
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012

OR

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

For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report.....

Commission file number 0-20860

EZCHIP SEMICONDUCTOR LTD.

(Exact name of Registrant as specified in its charter
and translation of Registrant's name into English)

Israel

(Jurisdiction of incorporation or organization)

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

Title of each class
Ordinary Shares, NIS 0.02 Par Value

Name of each exchange on which registered
NASDAQ Global Select Market

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

Securities for which there is a reporting obligation pursuant to section 15(d) of the act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

28,304,392 Ordinary Shares, par value NIS 0.02 per share (as of December 31, 2012)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934:

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 (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards
as issued by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

This annual report on Form 20-F is being incorporated by reference into the Registrant's Form F-3 Registration Statements File Nos. 333-163353 and 333-164332 and Form S-8 Registration Statements File Nos. 333-134593, 333-148932, 333-148933, 333-164330, 333-164331, 333-170900, 333-170901 and 333-179491.

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INTRODUCTION

We were incorporated as a limited liability company under the laws of the State of Israel in 1989 and changed our name from LanOptics Ltd. to EZchip Semiconductor Ltd. on July 22, 2008. We are engaged in the development and marketing of Ethernet network processors for networking equipment. As used in this Annual Report, the terms “we,” “us,” “our” and “our company” mean EZchip Semiconductor Ltd. and our wholly-owned subsidiary EZchip Technologies Ltd., or EZchip Technologies, unless otherwise expressly stated. Our ordinary shares are traded on the NASDAQ Global Select Market and on the Tel-Aviv Stock Exchange under the symbol “EZCH.”

Our consolidated financial statements appearing in this Annual Report are prepared in U.S. dollars and in accordance with generally accepted accounting principles in the United States, or U.S. GAAP.

All references in this Annual Report to “dollars” or “\$” are to U.S. dollars and all references in this Annual Report to “NIS” are to New Israeli Shekels. The representative exchange rate between the NIS and the dollar on December 31, 2012 as published by the Bank of Israel was NIS 3.7330 per \$1.00.

Statements made in this Annual Report concerning the contents of any contract, agreement or other document are summaries of such contracts, agreements or documents and are not complete descriptions of all of their terms. If we filed any of these documents as an exhibit to this Annual Report or to any registration statement or annual report that we previously filed, you may read the document itself for a complete description of its terms.

This Annual Report on Form 20-F contains various “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and within the Private Securities Litigation Reform Act of 1995, as amended. Such forward-looking statements reflect our current view with respect to future events and financial results. Forward-looking statements usually include the verbs, “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “projects,” “understands” and other verbs suggesting uncertainty. We remind readers that forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors and involve known and unknown risks that could cause the actual results, performance, levels of activity, or our achievements, or industry results, to be materially different from any future results, performance, levels of activity, or our achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of filing of this Annual Report on Form 20-F. We undertake no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after such date or to reflect the occurrence of unanticipated events. We have attempted to identify additional significant uncertainties and other factors affecting forward-looking statements in the Risk Factors section which appears in Item 3.D “Key Information-Risk Factors.”

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data is derived from our audited consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The selected income data for the years ended December 31, 2010, 2011 and 2012, and the selected balance sheet data as at December 31, 2011 and 2012, have been derived from our audited consolidated financial statements set forth in "Item 18 – Financial Statements." The selected income data for the years ended December 31, 2008 and 2009, and the selected balance sheet data as at December 31, 2008, 2009 and 2010, have been derived from our previously published audited consolidated financial statements, which are not included in this Annual Report. The selected financial data set forth below should be read in conjunction with and are qualified by reference to "Item 5. Operating and Financial Review and Prospects," and the audited consolidated financial statements and notes thereto included elsewhere in this Annual Report.

	Year Ended December 31,				
	2008	2009	2010	2011	2012
	(in thousands, except share and per share data)				
Consolidated Statement of Operations Data:					
Revenues	\$ 33,566	\$ 40,046	\$ 61,998	\$ 63,457	\$ 54,707
Operating income (loss)	(6,045)	4,897	20,749	9,759	13,219
Net income (loss) attributable to EZchip Semiconductor shareholders	(4,600)	17,382	13,643	7,942	15,651
Per share data:					
Basic net income (loss) per share	(0.20)	0.74	0.54	0.30	0.56
Diluted net income (loss) per share	(0.20)	0.66	0.52	0.28	0.54
Weighted average number of ordinary shares used in computing basic net income (loss) per share	23,048,868	23,376,217	25,281,651	26,681,749	27,981,243
Weighted average number of ordinary shares used in computing diluted net income (loss) per share	23,048,868	23,516,260	26,110,132	28,001,428	28,842,408
Consolidated Balance Sheet Data:					
Working capital	\$ 52,554	\$ 75,033	\$ 111,583	\$ 134,379	\$ 170,637
Total assets	164,103	197,423	222,861	246,911	286,594
Long-term liabilities	4,081	4,779	5,974	6,081	6,977
Equity	\$ 154,914	\$ 180,463	\$ 209,029	\$ 232,159	\$ 273,645

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Investing in our ordinary shares involves a high degree of risk and uncertainty. You should carefully consider the risks and uncertainties described below before investing in our ordinary shares. Our business, prospects, financial condition and results of operations could be adversely affected due to any of the following risks. In that case, the value of our ordinary shares could decline, and you could lose all or part of your investment.

Risks Relating To Our Business

We depend on a very limited number of key customers. If we are unable to maintain our relationship with these customers or if these customers significantly reduce the use of our network processor units, or NPUs, in their systems or do not elect to use our future products, our future revenues and growth will be materially adversely affected.

We currently depend on a very limited number of key customers. We anticipate that a significant portion of our future revenues will continue to be derived from sales to a small number of customers. During the year ended December 31, 2012, 73% of our revenues were attributable to three customers.

Cisco Systems, Inc., or Cisco, the largest vendor of Carrier Ethernet switch/routers, which is currently our largest customer, accounted for approximately 20%, 27% and 43% of our revenues in 2010, 2011 and 2012, respectively. Revenues from Cisco are generated through Marvell Technology Group Ltd., or Marvell, pursuant to a royalty arrangement. Cisco currently uses our NP-3 and NP-4 processors in its products. The growth of our revenues will depend in large part on the revenues we generate from Marvell attributable to Cisco. If Cisco purchases significantly lower quantities than expected due to global economic conditions or otherwise, or if the products that incorporate our network processors are not commercially successful, or if Cisco does not elect our future products, our future revenues and the growth of our business will be materially adversely affected.

Our future growth will also be dependent in great measure upon the continued acceptance and utilization of our current and future products by ZTE Corporation, or ZTE, which accounted for approximately 11% and 13% of our revenues in 2011 and 2012, respectively, and upon the continued acceptance and utilization of our current and future products by our other customers (excluding Cisco, ZTE and Juniper), that as a group accounted for 38% and 27% of our 2011 and 2012 revenues, respectively. If any of these vendors decide not to incorporate our products into their future products or to cease incorporating our network processors in their current products, or purchases significantly lower quantities than expected due to global economic conditions or otherwise, or if the products that incorporate our network processors are not commercially successful, our future revenues and the growth of our business will be materially adversely affected.

Many of our competitors and potential competitors are much larger than us, and if we are unable to compete effectively we could lose our market share and revenues.

The market for network processors is intensely competitive, rapidly evolving and subject to rapid technological change. There are currently two vendors in addition to us that provide high-speed network processors that target the metro and access switches and edge routers: Sandburst Corporation (part of Broadcom Corporation) and Xelerated, Inc., which was acquired by Marvell, the sole supplier of our NP-4 and NP-5 processors.

We also experience major competition from most of our large customers' internal chip design teams who develop their own network processors or in-house application-specific integrated circuit, or ASIC, solutions, especially in the Carrier Ethernet Switch Routers, or CESR, segment. For example, Juniper Networks, which uses our NP-2 processors and was until 2010 our largest customer accounting for approximately 40%, 24% and 17% of our revenues in 2010, 2011 and 2012, respectively, announced in October 2009 that it was launching a new family of processors and networking systems incorporating internally developed chips. This new family of products replaces the products that incorporate our NPUs, and Juniper Networks has significantly reduced and will eventually discontinue its purchases from us. Another example is Huawei, which although it has developed a product based on our NP-4 we believe it may proceed to offer a lower-end in-house solution in parallel to the high-end NP-4 solution we offer.

Many of our current and potential competitors have longer operating histories, significantly greater financial, technical, product development and marketing resources, greater name recognition and significantly larger customer bases than we do.

Additionally, many of our competitors also have well-established relationships with our prospective customers and suppliers, and our prospective customers may have competitive reasons to prefer our competitors. As a result of these factors, many of our competitors, either alone or with other companies, have significant influence in our target customers and markets that could outweigh our technological advantage. We believe that competition in this market will become more intense in the future and may cause price reductions, reduce gross margins and may result in loss of market share, any one of which could significantly reduce our future revenue and decrease our net income.

We depend on the networking equipment market for our growth, and in particular the market for Carrier Ethernet edge routers, and if it does not grow, then we will not be able to expand our business.

Although there are many companies operating in the networking equipment market, a significant portion of the market is controlled by a limited number of companies. The growth of our network processor business depends in part on increased acceptance and use of networking equipment that is developed and manufactured by companies with significant market share, particularly Carrier Ethernet edge routers. We depend on the ability of our target customers, specifically those with a significant share of the networking equipment market, to develop new products and enhance existing products for the networking equipment market that incorporate our products and to introduce and promote their products successfully. The market for networking equipment depends in part upon the market's acceptance of packet-based converged telecom networks, in particular Carrier Ethernet networks, as well as 10 Gigabit and greater Ethernet technologies that enable the forwarding of data at a high speed. The development rate of the networking equipment market also depends to a large extent on the level of spending by carriers. For example, the current decline in the levels of carriers' expenditures on wire-line equipment, including edge routers, has affected the pace in which our target customers develop new products and enhance existing products for the networking equipment market that incorporate our products. Ultimately, the development rate of these technologies may be slower than we anticipate. If the use of such networking equipment does not grow as we anticipate, if we are unsuccessful in maintaining our relationships with our current customers, specifically those with a significant share of the networking equipment market, such as Cisco, ZTE, Ericsson and Tellabs, and creating relationships with other target customers with significant market share, if our target customers do not incorporate our products into theirs, or if the products of our target customers that incorporate our network processors are not commercially successful, our growth will be impeded.

We depend on a sole supplier and a sole manufacturer for each of our network processors, including Marvell, which may also compete with us.

The fabrication of our network processors is outsourced to third-party manufacturers and subcontractors. There are significant risks associated with our reliance on third-party manufacturers. Most significantly, if our manufacturing suppliers are unable or unwilling to provide us with adequate manufacturing capacity, we would have to identify and qualify one or more substitute suppliers for our products. Our manufacturers may experience unanticipated events that could inhibit their abilities to provide us with adequate manufacturing capacity on a timely basis, or at all. Historically, there have been periods in which there has been a worldwide shortage of manufacturer capacity for the production of high-performance processors such as ours. Introducing new products or transferring existing products to a new third-party manufacturer would require significant development time to adapt our designs to their manufacturing processes and could cause product shipment delays. In addition, the costs associated with manufacturing our products may increase if we are required to use a new third-party manufacturer. If we fail to satisfy our manufacturing requirements, our business would be materially harmed.

We have an agreement with a sole supplier for the manufacture of each of our existing network processor models and we expect to use a sole supplier for our next generation of network processors as well. For example, our special version NP-3 network processor and our NP-4 and NP-5 network processors are supplied or will be supplied to us by Marvell, which may also compete with us, particularly following its 2011 purchase of our competitor Xelerated. Any current or future sole supplier for our current and future products may reduce or delay shipment if its ability to manufacture network processors is constrained. If a sole supplier of our network processors, a third party that arranges for their manufacture, or any other subcontractor fails to deliver network processors or necessary components or services on time or at all, our business could be severely harmed. In addition, if the current manufacturing arrangement between our third-party subcontractor and our sole manufacturer is terminated or amended in a manner detrimental to us, it could adversely affect our business while we try to make alternative arrangements with substitute suppliers.

These and other risks associated with our reliance on a third-party sole supplier and manufacturer could materially and adversely affect our business, financial condition and results of operations.

Unfavorable global economic conditions could have a material adverse effect on our business, operating results and financial condition.

In 2012, economies around the world and financial markets remained weak and volatile as a result of a multitude of factors, including instability in the European market, adverse business and credit conditions, intermittent slower economic activity, concerns about inflation and deflation, fluctuating energy costs, decreased consumer confidence, reduced capital spending, liquidity concerns and other factors. During this period, many companies reduced expenditures, and a significant proportion of such companies have remained reluctant to increase expenditures as the economy has improved, including carriers' expenditures on edge routers and other wire-line equipment. Worsening economic conditions, such as continued European sovereign debt uncertainty, may result in diminished demand for our products and technology, reductions in sales of networking equipment that incorporate our products, longer sales cycles, slower implementation of new Carrier Ethernet networks and increased price competition. Any of these events would likely harm our business, operating results and financial condition. If challenging economic conditions continue or worsen, our business, operating results and financial condition may be adversely affected.

We may experience difficulties or delays in the development or introduction of our new product line, the NPS, and the development expenses and manufacturing costs may be highly expensive.

In 2010, we started the development of a new product line, the NPS – a Network Processor for Smart networks. The NPS is a new innovative type of network processor that addresses the growing need for networking equipment to perform the 'traditional' Layer 2-3 switching and routing along with Layer 4-7 Deep Packet Inspection of the packet's payload. We currently expect the NPS-400 to sample in 2014 and enter production in 2015, with the target applications including Carrier Ethernet edge routers, mobile/wireless packet core infrastructure, security systems, data center traffic aggregation and load balancing switches.

We have invested heavily in the development of this new product line, and the development expenses and manufacturing costs are highly expensive. In 2012, approximately 30% of our research and development expenses were related to the NPS, and we expect 50% or more of our research and development expenses in the next few years to be related to NPS. This will likely result in a significant increase to our operating expenses in the next few years. The development process for these advanced products is lengthy and highly expensive and requires us to accurately anticipate technological innovations and market trends. Our new offerings may not adequately meet the requirements of the marketplace or achieve market acceptance. Furthermore, as a late comer to the data center market we face a greater level of competition and we may be unsuccessful in selling to the markets we are currently targeting and/or selling in significant amounts. If we do not timely develop and introduce our NPS products or respond in a timely manner to changing market conditions, customer requirements or global economic conditions, or if development expenses or manufacturing costs substantially increase, our business revenues and profits will be adversely affected.

We have had a limited operating history in the network processor industry compared to our competitors and our future financial results are difficult to predict.

Our future success will be subject to the risks we will encounter in the network processor industry. We have a limited operating history in the industry compared to our competitors, with our first product sales in 2002 and total sales through December 31, 2012 of approximately \$295 million. We incurred operating losses until 2008. Our limited operating history makes it difficult to evaluate the prospects of our business. Moreover, the network processor industry is constantly evolving and is subject to technological and competitive forces beyond our control. Our ability to design and market products to meet customer demand and the revenue and income potential of our products and business are dependent on numerous risks and uncertainties. Some of these risks relate to our ability to:

- expand and enhance our product offerings;

- increase our revenues;
- diversify our sources of revenue;
- respond to technological changes;
- respond to competitive market conditions; and
- respond to global economic conditions.

If we fail to address these risks and uncertainties, our results of operations will be adversely affected.

We may experience difficulties or delays in the introduction of our new family of network processors and other new and enhanced products, including our NP-5 and NPS.

We may not be successful in developing, introducing and marketing our new offerings or in addressing all or any portion of the potential market for such offerings, including our NP-5 and NPS processors. We may experience difficulties that could delay or prevent the successful development, introduction and marketing of these offerings. In addition, despite our efforts to implement network security measures, our offerings may also be vulnerable to computer viruses, computer hackers, cyber terrorist and similar disruptions from unauthorized tampering. Furthermore, our new offerings may not adequately meet the requirements of the marketplace or achieve market acceptance. If we do not timely develop and introduce these offerings or respond in a timely manner to changing market conditions, customer requirements or global economic conditions, the growth of our business may be adversely affected.

Breaches of network or information technology security, natural disasters or terrorist attacks could have an adverse effect on our business.

Cyber attacks or other breaches of network or IT security, natural disasters, terrorist acts or acts of war may cause equipment failures or disrupt our systems and operations. We may be subject to attempts to breach the security of our networks and IT infrastructure through cyber attack, malware, computer viruses and other means of unauthorized access. The potential liabilities associated with these events could exceed the insurance coverage we maintain. Our inability to operate our facilities as a result of such events, even for a limited period of time, may result in significant expenses or loss of market share to other competitors in the market for network processors. In addition, a failure to protect the privacy of customer and employee confidential data against breaches of network or IT security could result in damage to our reputation. To date, we have not been subject to cyber attacks or other cyber incidents which, individually or in the aggregate, resulted in a material impact to our operations or financial condition. Any of these occurrences could adversely affect our results of operations and financial condition.

Our products may have defects, which could damage our reputation, decrease market acceptance of our products, cause us to lose customers and revenue, increase production costs and result in liability.

Highly complex products such as network processors may contain hardware or software defects or bugs. Often, these defects and bugs are not detected until after the products have been shipped. If any of our products contain defects, or have reliability, quality or compatibility problems, our reputation might be damaged significantly and customers might be reluctant to buy our products, which could result in the loss of or failure to attract customers. In addition, these defects could interrupt or delay sales. We may have to invest significant capital and other resources to correct these problems. If any of these problems are not found until after we have commenced commercial production of a new product, we might incur substantial additional development costs. If we fail to provide solutions to the problems, such as software patches, we could also incur product recall, repair or replacement costs. These problems might also result in claims against us by our customers or others. In addition, these problems might divert technical and other resources from other development efforts. Moreover, we would likely lose, or experience a delay in, market acceptance of the affected product or products, and we could lose credibility with our current and prospective customers. This is particularly significant as we are relatively a new entrant to a market dominated by large, well-established companies.

We may have to redesign our products to meet rapidly evolving industry standards and customer specifications, which could delay our production and increase our operating costs.

We operate in a market characterized by rapidly evolving industry standards, product obsolescence, and new manufacturing and design technologies. Many of the standards and protocols for our products are based on high speed networking technologies that have not been widely adopted or ratified by one of the standard setting bodies in our customers' industry.

Our target customers, network equipment manufacturers, are likely to have varying requirements and may delay or alter their design demands during this standard-setting process. In response, we may have to redesign our products to suit these changing demands, which would likely delay the production of our future products and increase operating costs.

Because our products have lengthy design and development cycles and the development of our network processors is a complex and uncertain process, we could experience delays in generating revenues or cancellation of customer contracts.

We may generate significantly less revenues than we expect from our newly developed products after incurring significant design and development expenditures. Customers may decide to cancel, delay or change their product plans, which could cause us to generate less revenue and adversely affect our results of operations. Even after winning a design contract, a customer may not begin volume production of its equipment for a period of up to two years, if at all. Due to this lengthy design and development cycle, a significant period may elapse from the time we begin incurring expenses until the time we generate revenue from our products, during which market conditions may change. We have no assurances that our customers will ultimately market and sell their equipment incorporating our network processors, or that such efforts by our customers will be successful.

In addition, the development of our network processors is a complex and uncertain process. We may experience design, manufacturing, marketing and other difficulties that could delay the development or marketing of these network processors. The difficulties could result in reduced sales, loss of existing and potential customers and unexpected expenses or delays in the launch of these network processors, all which may adversely affect our results of operations.

We may consider acquiring in the future businesses or technologies. These acquisitions could divert our resources, cause dilution to our shareholders and adversely affect our financial results.

We may use our cash, cash equivalents and marketable securities to acquire complementary businesses or technologies. We have not made any acquisitions to date and our management has not had any experience making acquisitions or integrating acquired businesses. Negotiating potential acquisitions or integrating newly acquired businesses or technologies into our business could divert our management's attention from other business concerns and could be expensive and time consuming, whether or not they are consummated. Acquisitions could expose our business to unforeseen liabilities or risks associated with entering new markets. Consequently, we might not be successful in integrating any acquired businesses or technologies, and might not achieve anticipated revenue or growth. In addition, future acquisitions could result in performance problems with an acquired company, or issuances of equity securities that cause dilution to our existing shareholders, and adversely affect our relationships with our customers.

The loss of personnel could affect our ability to design and market our products.

To succeed, we must retain and hire technical personnel highly skilled in the design and test of functions used to develop Ethernet network processors and related software. We face intense competition for our technical personnel from our competitors, customers, other companies in the communications industry and from an increasing number of emerging startup companies with potentially lucrative employee ownership arrangements. If we fail to attract and retain qualified personnel, our business, operations and product development efforts would suffer. In addition, recruiting, hiring and retaining key personnel can also result in significant monetary costs.

If we are unable to adequately protect our technology or other intellectual property through patents, copyrights, trade secrets, trademarks and other measures, our competitors and third party manufacturers could use our proprietary information and we could lose our competitive advantage.

To compete effectively, we must protect our proprietary information. We rely on and intend to continue to rely on a combination of patents, trademarks, trade secret laws, confidentiality procedures and licensing arrangements to protect our intellectual property rights. Our failure to adequately protect our technology or other intellectual property from use by our competitors and third party manufacturers could jeopardize our competitive advantage, and result in a loss of customers. We have a number of issued patents, however, the patents that have been issued may not provide any meaningful protection or commercial advantage to us, as they may not be of sufficient scope or strength, or may not be issued in all countries where our products can be sold.

Our products employ technologies that may infringe on the proprietary rights of third parties, which may expose us to litigation and prevent us from selling our products.

Vigorous protection and pursuit of intellectual property rights or positions characterize the semiconductor industry. This often results in expensive and lengthy litigation. We, as well as our customers or suppliers, may be accused of infringing on patents or other intellectual property rights owned by third parties. An adverse result in any litigation could force us to pay substantial damages, stop designing or manufacturing, using and selling the infringing products, spend significant resources to develop non-infringing technology, indemnify third parties, discontinue using certain processes or obtain licenses to use the infringing technology. In addition, we may not be able to develop non-infringing technology, nor might we be able to find appropriate licenses on reasonably satisfactory terms.

Because the processes used to manufacture our products are complex, customized to our specifications and can only be performed by a limited number of manufacturing facilities, we may experience delays in production and increased costs.

The manufacture of processors is a highly complex and technically demanding process. Defects in design or problems associated with transitions to newer manufacturing processes or new manufacturers can result in unacceptable manufacturing yields and performance. These problems are frequently difficult to detect in the early stages of the production process and can be time-consuming and expensive to correct once detected. As a result, defects, performance problems with our products or poor manufacturing yields could adversely affect our business and operating results.

The performance of the capital markets may significantly decrease the value of our marketable securities and may cause us to incur impairment charges relating to our investment portfolio.

The performance of the capital markets affects the values of the funds we hold in marketable securities, which as of December 31, 2012 totaled \$33.1 million. These securities are subject to market fluctuations. For example, in 2008 and into first half of 2009, the credit and capital markets deteriorated significantly and adversely impacted the fair value of our investments. Future turmoil in the capital markets may result in impairments of the carrying value of our investment assets. Realized or unrealized losses in our investments or in our other financial assets may adversely affect our financial condition.

We may fail to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, which could have an adverse effect on our financial results and the market price of our ordinary shares.

The Sarbanes-Oxley Act of 2002 imposes certain duties on us and our executives and directors. Our efforts to comply with the requirements of Section 404 have resulted in increased general and administrative expense and a diversion of management time and attention, and we expect these efforts to require the continued commitment of resources. Section 404 of the Sarbanes-Oxley Act requires (i) management's annual review and evaluation of our internal control over financial reporting and (ii) a statement by management that its independent registered public accounting firm has issued an attestation report on our internal control over financial reporting, in connection with the filing of the Annual Report on Form 20-F for each fiscal year. If we fail to maintain the adequacy of our internal control over financial reporting, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigation or sanctions by regulatory authorities and could have a material adverse effect on our operating results, investor confidence in our reported financial information, and the market price of our ordinary shares.

Risks Relating to Our Ordinary Shares

Our share price has been highly volatile and may continue to be volatile and decline.

The trading price of our shares has in the past and continues to fluctuate widely and may continue to do so in the future as a result of a number of factors, many of which are outside our control. In addition, the stock market has experienced extreme price and volume fluctuations in the last few years that have affected the market prices of many companies, including technology companies, and have often been unrelated or disproportionate to the operating performance of these companies. These broad market fluctuations could adversely affect the market price of our shares. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. Securities class action litigation could result in substantial costs and a diversion of our management's attention and resources.

Future exercises of our options and vesting of our restricted share units may result in substantial dilution and future sales of these ordinary shares may cause the market price of our ordinary shares to decline.

Future exercises of our options and vesting of our restricted share units may result in substantial dilution and future sales of these ordinary shares may cause the market price of our ordinary shares to decline. We cannot predict what effect, if any, future sales of our ordinary shares, or the availability of our ordinary shares for future sale, will have on the market price of our ordinary shares. Sales of substantial amounts of our ordinary shares in the public marketplace by us or our shareholders, or the perception that such sales could occur, could adversely affect the market price of our ordinary shares and may make it more difficult for investors to sell ordinary shares at a time and price which such investors deem appropriate.

We have never paid cash dividends and have no intention to pay dividends in the foreseeable future.

We have never paid cash dividends on our shares and do not anticipate paying any cash dividends in the foreseeable future. We intend to retain earnings, if any, for use in our business, in particular to fund our research and development, which are important to capitalize on technological changes and develop new products and applications. Any future dividend distributions are subject to the discretion of our board of directors and will depend on various factors, including our operating results, future earnings, capital requirements, financial condition, tax implications of dividend distributions on our income, future prospects and any other factors deemed relevant by our board of directors. The distribution of dividends also may be limited by Israeli law, which permits the distribution of dividends only out of retained earnings or otherwise upon the permission of the court.

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

Our ordinary shares are traded primarily on the NASDAQ Global Select Market and also on the Tel Aviv Stock Exchange. Trading in our ordinary shares on these markets is made in different currencies (U.S. dollars on the NASDAQ Global Select Market, and NIS, on the Tel Aviv Stock Exchange), and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). Consequently, the trading prices of our ordinary shares on these two markets often differ. Any decrease in the trading price of our ordinary shares on one of these markets could cause a decrease in the trading price of our ordinary shares on the other market.

Risks Relating to Our Location in Israel

Political, economic and military instability in Israel may disrupt our operations and negatively affect our sales.

We are incorporated under the laws of the State of Israel, and our principal executive offices and principal research and development facilities are located in Israel. Political, economic and security conditions in Israel directly influence us. Since the establishment of the State of Israel in 1948, Israel and its Arab neighbors have engaged in a number of armed conflicts. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Major hostilities between Israel and its neighbors may hinder Israel's international trade and lead to economic downturn. This, in turn, could have a material adverse effect on our operations and business. There has been an increase in unrest and terrorist activity in Israel, which began in September 2000 and which has continued with varying levels of severity through 2012. In recent years, there was an escalation in violence among Israel, Hamas, the Palestinian Authority and other groups. Hamas launched hundreds of missiles from the Gaza Strip against Israeli population centers, which led to an armed conflict between Israel and Hamas during December 2008, January 2009 and November 2012. During 2011 and 2012, riots and uprisings in several countries in the Middle East and neighboring regions have led to severe political instability in several neighboring states and to a decline in the regional security situation. Such instability may lead to deterioration in the political and trade relationships that exist between the State of Israel and these countries. In addition, such instability may affect the global economy and marketplace as a result of changes in oil and gas prices. Since our headquarters and research and development facilities are located in the State of Israel, any such events that affect the State of Israel may impact us in unpredictable ways. If our operations are significantly impacted by such events, our results of operations may be adversely affected.

Ongoing violence between Israel and the Palestinians as well as tension between Israel and neighboring and other hostile countries or political instability in the region may have a material adverse effect on our business, financial conditions and results of operations.

Additionally, some of our key employees in Israel are obligated to perform annual reserve duty in the Israel Defense Forces and are subject to being called for active military duty at any time in the event of a national emergency. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods of time. Our operations could be disrupted by the absence for a significant period of one or more of our key employees due to military service. Any disruption in our operations would harm our business.

Fluctuations in the exchange rate between the U.S. dollar and foreign currencies may affect our operating results.

A significant portion of the cost of our Israeli operations, mainly personnel costs, is incurred in NIS. Therefore, our NIS related costs, as expressed in U.S. dollars, are influenced by the exchange rate between the U.S. dollar and the NIS. In the past, the NIS exchange rate with the U.S. dollar and other foreign currencies has fluctuated, generally reflecting inflation rate differentials. We cannot predict any future trends in the rate of inflation in Israel or the rate of depreciation or appreciation of the NIS against the U.S. dollar. NIS linked balance sheet items may create foreign exchange gains or losses, depending upon the relative dollar values of the NIS at the beginning and end of the reporting period, affecting our net income and earnings per share. Although we may use hedging techniques we cannot completely eliminate the effects of currency fluctuations. Exchange rate fluctuations resulting in the depreciation of the U.S. dollar compared to the NIS could have a material adverse impact on our operating results and share price.

Tax benefits that are available to us require us to meet several conditions and may be terminated or reduced in the future, which would increase our future tax expenses.

Currently we have three programs under the Israeli Law for the Encouragement of Capital Investments, 1959, or the Investment Law, which entitle us to certain tax benefits. Our facilities in Israel have been granted Approved Enterprise status under the Investment Law and we have two programs that qualify as Privileged Enterprises pursuant to an amendment to the Investment Law that came into effect in April 2005. Among other things, the Investment Law, as amended in 2005, provides tax benefits to both local and foreign investors and simplifies the approval process. Such amendments do not apply to investment programs approved prior to December 31, 2004. Therefore, our Approved Enterprise program is not subject to the provisions of the amendment, but our two Privileged Enterprise programs are.

In order to be eligible for tax benefits under the Investment Law, our Approved Enterprise and Privileged Enterprises must comply with various conditions set forth in the Investment Law and the criteria set forth in the applicable certificate of approval for the Approved Enterprise, as well as periodic reporting obligations. If we fail to meet these requirements, we would be subject to corporate tax in Israel at the regular statutory rate. We could also be required to refund tax benefits, with interest and adjustments for inflation based on the Israeli consumer price index. Additional details are provided in "Item 10 – Additional Information" under the caption "Israeli tax considerations, foreign exchange regulations and investment programs".

If the Government of Israel discontinues or modifies these programs and potential tax benefits, our business, financial condition and results of operations could be materially and adversely affected.

The government grants we receive for research and development expenditures fund a significant portion of our research and development expenses and limit our ability to transfer technologies outside of Israel and require us to satisfy specified conditions.

Since April 2006, our research and development efforts have been financed, in part, through grants from the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor, or OCS. We therefore must comply with the requirements of the Israeli Law for the Encouragement of Industrial Research and Development, 1984 and related regulations, or the Research Law. If we fail to comply with any of the requirements imposed by the OCS, such as change of control notices and annual reporting requirements, we may be required to refund any grants previously received together with interest and penalties, and a person who transferred OCS-funded technology may be subject to criminal charges and up to three years imprisonment.

We received research and development grants of approximately \$5.9 million in 2012 and \$5.1 million in 2011, which funded approximately 30% of our research and development expenses in each of those years. In recent years, the Government of Israel has reduced the benefits available under these programs, and these programs may be discontinued or curtailed in the future. If the Government of Israel discontinues or modifies these programs, or we are unable to comply with the new requirements, our expenses will increase significantly, and our business, financial condition and results of operations could be materially and adversely affected.

Technology developed by OCS funding may only be transferred subject to the prior approval of an OCS committee and, under certain circumstances, also to the payment of a redemption fee which is a certain percentage of the price paid in connection with such a transfer. A transfer, for the purpose of OCS rules, includes an actual sale of the technology, any exclusive license to develop, market, and manufacture products resulting from the technology or any other transaction which in essence constitutes a transfer of the technology and does not include the worldwide sale of products that are based on technology developed with OCS funding. We may not receive the required approvals should we wish to transfer this technology in the future. These restrictions may impair our ability to sell our technology assets, and the restrictions will continue to apply even after we have repaid the full amount of royalties payable for the grants. In addition, the restrictions may impair our ability to consummate a merger or similar transaction in which the surviving entity is not an Israeli company.

It may be difficult to enforce a U.S. judgment against us or our officers and directors, to assert U.S. securities laws claims in Israel or serve process on substantially all of our officers and directors.

We are organized under the laws of the State of Israel. Substantially all of our executive officers and directors and a substantial portion of our assets and the assets of these persons are located outside the United States. Therefore, it may be difficult for an investor, or any other person or entity, to collect a judgment obtained in the United States against us or any of these persons, or to effect service of process upon these persons in the United States. Furthermore, it may be difficult to assert U.S. securities law claims in original actions instituted in Israel.

The rights and responsibilities of our shareholders are 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 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 power in the company, including, among other things, in voting at a general meeting of shareholders on certain matters. Israeli law provides that these duties are applicable in shareholder votes on, among other things, amendments to a company's articles of association, increases in a company's authorized share capital, mergers and interested party transactions requiring shareholder approval. In addition, a controlling shareholder, a shareholder who knows that it possesses the power to determine the outcome of a shareholder vote, and a shareholder that possesses the power to appoint or prevent the appointment of a director or executive officer in the company has a duty of fairness toward the company. The Israeli Companies Law also provides that a breach of the duty of fairness will be governed by the laws governing breach of contract; however, Israeli law does not define the substance of this duty of fairness. There is little case law available to assist in understanding the implications of these provisions that govern shareholder behavior.

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

Some of the provisions of Israeli law could discourage potential acquisition proposals, delay or prevent a change in control and limit the price that investors might be willing to pay in the future for our ordinary shares. Israeli corporate law regulates mergers and acquisitions of shares through tender offers, requires approvals for transactions involving significant shareholders and regulates other matters that may be relevant to these types of transactions. Furthermore, Israel tax law treats stock-for-stock acquisitions between an Israeli company and a foreign company less favorably than does U.S. tax law. For example, Israeli tax law may subject a shareholder who exchanges his ordinary shares for shares in a foreign corporation to immediate taxation or to taxation before his investment in the foreign corporation becomes liquid. These provisions may adversely affect the price of our shares.

As a foreign private issuer whose shares are listed on the NASDAQ Global Select Market, we may follow certain home country corporate governance practices instead of certain NASDAQ requirements. We follow Israeli law and practice instead of NASDAQ rules regarding the director nominations process and the requirement to obtain shareholder approval for certain dilutive events.

