and December 31, 2011, respectively.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Mellanox Technologies, Ltd. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on January 28th, 2015.

MELLANOX TECHNOLOGIES, LTD.

By: */s/ Eyal Waldman*
 Eyal Waldman
President and Chief Executive Officer

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

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

Signature	Title	Date
/s/ Eyal Waldman Eyal Waldman	Chief Executive Officer and Director (principal executive officer)	January 28, 2015
/s/ Jacob Shulman Jacob Shulman	Chief Financial Officer (principal financial and accounting officer) and Authorized Representative in the United States	January 28, 2015
/s/ Dov Baharav Dov Baharav	Director	January 28, 2015
/s/ Glenda Dorchak Glenda Dorchak	Director	January 28, 2015
/s/ Irwin Federman Irwin Federman	Director	January 28, 2015
/s/ Amal Johnson Amal Johnson	Director	January 28, 2015
/s/ David Perlmutter David Perlmutter	Director	January 28, 2015

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/s/ Thomas J. Riordan
Thomas J. Riordan

Director

January 28, 2015

/s/ Thomas Weatherford
Thomas Weatherford

Director

January 28, 2015

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INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit
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/A).
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.

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32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document

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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

-
- (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) Incorporated by reference to Exhibit 10.12 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on November 14, 2006.
 - (11) Incorporated by reference to Exhibit 10.13 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (SEC File No. 333-137659) filed on November 14, 2006.
 - (12) Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A (SEC File No. 001-33299) filed on April 19, 2012.
 - (13) Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (SEC File No. 001-33299) filed on November 7, 2008.
 - (14) Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (SEC File No. 001-33299) filed on February 7, 2011.
 - (15) Incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K (SEC File No. 001-33299) filed on March 7, 2011.

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- (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.