As a foreign private issuer whose shares are listed on the NASDAQ Global Select Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of the NASDAQ Stock Market Rules. We do not comply with NASDAQ requirements regarding the director nominations process, which require that director nominees be recommended for the board of directors selection/determination, either by a majority of the independent directors or a committee comprised solely of independent directors. Instead, we follow Israeli law and practice in accordance with which our directors are recommended by our board of directors for election by our shareholders. In addition, we follow our home country law, instead of the NASDAQ Stock Market Rules, which require that we obtain shareholder approval for certain dilutive events, such as for the establishment or amendment of certain equity based compensation plans and arrangements, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company. Under Israeli law and practice, in general, the approval of the board of directors is required for the establishment or amendment of equity based compensation plans and arrangements, unless the arrangement is for the benefit of a director, or a controlling shareholder, in which case audit committee and shareholder approval are also required. Similarly, the approval of the board of directors is generally sufficient for a private placement unless the private placement involves a director, a controlling shareholder or is deemed a "significant private placement," in which case shareholder approval, and, in some cases, audit committee approval, would also be required. The Israeli Companies Law defined a "significant private placement" as a private placement (i) resulting in a party becoming a controlling shareholder, or (ii) involving the issuance of a 20% or more voting rights in the company, which (A) results in a 5% or more shareholder increasing its interest in the company or an offeree becoming a 5% or more shareholder, and (B) involves consideration that is not solely cash or public traded securities, or is not on fair market terms. As a foreign private issuer listed on the NASDAQ Global Select Market, we may also follow home country practice with regard to, among other things, composition of the board of directors and quorum at shareholders' meetings. A foreign private issuer that elects to follow a home country practice instead of NASDAQ requirements must submit to NASDAQ in advance a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws. In addition, a foreign private issuer must disclose in its annual reports filed with the Securities and Exchange Commission each such requirement that it does not follow and describe the home country practice followed by the issuer instead of any such requirement. Accordingly, our shareholders may not be afforded the same protection as provided under NASDAQ's corporate governance rules.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

We were incorporated as a limited liability company under the laws of the State of Israel in 1989 as Dan-Serb Ltd. and changed our name to LanOptics Ltd. in March 1990 and to EZchip Semiconductor Ltd. on July 22, 2008. Until 1999, our principal business was the development, manufacture and marketing of solutions and Internet applications to improve the connectivity and performance of corporate Local Area Networks, or LANs, and Wide Area Networks, or WANs. In mid-1999, we decided to cease the research and development of new switching products for LANs and instead, to focus on our internal ASIC design team. This team, which had previously developed ASICs for our LAN and WAN products, began work on the development of network processors. This new business initiative was incorporated as our subsidiary EZchip Technologies in December 1999.

We are currently engaged in the development and marketing of Ethernet network processors for networking equipment. We provide our customers with solutions that scale from a few Gigabits per second to hundreds of Gigabits per second. Our network processors provide great flexibility and high performance coupled with superior integration and power efficiency for a wide range of applications in carrier, data center, cloud and enterprise networking equipment. Our principal executive offices are located at 1 Hatamar Street, P.O. Box 527, Yokneam 20692, Israel, and our telephone number is +972-4-959-6666. Our website address is www.ezchip.com. The information on our website is not incorporated by reference into this annual report. Puglisi & Associates, located at 859 Library Avenue, Suite 204, P.O. Box 885, Newark, Delaware 19715, serves as our agent for service of process in the United States.

B. BUSINESS OVERVIEW

Industry Background

In recent years there has been a significant increase in the bandwidth demands on communications networks. These networks have experienced major upsurges in the volume, variety and complexity of communications traffic. The expansion of broadband access technologies to residences and businesses, in large part due to growth in Internet usage and the dramatic increase in communications traffic that consists of digital media, have created strong demand for greater network bandwidth. To meet this demand, carrier networks are undergoing significant changes and, most significantly, are migrating to packet-based Ethernet networks that enable higher throughput, lower cost and uniform technology across both the access and metro networks. These networks are now being designed to deliver voice, video and high-speed Internet access, or "triple-play" services, on one converged, efficient and flexible network. These trends require network equipment, and particularly the switches and routers that build the metro Ethernet networks, to comply with evolving market requirements and to be able to provide new services, better quality of service, or QoS, and to support new protocols and standards. Programmable network processors, or NPUs, address these needs.

Network processors are programmable integrated circuits that combine the speed advantages of fixed-function ASIC chips with the programmability and flexibility of microprocessors. They can accommodate new Internet applications and new protocols, simply by downloading new software. This combination of performance, speed and flexibility allows equipment suppliers to keep pace with changes, offer new services and extend the lifespan of their products.

Carrier network equipment is the primary target for network processors, since the switches, routers and access nodes that make up the carrier networks are more demanding in features and performance and are less cost sensitive than enterprise networks. The carrier network usually consists of three domains, although in some cases there is an overlap between these domains: (i) the access network aggregates traffic from individuals, businesses and residences; (ii) a metro area network spans a metropolitan area, and interconnects the access networks; (iii) WAN interconnects geographically distanced metro area networks.

As carriers gradually migrate to Ethernet-based infrastructure, the various classes of equipment that make up the carrier networks are migrating to Ethernet-centric platforms, including routers, transport switches, and access platforms. Vendors of these types of systems are the primary target customers for our network processors. Other smaller target markets include data center appliances that perform functions such as security, load balancing and traffic monitoring and analysis.

In addition, the demand for enhanced services in network equipment is continuously growing as service providers. Data centers need to better understand the traffic running on their networks and provide more intelligent services. This puts demand on the network to provide greater capabilities for packet manipulation, Deep Packet Inspection, or DPI, and security features. In parallel, the continued growth in network traffic is forcing equipment vendors to look for solutions that perform these tasks at the highest speeds and integration.

Network equipment systems that use our network processors are typically built as a modular, multi-slot chassis that consists of several line cards with many network ports per line card or as a stand-alone, fixed configuration, flat frame known as a pizza box.

Market Trends

Networking equipment can be designed to incorporate ASICs, which are non-programmable switching chips, field programmable gate arrays, or FPGAs, high-speed NPUs, or a combination of these. The challenge is to provide an integrated solution that is both flexible and cost-effective.

Although ASICs are effective from a cost/performance viewpoint, their lack of programmability is a severe disadvantage. This makes them inflexible and therefore inadequate to accommodate today's rapidly changing application environment with evolving requirements to provide new services, features and network protocols.

FPGAs are relatively expensive and do not provide the price points that effectively address carrier network price targets.

NPUs are the most suitable for use in networking equipment because of the high throughput and flexibility they provide. NPUs typically maximize current silicon technologies to provide optimal programming flexibility and integration while maintaining high performance. NPUs are cost effective in light of their advantages. Within the market for NPUs, there are currently two main classes:

- Access NPUs - typically with several Gigabit-per-second and up to 20-Gigabit-per-second throughput and used mostly in access equipment.
- High-speed NPUs - typically with 20-Gigabit and higher throughput and used mostly in metro and carrier edge equipment.

High-speed Carrier Ethernet equipment typically uses a significant number of NPUs. Systems are often built in a modular, multi-slot chassis. Each chassis typically consists of 8-16 line cards, with each line card consisting of 1-8 NPUs, so that 8-128 NPUs might be used for a fully populated chassis. Equipment built in a pizza box form will typically use 1-4 NPUs per box.

Our Solution

We design and produce network processors for high-speed networking equipment, integrating several key functions into a single chip. In recent years we have also introduced products for the low-speed access market. Networking equipment vendors use our network processors to form the silicon core of next-generation networking equipment, such as switches and routers, for voice, video and data integration in a variety of applications. We are a fabless semiconductor company, which means that we do not have our own semiconductor manufacturing plant, but rather utilize outside fabrication facilities.

Our network processors are single-chip solutions that enable our customers to design high-density, multi-port line cards. They include processing and classification engines, traffic managers, media access controllers, or MACs, and a variety of specialized hardware blocks that accelerate various functions, and as a result, reduce the number of complementary chips required. This high level of integration benefits networking vendors by reducing the system price, power dissipation, complexity and amount of space required on the board.

Our NPUs represent a major advance over earlier generations of network processor solutions. These earlier solutions required multiple chips to perform the requisite designed-in functions, placing limitations on the speed at which data could be processed, the density of ports that could be achieved in a given system and the associated cost. Moreover, most of these earlier solutions employed generic reduced instruction set computer, or RISC, processors rather than specially designed processing engines. Our advantages over these earlier designs lie in the integration of processing, classification and traffic management functions in a single chip. This is accomplished with patented and other proprietary elements, our task optimized processing technology that uses specialized processing engines instead of generic RISC engines, chip architecture innovations and innovative table lookup (search) algorithms. As a result, systems designed using our products offer equipment vendors the performance they need and the ability to reduce chip count, power consumption and cost.

We offer solutions that range in throughput from several Gigabits-per-second to hundreds of Gigabits-per-second with common architecture. Our network processors are largely software compatible, making it possible for customers to easily port their network-processor applications among multiple product families based on our NPUs.

Products

Network Processor Chips

The NP-2, introduced in 2005, is a single-chip, full-duplex, 10-Gigabit (20-Gigabit total) network processor. In addition to the integration of packet processing, classification search engines and MACs provided in the previous generation NP-1c, the NP-2 also includes traffic managers for improved QoS. By integrating the traffic management function directly into our network processor (unlike competing NPUs, where this function is generally performed by complementary chips), we offer our customers a cost-effective network processing solution that reduces power dissipation and system design costs. The NP-2 network processor is available in three models with different speeds and feature sets. Since all the NP-2 models are software compatible and share the same pin arrangement, customers may modify their NP-2 designs using the different NP-2 models to offer a range of products at differing price points. The NP-2 addresses line card applications, which often have eight or more cards installed per chassis, and stand-alone "pizza box" applications. The NP-2 network processor is manufactured by Taiwan Semiconductor Manufacturing Company Limited, or TSMC.

The NP-3, in production since 2008, is an enhanced version of the NP-2, providing a 30 Gigabit total throughput. We offer two versions of the NP-3 network processor. The first is a special version developed jointly with Marvell for Cisco. We developed the second version for the general market independently of Marvell. The NP-3 features greater throughput than the NP-2 through the use of 90nm silicon process, enhanced table lookup algorithms and faster memory interfaces. It also provides enhanced traffic management and an integrated offload engine for operations, administration and maintenance functions which are of great importance in Carrier Ethernet equipment.

Pursuant to our agreement with Marvell, Marvell is responsible for the manufacturing and sells the customized version of the NP-3 to Cisco and pays us a fixed royalty fee that is comparable to the gross profit we would have generated had we sold the chip directly to Cisco. Since we do not incur any production costs under this model, sales to this customer result in a higher gross margin to our company. The standard NP-3 network processor is manufactured by IBM and is sold by us in a direct selling model to our other customers.

The NP-4, a 100-Gigabit NPU (total throughput), continues with our distinctive high level integration of functionality into the network processor. NP-4 offers higher throughput than NP-3 and targets 40-Gigabit, 100-Gigabit and up to 400-Gigabit line-card and pizza box Carrier Ethernet applications. In addition to its integrated classifiers and traffic managers, the NP-4 includes Ethernet physical layer transceivers, and for some applications may eliminate the need for a separate fabric interface chip. Integration of these functions, normally performed by separate chips, is intended to further save our customers valuable space on their cards while reducing system costs and complexity. We began sampling the NP-4 in January 2010 and it entered into production towards the end of 2011. The NP-4 network processor is manufactured by TSMC.

We have entered into an agreement with Marvell pursuant to which Marvell will be the sole vendor for our NP-4 network processor and it may be sold in two methodologies: (i) direct sales to the general market in which we purchase the NP-4 from Marvell and sell it to our customers; and (ii) a royalty model, similar to the one implemented with the NP-3, with respect to sales to Cisco.

The NPA, in production since late 2010, is a series of network processors targeting Ethernet Access applications. Several models of the network processors are offered with combinations of 100-Megabit, 1-Gigabit and 10-Gigabit Ethernet ports. This family of access NPUs applies the technology we developed for our high-speed NPUs to allow building Ethernet access switching systems.

In 2011, we sampled a lower speed device, the NPA-0, which complements our access NPU offerings to also address applications that require low throughput at low price points. In addition to functions available on NPA, the NPA-0 also integrates a central processing unit, or CPU, that can be used as the system host CPU. As such, the NPA-0 may serve as a complete system-on-a-chip and provide a cost and power effective solution for small access applications, such as mobile base-station traffic backhauling and branch office routing nodes. The NPA-0 entered production during the second half of 2012.

With the addition of the NPA family of access NPUs, we now offer customers a broad range of NPUs ranging in throughput from several Gigabits to 100 Gigabits, and once the NP-5 becomes available (see "Future Products" below), to 200 Gigabits, with similar architecture and software that can be ported to multiple product lines.

Evaluation Boards and Network-processor Based Systems

Although our primary business is selling network processor chips, we offer systems based on our network processor. Evaluation systems are usually required by customers to enable them to test their NPU-based systems. These systems also serve customers that focus and differentiate themselves through software applications and are in need of high-performance packet processing hardware platforms for their software applications. The systems we provide use similar software environments and vary in their form factor:

- NP-3 EZappliance is a stand-alone, self-contained box based on the NP-3.
- Evaluation systems for our NP-4 and NPA network processors in various form factors.

Development Software Toolkits

In order to facilitate our customers' adaptation of our products, we offer toolkits that assist our customers in creating, verifying and implementing solutions based on our network processors. These toolkits are used for customers' product development based on all of our network processors.

The EZdesign toolkit is a comprehensive software development toolset with a graphical user interface (GUI) for writing, testing and debugging programs for our network processors to implement a wide range of applications and reduce time to market of next-generation networking products. It includes a hardware-software simulator, a compiler, debugger and other utilities. We continually release new versions of the EZdesign toolset, providing functional enhancements.

EZdriver is a toolset that facilitates the development of the control path software for our systems. It enables applications that run on the control CPU to communicate with our network processors. EZdriver consists of routines that execute on the control CPU and provide an application program interface, or API, to the network processor. It includes network processor configuration, microcode loading, creation and maintenance of network-processor lookup structures, sending and receiving frames to and from the network processor, as well as configuration and access to the network-processor statistics block.

To assist our customers in their application development, we also provide customers with a broad library featuring data plane code for a wide range of applications. These include Metro Ethernet protocols, MPLS (Multi-Protocol Label Switching), IPv4 and IPv6 routing, ACL (Access Control Lists), GPON/EPON OLT functionality, Network Address Translation and Server Load Balancing. New code is periodically added to this library.

Future Products

In order to maintain our technology leadership position and broaden the solutions we offer, we continuously develop next generation NPU devices.

In 2010, we began work on the NP-5, a 200-Gigabit NPU (total throughput), that will provide a solid roadmap for our customers that use our NP-2, NP-3 and NP-4 processors. The NP-5 continues our strategy of increasing NPU integration, performance and functionality, to allow networking systems to deliver higher total throughput and greater port density at reduced cost points. We expect the NP-5 NPU to sample in 2013 and enter production in 2014. We have entered into an agreement with Marvell with regards to the NP-5, which is similar to our agreement with Marvell with regards to the NP-4.

In 2010, we also started the development of a new product line, the NPS – a Network Processor for Smart networks. The NPS is a new innovative type of network processor that addresses the growing need for networking equipment to perform the ‘traditional’ Layer 2-3 switching and routing along with Layer 4-7 Deep Packet Inspection of the packet’s payload. This combination is increasingly required in networking equipment, for performing intelligent analysis of the traffic flows, for deploying services and enforcing policies. Target applications include Carrier Ethernet edge routers, mobile/wireless packet core infrastructure, security systems, data center aggregation and load balancing switches and WAN optimization appliances.

Systems that deliver today many of these services typically use a combination of NPUs for Layer 2-3 packet processing and multi-core CPUs for Layer 4-7 processing. The NPS will be an innovative NPU that delivers Layer 2-7 processing in one chip, offering system vendors greater performance and simplicity at lower cost and power. Furthermore, unlike other NPUs, NPS will utilize new processing cores that will be programmable in high-level C language under a standard Linux® operating system, enabling a much easier customer programming experience.

The first NPS device will be a 400-Gigabit Layer 2-7 NPU that addresses the market for high-performance intelligent packet processing in Carrier Ethernet and data center networking equipment. It is expected to provide very high throughput and integrate the key components related to intelligent packet processing, including a many-core array of CPUs optimized for packet processing for Layer 2-3 and 4-7 packet processing, a traffic manager, IPSec security accelerators and pattern matching and regex (regular expression) accelerators. We expect the NPS-400 to sample in 2014 and enter production in 2015.

Technology

In general, a network processor is a programmable integrated circuit used in data communications that is capable of performing one or more of the following functions: packet classification (that is, identifying a packet of data based on known characteristics such as address or protocol), packet modification (that is, modifying the packet to comply with specified protocols), queue/policy management (that is, reflecting the organization and prioritization of the processing of specific packets) and packet forwarding (that is, transmission and receipt of data and forwarding or routing the packet to the appropriate address). Performance of these functions requires the network processor device to handle identification, classification and processing tasks simultaneously.

Our NP product lines of NPUs integrate many high-speed task optimized processors, or TOPs, each specifically designed and optimized to perform a specific task. Four types of TOPs – parse, search, resolve and modify – are employed in our NPUs to perform the main tasks of packet processing, which are classification, forwarding and modification. Each type of TOP employs a unique architecture with a customized, function-specific data path and instruction set. This minimizes the number of clock cycles required for complex packet manipulation and provides exceptionally fast packet processing. TOP performance is boosted by a super-scalar architecture in which multiple instances of the TOPs operate in parallel within each pipeline stage.

Our NP product lines of NPUs feature embedded search engines (TOPsearch) that perform table lookups needed for implementing diverse applications. These search engines implement proprietary and patented lookup algorithms that utilize dynamic random access memory (DRAM) chips for storing the lookup tables and reduce the need for more expensive content addressable memory (CAM) and static random access memory (SRAM) chips.

Our network processors also incorporate integrated traffic managers for advanced QoS, which is required by increasingly complex networks. After modification, packets are put in queues that are managed by the traffic manager to control the priority, bandwidth utilization and scheduling of packets as well as dealing with congestion scenarios. The traffic management provides QoS for video, voice and data services in packet-based networks and enables carriers to offer service level agreements to their customers. By integrating this functionality into our network processors, the need for our customers to employ a separate traffic management chip is eliminated.

The NPS builds on the architecture of our successful NP Layer 2-3 network processors. It effectively adds to the NP infrastructure new and innovative technologies to enable extremely high performance C-programmable packet processing cores for Layer 2-7 processing, traffic manager, high-performance memory access, and DPI and security acceleration. Unlike the NP products, NPS will utilize new processing cores that will be programmable in high-level C language under standard a Linux® operating system.

We consider the processing flexibility and the ability to implement and integrate the main network processing features into a single chip at high performance as primary advantages of our technology. We intend to continue to provide this high level of integration in future products under development.

Research and Product Development

Currently, 156 employees, representing approximately 80% of our employees, are engaged in research and development. Our senior executives devote a substantial portion of their time in communicating with customers to determine what product needs should be addressed. Since April 2006, our research and development efforts have been financed, in part, through grants from the OCS.

Since 2010 we have invested heavily in the development of our new product line, the NPS, and the development expenses and manufacturing costs are highly expensive. In 2012, approximately 30% of our research and development expenses were related to the NPS, and we expect 50% or more of our research and development expenses in the next few years to be related to the NPS. This will likely result in a significant increase to our operating expenses in the next few years.

Our research and development expenses, net, were approximately \$13.7 million in 2010, \$16.7 million in 2011 and \$19.7 million in 2012. We received research and development grants of approximately \$3.2 million in 2010, \$5.1 million in 2011 and \$5.9 million in 2012.

Sales and Marketing

Our objective is to become a leading supplier of Ethernet network processors. To meet this objective, we devote significant resources to securing new customers, preferably leading networking equipment vendors, and we place an emphasis on assisting our existing customers in bringing their products to mass market production.

In general, it takes a customer 18 to 24 months to design and bring to market a networking product based on our network processor chips. During this design phase, the revenues we recognize are mostly attributable to the sale of evaluation systems and development software toolkits that our customers use to assist in the development of their own network processor based products. As customers move to development of their own boards incorporating our network processors, they purchase sample chips from us for testing purposes. Once their own designs are completed, customers move into the production phase where they begin to manufacture their products. At this point customers purchase a limited number of network processors for the initial production stage. Depending upon the acceptance of their products in the marketplace and the speed of deployment of projects with them, the customer may or may not increase production. Volume production of a customer's product is expected to translate into volume sales of our network processors. We have no direct influence upon the sales and marketing of our customers' products.

Since we expect the NPU market to continue to grow, we believe that by securing more customers and more design wins we are strengthening our market position and increasing our potential market share. We work closely with existing and potential customers in their design of systems and equipment where the capabilities of our products can be exploited. We target designers, manufacturers and vendors of networking equipment and other large-scale packet processing network systems.

To facilitate marketing efforts, we have built on our extensive industry exposure through press, conferences and trade shows and have established sales and support offices in California and Massachusetts, as well as local support in China. Currently, our sales, marketing and support staff consists of 21 professionals and administrative personnel. This sales force consists of persons with technical training and significant experience in the semiconductor industry. Sales efforts are augmented by the direct involvement of our senior executives, who work closely with customers to determine product needs. In some parts of the world our strategy is to work with local marketing channels, including sales agents, resellers and distributors. These channels are assigned territories of primary responsibility, with exclusive rights in some cases. We will consider the need for local sales offices when justified by the circumstances. Our in-house sales and marketing force and the external marketing channels are also responsible for providing local technical support.

Our marketing communications activities include:

- seminar programs, guest speaker invitations and technical conferences;
- public relations activities and customer events;
- technical articles in industry publications and marketing collateral materials; and
- communications on the Internet.

We also work with leading vendors of complementary technologies to provide our customers with fully interoperable solutions. We provide interoperability with devices from numerous semiconductor companies, including Broadcom (including through the acquired Dune Networks and NetLogic Microsystems), Marvell, PMC-Sierra and Zarlink.

Customers

Most of our customers are vendors of networking equipment to which we sell directly or through contract manufacturers or distributors.

Our processors target the Carrier Ethernet equipment market, which consists of five major segments. Fourteen vendors have significant market share within these five Carrier Ethernet market segments, although not all vendors are active in all segments. There are many additional vendors actively providing equipment into the various segments, presently with relatively small market shares. Each vendor that is active in one or more Carrier Ethernet segment represents one or more potential platforms that may use our processors. Out of the 14 main vendors, currently 11 are our customers. We continue to work towards expanding into additional product lines and market segments with our existing customers, as well as winning new customers.

Within the five segments of the Carrier Ethernet market, CESR is currently our main market from which we derive most of our revenues. There are seven main players in the CESR segment, of which six are currently customers for our NPUs:

- Cisco has selected a customized version of the NP-3, NP-4 and NP-5 for its principal CESR platforms. Pursuant to our agreement with Marvell, Marvell is responsible for the manufacturing and selling of the customized version of the NP-3, NP-4 and NP-5 to Cisco and pays us a fixed royalty fee that is comparable to the gross profit we would have generated had we sold the chip directly to Cisco. Since we do not incur any production costs under this model, sales to Cisco result in a higher gross margin to our company. Cisco entered production with the NP-3 during the first quarter of 2009 and with the NP-4 at the end of 2011, and accounted for approximately 43% of our 2012 revenues. We expect Cisco, through Marvell, to continue to be our largest customer and the main driver of our revenue growth in the coming years.
- Juniper Networks, which accounted for approximately 17% of our 2012 revenues, entered production with NP-2 based products in 2006 and was our largest customer until 2010. In October 2009, Juniper Networks announced its launch of a new family of processors and networking systems incorporating internally developed chips. As this new family of Juniper Networks products replaces the products that incorporate our NPUs, Juniper Networks is significantly reducing its purchases from us and we expect will ultimately discontinue its purchases from us.

- ZTE, which accounted for approximately 13% of our 2012 revenues, became a significant customer in 2010, based on our NP-3 NPU. ZTE has also selected the NP-4 and NP-5 for several of its CESR platforms.
- Ericsson, Tellabs and Huawei, together accounted for approximately 5% of our 2012 revenues, mainly from NP-4 samples. These customers selected NP-4 and have entered production with their NP-4 based platforms in the second half of 2012 and early 2013. However, although Huawei has developed a product based on our NP-4 we believe it may proceed to offer a lower-end in-house solution in parallel to the high-end NP-4 solution using our network processors.

The NPS product line, while addressing similar Carrier Ethernet platforms as the NP product line, also opens opportunities in new markets, mainly in the data center. The demand for enhanced services in network equipment is continuously growing as service providers and data centers need to better understand the traffic running on their networks and provide more intelligent services. This demand is affecting all types of equipment on the network to provide greater DPI, packet manipulation and security features. In parallel, the continued growth in network traffic is forcing equipment vendors to look for solutions that perform these tasks at the highest speeds and integration.

There are several market segments that in particular require full 7 layer processing at high speed. These include:

- Smart line cards for Carrier Ethernet edge routers – Perform the Layer 2-3 routing functions of an edge router along with the ability to perform advanced services such as security and DPI at line rate.
- Mobile packet core network systems – Deliver packets to and from mobile stations. Tasks include packet routing, mobility management, logical link management, and authentication and charging functions.
- High-end security systems – Integrated security appliances that provide functions such as VPN (Virtual Private Network), firewall, IDS/IPS (Intrusion Detection/Prevention Systems), virus scanning, content and application filtering.
- Load balancing application switches – Systems and modules used for switching and load balancing traffic based on packet content such as URLs, TCP port, host tags, and cookies.
- Data center purpose-built switches – Ethernet switches designed specifically for data center environments. These switches offer the new SDN (OpenFlow™) architecture that separates the control and data planes, low latency, lossless Ethernet fabric and support for Converged Enhanced Ethernet (CEE).

Some of our current customers are also active in the data center markets, however in many cases through different platforms and/or product groups. There are also key data center customers that represent for us new customers that we need to develop relationships with.

Customer Support

Customer support is provided from our Israeli headquarters and our offices in the United States and by local support in China. Our primary business center in the United States is located on the West Coast in the Silicon Valley area and a Boston-area office services the Eastern United States and Europe. A representative in China supports our Chinese customers.

We offer training courses to provide our customers with a complete understanding of our products and toolsets.

Competition

The market for network processors is intensely competitive, rapidly evolving and subject to rapid technological change.

There are currently two vendors in addition to us that provide high-speed network processors that target the metro and access switches, and edge routers: Sandburst Corporation (part of Broadcom Corporation) and Xelerated, Inc., which was acquired by Marvell. In addition, Broadcom Corporation (including through Dune Networks, which was acquired by Broadcom) and Marvell have released switch ASICs (non-programmable chips) that target these market segments as well. Agere Systems Inc. (which was acquired by LSI) and Wintegra Inc. (which was acquired by PMC-Sierra) are focused on lower speed applications. Our NPA access NPUs compete with NPUs from these lower speed NPU vendors. Some customers use FPGAs, mainly from Altera Corporation and Xilinx Inc., to implement packet processing functions and these may be competing solutions as well. The NPS product lines compete with all these vendors as well as with multi-core processors that target networking equipment from vendors, such as Broadcom, Cavium Networks and other smaller vendors. Some of our competitors or potential competitors are larger, have significantly greater sales, have greater financial resources and are better known.

We also experience major competition from customers' internal chip design teams who choose to develop their own network processors or in-house ASIC solutions, especially in the CESR segment. For example, Juniper Networks, which uses our NP-2 processors and was until 2010 our largest customer accounting for approximately 40%, 24% and 17% of our revenues in 2010, 2011 and 2012, respectively, announced in October 2009 that it was launching a new family of processors and networking systems incorporating internally developed chips. This new family of products replaces the products that incorporate our NPUs, and Juniper Networks has significantly reduced and will eventually discontinue its purchases from us. Another example is Huawei, which although it has developed a product based on our NP-4 we believe it may proceed to offer a lower-end in-house solution in parallel to the high-end NP-4 solution using our network processors.

We believe that the principal elements of competition in the market for advanced network processors are integration, flexibility, performance and price. Integration reduces the chip count (the number of chips needed in a given application to achieve the system manufacturer's design goals), board space, power usage (the watts of electric power required to operate the chip) and ultimately the overall price of a system solution. Flexibility implies ability to address changing market processing requirements through programming and downloading of new code to the network processor. Performance and price are crucial to achieve high throughput and port-count within a given budget of space, power and cost.

Our research and development efforts seek to maximize integration and programming flexibility while minimizing production costs. Our ability to compete depends largely upon our ability to offer better design and performance than our competitors.

We believe we are the only network processor vendor that currently offers network processors that range in throughput from a few Gigabits to hundreds of Gigabits per second, all based around common architecture and software. Other vendors focus on either the high-speed segment (over 20-Gigabit per second) or the low speed segment (up to 20-Gigabit per second).

Some of our network processor competitors' products use separate chips for traffic management or provide lesser functionality flexibility or throughput.

When compared to the non-programmable ASIC solutions, we believe that our network processors bring flexibility that addresses customers' needs to support new applications, especially in Carrier Ethernet equipment, at a reasonable price differential when compared to the price of ASIC solutions.

FPGAs, in particular when used for high-speed packet processing solutions, usually provide less integration of features at a higher cost as compared to network processors.

Our experience in developing several generations of network processors with integrated traffic managers, as well as working closely with leading carrier equipment vendors has enabled us to develop the expertise and gain deep understanding of our target systems, the requirements and how they are best addressed. We believe this represents a considerable barrier of entry for potential competitors.

While we believe that our network processors surpass the known products of our competitors in these characteristics, there can be no assurance that our products will retain their differentiation or competitive edge for any specific period of time.

Intellectual Property Rights

We rely primarily on a combination of patents, trademarks, trade secret laws, confidentiality procedures and licensing arrangements to protect our intellectual property rights, as well as limiting access to the distribution of proprietary information. We cannot assure you that the steps taken to protect our intellectual property rights will be adequate to prevent misappropriation of our technology or to preclude competitors from independently developing such technology. Furthermore, we cannot assure you that, in the future, third parties will not assert infringement claims against us or with respect to our products.

The semiconductor industry is characterized by substantial litigation regarding patent and other intellectual property rights. Third parties may claim that we are infringing upon their intellectual property rights. We have certain indemnification obligations to customers with respect to the infringement of third party intellectual property rights by our products. There can be no assurance that infringement claims by third parties or claims for indemnification by customers or end users of our products resulting from infringement claims will not be asserted in the future or that such assertions, if proven to be true, will not materially adversely affect our business, financial condition or operating results. In the event of any adverse ruling in any such matter, we could be required to pay substantial damages, which could include treble damages, cease the manufacturing, use and sale of infringing products, discontinue the use of certain processes or obtain a license under the intellectual property rights of the third-party claiming infringement. There can be no assurance that a license would be available on reasonable terms or at all. Any limitations on our ability to market our products, any delays and costs associated with redesigning our products or payments of license fees to third parties or any failure by us to develop or license a substitute technology on commercially reasonable terms could have a material adverse effect on our business, financial condition and operating results.

We hold four U.S. registered patents:

- No. 6,532,457: Look-ahead tree structure
- No. 6,594,655: Wildcards in radix search tree structures.
- No. 6,625,612: Deterministic search algorithm.
- No. 6,778,534: High-performance network processor.

These patents may not provide any meaningful protection or commercial advantage to us, as they may not be of sufficient scope or strength, or may not be issued in all countries where our products can be sold. There can be no assurance that others will not develop technologies that are similar or superior to our technology, or design around any patents issued to us. Despite our efforts to protect our proprietary rights, unauthorized parties may copy aspects of our products or obtain and use information that we regard as proprietary. Policing any of such unauthorized uses of our products is difficult, and although we are unable to determine the extent to which piracy of our software products exists, software piracy can be expected to be a persistent problem. In addition, the laws of some foreign countries do not protect proprietary rights as fully as do the laws of the United States or Israel. There can be no assurance that our efforts to protect our proprietary rights will be adequate or that our competitors will not independently develop similar technology.

Manufacturing

While we engineer and design our products, we do not own or operate a semiconductor fabrication facility and we do not have the resources to manufacture our products internally.

TSMC manufactures our NP-2 line of products using the 0.13 micron process, the special version of our NP-3 NPU, which we developed with Marvell, and the NPA family of products, using the 90 nanometer process. IBM manufactures our NP-3 line of products using the 90 nanometer process. TSMC also manufactures the NP-4 using the 55 nanometer process. We work with TSMC through third parties that coordinate and assume responsibility for the manufacturing process. This fabless manufacturing model enables us to focus on our engineering and design strengths, minimize fixed costs on capital expenditures and still have access to high-volume manufacturing capacity.

We expect that all of our products will be single sourced from fabrication facilities and any late delivery or failure to deliver products could result in delays in satisfying customer demand, increased costs and loss of revenues.

We have been awarded ISO 9001:2008 certification.

C. ORGANIZATIONAL STRUCTURE

We are organized under the laws of the State of Israel. We have two significant wholly owned subsidiaries: EZchip Technologies Ltd., a corporation organized under the laws of the State of Israel, and its wholly-owned subsidiary EZchip Inc., a corporation incorporated under the laws of the State of Delaware.

D. PROPERTY, PLANTS AND EQUIPMENT

We do not own any real property. Our principal development, marketing and administrative facilities occupy approximately 33,500 square feet of a building in Yokneam, Israel, at an aggregate rental cost of approximately \$450,000 in 2012. The lease for our principal offices expires in January 2014.

We occupy approximately 8,500 square feet of a building in Kiryat Gat, Israel, at an aggregate annual rental cost of approximately \$90,000. The lease expires in October 2015, and we have an option to extend the lease for an additional five years.

We conduct our sales operations through two locations in the United States. We lease office space in California and Massachusetts under one-year renewable leases. The aggregate rental cost for these two offices was approximately \$85,000 in 2012.

Our principal capital expenditures to date have been the purchase of equipment and other fixed assets used in our business, mainly in Israel. These purchases totaled \$224,000 in 2010, \$660,000 in 2011 and \$913,000 in 2012. Our capital expenditures in the three years ended December 31, 2012 were spent primarily for the procurement of research and development hardware equipment and software tools.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

The following discussion of our results of operations should be read together with our consolidated financial statements and the related notes, which appear elsewhere in this Annual Report. The following discussion contains forward-looking statements that reflect our current plans, estimates and beliefs and involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this Annual Report.

General

We are engaged in the development and marketing of Ethernet network processors for networking equipment.

We maintain our accounts in U.S. dollars, because the U.S. dollar is the currency of the primary economic environment in which our operations are conducted. We hold most of our cash, cash equivalents, short-term bank deposits and marketable securities in U.S. dollars, sales prices are quoted in U.S. dollars and the majority of purchases of materials and components are quoted invoiced and paid in U.S. dollars. In addition, a majority of other expenses, principally research and development engineering services and marketing expenses, are incurred outside Israel in U.S. dollars or paid in U.S. dollars. See Note 2b to our consolidated financial statements. Nevertheless, a significant portion of the cost of our Israeli operations, mainly personnel related, is incurred in NIS.

Our consolidated financial statements appearing in this annual report are prepared in U.S. dollars and in accordance with U.S. GAAP.

Critical Accounting Policies

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and judgments. We base our estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Under different assumptions or conditions, actual results may differ from these estimates.

We believe the following critical accounting policies, among others, affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition

We generate our revenues mainly from sales of network processor chips and to a lesser extent from the sales of network-processor based systems, software tools, maintenance and support services.

Revenues from network processor chips and network processor-based systems are recognized upon shipment in accordance with the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC 605 "Revenue Recognition," when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable and collectability is probable. Generally, we do not have any significant obligations after delivery. We do not grant a right of return to our customers. In addition, if a sale does not meet all of the criteria, the sale is deferred until all criteria are met.

In certain instances, we sell network processor-based systems together with software tools and maintenance and support services. In these cases, we comply with the requirements set forth in FASB ASC 605-25 "Revenue Recognition," relating to the separation of multiple deliverables into individual accounting units with determinable fair values. Revenues from such software tools and maintenance were immaterial during 2010, 2011 and 2012.

In 2006, 2010 and 2012, we signed agreements with Marvell according to which Marvell manufactures and sells customized versions of our NP-3, NP-4 and NP-5 network processors to Cisco and pays us royalties for each chip it sells to Cisco. Royalty revenue is recorded in accordance with ASC 605-45-45, "Considerations of Reporting Revenue Gross as a Principal versus Net as an Agent," on a net basis. In accordance with the agreements with Marvell, Marvell sends us royalty reports, once a month, which reflect the prior month's sales. Accordingly, we recognize royalty revenues in the month that follows the month in which the sales are made by Marvell.

Inventory Valuation

We are required to state our inventories at the lower of cost or market price. In assessing the ultimate realization of inventories, we are required to make judgments as to future demand requirements and compare that with the current or committed inventory levels. Inventory write-offs are provided for slow-moving items or technological obsolescence and are recorded in the consolidated statements of operations. Once inventory is written down, a new cost basis is established for future periods. During the year ended December 31, 2012, 2011 and 2010, the inventory write downs were immaterial.

Goodwill

Goodwill reflects the excess of the purchase price of an acquired business over the fair value of net assets acquired. We adopted FASB ASC 350 "Intangibles-Goodwill and other," or ASC 350, under which goodwill is not amortized but instead is tested for impairment at least annually (or more frequently if impairment indicators arise) at the reporting unit level. We elected to first assess the qualitative factors to determine whether it is more likely than not that the fair value of its reporting operating unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment under the new authoritative guidance issued by the FASB. If it determined that it is more likely than not that its fair value is less than its carrying amount, then the two-step goodwill impairment test is performed.

ASC 350 prescribes a two-phase process for impairment testing of goodwill. The first phase screens for impairment, while the second phase (if necessary) measures impairment. In the first phase the fair value of the reporting unit is compared with its carrying value. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. In such case, the second phase is then performed, and we measure impairment by comparing the carrying amount of the reporting unit's goodwill to the implied fair value of that goodwill. An impairment loss is recognized in an amount equal to the excess.

We operate in one operating segment and such segment comprises our only reporting unit. We determined December 31 as the date of our annual impairment test. During the years 2012, 2011 and 2010, no impairment losses were recorded.

Equity-based Compensation Expense

We account for equity-based compensation in accordance with FASB ASC 718 "*Compensation-Stock Compensation*," or ASC 718, which requires the measurement and recognition of compensation expense based on estimated fair values for all stock-based payment awards made to employees and directors. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense over the requisite service periods. Determining the fair value of stock-based awards at the grant date requires the exercise of judgment, including the amount of stock-based awards that are expected to be forfeited. If actual results differ from these estimates, equity-based compensation expense and our results of operations could be impacted.

We measure the fair value of our options using the Black-Scholes-Merton option pricing model. The option-pricing model requires a number of assumptions, of which the most significant are the expected stock price volatility and the expected option term. Expected volatility was calculated based upon actual historical stock price movements. The expected term of options granted was calculated using the simplified method (being the average between the vesting periods and the contractual life of the options in accordance with SAB 107, as replaced and amended, effective January 1, 2008, by SAB 110). The risk-free interest rate is based on the U.S. Treasury yield curve of bonds with an equivalent term to the expected life of the options. We have historically not paid dividends and currently have no intention to pay dividends in the foreseeable future.

Accounting for Income Tax

We account for income taxes in accordance with FASB ASC 740, "*Income Taxes*," as amended, or ASC 740, which prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. We record a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized.

Under ASC 740, we use a two-step approach to recognize and measure uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. We recognize interest and penalties related to unrecognized tax benefits in our provision for income tax.

Marketable Securities

We account for our investments in marketable securities in accordance with FASB ASC 320 "*Investments - Debt and Equity Securities*." We determine the classification of marketable securities at the time of purchase and reevaluate such designations as of each balance sheet date. We classify all of our marketable securities as designated available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported as a separate component of shareholders' equity, accumulated other comprehensive income (loss). Realized gains and losses on sales of investments are included in earnings and are derived using the specific identification basis for determining the cost of securities. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discount to maturity. Such amortization, together with interest on securities, is included in the financial income, net.

We recognize an impairment charge when a decline in the fair value of our marketable securities below the cost basis is judged to be other-than-temporary. When evaluating the investments for other-than-temporary impairment, we review factors such as the length of time and extent to which the fair value has been below cost basis, the financial condition of the issuer and any changes to the issuer, and our intent to sell, or whether it is more likely than not we will be required to sell the investment before recovery of the investment's amortized cost basis. We did not recognize any impairment charges on outstanding securities during the three years ended December 31, 2012.

Fair Value of Financial Instruments

We account for certain assets and liabilities at fair value under ASC 820, "*Fair Value Measurements and Disclosures*," or ASC 820. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2 - Includes other inputs that are directly or indirectly observable in the marketplace, other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets with insufficient volume or infrequent transactions, or other inputs that are observable (model-derived valuations in which significant inputs are observable), or can be derived principally from or corroborated by observable market data; and
- Level 3 - Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. We categorized each of our fair value measurements in one of these three levels of hierarchy.

Results of Operations

The following table presents, for the periods indicated, information concerning our results of operations.

	Year Ended December 31,		
	2010	2011	2012
	(in thousands, except per share data)		
Revenues	\$ 61,998	\$ 63,457	\$ 54,707
Costs of revenues	15,668	14,409	9,118
Amortization of technology	1,915	597	--
Repayment of OCS grants	--	9,938	--
Gross profit	44,415	38,513	45,589
Operating expenses:			
Research and development, net	13,665	16,695	19,736
Sales, general and administrative	10,001	12,059	12,634
Total operating expenses	23,666	28,754	32,370
Operating income	20,749	9,759	13,219
Financial income, net	1,130	1,713	2,432
Income before taxes	21,879	11,472	15,651
Taxes on income	(8,236)	(3,530)	--
Net income	13,643	7,942	15,651
Basic net income per share	\$ 0.54	\$ 0.30	\$ 0.56
Diluted net income per share	\$ 0.52	\$ 0.28	\$ 0.54

Year Ended December 31, 2012 Compared with Year Ended December 31, 2011

Revenues

We generate our revenues mainly from sales of network processor chips and to a lesser extent from the sales of network processor-based systems, software tools and services. For the year ended December 31, 2012, revenues decreased by \$8.8 million, or 14%, to \$54.7 million from \$63.5 million for the year ended December 31, 2011. Cisco accounted for \$23.4 million (43% of revenues) in 2012, compared to \$16.9 million (27% of revenues) in 2011. Revenues from Cisco are generated through Marvell, which manufactures and sells customized versions of our NP-3 and NP-4 processors to Cisco and pays us royalties for each chip it sells to Cisco. We recognize revenues on account of such sales on a net basis. The increase in sales to Cisco is mainly attributable to its ramp up of producing existing and new platforms, using our NP-3 and NP-4 NPUs. Juniper Networks accounted for \$9.3 million (17% of revenues) in 2012, compared to \$15.3 million (24% of revenues) in 2011, a decline of 39%. The decline in sales to Juniper Networks was mainly attributable to its decision to use in-house solutions for its new systems instead of our NP-2. ZTE Corporation accounted for \$7.2 million (13% of revenues) in 2012, compared to \$6.8 million (11% of revenues) in 2011. Our other customers as a group accounted for \$14.8 million (27% of revenues) in 2012, compared to \$24.5 million (38% of revenues) in 2011. The decrease in the revenues generated from our other customers is mainly attributable to the slow carrier spending environment in 2012 that negatively affected our customers' end markets. This resulted in lower NP-2 and NP-3 production orders and their slower than expected move to production of new NP-4 based customer platforms.

Cost of Revenues

Cost of revenues consists primarily of the cost of network processor chips purchased from our contract manufacturers, and to a lesser extent royalties payable to the OCS (in connection with grants received from the OCS in the current and prior years), the cost of network processor-based systems, labor costs and other supply chain management and facilities related costs. For the year ended December 31, 2012, our cost of revenues decreased by \$5.3 million, or 37%, to \$9.1 million (17% of revenues) from \$14.4 million (23% of revenues) for the year ended December 31, 2011. The decrease in cost of revenues, as well as the decrease in cost of revenues as a percentage of revenues, was mainly attributable to the decrease in revenues and to a higher portion of royalty-based revenues from Marvell, which bear no cost of goods sold (other than royalties due to the OCS in 2011), as well as to the elimination in December 2011 of all our future royalty obligations for the NP-3, NP-4 and the NPA, which resulted in no royalties cost in 2012.

Amortization of Technology

Amortization of technology reflects the amortized cost of the intangible asset - "technology" - acquired in connection with the purchases of EZchip Technologies shares in a series of share exchange transactions in prior years. Each acquisition of shares of EZchip Technologies (other than the 2009 employee exchange offer) was accounted for according to the purchase method of accounting and accordingly, the respective purchase price was allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the respective dates of acquisition. Technology is being amortized using the straight-line method over its useful life. The amortization costs during 2011 were \$0.6 million. There were no amortization costs during 2012.

Repayment of OCS Grants

During December 2011, we made a one-time early repayment of \$9.9 million to the OCS, representing the full balance of the contingent liability related to the NP-4 and NPA grants received. Upon making this payment, we eliminated all future royalty obligations related to future revenues anticipated from the NP-4 and the NPA and avoided the associated future interest payments related to such obligations. There was no repayment of OCS grants during 2012.

Gross Profit

For the year ended December 31, 2012, our gross profit increased by \$7.1 million, or 18%, to \$45.6 million (83% of revenues) from \$38.5 million (61% of revenues) for the year ended December 31, 2011. This increase in gross profit was mainly attributable to the absence of OCS royalty payments in 2012, compared with a one-time early payment of \$9.9 million to the OCS during 2011 (resulting in elimination of all our future royalty obligations for the NP-3, NP-4 and the NPA), as well as to a higher portion of royalty revenues from Marvell, which bear no cost of goods sold.

Research and Development Expenses, Net

Research and development expenses consist primarily of the salaries and benefits of engineers and costs related to external engineering design services (non-recurring engineering costs). Since April 1, 2006, we have received research and development participation grants from the OCS. For the year ended December 31, 2012, research and development expenses increased by \$3.9 million, or 18%, to \$25.6 million (excluding OCS grants of \$5.9 million) from \$21.7 million (excluding OCS grants of \$5.1 million) for the year ended December 31, 2011. The increase in research and development expenses was mainly attributable to higher labor costs resulting primarily from an increase in the number of research and development employees that we hired, mainly for the NPS development that is being conducted at our new design center in Kiryat Gat, Israel.

Sales, General and Administrative Expenses

Sales, general and administrative expenses consist primarily of salaries and benefits, commissions to third party sales representatives, participation in trade shows, travel expenses, as well as legal, accounting and other administrative costs. For the year ended December 31, 2012, such expenses increased by \$0.5 million, or 4%, to \$12.6 million from \$12.1 million for the year ended December 31, 2011. The increase was primarily attributable to an increase in our labor costs, sales commissions to third party representatives and an increase in our share-based compensation expenses under ASC 718.

Financial Income, Net

Financial income, net reflects the income or expenses from traditional interest income or financing expenses and from exchange rate fluctuations and currency translation. For the year ended December 31, 2012, net financial income increased by \$0.7 million to \$2.4 million from net financial income of \$1.7 million for the year ended December 31, 2011. This increase was mainly attributable to higher levels of cash, cash equivalents, deposits and marketable securities in the 2012 period.

Taxes on Income

We did not record any taxes on income for the year ended December 31, 2012 due to our utilization of the tax asset and certain tax benefits available to our Approved and Privileged Enterprise programs. For the year ended December 31, 2011, we recorded taxes on income of \$3.5 million. The tax expenses resulted from utilization of the deferred tax asset that was created in 2009. During the second half of 2011 we completed the utilization of the tax asset and started utilizing certain tax benefits available to our Approved and Privileged Enterprise programs.

Year Ended December 31, 2011 Compared with Year Ended December 31, 2010

Revenues

For the year ended December 31, 2011, revenues increased by \$1.5 million, or 2%, to \$63.5 million from \$62.0 million for the year ended December 31, 2010. Cisco accounted for \$16.9 million (27% of revenues) in 2011, compared to \$12.5 million (20% of revenues) in 2010. Juniper Networks accounted for \$15.3 million (24% of revenues) in 2011, compared to \$25.0 million (40% of revenues) in 2010, a decline of 39%. ZTE Corporation accounted for \$6.8 million (11% of revenues) in 2011, compared to \$6.0 million (10% of revenues) in 2010. Our other customers as a group accounted for \$24.5 million (38% of revenues) in 2011, compared to \$18.5 million (30% of revenues) in 2010. Of the others group, Huawei, Ericsson and Tellabs accounted together for \$8.4 million (13% of revenues).

Cost of Revenues

For the year ended December 31, 2011, our cost of revenues decreased by \$1.3 million, or 8%, to \$14.4 million (23% of revenues) from \$15.7 million (25% of revenues) for the year ended December 31, 2010. The decrease in cost of revenues, as well as the decrease in cost of revenues as a percentage of revenues, was mainly attributable to a higher portion of royalty revenues from Marvell, which bear no cost of goods sold (other than royalties due to the OCS), as well as to lower level of royalties paid to the OCS in 2011 (mainly resulting from concluding paying royalties for the NP-3).

Amortization of Technology

For the year ended December 31, 2011, amortization of technology decreased by \$1.3 million, or 69%, to \$0.6 million from \$1.9 million for the year ended December 31, 2010.

Repayment of OCS Grants

During December 2011 we made a one-time early repayment of \$9.9 million to the OCS, representing the full balance of the contingent liability related to the NP-4 and NPA grants received. Upon making this payment, we eliminated all future royalty obligations related to future revenues anticipated from the NP-4 and the NPA and avoided the associated future interest payments related to such obligations.

Gross Profit

For the year ended December 31, 2011, our gross profit decreased by \$5.9 million, or 13%, to \$38.5 million (61% of revenues) from \$44.4 million (72% of revenues) for the year ended December 31, 2010. This decrease in gross profit is primarily a result of the one-time early payment of \$9.9 million to the OCS.

Research and Development Expenses, Net

For the year ended December 31, 2011, research and development expenses increased by \$4.8 million, or 28%, to \$21.7 million (excluding OCS grants of \$5.1 million) from \$16.9 million (excluding OCS grants of \$3.2 million) for the year ended December 31, 2010. The increase in research and development expenses was mainly attributable to higher labor costs resulting primarily from an increase in the number of research and development employees that we hired, mainly for the NPS development that is being conducted at our new design center in Kiryat Gat, Israel.

Sales, General and Administrative Expenses

For the year ended December 31, 2011, sales, general and administrative expenses increased by \$2.1 million, or 21%, to \$12.1 million from \$10.0 million for the year ended December 31, 2010. The increase was primarily attributable to a higher level of labor costs, sales commissions to third party representatives and a higher level of share-based compensation expenses under ASC 718.

Financial Income, Net

For the year ended December 31, 2011, net financial income increased by \$0.6 million to \$1.7 million from net financial income of \$1.1 million for the year ended December 31, 2010. This increase was mainly attributable to higher levels of cash, cash equivalents short-term deposits and marketable securities with higher yields and interest rates in the 2011 period.

Taxes on Income

For the year ended December 31, 2011, we recorded taxes on income of \$3.5 million, as compared to taxes on income of approximately \$8.2 million for the year ended December 31, 2010. The tax expenses resulted from utilization of the deferred tax asset that was created in 2009. During the second half of 2011 we concluded utilizing the tax asset and started utilizing certain tax benefits available to our Approved and Privileged Enterprise programs.

Effective Corporate Tax Rate

Israeli companies were subject to corporate tax at the rate of 25% of their taxable income in 2012 and are subject to the same tax rate for their taxable income in 2013 and thereafter. However, because we have elected to participate in the alternative package of tax benefits for our current Approved and Privileged Enterprises, the income derived from these enterprises will be exempt from Israeli corporate tax for a specified benefit period (except to the extent that dividends are distributed during the tax-exemption period other than upon liquidation) and subject to reduced corporate tax rates for an additional period. The period of tax benefits for our Approved and Privileged Enterprises is valid for ten years following the first year in which we generate net taxable income associated with each enterprise. Certain investment income derived by us from investments may not be regarded by the Israeli tax authorities as income from our Approved Enterprise or Privileged Enterprises and consequently, may be taxed at the regular statutory rate in Israel. During 2011, we started to generate tax-exempt income from our Approved Enterprise. See Item 10.E, "Taxation – Israeli Taxation – Law for the Encouragement of Capital Investments, 1959" for more information about these programs.

We had aggregate operating tax loss carryforwards of approximately \$41.3 million as of December 31, 2012 (\$32.3 million of which relate to our company and \$9.0 million to our subsidiary, EZchip Inc.

EZchip Inc. is subject to U.S. income taxes. Utilization of the U.S. net operating losses may be subject to substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

We and EZchip Technologies have accumulated capital loss carryforwards in the amount of \$29.5 million.

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. We record a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. See Notes 2o and 13 to our consolidated financial statements for further information regarding our taxes.

Our Location in Israel

We are incorporated under the laws of the State of Israel, and our principal executive offices and principal research and development facilities are located in Israel. See Item 3.D. "Key Information – Risk Factors – Risks Relating to Our Location in Israel" for a description of governmental, economic, fiscal, monetary or political policies or factors that have materially affected or could materially affect our operations.

Impact of Currency Fluctuation

A significant portion of the cost of our Israeli operations, mainly personnel costs, is incurred in NIS. Therefore, our NIS related costs, as expressed in U.S. dollars, are influenced by the exchange rate between the U.S. dollar and the NIS. Also, NIS linked balance sheet items may create foreign exchange gains or losses, depending upon the relative dollar values of the NIS at the beginning and end of the reporting period, affecting our net income and earnings per share. Although we use hedging techniques, we cannot eliminate the effects of currency fluctuations. Exchange rate fluctuations resulting in a devaluation of the U.S. dollar compared to the NIS could have a material adverse impact on our operating results and share price. See Note 16 to our consolidated financial statements. See also discussion in Item 11, "Quantitative and Qualitative Disclosures About Market Risk."

Seasonality

Our operating results are generally not characterized by a seasonal pattern.

B. LIQUIDITY AND CAPITAL RESOURCES

Historically we have satisfied our financial requirements primarily through equity investments, funds provided by operations and research and development grants. Until 2006, our research and development was funded through the proceeds of third party investments, combined with contributions from our company. Since April 2006, our research and development efforts have been financed, in part, through grants from the OCS.

Working Capital; Cash, Cash Equivalents; Short-Term Deposits and Marketable Securities

As of December 31, 2012, we had \$170.6 million in working capital and \$163.0 million in cash, cash equivalents, short-term deposits and marketable securities, compared to \$134.4 million in working capital and \$126.8 million in cash, cash equivalent, short-term deposits and marketable securities as of December 31, 2011 and \$111.6 million in working capital and \$101.3 million in cash, cash equivalents, short-term deposits and marketable securities as of December 31, 2010.

Cash flows

The following table summarizes our cash flows for the periods presented:

	Year ended December 31,		
	2010	2011	2012
	(in thousands)		
Statement of Cash Flows Data:			
Net cash provided by operating activities	\$ 26,028	\$ 19,379	\$ 29,706
Net cash used in investing activities	(37,851)	(40,390)	(16,789)
Net cash provided by financing activities	9,060	8,082	12,890
Increase (decrease) in cash and cash equivalents	(2,763)	(12,929)	25,807
Cash and cash equivalents — beginning of year	34,748	31,985	19,056
Cash and cash equivalents — end of year	\$ 31,985	\$ 19,056	\$ 44,863

Net cash provided by operating activities was approximately \$29.7 million for the year ended December 31, 2012, compared with net cash provided by operating activities of approximately \$19.4 million for the year ended December 31, 2011 and approximately \$26.0 million for the year ended December 31, 2010. The improvement in cash flows from operating activities in 2012 compared to 2011 and the decrease in cash flows from operating activities in 2011 compared to 2010 are mainly attributable to the one-time repayment of OCS grants in the amount of \$9.9 million that occurred in 2011, compared to no repayment during 2010 or 2012. Other than the repayment of OCS grants in 2011, there was no material change in the mix or type of expenses used in operating activities during 2010 through 2012.

Net cash used in investing activities was approximately \$16.8 million for the year ended December 31, 2012. Of such amount, approximately \$15.3 million, net, was used to purchase marketable securities and for investment in deposits and approximately \$1.5 million was used to purchase property, equipment and technology. Net cash used in investing activities was approximately \$40.4 million for the year ended December 31, 2011. Of such amount, approximately \$39.5 million, net, was used to purchase marketable securities and for investment in short term deposits and approximately \$0.9 million was used to purchase property, equipment and technology. Net cash used in investing activities was approximately \$37.9 million for the year ended December 31, 2010. Of such amount, approximately \$37.3 million, net, was used to purchase marketable securities and for investment in short term deposits, approximately \$0.4 million was used to purchase property and equipment and \$0.2 million was used to invest in an affiliated company (see Note 2j to our consolidated financial statements).

For the years ended December 31, 2012 and 2011, net cash provided by financing activities was \$12.9 million and \$8.1 million, respectively. These amounts were attributable to proceeds from the exercise of employee stock options. For the year ended December 31, 2010, net cash provided by financing activities was approximately \$9.1 million, of which approximately \$8.0 million was attributable to proceeds from the exercise of employee stock options and approximately \$1.1 million, net from the issuance of shares in an underwritten public offering.

We believe that our available cash, cash equivalents, short term deposits and marketable securities balances will provide sufficient cash resources to finance our operations at least through the next 12 months.

Public Offerings

In December 2009, we concluded a public offering of our ordinary shares. In January 2010, we issued and sold 106,893 ordinary shares for a total amount of \$1.1 million following the exercise by the underwriter of its over-allotment option granted in the 2009 underwritten public offering. We used all the net proceeds from the public offering to purchase a portion of the securities of EZchip Technologies.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

Currently, 156 employees, representing approximately 80% of our employees, are engaged in research and development. EZchip Technologies' senior executives devote a substantial portion of their time in communicating with customers to determine what product needs should be addressed.

Since April 2006, our research and development efforts have been financed, in part, through grants from the OCS. The following table sets forth our research and development expenses for the periods indicated:

	Year Ended December 31,		
	2010	2011	2012
	(in thousands)		
Research and development expenses	\$ 16,863	\$ 21,745	\$ 25,599
Less Office of the Chief Scientist grants	3,198	5,050	5,863
Research and development expenses, net	\$ 13,665	\$ 16,695	\$ 19,736

D. TREND INFORMATION

See Item 4.B "Information on the Company – Business Overview" and the discussion in Item 5.A "Operating Results and Financial Review and Prospects – Operating Results."

E. OFF-BALANCE SHEET ARRANGEMENTS

We are not a party to any material off-balance sheet arrangements. In addition, we have no unconsolidated special purpose financing or partnership entities that are likely to create material contingent obligations.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations as of December 31, 2012 and the effect that such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

Contractual Obligations	Total	Payments due by period			
		Less than 1 year	1-3 years (in thousands)	4-5 years	More than 5 years
Operating lease obligations	\$ 1,670	\$ 1,058	\$ 612	\$ --	\$ --
Purchase commitments	\$ 6,084	\$ 6,084	--	--	--
Uncertain income tax position (1)	304	--	--	--	--
Severance pay (2)	6,977	--	--	--	--
Total	\$ 15,035	\$ 7,142	\$ 612	\$ --	\$ --

- (1) Uncertain income tax position under FASB ASC 740, "Income Taxes," is due upon settlement and we are unable to reasonably estimate the ultimate amount or timing of settlement. See Note 14a to our consolidated financial statements for further information regarding our liability under ASC 740.
- (2) Severance pay relates to accrued severance obligations to our Israeli employees as required under Israeli labor law. These obligations are payable only upon termination, retirement or death of the respective employee and there is no obligation if the employee voluntarily resigns. Of this amount, \$0.9 million is unfunded.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

Set forth below are the name, age, principal position and a biographical description of each of our directors and executive officers:

Name	Age	Position(s)
Benny Hanigal (1)	63	Chairman of the Board
Eli Fruchter (1)(2)	57	Director, President and Chief Executive Officer of EZchip Technologies
Dror Israel	44	Chief Financial Officer
Amir Eyal	53	Vice President – Business Development of EZchip Technologies
Ran Giladi (1)(3)	58	Director
Karen Sarid (3)(4)	62	Director
Shai Saul (1)(3)(4)(5)	51	Director
David Schlachet (2)(3)(4)(5)	67	Director

- (1) Member of our Strategy Committee.
- (2) Member of our Risk Management Committee.
- (3) "Independent Director" under rules of the Securities and Exchange Commission, NASDAQ Stock Market Rules and the Israeli Companies Law (see explanation below)
- (4) Member of our Audit Committee and Compensation Committee.
- (5) "Outside Director" within the meaning of the Israeli Companies Law (see explanation below)

Benny Hanigal has served as the Chairman of our Board of Directors since December 2007, and as the Chairman of the Board of Directors of EZchip Technologies since December 2006. From 2001 until 2010, Mr. Hanigal was a partner in Sequoia Capital Israel Venture Fund. In 1985, Mr. Hanigal founded Lannet Ltd., of which Mr. Hanigal served as President and Chief Executive Officer until 1995. In 1995, Lannet Ltd. was acquired by Madge Networks N.V., which thereafter employed Mr. Hanigal until he left in June 1997. From January 1998 until 2001, Mr. Hanigal served as a managing director of a company that managed one of the Star funds. Mr. Hanigal also served as a director of Alvarion Ltd until 2011. Mr. Hanigal holds a B.Sc. degree in Electrical Engineering from the Technion - Israel Institute of Technology.

Eli Fruchter serves as the President and Chief Executive Officer of EZchip Technologies, a position that he has held since EZchip Technologies' inception in May 1999, and has served as a director of our company since its inception and Chairman of our Board of Directors from December 2006 until December 2007. Mr. Fruchter co-founded our company and from 1990 to 1999 he served as our General Manager and the Chairman of our Board of Directors. Prior to that, he was also among the founders of Adacom Technologies Ltd., a manufacturer of data communications products. Mr. Fruchter holds a B.Sc. degree in Electrical Engineering from the Technion - Israel Institute of Technology.

Dror Israel has served as our Chief Financial Officer since June 2001. Prior to that and from January 2000, he served as our financial controller and as our financial analyst from August 1997 through December 1999. Prior to joining our company, Mr. Israel was employed by Hi Group, a holding company, as a financial analyst. Mr. Israel holds a B.A. degree in economics from Haifa University and an M.B.A. degree (*cum laude*) from the Technion - Israel Institute of Technology.

Amir Eyal has served as Vice President – Business Development of EZchip Technologies since August 1999. From 1997 to 1998, Mr. Eyal served as Vice President of Marketing at CLASS Data Systems, a start-up that provides solutions for network Quality of Service, which was acquired by Cisco Systems in 1998. From 1996 to 1997, Mr. Eyal served as Vice President, Marketing at ORNET Data Communications, a LAN switch vendor. From 1994 to 1996, Mr. Eyal served as Director of Marketing at RAD Network Devices, a router vendor and member of the RAD-BYNET Group and served in pre-sale and post-sale roles at that company from 1988-1994. From 1986 to 1988, Mr. Eyal was a chip design engineer at Clarity, a chip design start-up. Mr. Eyal holds a B.Sc. degree in Computer Engineering from the Technion-Israel Institute of Technology.

Prof. Ran Giladi has served as a director of our company since December 2001. Prof. Giladi is a faculty member of Ben-Gurion University of the Negev, Beersheba, where he founded and was the Head of the Department of Communication Systems Engineering from 1996 until 2000 and from 2010 until 2012, as well as serving as vice-Dean of the Faculty of Engineering Sciences from August 2008 until July 2011. Since 2011 Prof. Giladi has been a Venture Partner of DFJ Tel Aviv Venture Partners, an Israeli technology-focused venture capital fund since 2011, and he served in a similar capacity in two preceding venture capital funds (DFJ TFV III and TFV II) from 2004. Prof. Giladi was the active Chairman of DiskSites, Inc., which was acquired by Expand Networks Ltd. in 2006. Prof. Giladi co-founded InfoCyclone Inc. and was its President and Chief Executive Officer from 2000 until 2002. Prof. Giladi co-founded Ramir Ltd., which was later acquired by Harris-Adacom, and served as Vice President Research & Development in both companies from 1984 until 1986. Prof. Giladi holds a B.Sc. degree in Physics and an M.Sc. degree in Biomedical Engineering, both from the Technion - Israel Institute of Technology and a Ph.D. in Computers and Information Systems from Tel-Aviv University.

Karen Sarid has served as a director of our company since December 2001 and is a member of our Audit Committee and Compensation Committee. Ms. Sarid serves as President of Alma Lasers Ltd since January 2012. Ms. Sarid served as President and General Manager of Syneron Medical Israel from 2009 to 2010. Ms. Sarid served as the General Manager of Galil Medical Israel from 2007 to 2009. Prior to that and from 2005, Ms. Sarid served as a General Manager of Orex Computed Radiography Ltd., a Kodak Company focusing on radiography systems for the digital x-ray market. Prior to that and from September 2000, Ms. Sarid held the position of Chief Operating Officer and Chief Financial Officer at Orex Computed Radiography Ltd. From September 1999 until September 2000, Ms. Sarid was Chief Financial Officer and a member of the Board of Directors of Forsoft Ltd., a software solutions provider and a subsidiary of the Formula Group. From 1996 until August 1999, Ms. Sarid was Chief Financial Officer and a member of the Board of Directors of ESC Medical Systems Ltd., a medical laser manufacturer that was traded on the NASDAQ Stock Market. Ms. Sarid was Chief Financial Officer of our company from 1993 through 1996. Ms. Sarid also serves as a director of Oridion Systems Ltd. and Gilat Satellite Networks Ltd. From September 2012, Ms. Sarid also serves as a director and a member of the audit committee of Medical Compression Systems (MCS). Ms. Sarid holds a B.A. degree in Economics and Accounting from Haifa University, and was awarded the Chief Financial Officer of the Year award in 1998 by the Association of Chief Financial Officers in Israel.

Shai Saul has served as a director of our company since December 2006 and is a member of our Audit Committee and Chairman of our Compensation Committee. Mr. Saul has served as Founder and General Partner of DFJ Tel Aviv Venture Partners, an Israeli technology-focused venture capital fund since 2011. Mr. Saul served in similar capacities in two preceding venture capital funds (DFJ TFV III and TFV II) since 1999. From 2000 to 2009, Mr. Saul served as Chairman of CopperGate Communications, a developer of chips for the in-home broadband connectivity (acquired by Sigma Designs), and during 2001, he served as CopperGate's Chief Executive Officer. From 1994 to 1999, Mr. Saul served as Executive Vice President of Aladdin Knowledge Systems Ltd. (NASDAQ: ALDN, acquired by SafeNet). From 1993 to 1994, Mr. Saul served as Chief Executive Officer of Ganot Ltd., a cleantech company. Mr. Saul also serves as a director of Superfish and board observer at Doat Media, among others. His past investments and board positions include Native Networks, a developer of carrier-class optical Ethernet transport solutions (acquired by Alcatel), Allot Communications (NASDAQ: ALLT), a provider of bandwidth management solutions, Wave Systems, fables developer of authentication chips (NASDAQ: WAVX), and Voltaire, a developer of scale-out solutions for high performance data centers (NASDAQ: VOLT acquired by Mellanox, NASDAQ: MLNX). Mr. Saul holds an LL.B. degree from Tel Aviv University.

David Schlachet has served as director of our company since September 2005 and is the Chairman of our Audit Committee and a member of our Compensation Committee. Mr. Schlachet served as Chief Executive Officer of Syneron Medical Ltd. from November 2005 to May 2007, after having served as its Chief Financial Officer from July 2004 to November 2005. From January 2000 to June 2004, Mr. Schlachet served as Managing Partner of Biocom, a venture capital fund specializing in life sciences. From 1995 to 2000, Mr. Schlachet served as a senior Vice President and Chief Financial Officer of Strauss Elite Holdings, a packaged food group. Mr. Schlachet also served as an active Chairman of Elite Industries Ltd. From 1988 to 1995, Mr. Schlachet served first as Chief Executive Officer of Yeda, the Weizmann Institute technology transfer company, and later as Vice President of Finance and Administration of the Weizmann Institute of Science. Mr. Schlachet serves as a director of Syneron Medical Ltd., a NASDAQ-listed company, and Syneron Beauty, a subsidiary of Syneron, and is a director of BioCancell Therapeutic Inc., Mazor Surgical Technology Ltd. and Taya Investment Company Ltd., which are traded on the Tel Aviv Stock Exchange. From December 2008 to December 2012, Mr. Schlachet served as a director and audit committee member of the Tel Aviv Stock Exchange and as a director of the Tel Aviv Stock Exchange Clearing House and Maof Clearing House. Since October 2010 Mr. Schlachet also serves as Chairman of CellCure Neurosciences Ltd., a privately-held biotechnology company. Mr. Schlachet holds a B.Sc. degree in chemical engineering and an M.B.A. from Tel-Aviv University.

There are no family relationships between any of our directors and executive officers.

B. COMPENSATION OF DIRECTORS AND OFFICERS

The aggregate amount of compensation paid during 2012 to all of our directors and executive officers as a group (eight persons) for services in all capacities was approximately \$767,000. This amount includes amounts set aside to provide pension, retirement or similar benefits for directors and officers of our company, pursuant to any existing plan provided or contributed to by us, in the amount of approximately \$89,000. This aggregate amount does not include expenses we incurred for other payments, including dues for professional and business associations, business travel and other expenses and benefits commonly reimbursed or paid by companies in Israel. All our executive officers work full time for us.

During the year ended December 31, 2012, we paid each of our outside directors approximately \$2,916 per quarter and approximately \$400 per meeting attended. Our other non-executive directors did not receive any cash compensation during 2012, except for Mr. Benny Hanigal. We pay Mr. Hanigal a \$3,000 monthly fee for his service as Chairman of our Board of Directors.

During 2012, we paid our executive director, Mr. Eli Fruchter, who also serves as our Principal Executive Officer and the President and Chief Executive Officer of EZchip Technologies, a monthly gross salary of NIS 74,880 (approximately \$20,000). We also granted Mr. Fruchter during 2012 an aggregate of 45,900 restricted share units.

During 2012, we granted our directors and executive officers as a group an aggregate of 89,850 restricted share units (including the 45,900 restricted share units granted to Mr. Fruchter as described above), all of which were granted under our 2003 Amended and Restated Equity Incentive Plan. See Item 6E. "Directors, Senior Management and Employees - Share Ownership - Equity Incentive Plans."

We follow Israeli law and practice, instead of the NASDAQ Stock Market Rules requirements, regarding the compensation of our executive officers. See Item 16G. "Corporate Governance."

C. BOARD PRACTICES

Election of Directors

Our board of directors currently consists of six members. Under our articles of association, the board is to consist of between three and fourteen members, with the number fixed from time to time by our shareholders.

Our directors, other than our outside directors, as described below, are appointed by our shareholders at our annual general meeting and hold office until the next annual general meeting. Our annual general meetings are held at least once every calendar year, but not more than 15 months after the last preceding annual general meeting. In the intervals between our annual general meetings, the board of directors may appoint new directors to fill vacancies. Our officers serve at the discretion of the board of directors, subject to the terms of any agreement between them and us and the provisions of the Israeli Companies Law.

We do not follow the requirements of the NASDAQ Stock Market Rules with regard to the nomination process of directors, and instead, we follow Israeli law and practice, in accordance with which our directors are recommended by our board of directors for election by our shareholders. See Item 16G. "Corporate Governance."

Alternate Directors

Our articles of association provide that any director may, by written notice to us, appoint another person to serve as an alternate director. Under the Israeli Companies Law, any person eligible to serve as a director (other than a director or an existing alternate director) may act as an alternate director. An alternate director may be appointed for one meeting or for another specified period or until notice is given of the cancellation of the appointment. To our knowledge, no director currently intends to appoint any other person as an alternate director, except if the director is unable to attend a meeting of the board of directors.

Outside and Independent Directors

Outside Directors. In accordance with the Israeli Companies Law, as an Israeli public company, we are required to have at least two outside directors. The outside directors must meet certain statutory requirements of independence. In general, the term of office of an outside director is three years, which can be extended for two additional three year-terms (there are no prescribed terms of service for the other directors of the company). However, Israeli companies listed on certain stock exchanges outside Israel, including the NASDAQ Global Select Market, such as our company, may appoint an outside director for additional terms of not more than three years subject to certain conditions. Such conditions include the determination by the audit committee and board of directors, that in view of the director's professional expertise and special contribution to the company's board of directors and its committees, the appointment of the outside director for an additional term is in the best interest of the company. An outside director can be removed from office only under very limited circumstances.

Any committee of the board of directors must include at least one outside director and each of the audit committee and the compensation committee must include all of the outside directors (including one outside director serving as the chair of the audit committee and one outside director serving as the chair of the compensation committee). An outside director is entitled to compensation as provided in regulations adopted under the Israeli Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with such service.

In accordance with the Israeli Companies Law, at least one of the outside directors must have "accounting and financial expertise" and any other outside director must have "accounting and financial expertise" or "professional qualification," as such terms are defined by regulations promulgated under the Israeli Companies Law. However, Israeli companies listed on certain stock exchanges outside Israel, including the NASDAQ Global Select Market, such as our company, are not required to appoint an outside director with "accounting and financial expertise" if a director with accounting and financial expertise who qualifies as an independent director for purposes of audit committee membership under the laws of the foreign country in which the stock exchange is located serves on its board of directors. All of the outside directors of such a company must have "professional qualification." Our outside director, Mr. David Schlachet, has "accounting and financial expertise" and our other outside director, Mr. Shai Saul, has "professional qualification," as such terms are defined by regulations promulgated under the Israeli Companies Law.

Outside directors are elected by a majority vote at a shareholders' meeting. In addition to the majority vote, the shareholder approval of the election of an outside director must satisfy either of two additional tests:

- the majority includes at least a majority of the shares voted by shareholders other than our controlling shareholders or shareholders who have a personal interest in the election of the outside directors (excluding a personal interest that is not related to a relationship with the controlling shareholders); or
- the total number of shares held by non-controlling shareholders and disinterested shareholders that voted against the election of the outside director does not exceed 2% of the aggregate voting rights of our company.

Messrs. Shai Saul and David Schlachet serve as our outside directors under the Israeli Companies Law. Mr. Saul's term will expire in 2015 and Mr. Schlachet's term will expire in 2014, following which their service as an outside director may each be extended for additional three-year terms.

Independent Directors. In general, NASDAQ Stock Market Rules require that the board of directors of a NASDAQ-listed company have a majority of independent directors and its audit committee must have at least three members and be comprised only of independent directors, each of whom satisfies the respective "independence" requirements of NASDAQ and the Securities and Exchange Commission. In addition, under the Israeli Companies Law, a majority of the audit committee members must comply with the director independence requirements prescribed by the Israeli Companies Law. Our Board of Directors has determined that each of Messrs. Giladi, Saul and Schlachet and Ms. Sarid qualifies as an independent director under the requirements of the Securities and Exchange Commission, NASDAQ and the Israeli Companies Law.

Pursuant to the Israeli Companies Law, a director may be qualified as an independent director if such director is either (i) an outside director; or (ii) a director that serves as a board member less than nine years and the audit committee has approved that he or she meets the independence requirements of an outside director. An Israeli company whose shares are publicly traded may elect to adopt a provision in its articles of association pursuant to which a majority of its board of directors (or a third of its board of directors in case the company has a controlling shareholder) will constitute individuals complying with certain independence criteria prescribed by the Israeli Companies Law, as well as certain other recommended corporate governance provisions. We have not included such provisions in our articles of association since our board of directors complies with the independence requirements and the corporate governance rules of NASDAQ and the Securities and Exchange Commission regulations. In any event, as described above, a majority of our board of directors and all members of our audit committee are directors who comply with the independence criteria prescribed by the Israeli Companies Law.

Audit Committee

The Israeli Companies Law requires public companies to appoint an audit committee. An audit committee must consist of at least three directors, including all of the outside directors (one of whom must serve as the chair of the audit committee), and a majority of the committee members must comply with the director independence requirements prescribed by the Israeli Companies Law. The audit committee may not include the chairman of the board, or any director employed by us, by a controlling shareholder or by any entity controlled by a controlling shareholder, or any director providing services to us, to a controlling shareholder or to any entity controlled by a controlling shareholder on a regular basis, or any director whose income is primarily dependent on a controlling shareholder, and may not include a controlling shareholder or any relatives of a controlling shareholder. Individuals who are not permitted to be audit committee members may not participate in the committee's meetings other than to present a particular issue. However, an employee who is not a controlling shareholder or relative may participate in the committee's discussions but not in any vote, and the company's legal counsel and corporate secretary may participate in the committee's discussions and attend the voting.

The audit committee's duties include providing assistance to the board of directors in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting, internal control and legal compliance functions by approving the fees of, and services performed by, our independent accountants and reviewing their reports regarding our accounting practices and systems of internal accounting controls. The audit committee also oversees the audit efforts of our independent accountants and takes those actions as it deems necessary to satisfy itself that the accountants are independent of management. Under the Israeli Companies Law, the audit committee also is required to monitor deficiencies in the administration of our company, including by consulting with the internal auditor and independent accountants, to review, classify and approve related party transactions and extraordinary transactions, to review the internal auditor's audit plan and to establish and monitor whistleblower procedures.

Under the Israeli Companies Law, a meeting of the audit committee is properly convened if a majority of the committee members attend the meeting, and in addition a majority of the attending committee members are independent directors within the meaning of the Israeli Companies Law and include at least one outside director.

Under the NASDAQ Stock Market Rules we are required to have an audit committee consisting of at least three independent members, each of whom is financially literate and satisfies the respective "independence" requirements of the Securities and Exchange Commission and NASDAQ and one of whom has accounting or related financial management expertise at senior levels within a company.

Our Audit Committee currently consists of Shai Saul, Karen Sarid and David Schlachet. Mr. Schlachet serves as the Chairman of the Audit Committee. The composition and function of the Audit Committee comply with the requirements of the Israeli Companies Law, the Securities and Exchange Commission and NASDAQ Stock Market Rules.

Compensation Committee

Under the Israeli Companies Law, the board of directors of any public company must establish a compensation committee. The compensation committee must consist of at least three directors, include all of the outside directors (including one outside director serving as the chair of the compensation committee), and a majority of the committee members must comply with the director independence requirements prescribed by the Israeli Companies Law. Similar to the rules that apply to the audit committee, the compensation committee may not include the chairman of the board, or any director employed by us, by a controlling shareholder or by any entity controlled by a controlling shareholder, or any director providing services to us, to a controlling shareholder or to any entity controlled by a controlling shareholder on a regular basis, or any director whose primary income is dependent on a controlling shareholder, and may not include a controlling shareholder or any of its relatives. Individuals who are not permitted to be compensation committee members may not participate in the committee's meetings other than to present a particular issue; provided, however, that an employee that is not a controlling shareholder or relative may participate in the committee's discussions but not in any vote, and the company's legal counsel and corporate secretary may participate in the committee's discussions and votes if requested by the committee.

The compensation committee's duties include recommending to the board of directors a compensation policy for executives and monitor its implementation, approve compensation terms of executive officers, directors and employees affiliated with controlling shareholders, make recommendations to the board of directors regarding the issuance of equity incentive awards under our equity incentive plan and exempt certain compensation arrangements from the requirement to obtain shareholder approval under the Israeli Companies Law. The compensation committee meets at least twice a year, with further meetings to occur, or actions to be taken by unanimous written consent, when deemed necessary or desirable by the committee or its chairperson.

Our Compensation Committee currently consists of Shai Saul, Karen Sarid and David Schlachet. Mr. Saul serves as the Chairman of the Compensation Committee. The composition and function of the Compensation Committee comply with the requirements of the Israeli Companies Law, the Securities and Exchange Commission and NASDAQ Stock Market Rules.

Risk Management Committee

Our board of directors established a Risk Management Committee to supervise currency risk management and the investment of our company's funds. Our Risk Management Committee currently consists of Eli Fruchter and David Schlachet. Our Chief Financial Officer, Dror Israel, and an outside consultant in the field of risk management regularly advise the committee's members.

Strategy Committee

Our board of directors established a Strategy Committee to review and consider strategic directions for the company. Our Strategy Committee currently consists of Benny Hanigal, Eli Fruchter, Prof. Ran Giladi and Shai Saul. Our Chief Financial Officer, Dror Israel, our Chief Technology Officer, Guy Koren, and our Vice President – Business Development, Amir Eyal, regularly advise the committee's members.

Internal Auditor

The Israeli Companies Law requires the board of directors of a public company to appoint an internal auditor nominated by the audit committee. The internal auditor may be an employee of ours, but may not be an interested party or office holder, or a relative of any interested party or office holder, and may not be a member of our independent accounting firm or its representative. The role of the internal auditor is to examine, among other things, the compliance of the company's conduct with applicable law and orderly business practice. Fahn Kanne Control Management Ltd., a member of the Grant Thornton network, serves as our internal auditor.

Directors' Service Contracts

We do not have any service contracts with our non-executive directors, except for the \$3,000 monthly fee we pay to Mr. Benny Hanigal for his services as Chairman of our Board of Directors.

There are no arrangements or understandings between us and any of our subsidiaries, on the one hand, and any of our directors, on the other hand, providing for benefits upon termination of their employment or service as directors of our company or any of our subsidiaries.

Chairman of the Board

Under the Israeli Companies Law, the general manager of a company (or a relative of the general manager) may not serve as the chairman of the board of directors, and the chairman of the board of directors (or a relative of the chairman of the board of directors) may not serve as the general manager, unless approved by the shareholders by a special majority vote prescribed by the Israeli Companies Law. The shareholder vote cannot authorize the appointment for a period of longer than three years, which period may be extended from time to time by the shareholders with a similar special majority vote. The chairman of the board of directors shall not hold any other position with the company (except as general manager if approved in accordance with the above procedure) or in any entity controlled by the company, other than as chairman of the board of directors of a controlled entity, and the company shall not delegate to the chairman duties that, directly or indirectly, make him or her subordinate to the general manager.

Fiduciary Duties; Approval of Certain Transactions

Fiduciary Duties. The Israeli Companies Law codifies the fiduciary duties that office holders, including directors and executive officers, owe to a company. An office holder's fiduciary duties consist of a duty of care and a duty of loyalty.

Duty of Loyalty. The duty of loyalty requires an office holder to act in good faith and for the benefit of the company, including to avoid any conflict of interest between the office holder's position in the company and such person's personal affairs, avoiding any competition with the company, avoiding exploiting any corporate opportunity of the company in order to receive personal advantage for such person or others, and revealing to the company any information or documents relating to the company's affairs which the office holder has received due to his or her position as an office holder. A company may approve any of the acts mentioned above provided that all the following conditions apply: the office holder acted in good faith and neither the act nor the approval of the act prejudices the good of the company and, the office holder disclosed the essence of his personal interest in the act, including any substantial fact or document, a reasonable time before the date for discussion of the approval. A director is required to exercise independent discretion in fulfilling his or her duties and may not be party to a voting agreement with respect to his or her vote as a director. A violation of these requirements is deemed a breach of the director's duty of loyalty.

Duty of Care. The duty of care requires an office holder to act with a level of care that a reasonable office holder in the same position would employ under the same circumstances. This includes the duty to use reasonable means to obtain information regarding the advisability of a given action submitted for his or her approval or performed by virtue of his or her position and all other relevant information material to these actions. Under the Israeli Companies Law, all arrangements as to compensation of office holders who are not directors require approval of the board of directors unless the articles of association provide otherwise. Arrangements regarding the compensation of directors also require audit committee and shareholder approval.

An “office holder” is defined as any managing director, general manager, chief executive officer, executive vice president, vice president, or any other person assuming the responsibilities of any of these positions regardless of that person’s title, or any director or any manager directly subordinate to the general manager. Each person listed in the table under “Director and senior management” is an office holder.

Disclosure of Personal Interest of an Office Holder. The Israeli Companies Law requires that an office holder promptly disclose to the company any personal interest that he or she may have and all related material information known to him or her, in connection with any existing or proposed transaction by the company. “Personal interest,” as defined by the Israeli Companies Law, includes a personal interest of any person in an act or transaction of the company, including a personal interest of his relative or of a corporation in which that person or a relative of that person is a 5% or greater shareholder, a holder of 5% or more of the voting rights, a director or general manager, or in which he or she has the right to appoint at least one director or the general manager, and includes shares for which the person has the right to vote pursuant to a power-of-attorney. “Personal interest” does not apply to a personal interest stemming merely from holding shares in the company.

The office holder must make the disclosure of his personal interest no later than the first meeting of the company’s board of directors that discusses the particular transaction. This duty does not apply to the personal interest of a relative of the office holder in a transaction unless it is an “extraordinary transaction.” An “extraordinary transaction” is defined as a transaction not in the ordinary course of business, a transaction that is not on market terms, or a transaction that is likely to have a material impact on the company’s profitability, assets or liabilities, and a “relative” is defined as a spouse, sibling, parent, grandparent, descendant, and includes the descendant, sibling or parent of a spouse, as well as the spouse of any of the foregoing.

Approval of Compensation of Office Holders. Compensation arrangements for officers (other than the Chief Executive Officer) who are not directors require the approval of the compensation committee and the board of directors. If the compensation arrangement is an immaterial amendment to an existing compensation arrangement of an officer who is not a director, the approval of the compensation committee is sufficient. Arrangements regarding the compensation of the Chief Executive Officer and directors require the approval of the compensation committee, the board and the shareholders, in that order. In certain cases, the compensation of the Chief Executive Officer who is not a director may be approved without approval of the shareholders.

Approval of Other Transactions with Office Holders. In the case of a transaction that is not an extraordinary transaction, after the office holder complies with the disclosure requirement described above, only board approval is required unless the articles of association of the company provide otherwise. Our articles of association do not provide otherwise. Such approval must determine that the transaction is not adverse to the company’s interest. If the transaction is an extraordinary transaction, or if it concerns exculpation, indemnification, insurance or compensation of an office holder, then the approvals of the company’s compensation committee and the board of directors are required, except if the compensation arrangement is a non-material amendment to an existing compensation arrangement of an officer who is not a director (in which case the approval of the compensation committee is sufficient). If the transaction concerns exculpation, indemnification, insurance or compensation of a director, then the approvals of the company’s compensation committee, board of directors and shareholders are required (in that order), except if the compensation arrangement is an immaterial amendment to an existing compensation arrangement of an officer who is not a director, in which case the approval of the compensation committee is sufficient. Exculpation, indemnification, insurance or compensation of a director or the Chief Executive Officer also requires shareholder approval.

Any person who has a personal interest in a matter that is considered at a meeting of the board of directors or the audit committee generally may not be present at such meeting or vote on such matter unless a majority of the board of directors or the audit committee has a personal interest in the matter, or if such person is invited by the chairman of the board of directors or audit committee, as applicable, to present the matter being considered. If a majority of the board of directors or the audit committee has a personal interest in the transaction, shareholder approval also would be required.

Disclosure of Personal Interests of a Controlling Shareholder; Approval of Transactions with Controlling Shareholders. Under the Israeli Companies Law, the disclosure requirements described above that apply to an officer holder, also apply to a controlling shareholder of a public company, which includes a shareholder that holds 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in the company. Two or more shareholders with a personal interest in the approval of the same transaction are deemed to be one shareholder for this purpose.

Approval of the audit committee, the board of directors and our shareholders, in that order, is required for extraordinary transactions, including a private placement, with a controlling shareholder or in which a controlling shareholder has a personal interest.

Approval of the compensation committee, the board of directors and our shareholders, in that order, is required for the terms of compensation or employment of a controlling shareholder or his or her relative, as an officer holder or employee of our company or as a service provider to the company, including through a company controlled by a controlling shareholder.

The shareholders' approval must include the majority of shares voted at the meeting. In addition to the majority vote, the shareholder approval must satisfy either of two additional tests:

- the majority includes at least a majority of the shares voted by shareholders who have no personal interest in the transaction; or
- the total number of shares held by the disinterested shareholders that voted against the approval of the transaction does not exceed 2% of the aggregate voting rights of our company.

Generally, the approval of such a transaction may not be for more than three years. However, an extraordinary transaction, including a private placement with a controlling shareholder or in which a controlling shareholder has a personal interest that does not concern the terms of compensation or employment or engagement of a controlling shareholder or his or her relative, as an officer holder or employee of our company or as a service provider to the company, the transaction may be approved for a longer period if the audit committee determines that the approval of the transaction for a period of longer than three years is reasonable under the circumstances.

Duties of Shareholders. Under the Israeli Companies Law, a shareholder also has a duty to act in good faith towards the company and other shareholders and refrain from abusing his or her power in the company, including, among other things, voting in the general meeting of shareholders on the following matters:

- any amendment to the articles of association;
- an increase of the company's authorized share capital;
- a merger; or
- approval of related party transactions that require shareholder approval.

In addition, any controlling shareholder, any shareholder who can determine the outcome of a shareholder vote and any shareholder who, under the company's articles of association, can appoint or prevent the appointment of an office holder, is under a duty to act with fairness towards the company. The Israeli Companies Law also provides that a breach of the duty of fairness will be governed by the laws governing breach of contract; however, the Israeli Companies Law does not describe the substance of this duty.

Indemnification of Directors and Officers; Limitations on Liability

Indemnification of Office Holders

Under the Israeli Companies Law, a company may, if permitted by its articles of association, indemnify an office holder for any of the following liabilities or expenses that they may incur due to an act performed or failure to act in his or her capacity as the company's office holder:

- monetary liability imposed on the office holder in favor of a third party in a judgment, including a settlement or an arbitral award confirmed by a court;
- reasonable legal costs, including attorneys' fees, expended by an office holder as a result of an investigation or proceeding instituted against the office holder by a competent authority, provided that such investigation or proceeding concludes without the filing of an indictment against the office holder and either: no financial liability was imposed on the office holder in lieu of criminal proceedings, or a financial liability was imposed on the office holder in lieu of criminal proceedings with respect to an alleged criminal offense that does not require proof of criminal intent; and
- reasonable legal costs, including attorneys' fees, expended by the office holder or for which the office holder is charged by a court;
- in an action brought against the office holder by the company, on behalf of the company or on behalf of a third party,
 - o in a criminal action from which the office holder is acquitted, or
 - o in a criminal action in which the office holder is convicted of a criminal offense which does not require proof of criminal intent.

A company may indemnify an office holder in respect of these liabilities either in advance of an event or following an event. If a company undertakes to indemnify an office holder in advance of an event, the indemnification, other than legal costs, must be limited to foreseeable events in light of the company's actual activities when the company undertook such indemnification, and reasonable amounts or standards, as determined by the board of directors.

Insurance of Office Holders

Under the Israeli Companies Law, a company may, if permitted by its articles of association, obtain insurance for an office holder against liabilities incurred in his or her capacity as an office holder. These liabilities include a breach of duty of care to the company or a third-party, a breach of duty of loyalty and any monetary liability imposed on the office holder in favor of a third-party.

Exculpation of Office Holders

Under the Israeli Companies Law, a company may, if permitted by its articles of association, also exculpate an office holder from a breach of duty of care in advance of that breach. Our articles of association provide for exculpation both in advance or retroactively, to the extent permitted under Israeli law. A company may not exculpate an office holder from a breach of duty of loyalty towards the company or from a breach of duty of care concerning dividend distribution or a purchase of the company's shares by the company or other entities controlled by the company.

Limitations on Exculpation, Insurance and Indemnification

Under the Israeli Companies Law, a company may indemnify or insure an office holder against a breach of duty of loyalty only to the extent that the office holder acted in good faith and had reasonable grounds to assume that the action would not prejudice the company. In addition, a company may not indemnify, insure or exculpate an office holder against a breach of duty of care if committed intentionally or recklessly (excluding mere negligence), or committed with the intent to derive an unlawful personal gain, or for a fine or forfeit levied against the office holder in connection with a criminal offense.

Pursuant to the Israeli Companies Law, exculpation of, procurement of insurance coverage for, and an undertaking to indemnify or indemnification of, our office holders must be approved by our audit committee and our board of directors and, if the office holder is a director, also by our shareholders.

Our articles of association allow us to indemnify, exculpate and insure our office holders to the fullest extent permitted under the Israeli Companies Law, provided that procuring this insurance or providing this indemnification or exculpation is approved by the audit committee and the board of directors, as well as by the shareholders if the office holder is a director. Our audit committee, board of directors and shareholders have resolved to indemnify our directors and officers to the extent permitted by law and by our articles of association for liabilities not covered by insurance, that are of certain enumerated types of events, and subject to limitations as to amount.

D. EMPLOYEES

As of March 12, 2013, we had 195 employees. The following table presents the number of our employees categorized by activity as of December 31:

	As of December 31,		
	2010	2011	2012
Operations	9	9	9
Research and development	105	126	150
Sales and marketing	20	20	21
General and administrative	9	9	9
Total	143	164	189

The following table presents the number of our employees categorized by geographic location as of December 31:

	As of December 31,		
	2010	2011	2012
Israel	133	155	178
United States	7	7	8
China	3	2	3
Total	143	164	189

We believe that our company has good relations with its employees and we have never experienced a labor dispute, strike or work stoppage.

Israeli labor laws are applicable to our company's employees in Israel. Such laws principally concern the length of the workday and the workweek, minimum wages for workers, minimum annual leave, insurance for work-related accidents, procedures for dismissing employees and determination of severance pay. Israeli employers are also required to make payments to Israel's National Insurance Institute with respect to employees. In addition, certain provisions of the collective bargaining agreements between the "Histadrut" (Israel's General Federation of Labor) and the Israeli Coordinating Bureau of Economic Organization apply to our employees in Israel pursuant to administrative orders extending them to all private sector employees. According to such administrative orders, all Israeli employers are required to provide certain escalations of the wages in relation to the increases in the Israeli consumer price index as well as to provide minimum annual convalescence payments. All of our employees are covered by comprehensive life and pension insurance policies.

All our officers, key employees and certain of our other employees are party to individual employment agreements. We have entered into a non-disclosure and non-competition agreement with each of our executive officers and key employees.

Pursuant to Israeli law, we are legally required to pay severance benefits upon certain circumstances, including the retirement or death of an employee or the termination of employment of an employee without due cause. We currently fund our ongoing severance obligations for our Israeli employees by making monthly payments for severance insurance policies. According to Section 14 to the Israeli Severance Pay Law, the payment of monthly deposits by a company into recognized severance and pension funds or insurance policies releases it from any additional severance obligation to the employees that have entered into agreements with the company pursuant to such Section 14. Commencing July 2010, we entered into agreements with new employees who joined the company in order to implement such Section 14. Therefore, the payment of monthly deposits by the company into recognized severance and pension funds or insurance policies with respect to the Israeli employees that joined us since July 2010 releases us from any additional severance obligation to those employees and therefore, since that date we incur no additional liability with respect to such employees.

All of our Israeli employees are covered by life and/or pension insurance policies providing customary benefits to employees, including retirement and severance benefits. Pursuant to an order issued in December 2007 by the Israeli Minister of Industry, Trade and Labor, new provisions relating to pension arrangements in the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (the Israeli federation of employers' organizations) apply to all employees in Israel, including our Israeli employees. According to such provisions, all employees employed for at least six months are entitled to pension benefits to be funded by preset monthly contributions of the employee and the employer. We contribute 13.3%-14.3% of base wages to such plans and the employees contribute between 5.0% to 7% of their base wages. We also contribute 7.5% of base wages to certain "professional education" funds for our employees and they contribute 2.5% of base wages. Our contribution is limited to the maximum amounts that are not considered taxable income to the employee. Israeli employers and employees are required to pay predetermined sums to the National Insurance Institute, which is similar to the United States Social Security Administration. The payments to the National Insurance Institute are determined progressively in accordance with wages.

E. SHARE OWNERSHIP

Beneficial Ownership of Executive Officers and Directors

The following table sets forth certain information regarding the ownership of our ordinary shares by our directors and executive officers as of March 15, 2013. The information in the table below is based on 28,488,981 ordinary shares outstanding as of March 15, 2013.

Name	Number of Shares ⁽¹⁾	Percent
Eli Fruchter (2)	660,854	2.32%
All directors and executive officers as a group (8 persons)(3)	914,474	3.19%

- (1) The number of ordinary shares beneficially owned includes the shares issuable pursuant to options that are exercisable within 60 days of the date of this table, and restricted share units that vest within 60 days of the date of this table. Shares issuable pursuant to such options or restricted share units are deemed outstanding for computing the percentage of the person holding such options or restricted share units but are not outstanding for computing the percentage of any other person.
- (2) Based on information available to the company. Includes 4,202 restricted share units that vest within 60 days of the date of this table. The address for Mr. Fruchter is c/o EZchip Semiconductor Ltd., 1 Hatamar Street, P.O. Box 527, Yokneam 20692, Israel.
- (3) As of March 13, 2013 all directors and executive officers as a group (8 persons) held 13,906 restricted share units that vest within 60 days of the date of this table.

None of our directors and executive officers beneficially owns more than 1% of our outstanding shares, other than Eli Fruchter, a member of our Board of Directors and President and Chief Executive Officer of EZchip Technologies.

As of December 31, 2012, our executive officers and directors as a group held options to purchase an aggregate of 216,627 of our ordinary shares. The weighted average exercise price of these options was \$13.74 and their expiration dates ranged from February 11, 2015 and September 2, 2016. As of December 31, 2012, our executive officers and directors as a group held an aggregate of 229,396 restricted share units.

Equity Incentive Plans

2003 Amended and Restated Equity Incentive Plan.

In October 2003, we adopted the 2003 Israeli Share Option Plan. The plan was amended in December 2006 and further amended in December 2007, October 2010 and February 2012. In 2007, the plan was renamed the 2003 Amended and Restated Equity Incentive Plan, or the 2003 Israel Plan. The 2003 Israel Plan is administered by our Board of Directors, or a committee of the Board that is delegated authority to act as the administrator. The administrator has broad discretion, subject to certain limitations, to determine the persons entitled to receive awards, the terms and conditions on which awards are granted and the number of shares subject to each award granted. Under the 2003 Israel Plan, we may grant restricted share units, or RSUs, and options to purchase our ordinary shares to Israeli employees, directors, consultants, advisers and service providers of our company and its subsidiaries. In accordance with the terms and conditions imposed by Section 102 of the Israel Income Tax Ordinance, grantees who receive awards under the 2003 Israel Plan are afforded certain tax benefits (excluding our controlling shareholders or those who are not our employees or directors). We have elected the benefits available under the "capital gains" alternative. There are various conditions that must be met in order to qualify for these benefits, including registration of the awards in the name of a trustee for each of the employees who is granted awards. Each award, and any ordinary shares acquired upon the exercise of the award, must be held by the trustee for a period of 24 months. The 2003 Israel Plan provides for the awards granted to have a maximum exercise period of ten years from the date of grant. Awards granted under the 2003 Israel Plan are generally exercisable over four years. Awards that are not exercised will become available for further grant by the Board under the 2003 Israel Plan. In addition, on January 1st of each year, to the extent the number of ordinary shares reserved, authorized and available for issuance under the 2003 Israel Plan on such date is less than 4% of the number of ordinary shares issued and outstanding on such date, the number of ordinary shares reserved, authorized and available for issuance under the 2003 Israel Plan will automatically increase on such date to equal 4% of the number of ordinary shares issued and outstanding on such date. In October 2010 and in February 2012, our Board of Directors approved amendments to the 2003 Israel Plan increasing the number of ordinary shares that may be granted under such plan by 2,100,000 shares and by 2,500,000 shares, respectively.

As of December 31, 2012, 1,936,821 ordinary shares were available for future issuances under the 2003 Israel Plan, which amount is reduced by three shares for each restricted share unit that we grant under the plan and by one share for each option that we grant under the plan.

As of December 31, 2012, options to purchase an aggregate of 489,314 ordinary shares were outstanding under the 2003 Israel Plan, with a weighted average exercise price of \$14.62 per share and expiration dates ranged from February 2015 to October 2016. In addition, as of December 31, 2012, 903,850 RSUs were outstanding under the 2003 Israel Plan.

EZchip Semiconductor Ltd. 2007 U.S. Equity Incentive Plan.

In December 2007, we adopted the 2007 U.S. Equity Incentive Plan, or the 2007 U.S. Plan. Except as required to address specific U.S. tax requirements, the general terms and conditions of the 2007 U.S. Plan are substantially similar to the terms and conditions of the 2003 Israel Plan. In general, the exercise price of incentive stock options granted under the 2007 U.S. Plan must be at least equal to 100% of the fair market value of the ordinary shares on the date of grant. If, however, incentive stock options are granted to an employee who owns shares possessing more than 10% of the voting power of all classes of our share capital or the share capital of any parent or subsidiary of our company, the exercise price of any incentive stock option granted must equal at least 110% of the fair market value on the grant date and the maximum term of such incentive stock options must not exceed five years. In July 2010, our shareholders approved an amendment to the 2007 U.S. Plan increasing the number of ordinary shares that may be granted under such plan by 500,000 shares.

As of December 31, 2012, 207,000 ordinary shares were available for future issuance under the 2007 U.S. Plan, which amount is reduced by three shares for each restricted share unit that we grant under the plan and by one share for each option that we grant under the plan.

As of December 31, 2012, options to purchase an aggregate of 57,788 ordinary shares were outstanding under the 2007 U.S. Plan, with a weighted average exercise price of \$14.26 per share and expiration dates ranging from February 2015 to October 2016. In addition, as of December 31, 2012, 89,275 RSUs were outstanding under the 2007 U.S. Plan.

2009 Israel Equity Plan.

In November 2009, we adopted the 2009 Israel Equity Plan. The plan was adopted for the sole purpose of issuing options to purchase our ordinary shares to our former and current Israeli employees who elect to exchange their options to purchase ordinary shares of EZchip Technologies. The 2009 Israel Equity Plan is administered by our Board of Directors or a committee of the Board that is delegated authority to act as the administrator. Under the 2009 Israel Plan, we may grant options to purchase our ordinary shares to former and current employees, directors, consultants, advisers and service providers of our company and subsidiaries in exchange for their options to purchase ordinary shares of EZchip Technologies. The 2009 Israel Equity Plan provides for the awards granted to have a maximum exercise period of ten years from the date of grant. All awards granted in 2009 and 2010 under the 2009 Israel Equity Plan were immediately exercisable.

As of December 31, 2012, options to purchase an aggregate of 41,648 ordinary shares were outstanding under the 2009 Israel Equity Plan, with a weighted average exercise price of \$2.88 per share and expiration dates ranging from July 2013 to July 2014, all of which were granted in December 2009 as part of the Employee Exchange Offer.

As of December 31, 2012, 952,940 ordinary shares were available for future issuance under the 2009 Israel Equity Plan, which amount is reduced by one share for each option that we grant under the plan. However, we do not intend to grant any additional options pursuant to the 2009 Israel Equity Plan.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table sets forth certain information as of March 15, 2013 (unless otherwise indicated below) for each shareholder known to us to beneficially own more than 5% of our outstanding ordinary shares. The information in the table below is based on 28,488,981 ordinary shares outstanding as of March 15, 2013. Each of our outstanding ordinary shares has identical rights in all respects.

Name	Number of Shares ⁽¹⁾	Percent
Eagle Asset Management, Inc. (1)	1,929,486	6.77%

(1) Based on Schedule 13G filed with the Securities and Exchange Commission on January 23, 2013. The address of Eagle Asset Management, Inc. is 880 Carillon Parkway, St. Petersburg, Florida 33716.

Significant Changes in the Ownership of Major Shareholders

Eagle Asset Management, Inc. On January 23, 2013, Eagle Asset Management, Inc. filed a Schedule 13G with the Securities and Exchange Commission reporting that as of December 31, 2012 Eagle Asset Management, Inc. had beneficial ownership of 6.87% of our ordinary shares.

Empire Capital Management, L.L.C. and Empire GP, L.L.C. On August 30, 2010, Empire Capital Management, L.L.C., or Empire Management, together with Empire Capital Partners, L.P., or Empire Partners, Empire GP, L.L.C., or Empire GP, Scott A. Fine and Peter J. Richards filed a Schedule 13G with the Securities and Exchange Commission. The Schedule 13G indicated that Messrs. Fine and Richard each had beneficial ownership of 5.5% of our ordinary shares, of which 4.0% are beneficially held by Empire Management and 1.5% are beneficially held by each of Empire Partners and Empire GP. On November 23, 2010, such reporting persons filed Amendment No. 1 to Schedule 13G with the Securities and Exchange Commission reporting that Messrs. Fine and Richard each had beneficial ownership of 10.4% of our ordinary shares, of which 7.4% are beneficially held by Empire Management and 3.0% are beneficially held by each of Empire Partners and Empire GP. On February 15, 2011, such reporting persons filed Amendment No. 2 to Schedule 13G with the Securities and Exchange Commission reporting that Messrs. Fine and Richard each had beneficial ownership of 6.3% of our ordinary shares, of which 4.4% are beneficially held by Empire Management and 1.9% are beneficially held by each of Empire Partners and Empire GP. On February 14, 2012, such reporting persons filed Amendment No. 3 to Schedule 13G with the Securities and Exchange Commission reporting that as of December 31, 2011 none of the reporting persons beneficially owned any of our ordinary shares.

Major Shareholders Voting Rights

The voting rights of our major shareholders do not differ from the voting rights of other holders of our ordinary shares.

Record Holders

Based on a review of the information provided to us by our transfer agent, as of March 19, 2013, there were 36 holders of record of our ordinary shares, including 29 holders of record residing in the United States holding approximately 80.6% of the aggregate 28,957,836 ordinary shares outstanding as of such date. These numbers are not representative of the number of beneficial holders of our shares nor is it representative of where such beneficial holders reside since many of these ordinary shares were held of record by brokers or other nominees (including one U.S. nominee company, CEDE & Co., which held approximately 99.6% of our outstanding ordinary shares as of such date).

B. RELATED PARTY TRANSACTIONS

None.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Consolidated Financial Statements

See the consolidated financial statements included under Item 18 "Financial Statements."

Export Sales

See Note 14b to the consolidated financial statements.

Legal Proceedings

We are not a party to any litigation, other than litigation in the ordinary course of business, which in the aggregate is not material to the business of our company, and we are not aware of any threatened litigation, which in the aggregate would be material to the business of the company.

Dividend Policy

We anticipate that we will retain any future earnings to support operations and to finance the growth and development of our business. In addition, tax-exempt income attributable to our Approved Enterprise and Privileged Enterprises under Israeli tax law cannot be distributed to shareholders without subjecting us to taxes except upon the complete liquidation of our company. Tax will be levied if we decide to distribute such income in the future. Currently, we intend to reinvest the amount of our tax-exempt income. Any future dividend policy will be determined by our Board of Directors and will be based upon conditions then existing, including our results of operations, financial condition, current and anticipated cash needs, contractual restrictions and other conditions. In addition, our articles of association provide that the declaration of a dividend requires approval by an ordinary resolution of our shareholders, which may decrease but not increase the amount proposed by the Board of Directors.

According to the Israeli Companies Law, a company may distribute dividends out of its profits provided that there is no reasonable concern that such dividend distribution will prevent the company from paying all its current and foreseeable obligations, as they become due. Notwithstanding the foregoing, dividends may be paid with the approval of a court, provided that there is no reasonable concern that such dividend distribution will prevent the company from satisfying its current and foreseeable obligations, as they become due. Profits, for purposes of the Israeli Companies Law, means the greater of retained earnings or earnings accumulated during the preceding two years, after deducting previous distributions that were not deducted from the surpluses. In the event cash dividends are declared, such dividends will be paid in NIS.

B. SIGNIFICANT CHANGES

Except as otherwise disclosed in this Annual Report, there has been no material change in our financial position since December 31, 2012.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Our ordinary shares were listed on the NASDAQ Global Market under the symbol “LNOP” from our initial public offering in November 1992 until April 14, 2003, at which date the listing of our ordinary shares was transferred to the NASDAQ Capital Market. From January 4, 2008 until December 31, 2010, our ordinary shares were listed on the NASDAQ Global Market, and since January 1, 2011, our ordinary shares have been listed on the NASDAQ Global Select Market. On January 17, 2008 our NASDAQ symbol changed to “EZCH.” Since April 1, 2002, our ordinary shares have also been traded on the Tel Aviv Stock Exchange.

Set forth below for each of the periods indicated are the range of high and low market prices of our ordinary shares as reported by the NASDAQ Global Select Market (for periods from January 1, 2011) and the NASDAQ Global Market (for periods from January 2008 through December 31, 2010) and the high and low market prices of our ordinary shares (in U.S. dollars) as reported by the Tel Aviv Stock Exchange. Share prices on the Tel Aviv Stock Exchange are quoted in NIS; the share prices set forth below in U.S. dollars reflect the translation into U.S. dollars based on the rate of exchange published by the Bank of Israel on the dates in question.

Annual Share Price Information

The following table sets forth, for each of the years indicated, the high and low market prices of our ordinary shares on the NASDAQ Global Select Market (for periods from January 1, 2011) and the NASDAQ Global Market (for periods from January 2008 through December 31, 2010) and the Tel Aviv Stock Exchange:

Year	NASDAQ		Tel Aviv Stock Exchange	
	High	Low	High	Low
2008	\$ 18.79	\$ 5.63	\$ 19.32	\$ 6.85
2009	\$ 18.12	\$ 9.95	\$ 17.66	\$ 10.51
2010	\$ 29.73	\$ 11.62	\$ 29.49	\$ 11.78
2011	\$ 37.85	\$ 26.55	\$ 37.38	\$ 25.17
2012	\$ 46.79	\$ 27.02	\$ 45.85	\$ 27.76

Quarterly Share Price Information

The following table sets forth, for each of the full financial quarters in the years indicated, the range of high ask and low bid prices of our ordinary shares on the NASDAQ Global Select Market (for periods from January 1, 2011) and the NASDAQ Global Market (for periods prior to January 1, 2011) and the Tel Aviv Stock Exchange:

	NASDAQ		Tel Aviv Stock Exchange	
	High	Low	High	Low
2010				
First quarter	\$ 20.25	\$ 11.62	\$ 20.52	\$ 11.78
Second quarter	\$ 20.80	\$ 14.97	\$ 20.32	\$ 15.28
Third quarter	\$ 26.61	\$ 16.93	\$ 26.45	\$ 16.59
Fourth quarter	\$ 29.73	\$ 22.64	\$ 29.49	\$ 23.11
2011				
First quarter	\$ 33.48	\$ 26.55	\$ 33.91	\$ 25.17
Second quarter	\$ 37.00	\$ 27.51	\$ 36.78	\$ 27.40
Third quarter	\$ 37.85	\$ 27.70	\$ 37.38	\$ 28.27
Fourth quarter	\$ 37.62	\$ 28.28	\$ 36.37	\$ 28.06
2012				
First quarter	\$ 45.75	\$ 28.41	\$ 45.85	\$ 28.42
Second quarter	\$ 46.79	\$ 34.23	\$ 45.20	\$ 35.10
Third quarter	\$ 40.34	\$ 27.02	\$ 40.51	\$ 27.76
Fourth quarter	\$ 38.91	\$ 30.07	\$ 39.84	\$ 30.21
2013				
First quarter (through March 15, 2013)	\$ 35.65	\$ 21.80	\$ 35.25	\$ 22.53

Monthly Share Price Information

The following table sets forth, for the most recent six months, the high and low market prices of our ordinary shares on the NASDAQ Global Select Market and the Tel Aviv Stock Exchange:

	NASDAQ		Tel Aviv Stock Exchange	
	High	Low	High	Low
October 2012	\$ 33.95	\$ 30.30	\$ 33.39	\$ 30.84
November 2012	\$ 38.91	\$ 30.07	\$ 39.84	\$ 30.21
December 2012	\$ 38.19	\$ 32.62	\$ 38.25	\$ 32.60
January 2013	\$ 35.65	\$ 30.39	\$ 35.25	\$ 30.26
February 2013	\$ 35.49	\$ 23.82	\$ 32.28	\$ 24.20
March 2013 (through March 15, 2013)	\$ 25.45	\$ 21.8	\$ 24.83	\$ 22.53

B. PLAN OF DISTRIBUTION

Not applicable

C. MARKETS

See Item 9A. "The Offer and Listing - Offer and Listing Details."

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSE OF THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Purposes and Objects of the Company

We are a public company registered under the Israel Companies Law as EZchip Semiconductor Ltd., registration number 52-003806-8. The objective stated in our memorandum of association is to engage in any lawful activity.

Powers of the Directors

Pursuant to the Israeli Companies Law and our articles of association, a director is generally not permitted to participate in the discussion of, or to vote on, a proposal, arrangement or contract in which he has a personal interest. Also, the directors may not vote compensation to themselves or any members of their body without the approval of our audit committee and our shareholders at a general meeting. The requirements for approval of certain transactions are set forth above in "Item 6B. Directors, Senior Management and Employees – Board Practices – Fiduciary Duties; Approval of Certain Transactions." The power of our directors to enter into borrowing arrangements on our behalf is limited to the same extent as any other transaction by us.

Rights Attached to Ordinary Shares

Our authorized share capital consists of 50,000,000 ordinary shares, par value NIS 0.02 per share. All outstanding ordinary shares are validly issued and fully paid. Certain rights attached to the ordinary shares are as described below.

Voting Rights. Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. Shareholders may vote in person or by proxy. These voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future.

Our ordinary shares do not have cumulative voting rights in the election of directors. As a result, the holders of ordinary shares that represent more than 50% of the voting power represented at a shareholders meeting have the power to elect all of our directors, except the outside directors whose election requires a special majority.

Under our articles of association, most decisions may be approved by a simple majority, although certain resolutions, referred to as special resolutions (for example, changes to the articles of association), require approval of at least 75% of the shares present and voting on the matter.

Dividend and Liquidation Rights; Rights to Shares in our Company's Profits. We may declare a dividend to be paid to the holders of ordinary shares according to their rights and interests in our profits. Under the Israeli Companies Law, the declaration of a dividend does not require the approval of the shareholders of the company, unless the company's articles of association require otherwise. Our articles of association provide that the board of directors may declare and distribute interim dividends without the approval of the shareholders, but the payment of a final dividend requires shareholder approval.

In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares in proportion to the nominal value of their holdings. This right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future. Pursuant to Israel's securities laws, a company registering its shares for trade on the Tel Aviv Stock Exchange may not have more than one class of shares for a period of one year following registration, after which it is permitted to issue preferred shares, if the preference of those shares is limited to a preference in the distribution of dividends and these preferred shares have no voting rights.

Our shareholders have the right to share in our profits distributed as a dividend and any other permitted distribution, if any.

Changing Rights Attached to Shares

According to our articles of association, the rights of our ordinary shares may be cancelled, added to, restricted, amended or otherwise altered with a vote of the holders of at least 75% of the outstanding ordinary shares voting at a duly convened shareholders' meeting.

Annual and Extraordinary General Meetings

We must hold our annual general meeting of shareholders each year no later than 15 months from the last annual meeting, at a time and place determined by the board of directors. Depending on the matter to be voted upon, notice of at least 21 days or 35 days prior to the date of the meeting is required. A special meeting may be convened by request of two directors, one quarter of the directors in office, or by written request of one or more shareholders holding at least 5% of our issued share capital and 1% of the voting rights or one or more shareholders holding at least 5% of the voting rights.

The quorum required for a meeting of shareholders consists of at least two shareholders present in person or by proxy who hold at least 50% of the issued share capital. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place or any time and place as the Chairman may determine with the consent of the holders of a majority of the voting power represented at the meeting in person or by proxy and voting on the question of adjournment. At the reconvened meeting, the required quorum consists of any two members present in person or by proxy.

Limitations on the Rights to Own Securities

The ownership or voting of ordinary shares by non-residents of Israel is not restricted in any way by our articles of association or the laws of the State of Israel, except that nationals of countries which are, or have been, in a state of war with Israel may not be recognized as owners of ordinary shares.

Anti-Takeover Provisions Under Israeli Law

The Israeli Companies Law provides that 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 another shareholder of the company with 25% or more of the voting rights. Similarly, the Israeli Companies Law provides that 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 more than 45% of the voting rights in the company, unless there is a shareholder with more than 45% of the voting rights in the company.

Under the Israeli Companies Law, a person may not purchase shares of a public company if, following the purchase, the purchaser would hold more than 90% of the company's shares or of any class of shares, unless the purchaser makes a tender offer to purchase all of the target company's shares or all the shares of the particular class, as applicable. If, as a result of the tender offer, either:

- the purchaser acquires more than 95% of the company's shares or a particular class of shares and a majority of the shareholders that did not have a personal interest accepted the offer; or
- the purchaser acquires more than 98% of the company's shares or a particular class of shares;

then, the Israeli Companies Law provides that the purchaser automatically acquires ownership of the remaining shares. However, if the purchaser is unable to purchase more than 95% or 98%, as applicable, of the company's shares or class of shares, the purchaser may not own more than 90% of the shares or class of shares of the target company.

The Israeli Companies Law requires the parties to a proposed merger to file a merger proposal with the Israeli Registrar of Companies, specifying certain terms of the transaction. Each merging company's board of directors and shareholders must approve the merger. Shares in one of the merging companies held by the other merging company or certain of its affiliates are disenfranchised for purposes of voting on the merger. A merging company must inform its creditors of the proposed merger. Any creditor of a party to the merger may seek a court order blocking the merger, if there is a reasonable concern that the surviving company will not be able to satisfy all of the obligations of the parties to the merger. Moreover, a merger may not be completed until at least 50 days have passed from the time that the merger proposal was filed with the Israeli Registrar of Companies and at least 30 days have passed from the approval of the shareholders of each of the merging companies.

Finally, in general, Israeli tax law treats stock-for-stock acquisitions less favorably than does U.S. tax law. Israeli tax law has been amended to provide for tax deferral in specified acquisitions, including transactions where the consideration for the sale of shares is the receipt of shares of the acquiring company. Nevertheless, Israeli tax law may subject a shareholder who exchanges his ordinary shares for shares in a foreign corporation to immediate taxation or to taxation before his investment in the foreign corporation becomes liquid, although in the case of shares of a foreign corporation that are traded on a stock exchange, the tax may be postponed subject to certain conditions.

C. MATERIAL CONTRACTS

On April 29, 2004, EZchip Technologies and eSilicon Corporation, or eSilicon, entered into a Master ASIC Services Agreement. Under the agreement, eSilicon agreed to perform, or cause to be performed on its behalf by an agreed upon party, at the request of EZchip Technologies, various ASIC services and manufacture certain ASIC products for EZchip Technologies. eSilicon agreed to use commercially reasonable efforts to furnish the services and develop and deliver the deliverables specified in any order issued by EZchip Technologies under a project proposal determined by the parties under the agreement. Currently, eSilicon manufactures our NP-2 network processor. The agreement was for an initial term of three years and automatically renews for additional one-year terms following the initial term and each renewal term thereafter, unless terminated by either party upon 90 days' notice prior to the date of the automatic renewal. This summary is qualified in its entirety by the text of the agreement, which is an exhibit to this Annual Report.

On January 1, 2007, EZchip Technologies and Juniper Networks entered into an Agreement for Purchase and Sale of Goods. Under the agreement, we agreed to supply to Juniper Networks our network processors for incorporation in Juniper Networks' network equipment products and components upon orders issued by Juniper Networks or its affiliates. Currently, we supply Juniper Networks with our NP-2 network processor. The agreement was for an initial term of three years and is automatically extended for successive two-year terms, unless terminated by either party upon prior notice in accordance with its terms. The agreement does not provide for any minimum purchase orders by Juniper Networks. For the years ended December 31, 2010, 2011 and 2012, Juniper Networks paid us under the agreement \$25.0 million, \$15.3 million and \$9.3 million, respectively. This summary is qualified in its entirety by the text of the agreement, which is an exhibit to this Annual Report.

On October 30, 2000, EZchip Technologies and International Business Machines Corporation, or IBM, entered into a Customs Sales Agreement (Base Agreement), as amended. Under the agreement, IBM agreed to perform, at the request of EZchip Technologies, various ASIC services and to manufacture certain ASIC products for EZchip Technologies. IBM agreed to use commercially reasonable efforts to furnish the services and develop and deliver the deliverables specified in any order issued by EZchip Technologies under a project proposal determined by the parties under the agreement. Currently, IBM manufactures our standard NP-3 network processor using the 90 nanometer process. The agreement was for an initial term of five years, which term is extended through the expiration term of any outstanding agreement to provide services under the agreement. Accordingly, the agreement is currently extended through December 31, 2014. This summary is qualified in its entirety by the text of the agreement, as amended, which is an exhibit to this Annual Report.

On April 12, 2006, EZchip Technologies and Marvell entered into a Technology Development, License and Manufacturing Agreement, which was amended in September 2006, September 2009 and in August 2012 (twice). In addition, EZchip Technologies, Marvell and Cisco entered into Business Term Agreements in 2006, in 2010 and in September 2012. Pursuant to the agreements with Marvell and Cisco, Marvell is responsible for the manufacture and sale of the customized version of our NP-3, NP-4 and NP-5 processors to Cisco, utilizing our intellectual property rights, and pays us a fixed royalty fee for each chip sold to Cisco. Under the agreements, Marvell also acts as the ASIC vendor of the general version of the NP-4 and NP-5 processors that will be sold by us directly to all our customers, excluding Cisco who buys the special version of our processor directly from Marvell. Currently, Cisco through Marvell is our largest customer and we expect Cisco to remain our largest customer and the main driver of our revenue growth in the coming years. The agreements do not provide for any minimum purchase requirements by the parties or for a specific termination date. For the years ended December 31, 2010, 2011 and 2012, Marvell paid us \$12.5 million, \$16.9 million and \$23.3 million, respectively, under the agreements. This summary is qualified in its entirety by the text of the agreements, which are exhibits to this Annual Report.

D. EXCHANGE CONTROLS

Non-residents of Israel who purchase our ordinary shares may freely convert all amounts received in Israeli currency in respect of such ordinary shares, whether as a dividend, as a liquidating distribution or as proceeds from the sale of the ordinary shares, into freely-repatriable non-Israeli currencies at the rate of exchange prevailing at the time of conversion (provided in each case that the applicable Israeli income tax, if any, is paid or withheld). Israeli residents are also eligible to purchase ordinary shares.

E. TAXATION

ISRAELI TAX CONSIDERATIONS, FOREIGN EXCHANGE REGULATIONS AND INVESTMENT PROGRAMS

The following is a summary of the principal Israeli tax laws applicable to us, of the Israeli Government programs from which we benefit, and of Israeli foreign exchange regulations. This section also contains a discussion of material Israeli tax consequences to our shareholders who are not residents or citizens of Israel. This summary does not discuss all aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances, or to some types of investors subject to special treatment under Israeli law. Examples of investors subject to special treatment under Israeli law include residents of Israel, traders in securities, or persons who own, directly or indirectly, 10% or more of our outstanding voting capital, all of whom are subject to special tax regimes not covered in this discussion. Some parts of this discussion are based on new tax legislation that has not been subject to judicial or administrative interpretation. The discussion should not be construed as legal or professional tax advice and does not cover all possible tax consequences.

You are urged to consult your own tax advisor as to the Israeli and other tax consequences of the purchase, ownership and disposition of our ordinary shares, including, in particular, the effect of any non-Israeli, state or local taxes.

General Corporate Tax Structure in Israel

Israeli companies were generally subject to corporate tax at the rate of 25% of their taxable income in 2012 and the tax rate will continue at that rate in 2013 and thereafter. Corporate tax rates applicable for 2009, 2010 and 2011 were 26%, 25% and 24%, respectively.

On December 5, 2011, the Knesset passed the Law for Tax Burden Reform (Legislative Amendments), 2011 which, among others, cancels effective from 2012, the scheduled progressive reduction in the corporate tax rate, and increases the corporate tax rate to 25% in 2012 and thereafter. The capital gains tax rate and the real-estate gain tax rate were also increased accordingly. The new law was enacted as of December 31, 2011 and had no material effect on the Company's financial statements.

In 2006, transfer pricing regulations came into force, following the introduction of Section 85A of the Israeli Tax Ordinance under Amendment 132. The transfer pricing rules require that cross-border transactions between related parties be carried out implementing an arms' length principle and reported and taxed accordingly.

In 2008, the Knesset passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting in 2008 and thereafter. Starting in 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the consumer price index carried out in the period up to December 31, 2007. The amended law includes, among other provisions, the elimination of the inflationary additions and deductions and the additional deduction for depreciation for the period starting in 2008.

Israeli companies are subject to 25% capital gains tax on gains earned after January 1, 2003.

However, as discussed below, the standard corporate tax rate may be effectively reduced for income derived from an Approved Enterprise and Privileged Enterprise.

Law for the Encouragement of Capital Investments, 1959

The Investment Law provides that capital investments in a production facility (or other eligible assets) may be designated as an Approved Enterprise and Privileged Enterprise and qualify for certain tax benefits.

Until April 2005, the designation required advance approval from the Investment Center of the Israel Ministry of Industry, Trade and Labor. Each certificate of approval for an Approved Enterprise relates to a specific investment program, delineated both by the financial scope of the investment and by the physical characteristics of the facility or the asset. Under the Approved Enterprise program, a company is eligible for governmental grants. The tax benefits under such program are generally limited to 7-10 years. A company may elect to receive an alternative package comprised of tax benefits, referred to as the Alternative Track, rather than grants. Under the Alternative Track, a company's undistributed income derived from an Approved Enterprise is exempt from corporate tax for an initial period (two, six or ten years of the benefit period, depending on the geographic location of the Approved Enterprise within Israel), and subject to tax at the reduced rate of 10%-25% for the remaining benefit period. The exemption begins in the first year that the company realizes taxable income from the Approved Enterprise.

On April 1, 2005, an amendment to the Investment Law came into effect – Amendment No. 60. The amendment revised the criteria for investments qualified to receive tax benefits. An eligible investment program under the amendment will qualify for benefits as a Privileged Enterprise (rather than the previous terminology of Approved Enterprise). Among other things, the amendment provides tax benefits to both local and foreign investors and simplifies the approval process (following the 2005 amendment, the Investment Law allows a company to claim a "Privileged Enterprise" status without the need to obtain approval from the Investment Center). The period of tax benefits for a new Privileged Enterprise commences in the "Year of Commencement." This year is the later of (1) the year in which taxable income is first generated by a company, or (2) a year selected by the company for commencement, on the condition that the company meets certain provisions provided by the Investment Law, referred to as the Year of Election. The amendment does not apply to investment programs approved prior to December 31, 2004, and applies to new investment programs only. Therefore, our Approved Enterprise program is not subject to the provisions of the amendment, but our two Privileged Enterprise programs are.

Tax benefits are available under the amendment to production facilities (or other eligible facilities), which are generally required to derive more than 25% of their business income from export. In order to receive the tax benefits, the amendment states that the company must make an investment in the Privileged Enterprise exceeding a certain percentage or a minimum amount specified in the Investment Law. Such investment may be made over a period of no more than three years ending at the end of the year in which the company requested to have the tax benefits apply to the Privileged Enterprise, referred to as the Year of Election. Where the company requests to have the tax benefits apply to an expansion of existing facilities, then only the expansion will be considered a Privileged Enterprise and the company's effective tax rate will be the result of a weighted combination of the applicable rates. In this case, the minimum investment required in order to qualify as a Privileged Enterprise is required to exceed a certain percentage or a minimum amount of the company's production assets before the expansion.

The tax benefits granted to a Privileged Enterprise are determined according to one of the following tax routes:

- Similar to the Alternative Track for an Approved Enterprise program, exemption from corporate tax on undistributed income for a period of two to ten years, depending on the geographic location of the Privileged Enterprise within Israel, and a reduced corporate tax rate of 10% to 25% for the remainder of the benefits period, depending on the level of foreign investment in each year. Benefits may be granted for a term of seven to ten years, depending on the level of foreign investment in the company; and
- A special tax route, which enables companies owning facilities in certain geographical locations in Israel to pay corporate tax at the rate of 11.5% on income of the Privileged Enterprise. The benefits period is ten years. Upon payment of dividends, the company is required to withhold tax at source at a rate of 15% for Israeli residents and at a rate of 4% for foreign residents.

The amendment applies to Approved Enterprise programs in which the Year of Election under the Investment Law is 2004 or later, unless such programs received approval from the Investment Center on or prior to December 31, 2004, in which case the amendment provides that terms and benefits included in any certificate of approval already granted will remain subject to the provisions of the law as they were on the date of such approval.

If a company distributes dividends out of income derived from tax-exempt Approved/Privileged Enterprise during the tax exemption period, such income will be subject to corporate tax at the applicable rate (10%-25%) in respect of the gross amount of the dividend that the company may distribute.

Currently we have three programs under the Investment Law, which entitle us to tax benefits. The first program pursuant to the Investment Law as in effect prior to the amendment (Approved Enterprise), and the second and the third programs pursuant to the Investment Law as in effect after the amendment (Privileged Enterprise). Our facilities in Israel have been granted Approved Enterprise status under the Investment Law. All the programs are subject to the alternative track provisions pursuant to which undistributed income derived from the programs is exempt from tax for a ten year period. The exemption period for our programs starts in the first year in which we generate taxable income from the enterprises subject to certain conditions.

We intend to continue to make our investments in productive assets as Privileged Enterprise programs, but we cannot assure you that we will do so or that we will be successful. We intend to reinvest the entire amount of our tax-exempt income and not to distribute this income as a dividend.

The benefits available to an Approved/Privileged Enterprise are conditioned upon terms stipulated in the Investment Law and the related regulations (which include making specified investments in property and equipment, and financing a percentage of these investments with share capital), and with respect to an Approved Enterprise, the criteria set forth in the applicable certificate of approval. If we do not fulfill these conditions in whole or in part, the benefits can be cancelled and it may be required to refund the amount of the benefits, linked to the Israeli consumer price index plus interest. We believe that our Approved Enterprise and Privileged Enterprise programs currently operate in compliance with all applicable conditions and criteria, but we cannot assure you that they will continue to do so.

As a result of the amendment to the Investment Law in April 2005, tax-exempt income generated under the provisions of the amended law will subject us to taxes upon distribution or liquidation and we may be required to record deferred tax liability with respect to such tax-exempt income.

Amendment to the Law for the Encouragement of Capital Investments, 1959

In January 2011, new legislation amending the Investment Law was adopted. Under this new legislation, a uniform corporate tax rate will apply to all qualifying income of certain Industrial Companies, as opposed to the current law's incentives, which are limited to income from Approved Enterprises and Privileged Enterprises during their benefits period. Under the new law, the uniform tax rate will be 10% in areas in Israel designated as Development Zone A and 15% elsewhere in Israel during 2011-2012, 7% and 12.5%, respectively, in 2013-2014, and 6% and 12%, respectively thereafter. Certain "Special Industrial Companies" that meet certain criteria will benefit from further reduced tax rates of 5% in Zone A and 8% elsewhere. The profits of these Industrial Companies will be freely distributable as dividends, subject to a 15% withholding tax (or lower, under an applicable tax treaty).

The amendment provides an exemption from the 15% withholding tax for a distribution to an Israeli-resident company from companies which have elected to apply as a Preferred Enterprise status and waived their Approved Enterprise and Privileged Enterprise status through June 2015.

Under the transition provisions of the new legislation, we may decide to irrevocably implement the new law while waiving benefits provided under the Investment Law as currently in effect or to remain subject to the Investment Law as currently in effect. Changing from the previous law to the new law is permitted at any time. We do not expect the new law to have a material effect on the tax payable on its Israeli operations in the foreseeable future.

In November 2012, the Knesset (Israeli Parliament) passed Amendment no. 69 to the Investment Law (the "*Trapped Profits Law*"), which provides a temporary, partial, relief from taxation on a distribution from exempt income derived from Approved Enterprise and Privileged Enterprise for companies which elect the relief through November 2013. The Trapped Earnings Law allows a company to qualify a portion of its exempt income ("Elected Earnings") for a reduced tax rate ranging from 6% to 17.5% (instead of 10% to 25%). While the reduced tax is payable within 30 days of election, an electing company is not required to actually distribute the Elected Earnings within a certain period of time. The applicable rate is based on a linear formula involving the portion of Elected Earnings to exempt income and the applicable tax rate prescribed in the Investment Law. A company electing to qualify its exempt income must undertake to make a Designated Investment in Israel (the "Designated Investment") within 5 years period starting from the year of election in productive fixed assets, research and development, or wages of new hired employees. The Designated Investment amount is defined by a formula which considers the portion of Elected Earnings to the exempt income and the applicable tax rate prescribed by the Investment Law.

The Investment Law treats certain payments made by a company from cash resources derived from tax exempt income, as a deemed dividend distribution event, triggering a corporate tax liability, at the regular Approved or Privileged income tax rates. Such payments include but are not limited to, repurchase of shares and payments made to substantial shareholders as defined in the Law. In accordance with the ITA's current interpretation of the Law (which has not been reaffirmed by a court), the Law stipulated that investments in subsidiaries including in the form of acquisition of subsidiaries from unrelated party, may be also considered as a deemed dividend distribution event, thus increasing the risk of triggering a deemed dividend distribution event and therefore a potential tax exposure. The ITA interpretation is that this provision applies retroactively to investments and acquisitions made prior to the amendment.

Law for Encouragement of Research and Development in the Industry, 1984

Since April 2006, our research and development efforts have been financed, in part, through grants from the Office of the Chief Scientist, or the OCS, under our approved plans in accordance with the Israeli Law for Encouragement of Research and Development in the Industry, 1984, or the R&D Law. Through December 31, 2012, we had applied and received approval for grants totaling \$21.2 million from the OCS. Under Israeli law and the approved plans, royalties on the revenues derived from sales of any of our products incorporating OCS funded know-how (including ancillary services) are payable to the Israeli government, generally at the rate of 4.0% during the first three years and 4.5% beginning with the fourth year, up to the amount of the received grants as adjusted for fluctuation in the U.S. dollar/NIS exchange rate. Royalties are paid on our consolidated revenues for products for which we received OCS participation. With respect to royalties for revenues derived from the partnership with Marvell, royalties to the OCS will be calculated based on Marvell's sale price to Cisco. The grants also bear interest equal to the 12-month London Interbank Offered Rate applicable to dollar deposits that is published on the first business day of each calendar year.

The government of Israel does not own proprietary rights in knowledge developed using its funding and there is no restriction related to such funding on the export of products manufactured using the know-how. The know-how is, however, subject to other legal restrictions, including the obligation to manufacture the product based on the know-how in Israel and to obtain the OCS's consent to transfer the know-how to a third party, whether in or outside Israel. These restrictions may impair our ability to outsource manufacturing or enter into similar arrangements for those products or technologies and they continue to apply even after we have paid the full amount of royalties payable for the grants.

The R&D Law provides that the consent of the OCS for the transfer outside of Israel of know-how derived out of an approved plan may only be granted under special circumstances and subject to fulfillment of certain conditions specified in the R&D Law as follows:

- the grant recipient pays to the OCS a portion of the sale price paid in consideration for such OCS-funded know-how (according to certain formulas), except if the grantee receives from the transferee of the know-how an exclusive, irrevocable, perpetual unlimited license to fully utilize the know-how and all related rights;
- the grant recipient receives know-how from a third party in exchange for its OCS funded know-how; or
- such transfer of OCS funded know-how arises in connection with certain types of cooperation in research and development activities.

During December 2011 we made a one-time early repayment of \$9.9 million to the OCS, representing the full balance of the contingent liability related to the NP-4 and NPA grants received. Upon making this payment, we eliminated all future royalty obligations related to future revenues anticipated from the NP-4 and the NPA and avoided the associated future interest payments related to such obligations. As of December 31, 2012, we had an outstanding contingent obligation to pay royalties in the amount of approximately \$9.2 million.

Law for the Encouragement of Industry (Taxes), 1969

We believe that EZchip Technologies currently qualifies as an Industrial Company within the meaning of the Law for the Encouragement of Industry (Taxes), 1969 (the Industrial Encouragement Law). The Industrial Encouragement Law defines an Industrial Company as a company that is resident in Israel and that derives at least 90% of its income in any tax year, other than income from defense loans, from an industrial enterprise owned by that company whose major activity in a given tax year is industrial production.

The following are the principal corporate tax benefits that are available to Industrial Companies:

- amortization of the cost of purchased know-how and patents over an eight-year period for tax purposes,
- accelerated depreciation rates on equipment and buildings,
- under specified conditions, an election to file consolidated tax returns with related Israeli Industrial Companies, and
- expenses related to a public offering are deductible in equal amounts over three years.

Eligibility for the benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority. We cannot assure you that we qualify or will continue to qualify as an Industrial Company or that the benefits described above will be available in the future.

Taxation of Shareholders on Receipt of Dividends

Taxation of Non-Israeli Shareholders

Under Israeli tax law, a distribution of dividends from income attributable to an Approved/Privileged Enterprise will be subject to tax in Israel at the rate of 15%, which is withheld and paid by the company paying the dividend, if the dividend is distributed during the benefits period or within the following 12 years (but the 12-year limitation does not apply to a dividend distributed by Foreign Investors Company according to the Investment Law). Any distribution of dividends from income that is not attributable to an Approved/Privileged Enterprise will be subject to tax in Israel, commencing January 1, 2012, at the rate of 25% unless a lower rate is applicable under a double taxation treaty, except that dividends distributed to an individual who is deemed "substantial shareholder" are subject to tax at the rate of 30%. These rates are the final taxes in Israel on dividends for individual and corporate non-residents of Israel. Foreign residents who have Israeli derived income for which tax was withheld at the source are generally exempt from the duty to file tax returns in Israel for such income. This includes income from Israeli derived interest, dividends and royalties.

Under the United States-Israel tax treaty, the maximum tax on dividends paid to a holder of the ordinary shares who is a United States resident is 25% (as of January 1, 2012, following the Law for Tax Burden Reform (Legislative Amendments), 2011) or 15% in connection with an Approved Enterprise/Privileged Enterprise.

A U.S. corporation would have a reduced withholding tax rate on dividends if it were to own 10% or more of our voting rights under specified conditions. The reduced withholding tax rate on the dividend would be 12.5%. The U.S. corporation must own at least 10% of the voting shares during the portion of the company's tax year before the payment of the dividend and during the entire prior tax year. The reduced rate is also subject to two other conditions. First, not more than 25% of the company's gross income for the prior tax year could consist of interest, other than interest received from banking, financing or similar businesses or from certain subsidiaries. Second, the dividend cannot be derived from income during any period for which the company is entitled to the reduced tax rate applicable to an Approved Enterprise/Privileged Enterprise. In this case the withholding tax rate would be 15%.

According to an amendment to the Israeli Tax Ordinance, which became effective in 2003, since EZchip Semiconductor's ordinary shares are traded on the TASE and on NASDAQ, gains on the sale of ordinary shares held by non-Israeli resident investors for tax purposes will generally be exempt from Israeli capital gains tax, subject to the provisions of the Israeli tax legislation. Under the terms of the tax treaty, Israel may tax capital gains realized by shareholders resident in the United States on a sale of ordinary shares of EZchip Semiconductor if certain conditions exist, however, such right is subject to the above exemption.

Taxation of Israeli Shareholders

As of January 1, 2012, Israeli resident individuals are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares, other than bonus shares (share dividends) or stock dividends, at the rate of 25%, or 30% for a shareholder that is considered a material shareholder (within the meaning of the Israeli Income Tax Ordinance) at any time during the 12-month period preceding such distribution.

Dividends paid from income derived from attributable to an Approved/Privileged Enterprise are subject to tax, which is withheld at the source, at the rate of 15%. This limitation does not apply if the company qualifies as a foreign investors' company according to the Investment Law. We cannot assure you that we will designate the profits that are being distributed in a way that will reduce shareholders' tax liability to this tax rate.

Capital Gains Taxes Applicable to Non-Israeli Shareholders

Capital gains from the sale of our ordinary shares by non-Israeli shareholders are exempt from Israeli taxation, provided that the capital gain is not derived from a permanent establishment in Israel. In addition, the United States-Israel tax treaty exempts United States residents who hold less than 10% of our voting rights, and who held less than 10% of our voting rights during the 12 months prior to a sale of their shares, from Israeli capital gains tax in connection with such sale.

However, non-Israeli corporations will not be entitled to such exemption if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli corporation, or (ii) is the beneficiary or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

Capital Gains Taxes Applicable to Israeli Residents

As of January 1, 2006, the tax rate on capital gains to a non-principal individual shareholder (those persons holding less than 10% of our ordinary shares), derived from sales of shares listed on a stock exchange, is 25% on the real capital gain accrued from January 1, 2003 and 30% to an individual material shareholder.

The real gain is based on the difference between the adjusted average value of the shares during the last three trading days before January 1, 2003 (or the adjusted original cost if it is higher than the adjusted average value) and the value of the shares at the date of sale. In the latter case, the capital loss that might be set off is the difference between the adjusted average value and the value of the shares at the date of sale.

Dealers in securities in Israel are taxed at regular tax rates applicable to business income. Companies resident in Israel are taxed at rates applicable to capital gains.

Individual and corporate shareholder trading in securities as their business in Israel are taxed at the tax rates applicable to business income - 25% for corporations and a marginal tax rate of up to 48% in 2012 and 50% (including 2% of excess tax added on income exceeds 800,000 per year) in 2013 and thereafter for individuals.

At the sale of securities traded on a stock exchange, a detailed return, including a computation of the tax due, must be filed and an advance payment must be made on January 31 and June 30 of every tax year in respect of sales of securities made within the previous six months. However, if all tax due was withheld at source according to applicable provisions of the Ordinance and regulations promulgated thereunder, the aforementioned return need not be filed and no advance payment must be paid. Capital gain is also reportable on the annual income tax return.

Foreign Exchange Regulations

Dividends, if any, paid to the holders of our ordinary shares, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, may be paid in non-Israeli currency. If these amounts are paid in Israeli currency, they may be converted into freely repatriable U.S. dollar at the rate of exchange prevailing at the time of conversion. In addition, the statutory framework for the potential imposition of exchange controls has not been eliminated, and may be restored at any time by administrative action.

U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain material U.S. federal income tax consequences that apply to U.S. Holders who hold ordinary shares as capital assets. This summary is based on the United States Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, judicial and administrative interpretations thereof, and the U.S.-Israel Tax Treaty, all as in effect on the date hereof and all of which are subject to change either prospectively or retroactively. This summary does not address all tax considerations that may be relevant with respect to an investment in ordinary shares. This summary does not account for the specific circumstances of any particular investor, such as:

- broker-dealers,
- financial institutions,
- certain insurance companies,
- investors liable for alternative minimum tax,
- tax-exempt organizations,
- non-resident aliens of the U.S. or taxpayers whose functional currency is not the U.S. dollar,
- persons who hold the ordinary shares through partnerships or other pass-through entities,
- persons who acquire their ordinary shares through the exercise or cancellation of employee stock options or otherwise as compensation for services,
- investors that actually or constructively own 10% or more of our voting shares, and
- investors holding ordinary shares as part of a straddle, or appreciated financial position or a hedging or conversion transaction.

If a partnership or an entity treated as a partnership for U.S. federal income tax purposes owns ordinary shares, the U.S. federal income tax treatment of a partner in such a partnership will generally depend upon the status of the partner and the activities of the partnership. A partnership that owns ordinary shares and the partners in such partnership should consult their tax advisors about the U.S. federal income tax consequences of holding and disposing of ordinary shares.

This summary does not address the effect of any U.S. federal taxation other than U.S. federal income taxation. In addition, this summary does not include any discussion of state, local or foreign taxation.

You are urged to consult your tax advisors regarding the foreign and United States federal, state and local tax considerations of an investment in ordinary shares.

For purposes of this summary, a U.S. Holder is:

- an individual who is a citizen or, for U.S. federal income tax purposes, a resident of the United States;
- a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any political subdivision thereof;
- an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust that (a) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons or (b) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

Taxation of Dividends

The gross amount of any distributions received with respect to ordinary shares, including the amount of any Israeli taxes withheld therefrom, will constitute dividends for U.S. federal income tax purposes to the extent of our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. You will be required to include this amount of dividends in gross income as ordinary income. Distributions in excess of our current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of your tax basis in the ordinary shares and any amount in excess of your tax basis will be treated as gain from the sale of ordinary shares. See "Disposition of Ordinary Shares" below for the discussion on the taxation of capital gains. Dividends will not qualify for the dividends-received deduction generally available to corporations under Section 243 of the Code.

Dividends that we pay in NIS, including the amount of any Israeli taxes withheld therefrom, will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day such dividends are received. A U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at an exchange rate other than the rate in effect on such day may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss. U.S. Holders should consult their own tax advisors concerning the U.S. tax consequences of acquiring, holding and disposing of NIS.

Subject to complex limitations, any Israeli withholding tax imposed on such dividends will be a foreign income tax eligible for credit against a U.S. Holder's U.S. federal income tax liability (or, alternatively, for deduction against income in determining such tax liability). The limitations set out in the Code include computational rules under which foreign tax credits allowable with respect to specific classes of income cannot exceed the U.S. federal income taxes otherwise payable with respect to each such class of income. Dividends generally will be treated as foreign-source passive category income or, in the case of certain U.S. Holders, general category income for United States foreign tax credit purposes. Further, there are special rules for computing the foreign tax credit limitation of a taxpayer who receives dividends subject to a reduced tax, see discussion below. A U.S. Holder will be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on the ordinary shares to the extent such U.S. Holder has not held the ordinary shares for at least 16 days of the 31-day period beginning on the date which is 15 days before the ex-dividend date or to the extent such U.S. Holder is under an obligation to make related payments with respect to substantially similar or related property. Any days during which a U.S. Holder has substantially diminished its risk of loss on the ordinary shares are not counted toward meeting the 16-day holding period required by the statute. The rules relating to the determination of the foreign tax credit are complex, and you should consult with your personal tax advisors to determine whether and to what extent you would be entitled to this credit.

Subject to certain limitations, "qualified dividend income" received by a non-corporate U.S. Holder in tax years beginning after December 31, 2012 will be subject to tax at a reduced maximum tax rate of 20 percent. Distributions taxable as dividends paid on the ordinary shares should qualify for the 20 percent rate provided that either: (i) we are entitled to benefits under the income tax treaty between the United States and Israel, or the Treaty, or (ii) the ordinary shares are readily tradable on an established securities market in the United States and certain other requirements are met. We believe that we are entitled to benefits under the Treaty and that the ordinary shares currently are readily tradable on an established securities market in the United States. However, no assurance can be given that the ordinary shares will remain readily tradable. The rate reduction does not apply unless certain holding period requirements are satisfied. With respect to the ordinary shares, the U.S. Holder must have held such shares for at least 61 days during the 121-day period beginning 60 days before the ex-dividend date. The rate reduction also does not apply to dividends received from passive foreign investment companies, see discussion below, or in respect of certain hedged positions or in certain other situations. The legislation enacting the reduced tax rate contains special rules for computing the foreign tax credit limitation of a taxpayer who receives dividends subject to the reduced tax rate. U.S. Holders of ordinary shares should consult their own tax advisors regarding the effect of these rules in their particular circumstances.

Additional Tax on Investment Income

In addition to the income taxes described above, U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds will be subject to a 3.8% Medicare contribution tax on net investment income, which includes dividends and capital gains.

Disposition of Ordinary Shares

If you sell or otherwise dispose of ordinary shares, you will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition and the adjusted tax basis in ordinary shares. Subject to the discussion below under the heading "Passive Foreign Investment Companies," such gain or loss will generally be capital gain or loss and will be long-term capital gain or loss if you have held the ordinary shares for more than one year at the time of the sale or other disposition. In general, any gain that you recognize on the sale or other disposition of ordinary shares will be U.S.-source for purposes of the foreign tax credit limitation; losses will generally be allocated against U.S. source income. Deduction of capital losses is subject to certain limitations under the Code.

In the case of a cash basis U.S. Holder who receives NIS in connection with the sale or disposition of ordinary shares, the amount realized will be based on the U.S. dollar value of the NIS received with respect to the ordinary shares as determined on the settlement date of such exchange. A U.S. Holder who receives payment in NIS and converts NIS into United States dollars at a conversion rate other than the rate in effect on the settlement date may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss.

An accrual basis U.S. Holder may elect the same treatment required of cash basis taxpayers with respect to a sale or disposition of ordinary shares, provided that the election is applied consistently from year to year. Such election may not be changed without the consent of the Internal Revenue Service, or the IRS. In the event that an accrual basis U.S. Holder does not elect to be treated as a cash basis taxpayer (pursuant to the Treasury regulations applicable to foreign currency transactions), such U.S. Holder may have a foreign currency gain or loss for U.S. federal income tax purposes because of differences between the U.S. dollar value of the currency received prevailing on the trade date and the settlement date. Any such currency gain or loss would be treated as ordinary income or loss and would be in addition to gain or loss, if any, recognized by such U.S. Holder on the sale or disposition of such ordinary shares.

Passive Foreign Investment Companies

For U.S. federal income tax purposes, we will be considered a passive foreign investment company, or PFIC, for any taxable year in which either (i) 75% or more of our gross income is passive income, or (ii) at least 50% of the average value of all of our assets for the taxable year which produce or are held for the production of passive income. For this purpose, passive income includes generally dividends, interest, royalties, rents, annuities and the excess of gains over losses from the disposition of assets which produce passive income. If we were determined to be a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. Holders owning ordinary shares. Accordingly, you are urged to consult your tax advisors regarding the application of such rules.

Based on our current and projected income, assets and activities, we believe that we are not currently a PFIC nor do we expect to become a PFIC in the foreseeable future. However, because the determination of whether we are a PFIC is based upon the composition of our income and assets from time to time, there can be no assurances that we will not become a PFIC for any future taxable year.

If we are treated as a PFIC for any taxable year, dividends would not qualify for the reduced maximum tax rate, discussed above, and, unless you elect either to treat your investment in ordinary shares as an investment in a “qualified electing fund”, or a QEF election, or to “mark-to-market” your ordinary shares, as described below,

- you would be required to allocate income recognized upon receiving certain dividends or gain recognized upon the disposition of ordinary shares ratably over the holding period for such ordinary shares,
- the amount allocated to each year during which we are considered a PFIC other than the year of the dividend payment or disposition would be subject to tax at the highest individual or corporate tax rate, as the case may be, and an interest charge would be imposed with respect to the resulting tax liability allocated to each such year,
- the amount allocated to the current taxable year and any taxable year before we became a PFIC would be taxable as ordinary income in the current year, and
- you would be required to make an annual return on IRS Form 8621.

If you make either a timely QEF election or a timely mark-to-market election in respect of your ordinary shares, you would not be subject to the rules described above. If you make a timely QEF election, you would be required to include in your income for each taxable year your pro rata share of our ordinary earnings as ordinary income and your pro rata share of our net capital gain as long-term capital gain, whether or not such amounts are actually distributed to you. You would not be eligible to make a QEF election unless we comply with certain applicable information reporting requirements.

Alternatively, assuming the ordinary shares qualify as “marketable stock” within the meaning of section 1296(e) of the Code, if you elect to “mark-to-market” your ordinary shares, you will generally include in income, in each year in which we are considered a PFIC, any excess of the fair market value of the ordinary shares at the close of each tax year over your adjusted basis in the ordinary shares. If the fair market value of the ordinary shares had depreciated below your adjusted basis at the close of the tax year, you may generally deduct the excess of the adjusted basis of the ordinary shares over its fair market value at that time. However, such deductions would generally be limited to the net mark-to-market gains, if any, that you included in income with respect to such ordinary shares in prior years. Income recognized and deductions allowed under the mark-to-market provisions, as well as any gain or loss on the disposition of ordinary shares with respect to which the mark-to-market election is made, is treated as ordinary income or loss (except that loss on a disposition of ordinary shares is treated as capital loss to the extent the loss exceeds the net mark-to-market gains, if any, that you included in income with respect to such ordinary shares in prior years). Gain or loss from the disposition of ordinary shares (as to which a mark-to-market election was made) in a year in which we are no longer a PFIC, will be capital gain or loss.

Backup Withholding and Information Reporting

Payments in respect of ordinary shares may be subject to information reporting to the U.S. Internal Revenue Service and to U.S. backup withholding tax at the rate (currently) of 28%. Backup withholding will not apply, however, if you (i) are a corporation or fall within certain exempt categories, and demonstrate the fact when so required, or (ii) furnish a correct taxpayer identification number and make any other required certification.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a U.S. Holder’s U.S. tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS.

U.S. individuals that hold certain specified foreign financial assets, including stock in a foreign corporation, with values in excess of certain thresholds are required to file Form 8938 with their U.S. Federal income tax return. Such Form requires disclosure of information concerning such foreign assets, including the value of the assets. Failure to file the form when required is subject to penalties. An exemption from reporting applies to foreign assets held through a U.S. financial institution, generally including a non-U.S. branch or subsidiary of a U.S. institution and a U.S. branch of a non-US institution. Investors are encouraged to consult with their own tax advisors regarding the possible application of this disclosure requirement to their investment in ordinary shares.

Any U.S. holder who holds 10% or more in vote or value of our ordinary shares will be subject to certain additional United States information reporting requirements.

F. DIVIDEND AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

We are subject to certain of the information reporting requirements of the Exchange Act. As a “foreign private issuer,” we are exempt from the rules and regulations under the Securities Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and “short-swing” profit recovery provisions contained in Section 16 of the Exchange Act, with respect to their purchase and sale of the ordinary shares. In addition, we are not required to file reports and financial statements with the Securities and Exchange Commission as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we file with the Securities and Exchange Commission an annual report on Form 20-F containing financial statements audited by an independent accounting firm. We also furnish reports on Form 6-K containing unaudited financial information after the end of each of the first three quarters. We post our Annual Report on Form 20-F on our website (www.ezchip.com) promptly following the filing of our Annual Report with the Securities and Exchange Commission. The information on our website is not incorporated by reference into this annual report.

This report and other information filed or to be filed by us can be inspected without charge and copied at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission at:

100 F Street, NE
Public Reference Room
Washington, D.C. 20549

You may obtain information on the operation of the Securities and Exchange Commission’s public reference room in Washington, D.C. by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Exchange Act file number for our Securities and Exchange Commission filings is 000-20860.

The Securities and Exchange Commission maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the Securities and Exchange Commission using its EDGAR (Electronic Data Gathering, Analysis, and Retrieval) system.

The documents concerning our company referred to in this annual report may also be inspected at our offices located at 1 Hatamar Street, PO Box 527, Yokneam 20692, Israel.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

Market risks relating to our operations result primarily from currency fluctuations, changes in the market value of our investments and changes in interest rates.

Currency Exchange Rate Risk Management

Our functional currency is the U.S. dollar, and most of our revenue is denominated in U.S. dollars. However, a significant portion of the cost of our operations, mainly personnel costs of our operations in Israel, is incurred in NIS. Therefore, our NIS-related costs, as expressed in U.S. dollars, are influenced by the exchange rate between the U.S. dollar and the NIS. In addition, NIS-linked balance sheet items, mainly employment related, may create foreign exchange gains or losses, based on changes in the exchange rate between the U.S. dollar and the NIS at the beginning and end of the reporting period, consequently affecting our net income and earnings per share.

We attempt to limit our exposure to currency exchange rate risk by using various hedging techniques, including forward and option contracts and through "natural" hedging, i.e., attempting to maintain similar levels of assets and liabilities in NIS and U.S. dollars, to the extent commercially feasible. However, we cannot eliminate the effects of currency fluctuations altogether. Exchange rate fluctuations resulting in a devaluation of the U.S. dollar compared to the NIS could have a material adverse impact on our operating results and share price.

We carry out transactions involving foreign currency exchange derivative financial instruments. The transactions are designed to hedge our exposure in NIS against the U.S. dollar. We recognize derivative instruments as either assets or liabilities and measure those instruments at fair value in accordance with FASB ASC 815. If a derivative meets the definition of a cash flow hedge and is so designated, changes in the fair value of the derivative are recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative designated as a hedge is recognized in earnings. If a derivative does not meet the definition of a hedge, the changes in the fair value are included in earnings.

As of December 31, 2012, we had a notional amount of \$14.2 million of outstanding forward and options contracts. These contracts are for a period of up to 12 months. Our accumulated other comprehensive income as of such date included \$0.5 million unrealized gain on the forward and options contracts.

The net effect of the above-described risks stemming from currency exchange rate fluctuations on our net income can be further quantified in a hypothetical manner as follows: An increase or decrease of 10% in the value of the NIS relative to the U.S. dollar in the year ended December 31, 2012 would have resulted in a \$1.3 million decrease or increase, respectively, to our net income for the year ended December 31, 2012.

In 2012, the net effect of the change in value of the U.S. dollar against the NIS resulting from balance sheet exposure was immaterial.

Cash Investments, Marketable Securities and Interest Rate Risk Management

Our cash investment policy seeks to preserve principal and maintain adequate liquidity while maximizing the income we receive from our investments without significantly increasing the risk of loss. To minimize investment risk, we maintain a diversified portfolio across various maturities, types of investments and issuers, which may include, from time to time, money market funds, U.S. and Israeli government bonds, corporate debt and bank deposits. Our cash management policy does not allow us to purchase or hold derivative or commodity instruments, structures or "sub-prime" related holdings (such as auction rate securities and collateralized debt obligation) or other financial instruments for trading purposes.

As of December 31, 2012, we had \$44.9 million in cash and cash equivalents, \$85 million in short term deposits and \$33.1 million in marketable securities. As of such date our marketable securities portfolio was composed of investment grade government and corporate bonds bearing average annual interest rates of approximately 1.8% with average maturities of 16 months (maximum maturities of 4 years).

The performance of the capital markets affects the values of the funds we hold in marketable securities. These assets are subject to market fluctuations, such as the declines experienced in 2008 and the first six months of 2009. In such case, the fair value of our investments may decline. As of December 31, 2012, net unrealized gain in our marketable securities portfolio totaled \$0.3 million. We periodically monitor our investments for adverse material holdings related to the underlying financial solvency of the issuers of the marketable securities in our portfolio.

Our exposure to market risk for changes in interest rates relates primarily to our investment in marketable securities and bank deposits. Investments in both fixed rate and floating rate interest bearing securities carry a degree of interest rate risk. The fair market value of fixed rate securities may be adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall. Due in part to these factors, our future financial results may be negatively affected in the event that interest rates fluctuate. An increase of 1% to interest rates over the course of the entirety of the year ended December 31, 2012 would have increased our financial income by approximately \$0.9 million.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our principal executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of December 31, 2012, have concluded that, as of such date, our disclosure controls and procedures were effective and ensured that information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and chief financial officer, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified by the rules of the Securities and Exchange Commission.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is defined in Rule 13a-15 (f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, 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 and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- 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
- 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. 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.

Our management assessed the effectiveness of our internal control over financial reporting, as of December 31, 2012. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on that assessment, our management concluded that as of December 31, 2012, our internal control over financial reporting is effective.

Our independent auditors, Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, have issued an audit report on the effectiveness of our internal control over financial reporting. The report is included in page F-3 of this Annual Report on Form 20-F.

Changes in Internal Control over Financial Reporting

During the period covered by this Annual Report on Form 20-F, no changes in our internal control over financial reporting have occurred that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that Karen Sarid meets the definition of an audit committee financial expert, as defined by rules of the Securities and Exchange Commission.

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics that applies to our principal executive officer and all senior financial officers of our company, including the chief financial officer, chief accounting officer or controllers, or persons performing similar functions. We undertake to provide without charge, upon request, written copies of the code of ethics. Requests should be addressed to EZchip Semiconductor Ltd., 1 Hatamar Street, P.O. Box 527, Yokneam 20692, Israel, Attention: Investor Relations. If we make any substantive amendment to the code of ethics or grant any waivers, including any implicit waiver, from a provision of the codes of ethics, we will disclose the nature of such amendment or waiver on our website. The code of ethics has been posted on our website at: http://www.ezchip.com/Images/pdf/EZchip_Code_of_Business_Conduct_and_Ethics.pdf.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Independent Registered Public Accountant Firm Fees

The following table sets forth the fees billed by our independent registered public accountant firm for professional services rendered during each of the years indicated. All of such fees were pre-approved by our Audit Committee.

Services Rendered	Year ended December 31,	
	2011	2012
Audit fees (1)	\$ 220,000	\$ 220,000
Audit-related fees	--	--
Tax fees (2)	7,000	6,000
Total	\$ 227,000	\$ 226,000

- (1) Audit fees are for audit services for each of the years shown in the table, including fees associated with the annual audit (including audit of our internal control over financial reporting) and reviews of our quarterly financial results submitted to the Securities and Exchange Commission on Form 6-K, consultations on various accounting issues and audit services provided in connection with other statutory or regulatory filings.
- (2) Tax fees for each of the years shown in the table relate to tax consulting with respect to our Approved and Privileged Enterprises, tax compliance, tax planning and tax advice for actual transactions.

Pre-Approval Policies and Procedures

Our audit committee has adopted a policy and procedures for the pre-approval of audit and non-audit services rendered by our independent public accountants, Kost, Forer, Gabbay & Kasierer. Pre-approval of an audit or non-audit service may be given as a general pre-approval, as part of the audit committee's approval of the scope of the engagement of our independent auditor, or on an individual basis. Any proposed services exceeding general pre-approved levels also require specific pre-approval by our audit committee. The policy prohibits retention of the independent public accountants to perform the prohibited non-audit functions defined in Section 201 of the Sarbanes-Oxley Act or the rules of the Securities and Exchange Commission, and also requires the audit committee to consider whether proposed services are compatible with the independence of the public accountants.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

There were no ordinary shares of EZchip Semiconductor purchased by us or on our behalf or by any affiliated purchaser during 2012.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

None.

ITEM 16G. CORPORATE GOVERNANCE

Under NASDAQ Stock Market Rule 5615(a)(3), foreign private issuers, such as our company, are permitted to follow certain home country corporate governance practices instead of certain provisions of the NASDAQ Stock Market Rules. A foreign private issuer that elects to follow a home country practice instead of any of such provisions of the NASDAQ Stock Market Rules, must submit to NASDAQ, in advance, a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws.

On July 27, 2005 and November 12, 2009, we provided NASDAQ with a notice of non-compliance with certain NASDAQ Stock Market Rule requirements. In practice, we do not comply with the following requirements, and instead follow Israeli law and practice with respect to such corporate governance practices:

- NASDAQ rules regarding the directors nominations process, which require that director nominees be selected, or recommended for the board of directors, either by (a) a majority of independent directors or (b) a nominations committee comprised solely of independent directors. Under Israeli law and practice our directors are recommended by our board of directors for election by our shareholders.
- NASDAQ rules requiring that we obtain shareholder approval for certain dilutive events, such as for the establishment or amendment of certain equity based compensation plans and arrangements, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company. Under Israeli law and practice, in general, the approval of the board of directors is required for the establishment or amendment of equity based compensation plans and arrangements, unless the arrangement is for the benefit of a director, or a controlling shareholder, in which case audit committee and shareholder approval are also required. Similarly, the approval of the board of directors is generally sufficient for a private placement unless the private placement involves a director, a controlling shareholder or is deemed a "significant private placement," in which case shareholder approval, and, in some cases, audit committee approval, would also be required. The Israeli Companies Law defines a "significant private placement" as a private placement (i) resulting in a party becoming a controlling shareholder, or (ii) involving the issuance of a 20% or more voting rights in the company, which (A) results in a 5% or more shareholder increasing its interest in the company or an offeree becoming a 5% or more shareholder, and (B) involves consideration that is not solely cash or public traded securities, or is not on fair market terms.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

See pages F-1 to F-44 of this annual report.

ITEM 19. EXHIBITS

Exhibit No.	Description of Exhibit
1.1	Memorandum of Association of the Registrant (1)
1.2	Amended and Restated Articles of Association of the Registrant
1.3	Certificate of Name Change of the Registrant (translated from Hebrew)(2)
4.1	EZchip Semiconductor Ltd. 2003 Amended and Restated Equity Incentive Plan (3)
4.2	EZchip Semiconductor Ltd. 2007 U.S. Equity Incentive Plan (4)
4.3	EZchip Semiconductor Ltd. 2009 Israel Equity Plan (5)
4.4	Agreement for Purchase and Sale of Goods dated January 1, 2007, by and between Juniper Networks, Inc. and EZchip Technologies Ltd.(6)*
4.5	Master ASIC Services Agreement dated April 29, 2004, by and between eSilicon Corporation and EZchip Technologies Ltd.(7)*
4.6	Technology, Development, License and Manufacturing Agreement dated April 12, 2006 among Marvell International Ltd., Marvell Semiconductor Israel Ltd., and EZchip Technologies Ltd.(8)*
4.7	Amendment No.1 to Technology Development, License and Manufacturing Agreement, dated September, 2006 by and between Marvell International Ltd. Marvell Semiconductor Israel Ltd., and EZchip Technologies Ltd.(9)*
4.8	Amendment No.2 to Technology Development, License and Manufacturing Agreement, dated September 24, 2009 by and between Marvell International Ltd., Marvell Israel (M.I.S.L.) Ltd., and EZchip Technologies Ltd.(10)*
4.9	Business Term Agreement dated November 15, 2006 among Cisco Systems, Inc, Marvell International Ltd., Marvell Semiconductor Israel Ltd., EZchip Technologies Ltd.(11)*
4.10	Business Term Agreement dated December 7, 2010 among Cisco Systems, Inc, Marvell International Ltd., Marvell Israel Ltd., EZchip Technologies Ltd., and EZchip Inc.(12)*
4.11	Custom Sales Agreement (Agreement No. 00590) dated October 30, 2000 between EZchip Technologies Ltd. and International Business Machines (IBM) Corporation (13)*
4.12	First Amended and Restated ASIC Attachment No. 2 to Custom Sales Agreement, dated January 29, 2008, by and between International Business Machines Corporation and EZchip Technologies Ltd. (14)*
4.13	Amendment No. 4 to Custom Sales Agreement dated January 29, 2008 between EZchip Technologies Ltd. and International Business Machines Corporation (15)
4.14	Amendment No.3 to Technology Development, License and Manufacturing Agreement, dated September 2006 by and between Marvell International Ltd., Marvell Israel (M.I.S.L.) Ltd., and EZchip Technologies Ltd.*
4.15	Amendment No.4 to Technology Development, License and Manufacturing Agreement, dated September 2006 by and between Marvell International Ltd., Marvell Israel (M.I.S.L.) Ltd., and EZchip Technologies Ltd.*

Exhibit No.	Description of Exhibit
4.16	Business Term Agreement, dated September 2012, between Cisco Systems, Inc., Marvell International Ltd., Marvell Israel Ltd., EZchip Technologies Ltd. and EZchip Inc.*
4.17	Addendum to the Business Term Agreement, dated September 2012, between Cisco Systems, Inc., EZchip Technologies Ltd. and EZchip Inc.*
8.1	List of Significant Subsidiaries
12.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act, as amended
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act, as amended
13.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global.
101.INS	XBRL Instance Document.**
101.SCH	XBRL Taxonomy Extension Schema Document.**
101.CAL	XBRL Taxonomy Calculation Linkbase Document.**
101.LAB	XBRL Taxonomy Label Linkbase Document.**
101.PRE	XBRL Taxonomy Presentation Linkbase Document.**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.**

* Confidential treatment has been requested for certain deleted portions.

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

- (1) Filed as Exhibit 3.1 to the Registrant's Registration Statement on Form F-1, registration number 33-52676, and incorporated herein by reference.
- (2) Filed as Exhibit 1.3 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2008, and incorporated herein by reference.
- (3) Filed as Exhibit 4.2 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2006, and incorporated herein by reference.
- (4) Filed as Exhibit to the Registrant's Form 6-K, dated December 3, 2007, and incorporated herein by reference.
- (5) Filed as Exhibit 4.4 to the Registrant's Registration Statement on Form S-8, filed January 14, 2010, and incorporated herein by reference.
- (6) Filed as Exhibit 4.7 to the Registrant's Annual Report on Form 20-F/A for the year ended December 31, 2007 and incorporated herein by reference.
- (7) Filed as Exhibit 4.8 to the Registrant's Annual Report on Form 20-F/A for the year ended December 31, 2007 and incorporated herein by reference.
- (8) Filed as Exhibit 4.6 to the Registrant's Annual Report on Form 20-F/A for the year ended December 31, 2010 and incorporated herein by reference.
- (9) Filed as Exhibit 4.7 to the Registrant's Annual Report on Form 20-F/A for the year ended December 31, 2010 and incorporated herein by reference.
- (10) Filed as Exhibit 4.8 to the Registrant's Annual Report on Form 20-F/A for the year ended December 31, 2010 and incorporated herein by reference.
- (11) Filed as Exhibit 4.9 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2010 and incorporated herein by reference.
- (12) Filed as Exhibit 4.10 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2010 and incorporated herein by reference.
- (13) Filed as Exhibit 4.11 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2010 and incorporated herein by reference.
- (14) Filed as Exhibit 4.12 to the Registrant's Annual Report on Form 20-F/A for the year ended December 31, 2010 and incorporated herein by reference.
- (15) Filed as Exhibit 4.13 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2010 and incorporated herein by reference.

EZCHIP SEMICONDUCTOR LTD.
AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2012
IN U.S. DOLLARS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

EZCHIP SEMICONDUCTOR LTD.

We have audited the accompanying consolidated balance sheets of EZchip Semiconductor Ltd. (the "Company") and its subsidiaries as of December 31, 2012 and 2011, the related consolidated statements of income consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 21, 2013 expressed an unqualified opinion thereon.

Tel-Aviv, Israel
March 21, 2013

/s/ Kost Forer Gabbay & Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

EZCHIP SEMICONDUCTOR LTD.

We have audited EZchip Semiconductor Ltd (the "Company") and its subsidiaries internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

In our opinion, the Company and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company and its subsidiaries as of December 31, 2012 and 2011, the related consolidated statements of income, consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2012 and our report dated March 21, 2013 expressed an unqualified opinion thereon.

Tel-Aviv, Israel
March 21, 2013

/s/ Kost Forer Gabbay & Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	Note	December 31,	
		2012	2011
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		\$ 44,863	\$ 19,056
Short-term deposits		85,000	67,000
Available-for-sale marketable securities	3	33,105	40,714
Trade receivables (net of allowance for doubtful accounts of \$40 as of December 31, 2012 and 2011)		4,813	8,655
Other accounts receivable and prepaid expenses	6	4,305	1,837
Inventories	7	4,523	5,788
Total current assets		176,609	143,050
NON-CURRENT ASSETS:			
Long-term deposits		5,000	--
Severance pay fund		6,066	5,215
Long term investment and others		358	337
Total non-current assets		11,424	5,552
PROPERTY AND EQUIPMENT, NET	8	1,285	828
INTANGIBLE ASSETS, NET	9	1,000	1,205
GOODWILL		96,276	96,276
Total assets		\$ 286,594	\$ 246,911

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share data)

	Note	December 31,	
		2012	2011
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade payables		\$ 571	\$ 2,319
Other accounts payable and accrued expenses	10	5,401	6,352
Total current liabilities		5,972	8,671
ACCRUED SEVERANCE PAY		6,977	6,081
SHAREHOLDERS' EQUITY:			
Share capital			
Ordinary shares of NIS 0.02 par value			
Authorized: 50,000,000 shares at December 31, 2012 and December 31, 2011, respectively;			
Issued and outstanding: 28,304,392 and 27,054,663 shares at December 31, 2012 and December 31, 2011, respectively.			
		161	155
Additional paid-in capital		312,723	288,641
Accumulated other comprehensive income (loss)		787	(960)
Accumulated deficit		(40,026)	(55,677)
Total shareholders' equity		273,645	232,159
Total liabilities and shareholders' equity		\$ 286,594	\$ 246,911

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

CONSOLIDATED STATEMENTS OF INCOME

U.S. dollars in thousands (except share and per share data)

	Year ended December 31,		
	2012	2011	2010
Revenues	\$ 54,707	\$ 63,457	\$ 61,998
Costs of revenues	9,118	14,409	15,668
Amortization of existing technology	--	597	1,915
Repayment of OCS grants (see Note 11b)	--	9,938	--
Gross profit	45,589	38,513	44,415
Operating expenses:			
Research and development (net of grants and participations in the amount of \$5,863, \$5,050 and \$3,198 for the years ended December 31, 2012, 2011 and 2010, respectively)	19,736	16,695	13,665
Selling and marketing	7,714	7,743	6,266
General and administrative	4,920	4,316	3,735
Total operating expenses	32,370	28,754	23,666
Operating income	13,219	9,759	20,749
Financial income, net (see Note 16)	2,432	1,713	1,130
Income before taxes	15,651	11,472	21,879
Taxes on income (see Note 13)	--	(3,530)	(8,236)
Net income	\$ 15,651	\$ 7,942	\$ 13,643
Basic net income per share	\$ 0.56	\$ 0.30	\$ 0.54
Diluted net income per share	\$ 0.54	\$ 0.28	\$ 0.52
Weighted average number of Ordinary Shares used in computing basic net income per share	27,981,243	26,681,749	25,281,651
Weighted average number of Ordinary Shares used in computing diluted net income per share	28,842,408	28,001,428	26,110,132

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Year ended December 31,		
	2012	2011	2010
Net income	\$ 15,651	\$ 7,942	\$ 13,643
Unrealized gain (loss) on available-for-sale marketable securities	571	(618)	8
Unrealized gain (loss) on foreign currency cash flow hedges transactions	1,176	(882)	25
Total comprehensive income	\$ 17,398	\$ 6,442	\$ 13,676

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands (except share data)

	Number of ordinary shares	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total shareholders' equity
Balance as of January 1, 2010	24,314,990	\$ 140	\$ 257,078	\$ 507	\$ (77,262)	\$ 180,463
Issuance of shares (see Note 12)	106,893	1	1,071	--	--	1,072
Exercise of stock options	1,604,915	8	7,980	--	--	7,988
Vesting of restricted share units	7,078	*) --	--	--	--	*) --
Stock-based compensation	--	--	5,830	--	--	5,830
Other comprehensive income	--	--	--	33	--	33
Net income	--	--	--	--	13,643	13,643
Balance as of December 31, 2010	26,033,876	149	271,959	540	(63,619)	209,029
Exercise of stock options	814,525	6	8,076	--	--	8,082
Vesting of restricted share units	206,262	*) --	--	--	--	*) --
Stock-based compensation	--	--	8,606	--	--	8,606
Other comprehensive loss, net of tax	--	--	--	(1,500)	--	(1,500)
Net income	--	--	--	--	7,942	7,942
Balance as of December 31, 2011	27,054,663	\$ 155	\$ 288,641	\$ (960)	\$ (55,677)	\$ 232,159

*) Represents an amount lower than \$1.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands (except share data)

	Number of ordinary shares	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total shareholders' equity
Balance as of December 31, 2011	27,054,663	\$ 155	\$ 288,641	\$ (960)	\$ (55,677)	\$ 232,159
Exercise of stock options	964,258	6	12,884	--	--	12,890
Vesting of restricted share units	285,471	*) --	--	--	--	*) --
Stock-based compensation	--	--	11,198	--	--	11,198
Other comprehensive income	--	--	--	1,747	--	1,747
Net income	--	--	--	--	15,651	15,651
Balance as of December 31, 2012	<u>28,304,392</u>	<u>\$ 161</u>	<u>\$ 312,723</u>	<u>\$ 787</u>	<u>\$ (40,026)</u>	<u>\$ 273,645</u>

*) Represents an amount lower than \$1.

Accumulated other comprehensive income (loss)

	December 31,	
	2012	2011
Accumulated unrealized gain (loss) on available-for-sale marketable securities	\$ 270	\$ (301)
Accumulated unrealized gain (loss) on foreign currency cash flows hedges, net	517	(659)
Accumulated other comprehensive income (loss)	<u>\$ 787</u>	<u>\$ (960)</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2012	2011	2010
Cash flows from operating activities:			
Net income (*)	\$ 15,651	\$ 7,942	\$ 13,643
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	661	1,227	2,887
Accumulated interest accretion and amortization of discount and premium on available-for-sale marketable securities	496	545	451
Realized gain related to sale of available-for-sale marketable securities	(35)	(73)	(12)
Increase in accrued severance pay, net	45	101	85
Stock-based compensation related to options and RSUs	11,198	8,606	5,830
Decrease (increase) in trade receivables, net	3,842	333	(2,648)
Decrease (increase) in other accounts receivable and prepaid expenses	(1,951)	(952)	405
Decrease (increase) in inventory	1,265	(1,266)	(2,989)
Increase in other long term receivable	(21)	(2)	(135)
Decrease (increase) in deferred tax asset	--	3,513	8,162
Increase (decrease) in trade payables	(1,653)	781	(513)
Increase (decrease) in other accounts payable and accrued expenses	208	(1,376)	862
Net cash provided by operating activities	29,706	19,379	26,028
Cash flows from investing activities:			
Investment in available-for-sale marketable securities	(9,000)	(20,702)	(23,671)
Investment in short-term deposits	(92,000)	(67,000)	(37,000)
Proceeds from redemption of short-term deposits	74,000	33,000	7,000
Investment in long-term deposits	(5,000)	--	--
Proceeds from sale and redemption of available-for-sale marketable securities	16,719	15,223	16,405
Purchase of property and equipment	(1,008)	(411)	(385)
Purchase of technology	(500)	(500)	--
Cash paid for investment in affiliated company	--	--	(200)
Net cash used in investing activities	\$ (16,789)	\$ (40,390)	\$ (37,851)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2012	2011	2010
Cash flows from financing activities:			
Issuance of shares, net of issuance costs	\$ --	\$ --	\$ 1,072
Proceeds from exercise of options	12,890	8,082	7,988
Net cash provided by financing activities	12,890	8,082	9,060
Increase (decrease) in cash and cash equivalents	25,807	(12,929)	(2,763)
Cash and cash equivalents at the beginning of the year	19,056	31,985	34,748
Cash and cash equivalents at the end of the year	\$ 44,863	\$ 19,056	\$ 31,985
(*) Including one time repayment of OCS grants (see Note 11b)	\$ --	\$ 9,938	\$ --
Significant non-cash activities:			
Purchase of property, equipment and technology in credit	\$ 202	\$ 797	\$ 48

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 1:- GENERAL

- a. EZchip Semiconductor Ltd. (the "Company") was incorporated as a limited liability company under the laws of the State of Israel in 1989.

On July 22, 2008, the Company changed its name from LanOptics Ltd. to EZchip Semiconductor Ltd. The Company is a fabless semiconductor company that develops and markets Ethernet network processors for networking equipment.

EZchip Technologies Ltd. ("EZchip Technologies") was established in December 1999 as a wholly-owned subsidiary of the Company. During 2001, EZchip Technologies established a wholly-owned subsidiary, EZchip Inc., in the United States, which is engaged in the marketing of EZchip Technologies' products. Over the years, EZchip Technologies raised funds from third party investors and the Company, thereby diluting the Company's ownership of EZchip Technologies. However, following a series of share acquisition transactions since December 22, 2009 the Company holds 100% of EZchip Technologies' outstanding shares and voting rights.

- b. The Company's Ordinary Shares are listed on the NASDAQ Global Select Market and its NASDAQ ticker symbol is "EZCH." The Company's Ordinary Shares are also listed on the Tel Aviv Stock Exchange.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements were prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP").

- a. Use of estimates:

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. On an ongoing basis, the Company's management evaluates estimates, including those related to fair values of financial instruments, fair values and useful lives of intangible assets, fair values of stock-based awards, income taxes, and contingent liabilities. Such estimates are based on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Financial statements in U.S. dollars:

The currency of the primary economic environment in which the operations of the Company and its subsidiaries are conducted is the U.S. dollar. Most of the revenues are denominated and earned in U.S. dollars, and most purchases of materials and components are made in U.S. dollars. Financing and investing activities, including equity transactions and cash investments, are made in U.S. dollars and most of the Company's assets are denominated in U.S. dollars. Accordingly, the functional and reporting currency of the Company and its subsidiaries is the U.S. dollar.

Monetary amounts denominated in currencies other than the U.S. dollar are re-measured into U.S. dollars in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 830 "Foreign currency matters." All transaction gains and losses of the remeasured monetary balance sheet items are reflected in the statement of operations as financial income or expenses, as appropriate.

c. Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany balances and transactions have been eliminated upon consolidation.

d. Cash equivalents:

The Company considers all highly liquid investments that are readily convertible to cash with original maturities of three months or less as cash equivalents.

e. Short-term and long-term deposits:

The Company considers all highly liquid investments that are readily convertible to cash with original maturities of more than three months and less than one year as short-term deposits. As of December 31, 2012 and 2011, the Company held short-term deposits in the amount of \$85,000 and \$67,000, respectively, with a weighted average interest of 1.55% and 2.4%, respectively.

The Company considers all bank deposits with maturities of more than one year as long-term deposits. Such long-term deposits are stated at cost which approximates market values. As of December 31, 2012, the Company held long-term deposits in the amount of \$5,000, with a weighted average interest of 2.2%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Marketable securities:

The Company accounts for its investments in marketable securities in accordance with FASB ASC 320 "Investments - Debt and Equity Securities". The Company determines the classification of marketable securities at the time of purchase and reevaluates such designations as of each balance sheet date. The Company classifies all of its marketable securities as available-for-sale. Available-for-sale marketable securities are carried at fair value, with the unrealized gain and loss reported as a separate component of shareholders' equity, accumulated other comprehensive income (loss). Realized gain and loss on sales of available-for-sale marketable securities are included in the Company's statements of operations and are derived using the specific identification basis for determining the cost of the available-for-sale marketable securities. The amortized cost of the available-for-sale marketable securities is adjusted for amortization of premiums and accretion of discount to maturity. Such amortization and accretion, together with interest on available-for-sale marketable securities, are included in the financial income, net.

The Company recognizes an impairment charge when a decline in the fair value of its available-for-sale marketable securities below the cost basis is judged to be other-than-temporary. The Company considers various factors in determining whether to recognize an impairment charge, including the length of time the investment has been in a loss position, the extent to which the fair value has been less than the Company's cost basis, the investment's financial condition and the near-term prospects of the issuer. The Company adopted FASB ASC 320-10-65 effective January 1, 2009, which requires another-than-temporary impairment for debt securities to be separated into (a) the amount representing the credit loss and (b) the amount related to all other factors (provided that the Company does not intend to sell the security and it is not more likely than not that it will be required to sell it before recovery). The Company classifies its marketable securities as available-for-sale and marks them to market with changes to other comprehensive income until realization or occurrence of other than temporary impairment loss.

g. Inventories:

Inventories are stated at the lower of cost or market value. The Company writes down the carrying value of its inventory for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and its estimated realizable value based upon assumptions about future demands and market conditions. During the years ended December 31, 2012, 2011 and 2010, the Company's write downs were immaterial.

Cost is determined as follows:

Raw materials - using the weighted average cost method.

Work in progress and finished products - using the weighted average cost method and calculated manufacturing costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Property and equipment:

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets.

The annual depreciation rates are as follows:

	<u>Percentage (%)</u>
Office furniture and equipment	6
Computers, software and electronic equipment	33
Leasehold improvements	Shorter of the term of the lease or useful life

i. Impairment of long-lived assets:

The Company's long-lived assets and certain identifiable intangibles are reviewed for impairment in accordance with FASB ASC 360-10-35 "Property, Plant and Equipment - Subsequent Measurement," whenever events or changes in circumstances indicate that the carrying amount of an asset (or an asset group) may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. During the years 2012, 2011 and 2010, no impairment losses were identified.

j. Investment in affiliated company:

On July 4, 2010, the Company entered into a purchase agreement with a private company and invested approximately \$200, in consideration for approximately 4% of the private company's share capital. The investment is stated at cost.

The Company's investment in the affiliated company is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an investment may not be recoverable, in accordance with ASC 323-10-35. As of December 31, 2012, no impairment losses have been identified.

The above mentioned investment is reflected in the "Long term investment and others" line item in the balance sheet as of December 31, 2012.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Goodwill impairment:

Goodwill reflects the excess of the purchase price of an acquired business over the fair value of net assets acquired.

The Company adopted FASB ASC 350 "Intangibles – Goodwill and other." Under FASB ASC 350, goodwill is not amortized but instead is tested for impairment at least annually (or more frequently if impairment indicators arise) at the reporting unit level. The Company elected to first assess the qualitative factors to determine whether it is more likely than not that the fair value of its reporting operating unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment under the new authoritative guidance issued by the FASB. If it determined that it is more likely than not that its fair value is less than its carrying amount, then the two-step goodwill impairment test is performed.

FASB ASC 350 prescribes a two-phase process for impairment testing of goodwill. The first phase screens for impairment, while the second phase (if necessary) measures impairment. In the first phase the fair value of the reporting unit is compared with its carrying value. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. In such case, the second phase is then performed, and the Company measures impairment by comparing the carrying amount of the reporting unit's goodwill to the implied fair value of that goodwill. An impairment loss is recognized in an amount equal to the excess.

The Company operates in one operating segment and such segment comprises its only reporting unit. The Company determined December 31 as the date of its annual impairment test.

During the years ended December 31, 2012, 2011 and 2010, no impairment losses were found.

l. Identifiable intangible assets:

Intangible assets consist of purchased technologies, customer relationships and backlog and are amortized over their useful lives, using a straight line method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up, in accordance with FASB ASC 350.

m. Research and development costs:

Research and development costs net of participation and grants from the Office of the Chief Scientist of the Ministry of Industry, Trade and Labor of Israel (the "OCS") are charged to expenses as incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Severance pay:

The Company's liability for severance pay for its Israeli employees, which were employed until June 30, 2010, was calculated pursuant to Israel's Severance Pay Law, 5723-1963 (the "Severance Law"), based on the most recent monthly salary of its employees multiplied by the number of years of employment as of the balance sheet date for such employees. The Company's liability for severance pay was partly provided by monthly deposits of severance pay funds and insurance policies and the remainder by an accrual. The value of these policies is recorded as an asset in the Company's balance sheet. The deposited funds may be withdrawn only upon the employee being entitled to severance pay pursuant to the Severance Law or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies.

Commencing July 1, 2010, the Company's agreements with new employees in Israel are under Section 14 of the Severance Law. According to Section 14, the payment of monthly deposits by a company into recognized severance and pension funds or insurance policies releases it from any additional severance obligation to the employees that have entered into agreements with such company pursuant to such Section 14. Commencing July 1, 2010, the Company does not incur additional liability with respect to such employees.

The Company's balance sheet as of December 31, 2012 does not include a liability or funds in connection with severance for Israeli employees who agreed to the terms of Section 14.

Severance expenses for the years ended December 31, 2012, 2011 and 2010 were \$1,024, \$1,296 and \$799, respectively.

o. Income taxes:

The Company and its subsidiaries account for income taxes in accordance with FASB ASC 740, "Income Taxes." ASC 740 prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiaries record a valuation allowance to reduce their deferred tax assets to the amount that they believe is more likely than not to be realized.

ASC 740 contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement.

The Company accrues interest and penalties related to unrecognized tax benefits in its taxes on income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Net income per share:

Basic net income per share is computed based on the weighted average number of Ordinary Shares outstanding during each year. Diluted net income per share is computed based on the weighted average number of Ordinary Shares outstanding during each year, plus dilutive potential Ordinary Shares considered outstanding during the year, in accordance with FASB ASC 260 "Earnings Per Share".

q. Accounting for stock-based compensation:

The Company measures and recognizes the compensation expense for all equity-based payments to employees and directors based on its estimated fair value in accordance with FASB ASC 718 "Compensation-Stock Compensation".

FASB ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service period in the Company's consolidated statement of operations.

The Company recognizes compensation expenses based on the straight line method over the requisite service period of each of the awards, net of estimated forfeitures. FASB ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Estimated forfeitures are based on actual historical pre-vesting forfeitures and Company's expected pre-vesting forfeitures in future periods.

The Company measures the fair value of its options using the Black-Scholes-Merton option pricing model. The option-pricing model requires a number of assumptions, of which the most significant are the expected stock price volatility and the expected option term. Expected volatility was calculated based upon actual historical stock price movements over an historical term that is equivalent to the options expected term. The expected term of options granted in prior years was calculated using the simplified method (being the average between the vesting periods and the contractual life of the options in accordance with SAB 107, as replaced and amended, effective January 1, 2008, by SAB 110). The risk-free interest rate is based on the U.S. Treasury yield curve of bonds with an equivalent term to the expected life of the options. The Company has historically not paid dividends and has no intention to pay dividends in the foreseeable future.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Revenue recognition:

The Company generates its revenues mainly from sales of network processor chips and to a lesser extent from the sales of network-processor based systems, software tools and maintenance and support services.

Revenues from network processor chips and network-processor based systems are recognized upon delivery in accordance with SAB 104 "Revenue Recognition," when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable and collectability is probable. The Company does not have any significant obligations after delivery. The Company does not grant a right of return to its customers. In addition if a transaction sale does not meet all the criteria, the revenue is deferred until all criteria are met.

In certain instances, the Company sells network-processor based systems together with software tools and maintenance and support services. In those cases the Company complies with the requirements set forth in FASB ASC 605-25 "Revenue Recognition" relating to the separation of multiple deliverables into individual accounting units with determinable fair values. Revenues from such software tools and maintenance were immaterial during the years ended December 31, 2012, 2011 and 2010.

Deferred revenues include unearned amounts received from maintenance and support services and amounts received from customers but not yet recognized as revenues.

In 2006, 2010 and 2012, the Company signed agreements with Marvell Technology Group Ltd. ("Marvell"). According to the agreements, Marvell will manufacture and sell a customized version of the Company's NP-3, NP-4 and NP-5 network processors to Cisco Systems, Inc. ("Cisco") and will pay the Company royalties for each chip it sells to Cisco.

Royalty revenue is recorded in accordance with FASB ASC 605-45-45, "Considerations of Reporting Revenue Gross as a Principal versus Net as an Agent", on a net basis. In accordance with the Company's agreements with Marvell, Marvell sends the Company royalty reports, once a month, which reflect prior month's sales. Accordingly, the Company recognizes royalty revenues in the month that follows the month in which the sales are made by Marvell. (See also Note 14c.)

s. Advertising expenses:

Advertising expenses are charged to the statement of operations, as incurred. Advertising expenses for the years ended December 31, 2012, 2011 and 2010 amounted to \$139, \$67 and \$26 respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short term deposits, investments in available-for-sale marketable securities, foreign exchange contracts and trade receivables.

The Company's cash and cash equivalents and short-term deposits are invested with major banks mainly in Israel and the United States. The Company's investment policy, approved by the Board of Directors, limits the amount the Company may invest in any one type of investment or issuer, thereby reducing credit risk concentrations.

The Company invests only in highly rated financial instruments and maintains its cash equivalents, with fixed and floating interest rate income. Deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. Management believes that the financial institutions that hold the Company's investments have a high credit rating.

The Company's available-for-sale marketable securities include investments in highly rated marketable securities of U.S. and Israel Governments, and marketable securities of U.S. and European corporations. Those investments are mostly traded in the U.S. secondary market.

The Company's trade receivables are derived primarily from sales to customers and located mainly in North America, the Far East, Europe and Israel. The Company performs ongoing credit evaluations of its customers and has not experienced in recent years any unexpected material losses. An allowance for doubtful accounts is determined with respect to specific amounts that the Company has determined to be doubtful of collection.

The Company has entered into foreign exchange forward and options contracts intended to protect against the changes in value of forecasted non-dollar currency cash flows related to employees salaries. These derivative instruments are designed to effectively hedge the Company's non-dollar currency exposure. (See also Note 5.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

u. Fair value of financial instruments:

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, available-for-sale marketable securities, bank deposits, trade receivable, trade payables and other accounts payable and accrued liabilities, approximate fair value because of their generally short term maturities.

The Company accounts for certain assets and liabilities at fair value under FASB ASC 820, "Fair Value Measurements and Disclosures". Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, FASB ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 - Includes other inputs that are directly or indirectly observable in the marketplace, other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets with insufficient volume or infrequent transactions, or other inputs that are observable (model-derived valuations in which significant inputs are observable), or can be derived principally from or corroborated by observable market data; and

Level 3 - Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company categorized each of its fair value measurements in one of these three levels of hierarchy.

The Company measures its debt securities and foreign currency derivative instruments at fair value. Government bonds, corporate bonds and foreign currency forward and options contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments (See also Note 5.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Royalty-bearing grants:

Royalty-bearing grants from the OCS for funding approved research and development projects are recognized at the time the Company is entitled to such grants, on the basis of the costs incurred and included as a reduction of research and development costs.

The Company is obligated to pay royalties to the OCS calculated at the rate of 3.5%-4.5% of sales of the products developed with the OCS's participation up to 100% of the grants received linked to the U.S. dollar bearing annual interest at a rate of LIBOR. The obligation to pay these royalties is contingent on actual sales of the products, and in the absence of such sales, payment of royalties is not required. In the case of failure of a project that was partly financed by the OCS, the Company will not be obligated to pay any such royalties.

w. Comprehensive income (loss):

The Company accounts for comprehensive income (loss) in accordance with FASB ASC 220 "Comprehensive Income." This statement establishes standards for the reporting and display of comprehensive income (loss) and its components in a full set of general purpose financial statements. Comprehensive income (loss) includes all changes in equity during a period related to the Company. The Company determined that its items of other comprehensive income (loss) relates to unrealized gain)loss(on available-for-sale marketable securities, and unrealized gain (loss) on foreign currency cash flow hedge. In May 2011, the FASB issued guidance that changed the requirement for presenting "Comprehensive Income" in the consolidated financial statements. The update requires an entity to present the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. The Company adopted this new guidance on January 1, 2012 and elected to present the comprehensive income in two separate but consecutive statement of comprehensive income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. Derivatives and hedging:

The Company enters into forward and options contracts in order to limit its exposure to exchange rate fluctuation associated with payroll expenses mainly incurred in New Israeli Shekels ("NIS"). (See also Note 4.)

The Company accounts for derivatives and hedging in accordance with FASB ASC 815, "Derivatives and Hedging". FASB ASC 815 requires the Company to recognize all derivatives on the balance sheet at fair value. If the derivative meets the definition of a cash flow hedge and is so designated, changes in the fair value of derivatives will be recognized in other comprehensive income (loss) until the hedged item is recognized in statements of operations. The ineffective portion of a derivative's change in fair value is recognized in statements of operations in finance expense. During the years ended December 31, 2012, 2011 and 2010 the ineffective portion recognized in finance expenses was immaterial.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 3- MARKETABLE SECURITIES

As of December 31, 2012 and 2011, all of the Company's marketable securities were classified as available-for-sale.

	December 31, 2012				December 31, 2011			
	Amortized cost	Gross Unrealized gain	Gross Unrealized loss	Fair value	Amortized cost	Gross Unrealized gain	Gross Unrealized loss	Fair value
Available-for-sale - matures within one year:								
Governmental debentures - fixed interest rate	\$ 2,534	\$ 12	\$ --	\$ 2,546	\$ 3,542	\$ --	\$ --	\$ 3,542
Corporate debentures - fixed interest rate	10,156	18	--	10,174	997	3	--	1,000
Corporate debentures - floating interest rate	1,512	3	--	1,515	6,211	27	(15)	6,223
	<u>14,202</u>	<u>33</u>	<u>--</u>	<u>14,235</u>	<u>10,750</u>	<u>30</u>	<u>(15)</u>	<u>10,765</u>
Available-for-sale - matures after one year:								
Governmental debentures - fixed interest rate	7,159	47	--	7,206	6,421	16	(12)	6,425
Corporate debentures - fixed interest rate	2,654	63	(5)	2,712	13,550	25	(122)	13,453
Corporate debentures - floating interest rate	8,820	132	--	8,952	10,294	--	(223)	10,071
	<u>18,633</u>	<u>242</u>	<u>(5)</u>	<u>18,870</u>	<u>30,265</u>	<u>41</u>	<u>(357)</u>	<u>29,949</u>
	<u>\$ 32,835</u>	<u>\$ 275</u>	<u>\$ (5)</u>	<u>\$ 33,105</u>	<u>\$ 41,015</u>	<u>\$ 71</u>	<u>\$ (372)</u>	<u>\$ 40,714</u>

The Company typically invests in highly-rated securities, and its policy generally limits the amount of credit exposure to any one issuer. When evaluating the investments for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and any changes thereto, and the Company's intent to sell, or whether it is more likely than not it will be required to sell, the investment before recovery of the investment's amortized cost basis. Based on the above factors, the Company concluded that unrealized losses on all available-for-sale securities were not other-than-temporary and no credit loss was present for any of its investments. As such, the Company did not recognize any impairment charges on outstanding securities at the adoption date of the ASC or during the years ended December 31, 2012, 2011 and 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 4- DERIVATIVE INSTRUMENTS

The Company enters into derivative instruments with financial institutions in order to reduce the risk that its cash flows and earnings will be adversely affected by foreign currency exchange rate fluctuations. The Company hedges the cash flows of employee portion payroll expenses denominated in NIS against the changes of the U.S. Dollar. These derivative instruments are designated as cash flows hedges and are carried out through forward and options contracts on the U.S. dollar/NIS rate.

Derivative instruments are recognized in the consolidated balance sheet as either assets or liabilities at fair value. The Company initially records changes in the fair value related to the effective portion (i.e., gains or losses) of the derivative instruments to Accumulated Other Comprehensive Income ("AOCI") and subsequently reclassifies those gains or losses to the applicable expense in the statement of operations when the hedged transactions are recorded.

As of December 31, 2012, the Company had outstanding forward and options contracts with a notional amount of \$14,200.

At December 31, 2012, the fair value of the Company's cash flow hedges effect was an unrealized gain of \$517. Such amount is expected to be reclassified from AOCI to the statement of operations within the next 12 months.

The Company measured the fair value of the forward and options contracts in accordance with FASB ASC 820 "Fair Value Measurements and Disclosures," at Level 2.

The fair value of the open foreign exchange contracts recorded by the Company in its consolidated balance sheets as of December 31, 2012 and December 31, 2011, as an asset or liability is as follows:

	December 31,	
	2012	2011
Derivatives designated as cash flow hedging instruments		
Other accounts payable and accrued expenses	\$ --	\$ (659)
Other accounts receivable and prepaid expenses	517	--
Total	\$ 517	\$ (659)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 4:- DERIVATIVES INSTRUMENTS (Cont.)

The activity related to the changes in net unrealized gains (losses) on cash flow hedges is as follows:

	Year ended December 31,	
	2012	2011
Net unrealized gains (losses) on cash flow hedges as of beginning balance	\$ (659)	\$ 293
Change in gains (losses) recognized in accumulated other comprehensive income	1,944	(1,282)
Realized gains (losses) reclassified into earnings	(768)	330
Net unrealized gains (losses) on cash flow hedges as of ending balance	\$ 517	\$ (659)

NOTE 5:- FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with FASB ASC 820, "Fair Value Measurements and Disclosures," the Company measures its available-for-sale marketable securities and foreign currency forward and options contracts at fair value. Available-for-sale marketable securities and forward and options contracts are classified within Level 2 because they are valued using other inputs that are directly or indirectly observable in the marketplace for similar investments.

The Company's financial assets and liabilities measured at fair value on a recurring basis consisted of the following types of instruments as of December 31, 2012 and 2011:

	December 31, 2012			December 31, 2011		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Money market funds (included in cash and cash equivalents)	\$ 8,500	\$ --	\$ --	\$ 1,051	\$ --	\$ --
Governmental bonds	--	9,752	--	--	9,962	--
Corporate bonds	--	23,353	--	--	30,752	--
Foreign currency cash flow hedges	--	517	--	--	(582)	--
Total	\$ 8,500	\$ 33,622	\$ --	\$ 1,051	\$ 40,132	\$ --

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 6:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2012	2011
Government authorities	\$ 172	\$ 180
Prepaid expenses	344	304
Foreign currency forward and options contracts	517	--
Grants receivable from the OCS	2,313	723
Accrued interest	577	357
Others	382	273
Total	\$ 4,305	\$ 1,837

NOTE 7:- INVENTORIES

	December 31,	
	2012	2011
Raw materials	\$ 35	\$ 113
Work in progress	95	96
Finished products	4,393	5,579
Total	\$ 4,523	\$ 5,788

NOTE 8:- PROPERTY AND EQUIPMENT, NET

	December 31,	
	2012	2011
Cost:		
Office furniture and equipment	\$ 91	\$ 79
Computers, software and electronic equipment	6,011	5,110
Leasehold improvements	120	120
Total cost	6,222	5,309
Accumulated depreciation:		
Office furniture and equipment	17	12
Computers, software and electronic equipment	4,826	4,393
Leasehold improvements	94	76
Total accumulated depreciation	4,937	4,481
Depreciated cost	\$ 1,285	\$ 828

Depreciation expenses for the years ended December 31, 2012, 2011 and 2010 amounted to \$456, \$251 and \$199, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 9:- INTANGIBLE ASSETS, NET

	December 31,	
	2012	2011
Cost:		
Technology	\$ 9,663	\$ 9,663
Customer relationships	2,714	2,714
Total cost	12,377	12,377
Accumulated amortization:		
Technology	8,663	8,663
Customer relationships	2,714	2,509
Total accumulated amortization	11,377	11,172
Amortized cost	\$ 1,000	\$ 1,205

Amortization expenses for the years ended December 31, 2012, 2011 and 2010 amounted to \$205, \$976 and \$2,688, respectively.

NOTE 10:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2012	2011
Employees and payroll accruals	\$ 3,756	\$ 3,607
Accrued expenses	1,578	2,081
Foreign currency forward and options contracts	--	582
Deferred revenues	67	82
	\$ 5,401	\$ 6,352

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Lease commitments:

The Company and EZchip Technologies lease facilities in Yokneam and Kiryat Gat, Israel under operating lease agreements which will expire in January 2014 and October 2015, respectively, with monthly payments in the amount of \$39 and \$9, respectively. The Company has an option to extend the Kiryat Gat lease agreement for an additional five years.

The Company has the right to terminate the Yokneam and Kiryat Gat operating lease agreements upon advance notice of 90 days and 180 days respectively, and payment of a penalty.

EZchip Inc. leases two offices in the United States under lease agreements that it renews every year for a monthly payment of \$7.

The Company leases motor vehicles under standard commercial operating leases.

Total facilities and vehicles lease expenses for the Company and its subsidiaries for the years ended December 31, 2012, 2011 and 2010, amounted to \$2,283, \$2,225 and \$1,849, respectively.

As of December 31, 2012, the aggregate lease obligations (facilities and motor vehicles) under operating leases agreements were as follows:

<u>Year ending December 31,</u>	
2013	\$ 1,058
2014	393
2015	<u>219</u>
Total	<u>\$ 1,670</u>

Aggregate minimum lease commitments under non-cancelable operating leases as of December 31, 2012 were \$286.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

b. Royalties commitments:

The Company participates in programs sponsored by the OCS for the support of research and development activities.

In each of the years 2012, 2011 and 2010 the Company received an approval from the OCS for its participation in its research and development budgets. Pursuant to such programs, the OCS participated in up to 50% of the approved budget for certain periods ending December 31, 2012.

In connection with the OCS participation, the Company is obligated to pay royalties to the OCS calculated at the rate of 3%-4.5% of sales of the products developed with the OCS's participation up to 100% of the grants received linked to the U.S. dollar bearing annual interest at a rate of LIBOR.

With respect to royalties paid for revenues that the Company derives from its partnership with Marvell (see also Notes 2r and 2v), royalties to the OCS are calculated based on Marvell's sale price to Cisco.

As of December 31, 2012, the Company had a contingent obligation of \$9,207 which is comprised of the amounts of royalty bearing grants received from the OCS less royalties repaid. For the years ended December 31, 2012, 2011 and 2010, royalties expenses, as part of the Company's cost of revenues, were \$0, \$1,196 and \$1,683, respectively.

In December 2011, the Company made an early repayment of \$9,938 of certain of its outstanding royalty obligations to the OCS. This repayment resulted in a one-time charge presented as an early repayment of royalty bearing government grants in the Company's consolidated statement of operations.

As of December 31, 2012 and 2011, the Company does not have accrued royalties pursuant to the OCS programs.

c. Purchase commitments:

At December 31, 2012, the Company had \$6,084 non-cancelable purchase commitments with its suppliers.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 12:- SHAREHOLDERS' EQUITY

a. Company's shares:

1. As of December 31, 2012, the Company's authorized share capital consists of NIS 1,000,000 divided into 50,000,000 Ordinary Shares, par value NIS 0.02 per share. Ordinary Shares confer on their holders, among other things, the right to receive notice to participate and vote in general meetings of the Company, the right to a share in the excess of assets upon liquidation of the Company, and the right to receive dividends, if declared.
2. On January 14, 2010, the Company issued and sold 106,893 Ordinary Shares in an underwritten public offering following the exercise by the underwriter of its over-allotment option for a total consideration of \$1,072.

b. Company's stock option plans:

In October 2003, the Company adopted the 2003 Israel Plan. The plan was amended in December 2006 and further amended in December 2007, October 2010 and February 2012. The 2003 Israel Plan complies with Section 102 of the Israeli Income Tax Ordinance, which provides certain tax benefits in connection with stock-based compensation to employees, officer and directors. On January 1st of each year, to the extent the number of Ordinary Shares reserved, authorized and available for issuance under the 2003 Israel Plan is less than 4% of the number of Ordinary Shares issued and outstanding on such date, it will automatically increase to equal 4% of the number of Ordinary Shares issued and outstanding on such date. Awards under the 2003 Israel Plan may be granted to Israeli employees, directors, consultants, advisers and service providers of the Company and its subsidiaries. In accordance with the terms and conditions imposed by Section 102 of the Israel Income Tax Ordinance, grantees who receive options or restricted shares units ("RSUs") under the 2003 Israel Plan are afforded certain tax benefits (excluding controlling shareholders of the Company or those who are not Israeli employees, directors, consultants, advisers and service providers of the Company and its subsidiaries). Awards granted under the 2003 Israel Plan have a maximum exercise period of ten years from the date of grant and are generally exercisable over four years. Awards that are not exercised and forfeited will become available for future grants.

As of December 31, 2012, 1,936,821 Ordinary Shares were available for future issuances under the 2003 Israel Plan, which amount is reduced by three shares for each RSU that the Company grants under the plan and by one share for each option that the Company grants under the plan.

As of December 31, 2012 and 2011, options to purchase 489,314 and 1,293,521 Ordinary Shares were outstanding under the 2003 Israel Plan, respectively. In addition, as of December 31, 2012 and 2011, 903,850 and 608,799 RSUs were outstanding under the 2003 Israel Plan, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

b. Company's stock option plans (cont.):

In December 2007, the Company adopted the 2007 U.S. Equity Incentive Plan (the "2007 U.S. Plan"). Except as required to address specific U.S. tax requirements, the general terms and conditions of the 2007 U.S. Plan are substantially similar to the terms and conditions of the 2003 Israel Plan.

As of December 31, 2012, 207,000 Ordinary Shares were available for future issuances under the 2007 U.S. Plan, which amount is reduced by three shares for each RSU that the Company grants under the plan and by one share for each option that the Company grants under the plan.

As of December 31, 2012 and 2011, options to purchase 57,788 and 139,411 Ordinary Shares were outstanding under the 2007 U.S. Plan, respectively. In addition, as of December 31, 2012 and 2011, 89,275 and 60,208 RSUs were outstanding under the 2007 U.S. Plan, respectively.

In November 2009, the Company adopted the 2009 Israel Equity Plan (the "2009 Israel Equity Plan"). The plan was adopted in connection with an employee exchange offer the Company made in 2009 (the "Employee Exchange Offer"), for the sole purpose of issuing options to purchase the Company's Ordinary Shares to the Company's former and current Israeli employees who elected to exchange their options to purchase ordinary shares of EZchip Technologies in the Employee Exchange Offer. Up to 2,500,000 Ordinary Shares of the Company may be granted under the 2009 Israel Equity Plan, which amount is reduced by one Ordinary Share for each option granted under the plan. The 2009 Israel Equity Plan is administered by the Board of Directors, or a committee of the Board that is delegated authority to act as the administrator. Under the 2009 Israel Equity Plan, the Company may grant options to purchase its Ordinary Shares to former and current employees, directors, consultants, advisers and service providers of the Company and its subsidiaries in exchange for their options to purchase ordinary shares of EZchip Technologies. The 2009 Israel Equity Plan provides for the awards granted to have a maximum exercise period of ten years from the date of grant.

During 2010, the Company granted options to purchase 41,120 Ordinary Shares pursuant to the 2009 Israel Equity Plan in exchange for the remaining outstanding options to purchase ordinary shares of EZchip Technologies. As of December 31, 2012, options to purchase an aggregate of 41,648 Ordinary Shares were outstanding under the 2009 Israel Equity Plan, all of which were granted in December 2009 and during 2010 as part of the Employee Exchange Offer. All options granted under the 2009 Israel Equity Plan as part of the Employee Exchange Offer were granted as vested options.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

b. Company's stock option plans (cont.):

The following table summarizes the awards activity under the Company's equity incentive plans as of December 31, 2012, and changes during the year:

	Number of awards	Weighted- average exercise price	Weighted average remaining contractual life years	Aggregate intrinsic value (**)
Outstanding at December 31, 2011 (1)	2,223,166	\$ 9.45		
RSUs granted	620,800	\$ 0.01		
Stock options exercised	(964,258)	\$ 13.37		
Vested and issued RSUs	(285,471)	\$ 0.01		
Forfeited (2)	(12,362)	\$ 1.52		
Outstanding at December 31, 2012 (3)	<u>1,581,875</u>	<u>\$ 5.13</u>	<u>1.79</u>	<u>\$ 44,202</u>
Stock options exercisable at December 31, 2012	<u>536,215</u>	<u>\$ 13.72</u>	<u>2.64</u>	<u>\$ 10,376</u>
Vested and expected to vest (4) (*)	<u>1,544,290</u>	<u>\$ 5.25</u>	<u>1.81</u>	<u>\$ 42,965</u>

(1) Includes (i) 1,554,159 stock options with weighted average exercise price of \$13.52; and (ii) 669,007 RSUs.

(2) Includes (i) 1,151 forfeited stock options with weighted average exercise price of \$16.28; and (ii) 11,211 forfeited RSUs.

(3) Includes (i) 588,750 stock options with weighted average exercise price of \$13.76, with weighted average remaining contractual term of 2.71 years and with aggregate intrinsic value of \$11,369; and (ii) 993,125 RSUs, with weighted average remaining contractual term of 1.25 years and with aggregate intrinsic value of \$32,833.

(4) Includes (i) 588,343 stock options with weighted average exercise price of \$13.76 with weighted average remaining contractual term of 2.71 years and with aggregate intrinsic value of \$11,361; and (ii) 955,947 RSUs, with weighted average remaining contractual term of 1.25 years and with aggregate intrinsic value of \$31,604.

(*) Based on the Company's historical experience and future expectations, the annual pre-vesting forfeiture rate is approximately 3%.

(**) The aggregate intrinsic value represents the total intrinsic value (the difference between the closing price of the Ordinary Shares on the NASDAQ Global Select Market on December 31, 2012 and the exercise price, multiplied by the number of in-the-money awards) that would have been received by the award holders had all award holders exercised their awards on December 31, 2012. This amount changes based on the fair market value of the Ordinary Shares.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

- b. Company's stock option plans (cont.):

The awards outstanding as of December 31, 2012, grouped by exercise prices, were as follows:

<u>Exercise price</u>	<u>Awards outstanding as of December 31, 2012</u>	<u>Weighted average remaining contractual life years</u>	<u>Aggregate intrinsic value as of December 31, 2012</u>	<u>Awards exercisable as of December 31, 2012</u>	<u>Weighted average remaining contractual life years</u>
\$ 0.01 (RSUs)	993,125	1.25	\$ 32,833	--	--
\$ 2.81 - \$3.12	42,898	0.81	1,295	42,898	0.81
\$ 10.33 - \$11.97	86,933	3.69	1,877	64,024	3.69
\$ 13.45 - \$16.62	458,919	2.70	8,197	429,293	2.67
	<u>1,581,875</u>	<u>1.79</u>	<u>\$ 44,202</u>	<u>536,215</u>	<u>2.64</u>

Stock-based compensation expenses:

As of December 31, 2012, there was \$26,474 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under the Company's equity incentive plans. This cost is expected to be recognized over a period of four years with a weighted average period of two years.

The total stock-based compensation expenses related to all of the Company's stock-based compensation plans, recognized for the years ended December 31, 2012 and 2011, are set forth below:

	<u>Year ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Costs of revenues	\$ 298	\$ 359
Research and development expenses	6,026	4,446
Selling and marketing expenses	2,403	1,867
General and administrative expenses	2,471	1,934
Total stock-based compensation expenses	<u>\$ 11,198</u>	<u>\$ 8,606</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 13:- TAXES ON INCOME

- a. Amendment to the Israeli Income Tax Ordinance

The Israeli corporate tax rate was 25% in 2010, 24% in 2011 and 25% in 2012.

- b. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (the "Law"):

To date, EZchip Technologies' facilities in Israel have been granted under the Law one "Approved Enterprise" approval and two "Privileged Enterprise" programs subject to the alternative track (as discussed below), that provide its undistributed income exempt from tax for a ten year period, starting 2011, which is the first year that the Company generates taxable income from its enterprises.

Following are the guidelines and principles of the Law that are relevant to the Company:

The Law provides that capital investments in a production facility (or other eligible assets) may be designated as an Approved Enterprise and Privileged Enterprise. Until 2005, the designation required advance approval from the Investment Center of the Israel Ministry of Industry, Trade and Labor. Each certificate of approval for an Approved Enterprise relates to a specific investment program, delineated both by the financial scope of the investment and by the physical characteristics of the facility or the asset.

A company that obtained an Approved Enterprise approval may elect to receive an alternative package comprised of tax benefits, referred to as the "Alternative Track", rather than grants. Under the Alternative Track, a company's undistributed income derived from an Approved Enterprise is exempt from corporate tax for an initial period (two to ten years, depending on the geographic location of the Approved Enterprise within Israel). The exemption begins in the first year that the company realizes taxable income from the Approved Enterprise. There is no term limitation to the Approved Enterprise in the Alternative Track.

On April 1, 2005, an amendment to the Law came into effect (the "Amendment") and has significantly changed the provisions of the Law. Generally, investment programs that have already obtained approval for an Approved Enterprise by the Israeli Investment Center will continue to be subject to the Law's provisions. On the Alternative Track the Amendment enacted major changes in the manner in which tax benefits are awarded under the Law so that companies are no longer required to obtain Investment Center approval in order to qualify for tax benefits. Such an enterprise is a "Privileged Enterprise", rather than the previous terminology of Approved Enterprise. The period of tax benefits for a new Privileged Enterprise commences in the "Year of Commencement." This year is the later of (1) the year in which taxable income is first generated by a company, or (2) a year selected by the company for commencement, on the condition that the company meets certain provisions provided by the Law, referred to as the Year of Election. The amendment does not apply to investment programs approved prior to December 31, 2004, and applies to new investment programs only. Therefore, the Company's Approved Enterprise program is not subject to the provisions of the amendment, but its two Privileged Enterprise programs are.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 13:- TAXES ON INCOME (Cont.)

- b. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (the "Law") (cont.):

The benefits available to an Approved and Privileged Enterprises are conditioned upon terms stipulated in the Law and the related regulations (which include making specified investments in property and equipment, and financing a percentage of these investments with share capital), and the criteria set forth in the applicable certificate of approval. If EZchip Technologies does not fulfill these conditions in whole or in part, the benefits can be cancelled and it may be required to refund the amount of the benefits, linked to the Israeli consumer price index plus interest.

Tax-exempt income generated under the provisions of the law will subject the Company to taxes upon distribution or liquidation and the Company may be required to record deferred tax liability with respect to such tax-exempt income.

For the year ended December 31, 2012, EZchip Technologies had \$47,238 of tax-exempt income attributable to its Approved Enterprise and Privileged Enterprise programs. If such tax-exempt income is distributed, under certain conditions as described in the Law, it would be taxed at the corporate tax rate applicable to such profits, and an estimated income tax liability of \$7,086 would be incurred as of December 31, 2012. As of December 31, 2012, EZchip Technologies has not distributed any amounts of its tax-exempt income.

Recently, new legislation amending the Law was adopted. Under this new legislation, a uniform corporate tax rate will apply to all qualifying income of certain Industrial Companies, as opposed to the current Law's incentives, which are limited to income from Approved Enterprise and Privileged Enterprises during their benefits period. Under the new law, the uniform tax rate will be 10% in areas in Israel designated as Development Zone A and 15% elsewhere in Israel during 2011-2012, 7% and 12.5%, respectively, in 2013-2014, and 6% and 12%, respectively thereafter. The profits of these Industrial Companies will be freely distributable as dividends, subject to a 15% withholding tax (or lower, under an applicable tax treaty).

Under the transition provisions of the new legislation, the Company may elect to irrevocably implement the new law while waiving benefits provided under the current law or to remain subject to the current law. Changing from the current law to the new law is permitted at any time. The Company does not expect the new law to have a material effect on the tax payable on its Israeli operations in the foreseeable future.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 13:- TAXES ON INCOME (Cont.)

- b. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (the "Law") (cont.):

In November 2012, the Knesset passed Amendment No. 69 to the Investment Law (the "Trapped Earnings Law") which provides a temporary, partial, relief from taxation on a distribution from exempt income for companies which elect the relief through November 2013. The Trapped Earnings Law allows a company to qualify a portion of its exempt income ("Elected Earnings") for a reduced tax rate ranging between 17.5% and 6%. While the reduced tax is payable within 30 days of election, an electing company is not required to actually distribute the Elected Earnings within a certain period of time. The applicable rate is based on a linear formula involving the portion of Elected Earnings to exempt income and the applicable tax rate prescribed in the Investment Law. A company electing to qualify its exempt income must undertake to make designated investments in productive fixed assets, research and development, or wages of new employees ("Designated Investment"). The Designated Investment amount is defined by a formula which considers the portion of Elected Earnings to the exempt income and the applicable tax rate prescribed by the Investment Law.

In addition to the reduced tax rate a distribution of Elected Earnings would be subject to a 15% withholding tax. The Trapped Earnings Law provides an exemption from the 15% withholding tax for a distribution to an Israeli resident company from companies which have elected the Privileged Enterprise status and waived their Approved Enterprise and privileged Enterprise Status through June 2015.

- c. The tax benefit (taxes on income), for the years ended December 31, 2012, 2011 and 2010 consisted of the following:

	Year ended December 31,		
	2012	2011	2010
Current	\$ --	\$ (17)	\$ (4)
Deferred	--	(3,513)	(8,232)
	<u>\$ --</u>	<u>\$ (3,530)</u>	<u>\$ (8,236)</u>
Domestic (Israel)	\$ --	\$ (3,530)	\$ (7,817)
Foreign	--	--	(419)
	<u>\$ --</u>	<u>\$ (3,530)</u>	<u>\$ (8,236)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 13:- TAXES ON INCOME (Cont.)

- d. Net operating and capital losses carryforward:

As of December 31, 2012, the operating tax loss carryforwards of EZchip semiconductor amounted to \$32,317, which the Company does not believe will be utilized in the foreseeable future. The loss may be carried forward indefinitely and may be offset against future taxable income.

The operating tax loss carryforwards through December 31, 2012 of EZchip Inc. amounted to \$8,972, which the Company does not believe will be utilized in the foreseeable future. The loss may be offset against any future U.S. taxable income for periods of 20 years expiring gradually from 2021 through 2032.

Utilization of the U.S. net operating losses may be subject to substantial annual limitation due to the "change in ownership" provisions of Section 382 of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization. As of December 31, 2012, the Company does not expect that the change in ownership provisions will have an effect on its net operating losses.

As of December 31, 2012, the Company's capital tax loss carryforwards amounted to \$29,513. The capital loss may be carried forward indefinitely and may be offset against future capital income.

- e. Income (loss) before tax is comprised as follows:

	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Domestic (Israel)	\$ 16,293	\$ 11,286	\$ 21,454
Foreign	(642)	186	425
	<u>\$ 15,651</u>	<u>\$ 11,472</u>	<u>\$ 21,879</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 13:- TAXES ON INCOME (Cont.)

f. Deferred income taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company and its subsidiaries' deferred tax assets are comprised of operating loss carryforwards, capital loss carryforwards and other temporary differences. Significant components of the Company and its subsidiaries deferred tax assets are as follows:

	December 31,	
	2012	2011
Deferred tax assets:		
Current reserves and allowances	\$ 104	\$ 242
Noncurrent reserves and allowances	39	160
Noncurrent operating loss carryforwards	11,130	8,586
Capital loss carryforwards	7,022	6,849
Total deferred tax assets	18,295	15,837
Less - valuation allowance	(18,295)	(15,837)
Total deferred tax assets,	--	--
Total deferred tax liabilities	--	--
Net deferred tax assets	\$ --	\$ --

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that all or some portion of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods and in the jurisdictions in which temporary differences are deductible and net operating losses are utilized. Based on consideration of these factors, the Company recorded a valuation allowance of \$18,295 and \$15,837 at December 31, 2012 and 2011, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 13:- TAXES ON INCOME (Cont.)

g. Uncertain tax positions

The Company and its subsidiaries file federal and state income tax returns in the United States and Israel. The Company and EZchip Technologies may be subject to examination by the Israeli tax authorities for fiscal years 2009 through 2012. EZchip Inc. may be subject to examination by the U.S. Internal Revenue Service from commencement year 2001 through 2012.

The Company believes that it has adequately provided for any reasonably foreseeable outcome related to tax audits and settlement. However, the final tax outcome of the Company's tax audits could be different from what is reflected in the Company's income tax provisions and accruals. Such differences could have a material effect on the Company's income tax provision and net loss in the period in which such determination is made.

A reconciliation of the beginning and ending balances of the total amounts of gross tax liabilities is as follows:

	December 31,	
	2012	2011
Beginning balance	\$ 313	\$ 296
Change in tax position for current year, net	(11)	--
Interest and penalties	2	17
Ending balance	<u>\$ 304</u>	<u>\$ 313</u>

The Company accrues interest and penalties related to unrecognized tax benefit in the taxes on income line item in its statement of operations. The Company has approximately \$42 and \$40 accrued for the payments of interest and penalties as of December 31, 2012 and 2011, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 13:- TAXES ON INCOME (Cont.)

- h. Reconciliation of the theoretical tax expense (benefit) to the actual tax benefit:

Reconciliation between the theoretical tax expense, assuming all income is taxed at the statutory tax rate applicable to income of the Company, and the actual tax expense as reported in the statement of operations is as follows:

	Year ended December 31,		
	2012	2011	2010
Income before taxes as reported in the consolidated statements of operations	\$ 15,651	\$ 11,472	\$ 21,879
Statutory tax rate	25%	24%	25%
Theoretical tax expenses on the above amounts at the Israeli statutory tax rate	3,913	2,753	5,470
Approved and Privileged Enterprise benefits (*)	(7,839)	(2,117)	--
Non-deductible expenses and temporary differences for which a deferred taxes was not provided	184	259	2,205
Non-deductible expenses related to employee stock options, net	1,649	1,235	751
Deferred taxes on losses (utilization of losses) and temporary differences for which a valuation allowance was provided	2,457	507	(1,006)
Difference in basis of measurement for tax purpose and others	11	862	756
Others	(375)	31	60
Actual taxes on income (taxes benefit)	\$ --	\$ 3,530	\$ 8,236
(*) Net earnings per Ordinary share - amounts of the benefit resulting from the "Approved and Privileged Enterprise" status			
Basic	\$ 0.28	\$ 0.08	\$ --
Diluted	\$ 0.27	\$ 0.08	\$ --

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 14:- SEGMENTS AND GEOGRAPHIC INFORMATION

- a. Segment information:

The Company manages its business on the basis of one reportable segment. See Note 1a for a brief description of the Company's business.

- b. Total revenues are attributed to geographic areas based on the bill-to location of the customers and/or customers' manufacturing subcontractors.

The following table presents total revenues for the years ended December 31, 2012, 2011 and 2010 and long-lived assets as of December 31, 2012, 2011 and 2010:

	2012		2011		2010	
	Revenues	Long-lived assets *)	Revenues	Long-lived assets *)	Revenues	Long-lived assets *)
Israel	\$ 4,093	\$ 1,485	\$ 5,643	\$ 1,026	\$ 6,910	\$ 617
China and Hong Kong	17,297	--	25,136	--	32,896	--
Far East (excluding China and Hong Kong)	2,327	--	2,933	--	1,567	--
Canada	119	--	1,375	--	638	--
USA	7,325	--	10,440	2	6,584	2
Europe	23,378	--	17,635	--	13,310	--
Others	168	--	295	--	93	--
	<u>\$ 54,707</u>	<u>\$ 1,485</u>	<u>\$ 63,457</u>	<u>\$ 1,028</u>	<u>\$ 61,998</u>	<u>\$ 619</u>

*) Excluding goodwill and intangible assets.

- c. Revenues from network processors amounted to \$53,442, \$61,802 and \$60,883 for the years ended December 31, 2012, 2011 and 2010, respectively (including NPU based systems). These revenues also included royalty revenues derived from the agreement with Marvell which amounted to \$23,287, \$16,845 and \$12,468 for the years ended December 31, 2012, 2011 and 2010, respectively. In addition, revenues from software tools and other services amounted to \$1,265, \$1,655 and \$1,115 for the years ended December 31, 2012, 2011 and 2010, respectively.
- d. Sales to the Company's significant customers, including sales to their manufacturing subcontractors, as a percentage of total revenue were as follows:

	Year ended December 31,		
	2012	2011	2010
Customer A	43%	27%	20%
Customer B	17%	24%	40%
Customer C	13%	11%	10%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 15:- MAJOR SUBCONTRACTORS

All of the Company's network processor chips are manufactured by third party subcontractors. While these subcontractors have been able to adequately meet the demands of the Company's increasing business, the Company is and will likely continue to be dependent upon such subcontractors to allocate to the Company sufficient capacity to meet the Company's needs in a timely manner. Revenues could be materially and adversely affected should these subcontractors fail to meet the Company's demand for products due to a shortage of production capacity, process difficulties, low yield rates or financial instability. For the years ended December 31, 2012, 2011 and 2010, the Company's principal subcontractors accounted for approximately 81%, 80% and 77%, respectively, of the Company's cost of revenues.

NOTE 16:- FINANCIAL INCOME, NET

	Year ended December 31,		
	2012	2011	2010
Income:			
Interest income (*)	\$ 2,373	\$ 1,720	\$ 1,161
Foreign currency translation adjustments, net	39	--	13
Realized gain related to sale of marketable securities	35	73	12
Total income	2,447	1,793	1,186
Expenses:			
Interest and bank charges	(15)	(26)	(56)
Foreign currency translation adjustments, net	--	(54)	--
Total expenses	(15)	(80)	(56)
Financial income, net	\$ 2,432	\$ 1,713	\$ 1,130

(*) Including amortization of premium and accretion of discount, on available-for-sale marketable securities, net.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 17:- EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted net earnings per share:

	Year ended December 31,		
	2012	2011	2010
Numerator:			
Net income	\$ 15,651	\$ 7,942	\$ 13,643
Denominator:			
Weighted average number of shares outstanding used in computing basic net earnings per share	27,981,243	26,681,749	25,281,651
Dilutive effect: stock options and RSUs	861,165	1,319,679	828,481
Total weighted average number of shares used in computing diluted net earnings per share	28,842,408	28,001,428	26,110,132
Basic net income per share	\$ 0.56	\$ 0.30	\$ 0.54
Diluted net income per share	\$ 0.54	\$ 0.28	\$ 0.52

Anti-dilutive securities

The following outstanding options and RSUs were excluded from the computation of diluted net earnings per Ordinary Share for the periods presented because including them would have had an anti-dilutive effect.

	Year ended December 31,		
	2012	2011	2010
Options to purchase Ordinary Shares and RSUs	--	--	538,623

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

EZCHIP SEMICONDUCTOR LTD.

By: /s/ Eli Fruchter
Eli Fruchter
Principal Executive Officer

Dated: March 21, 2013

THE COMPANIES ORDINANCE
A COMPANY LIMITED BY SHARES
ARTICLES OF ASSOCIATION
OF
EZchip Semiconductor LTD.

PRELIMINARY

1. Table "A" Excluded

The regulations contained in the second schedule to the Companies Ordinance (New Version) 5743-1983 (the "Companies Ordinance") shall not apply to the Company.

2. Interpretation

(a) In these Articles the words standing in the first column of the table next hereinafter contained shall bear the meaning set opposite to them respectively in the second column thereof, if not inconsistent with the subject or context.

"The Company" - The aforementioned company.

"The Statutes" - The Companies Ordinance (New Version) and every other Israeli Ordinance in force concerning companies limited by shares and affecting the Company.

"These Articles" - These Articles of Association as originally drafted or as altered from time to time by Special Resolution.

"The Office" - The current registered office of the Company.

"Year" and "Month" - A Gregorian month or year.

3. Public Company

This Company is a Public Company, as such term is defined in the Companies Ordinance (New Version).

SHARE CAPITAL

4. Share Capital

(a) The authorized share capital of the Company is NIS 1,000,000 divided into 50,000,000 (Fifty Million) Ordinary Shares, par value NIS 0.02 per share.

(b) The Ordinary Shares shall rank pari passu.

5. Increase of Authorized Share Capital

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

(b) Except to the extent otherwise provided in such Special Resolution, any new shares included in the authorized share capital increased as aforesaid shall be subject to all the provisions of these Articles which are applicable to shares of such class included in the existing share capital without regard to class (and, if such new shares are of the same class as a class of shares included in the existing share capital, to all of the provisions which are applicable to shares of such class included in the existing share capital).

6. Special Rights; Modification of Rights

(a) Subject to the provisions of the Memorandum of Association of the Company, and without prejudice to any special rights previously conferred upon the holders of existing shares in the Company, the Company may, from time to time, by Special Resolution, provide for shares with such preferred or deferred rights or rights of redemption or other special rights and/or such restrictions, whether in regard to dividends, voting, repayment of share capital or otherwise, as may be stipulated in such Special Resolution.

(b) (i) If at any time the share capital is divided into different classes of shares, the rights attached to any class, unless otherwise provided by these Articles, may be modified or abrogated by the Company, by Special Resolution, subject to the consent in writing of the holders of seventy-five percent (75%) of the issued shares of such class or the sanction of a Special Resolution passed at a separate General Meeting of the holders of the shares of such class.

(ii) The provisions of these Articles relating to General Meetings shall, mutatis mutandis, apply to any separate General Meeting of the holders of the shares of a particular class, provided, however, that the requisite quorum at any such separate General Meeting shall be two or more members present in person or proxy and holding not less than seventy-five per cent (75%) of the issued shares of such class.

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

7. Consolidation, Subdivision, Cancellation and Reduction of Share Capital

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

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

(ii) subdivide its shares (issued or unissued) or any of them, into shares of smaller nominal value than is fixed by the Memorandum of Association (subject, however, to the provisions of Section 144(4) of the Companies Ordinance);

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

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

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

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

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

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

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

SHARES

8. Issuance of Share Certificates: Replacement of Lost Certificates

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

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

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

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

9. Registered Holder

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

10. Allotment of Shares

The unissued shares from time to time shall be under the control of the Board of Directors, who shall have the power to allot, issue or otherwise dispose of shares to such persons, on such terms and conditions (including inter alia terms relating to calls as set forth in Article 12(f) hereof), and either at par or at a premium, or, subject to the provisions of the Companies Ordinance, at a discount and/or with payment of commission, and at such times, as the Board of Directors deems fit, and the power to give to any person the option to acquire from the Company any shares, either at par or at a premium, or, subject as aforesaid, at a discount and/or with payment of commission, during such time and for such consideration as the Board of Directors deems fit.

11. Payment in Installment

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

12. Calls on Shares

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

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

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

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

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

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

13. Prepayment

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

14. Forfeiture and Surrender

(a) If any member fails to pay an amount pay-able by virtue of a call, or interest thereon as provided for in accordance herewith, on or before the day fixed for payment of the same, the Board of Directors, may at any time after the day fixed for such payment, so long as such amount (or any portion thereof) or interest thereon (or any portion thereof) remains unpaid, forfeit all or any of the shares in respect of which such payment was called for. All expenses incurred by the Company in attempting to collect any such amount or interest there- on, including, without limitation, attorneys' fees and costs of legal proceedings, shall be added to, and shall, for all purposes (including the accrual of interest thereon), constitute a part of, the amount payable to the Company in respect of such call.

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

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

(d) The Company, by resolution of the Board of Directors, may accept the voluntary surrender of any share.

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

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

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

15. Lien

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

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

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

16. Sale After Forfeiture or Surrender or in Enforcement of Lien

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

17. Redeemable Shares

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

18. Conversion of Shares into Stock

(a) The Board of Directors may, with the sanction of the members previously given by Special Resolution, convert any paid-up shares into stock, and may, with like sanction, reconvert any stock into paid-up shares of any denomination.

(b) The holders of stock may transfer the same, or any part thereof, in the same manner and subject to the same regulations, as the shares from which the stock arose might have been transferred prior to conversion, or as near there to as circumstances admit, provided, however, that the Board of Directors may from time to time fix the minimum amount of stock so transferable, and restrict or forbid the transfer of fractions of such minimum, but the minimum shall not exceed the nominal value of each of the shares from which such stock arose.

(c) The holders of stock shall, in accordance with the amount of stock held by them, have the same rights and privileges as regards minimum amount of stock so transferable, and restrict or forbid the transfer of fractions of such minimum, but the minimum shall not exceed the nominal value of each of the shares from which such stock arose.

(d) The holders of stock shall, in accordance with the amount of stock held by them, have the some rights and privileges as regards dividends, voting at meetings of the Company and other matters as if they held the shares from which such stock arose, but no such right or privilege, except participation in the dividends and profits of the Company, shall be conferred by any such aliquot part of such stock as would not, if existing in shares, have conferred that right or privilege.

(e) Such of the Articles of the Company as are applicable to paid-up shares shall apply to stock, and the words "share" and "shareholder" (or "member") therein shall include "stock" and "Stockholder."

TRANSFER OF SHARES

19. Registration of Transfer

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

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

20. Record Date for Notices of General Meetings

Notwithstanding any other contrary provision of these Articles, the Board of Directors may fix a date, not exceeding ninety (90) days prior to the date of any General Meeting, as the date as of which shareholders entitled to notice of and to vote at such meeting shall be determined, and all persons who were holders of record of voting shares on such date and no others shall be entitled to notice of and to vote at such meeting.

TRANSMISSION OF SHARES

21. Decedents' Shares

(a) In case of a share registered in the names of two or more holders, the Company may recognize the survivor(s) as the sole owner(s) thereof unless and until the provisions of Article 21(b) have been effectively invoked.

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

22. Receivers and Liquidators

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

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

GENERAL MEETINGS

23. Annual General Meeting

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

24. Extraordinary General Meetings

All General Meetings other than Annual General Meetings shall be called "Extraordinary General Meetings." The Board of Directors may, whenever it thinks fit, convene an Extraordinary General Meeting, at such time and place, within or out of the State of Israel, as may be determined by the Board of Directors, and shall be obliged to do so upon a requisition in writing in accordance with Section 109 of the Companies Ordinance.

25. Notice of General Meetings; Omission to Give Notice

(a) Not less than seven (7) days' prior notice shall be given of every General Meeting, provided, however, that a Special Resolution shall not be passed unless at least twenty-one (21) days' prior notice shall have been given of the meeting at which it is proposed to pass the same. Each such notice shall specify the place and the day and hour of the meeting and the general nature of each item to be acted upon thereat, said notice to be given to all members who would be entitled to attend and vote at such meeting. Anything therein to the contrary notwithstanding, with the consent of all members entitled to vote thereon, a resolution may be proposed and passed at such meeting although a lesser notice than hereinabove prescribed has been given.

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

PROCEEDINGS AT GENERAL MEETINGS

26. Quorum

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

(b) In the absence of contrary provisions in these Articles, two or more members (not in default in payment of any sum referred to in Article 32(a) hereof), present in person or by proxy and holding shares conferring in the aggregate more than fifty percent of the voting power of the Company, shall constitute a quorum of General Meetings.

(c) If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon requisition under Section 109 of the Companies Ordinance, shall be dissolved, but in any other case it shall be adjourned to the same day in the next week, at the same time and place, or to such day and at such time and place as the Chairman may determine with the consent of the holders of a majority of the voting power represented at the meeting in person or by proxy and voting on the question of adjournment. No business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called. At such adjourned meeting (other than an adjourned separate meeting of a particular class of shares as referred to in Article 6 of these Articles), any two (2) members (not in default as aforesaid) present in person or by proxy, shall constitute a quorum.

27. Chairman

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

28. Adoption of Resolutions at General Meetings

(a) (i) An Ordinary Resolution shall be deemed adopted if approved by the holders of a majority of the voting power represented at the meeting in person or by proxy and voting thereon.

(ii) A Special or Extraordinary Resolution shall be deemed adopted if approved by the holders of not less than seventy-five per cent (75%) of the voting power represented at the meeting in person or by proxy and voting thereon.

(b) Every question submitted to a General Meeting shall be decided by a show of hands, but if a written ballot is demanded by any member present in person or by proxy and entitled to vote at the meeting, the same shall be decided by such ballot. A written ballot may be demanded before the proposed resolution is voted upon or immediately after the declaration by the Chairman of the results of the vote by a show of hands. If a vote by written ballot is taken after such declaration, the results of the vote by a show of hands shall be of no effect, and the proposed resolution shall be decided by such written ballot. The demand for a written ballot may be withdrawn at any time before the same is conducted, in which event another member may then demand such written ballot. The demand for a written ballot shall not prevent the continuance of the meeting for the transaction of business other than the question on which the written ballot has been demanded.

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

29. Resolutions in Writing

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

30. Power to Adjourn

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

31. Voting Power

Subject to the provisions of Article 32(a) and subject to any provision hereof conferring special rights as to voting, or restricting the right to vote, every member shall have one vote for each share held by him of record, on every resolution, without regard to whether the vote thereon is conducted by a show of hands, by written ballot or by any other means.

32. Voting Rights

(a) No member shall be entitled to vote at any General Meeting (or be counted as a part of the quorum thereof), unless all calls then payable by him in respect of his shares in the Company have been paid, but this Article 32(a) shall not apply to separate General Meetings of the holders of a particular class of shares pursuant to Article 6(b).

(b) A company or other corporate body being a member of the Company may duly authorize any person to be its representative at any meeting of the Company or to execute or deliver a proxy on its behalf. Any person so authorized shall be entitled to exercise on behalf of such member all the power which the latter could have exercised if it were an individual shareholder. Upon the request of the Chairman of the meeting, written evidence of such authorization (in form acceptable to the Chair-man) shall be delivered to him.

(c) Any member entitled to vote may vote either in person or by proxy (who need not be a member of the Company), or, if the member is a company or other corporate body, by a representative authorized pursuant to Article 32(b).

(d) If two or more persons are registered as joint holders of any share, the vote of the senior who tenders a vote, in person or by proxy, shall be accepted to the exclusion of the vote (s) of the other joint holder(s). For the purpose of this Article 32(d), seniority shall be determined by the order of registration of the joint holders in the Register of Members.

PROXIES

33. Instrument of Appointment

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

"I _____ of _____
(Name of Shareholder) (Address of Share- holder)

being a member of EZchip Semiconductor Ltd. hereby appoint
_____ of _____
(name of Proxy) (Address of Proxy)

(name of Proxy) as my proxy to vote for me and on my behalf at
the General Meeting of the Company to be held on the
____ day of _____, _____ and at any adjournment (s) thereof.

Signed this day of _____, _____.

(Signature of Appointer)"

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

(b) The instrument appointing a proxy (and the power of attorney or other authority, if any, under which such instrument has been signed) shall either be delivered to the Company (at its Registered Office, at its principal place of business, or at the offices of its registrar or transfer agent, or at such place as the Board of Directors may specify) not less than two (2) hours (or twenty-four (24) hours, if delivered to the Company at its Registered Office or principal place of business in respect of a meeting to be held outside Israel or forty-eight (48) hours if delivered to the Company's registrar or transfer agent in respect of a meeting to be held outside the United States of America) before the time fixed for the meeting at which the person named in the instrument proposes to vote, or presented to the Chairman at such meeting.

34. Effect of Death of Appointer of Transfer of Share and or Revocation of Appointment

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

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

35. Powers of Board of Directors

(a) In General

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

(b) Borrowing Power

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

(c) Reserves

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

36. Exercise of Powers of Board of Directors

- (a) A meeting of the Board of Directors at which a quorum is present shall be competent to exercise all the authorities, powers and discretion vested in or exercisable by the Board of Directors.
- (b) A resolution proposed at any meeting of the Board of Directors shall be deemed adopted if approved by a majority of the Directors present when such resolution is put to a vote and voting thereon.
- (c) A resolution in writing signed by the majority of Directors then in office and lawfully entitled to vote thereon or to which a majority of the Directors have given their written consent (by letter, tele-gram, telex, facsimile, electronic mail or otherwise) shall be deemed to have been unanimously adopted by a meeting of the Board of Directors duly convened and held.

37. Delegation of Powers

- (a) The Board of Directors may, subject to the provisions of the Companies Ordinance, delegate any or all of its powers to committees, each consisting of one or more persons (who are Directors), and it may from time to time revoke such delegation or alter the composition of any such committee. Any Committee so formed (in these Articles referred to as a "Committee of the Board of Directors", shall, in the exercise of the powers so delegated, conform to any regulations imposed on it by the Board of Directors. The meetings and proceedings of any such Committee of the Board of Directors shall, mutatis mutandis, be governed by the provisions herein contained for regulating the meetings of the Board of Directors, so far as not superseded by any regulations adopted by the Board of Directors under this Article. Unless otherwise expressly provided by the Board of Directors in delegating powers to a Committee of the Board of Directors, such Committee shall not be empowered to further delegate such powers.
- (b) Without derogating from the provisions of Article 50, the Board of Directors may from time to time appoint a Secretary to the Company, as well as officers, agents, employees and independent contractors, as the Board of Directors deems fit, and may terminate the service of any such person. The Board of Directors may, subject to the provisions of the Companies Ordinance, determine the powers and duties, as well as the salaries and emoluments, of all such persons, and may require security in such cases and in such amounts as it deems fit.

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

38. Number of Directors

The Board of Directors of the Company shall consist of such number of Directors (not less than three nor more than fourteen) as may be fixed, from time to time, by Ordinary Resolution of the Company.

39. Election and Removal of Directors

Directors shall be elected at the Annual General Meeting by the vote of the holders of a majority of the voting power represented at such meeting in person or by proxy and voting on the election of directors, and each Director shall serve, subject to article 42 hereof, and, with respect to a Director appointed pursuant to Article 41 hereof, subject to such Article, until the Annual General Meeting next following the Annual General Meeting or General Meeting at which such Director was elected pursuant to this Article or Article 41 hereof, or his earlier removal pursuant to this Article 39. The holders of a majority of the voting power represented at a General Meeting in person or by proxy and voting thereon at such Meeting shall be entitled to remove any Director(s) from office, to elect Directors instead of Directors so removed or to fill any vacancy, however created, in the Board of Directors.

40. Qualification of Directors

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

41. Continuing Directors in the Event of Vacancies

In the event of one or more vacancies in the Board of Directors, the continuing Directors may continue to act in every matter, and, pending the filling of any vacancy pursuant to the provisions of Article 39, may appoint Directors to temporarily fill any such vacancy, provided, however, that if they number less than a majority of the number provided for pursuant to Article 38 hereof, they may only act in an emergency or to fill the office of director which has become vacant up to the minimum number or in order to call a General Meeting of the Company for the purpose of electing Directors to fill any or all vacancies, so that at least a majority of the number of Directors provided for pursuant to Article 38 hereof are in office as a result of said meeting.

42. Vacation of Office

(a) The office of a Director shall be vacated, ipso facto, upon his death, or if he be found lunatic or become of unsound mind, or if he becomes bankrupt, or if the Director is a company, upon its winding-up.

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

43. Remuneration of Directors

Director shall be paid remuneration by the Company for his services as Director to the extent such remuneration shall have been approved by a General Meeting of the Company.

44. Conflict of Interests

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

45. Alternate Directors

(a) A Director may, by written notice to the Company given in the manner set forth in Article 45(b) below, appoint any individual (whether or not such person is then a member of the Board of Directors) as an alter-nate for himself (in these Articles referred to as "Alternate Director"), remove such Alternate Director and appoint another Alternate Director in place of any Alternate Director appointed by him whose office has been vacated for any reason whatsoever. Unless the appointing Director, by the instrument appointing an Alternate Director or by written notice to the Company, limits such appointment to a specified period of time or restricts it to a specified meeting or action of the Board of Directors, or otherwise restricts its scope, the appointment shall be for all purposes, and for a period of time concurrent with the term of the appointing Director.

(b) Any notice to the Company pursuant to Article 45(a) shall be given in person to, or by sending the same by mail to the attention of the General Manager of the Company at the principal office of the Company or to such other person or place as the Board of Directors shall have determined for such purpose, and shall become effective on the date fixed therein, or upon the receipt thereof by the Company (at the place as aforesaid), whichever is later.

(c) An Alternate Director shall have all the rights and obligations of the Director who appointed him, provided, however, that (i) he may not in turn appoint an alternate for himself (unless the instrument appointing him otherwise expressly provides), and (ii) that an Alternate Director shall have no standing at any meeting of the Board of Directors or any committee thereof while the Director who appointed him is present, and (iii) that the Alternate Director is not entitled to remuneration.

(d) Any Individual, whether or not he be a member of the Board of Directors, may act as an Alternate Director. One person may act as Alternate Director for several Directors, and in such event he shall have a number of votes (and shall be treated as the number of persons for purposes of establishing a quorum) equal to the number of Directors for whom he acts as Alternate Director. If an Alternate Director is also a Director in his own right, his rights as an Alternate Director shall be in addition to his rights as a Director.

(e) An Alternate Director shall alone be responsible for his own acts and defaults, and he shall not be deemed the agent of the Director (s) who appointed him.

(f) The office of an Alternate Director shall be vacated under the circumstances, mutatis mutandis, set forth in Article 42, and such office shall ipso facto be vacated if the Director who appointed such Alternate Director ceases to be a Director.

PROCEEDINGS OF THE BOARD OF DIRECTORS

46. Meetings

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

(b) Any Director may at any time, and the Secretary, upon the request of such Director, shall, convene a meeting of the Board of Directors, but not less than seven (7) days' notice shall be given of any meeting so convened. Notice of any such meeting may be given orally, by telephone, in writing or by mail, telex, cable gram or facsimile. Notwithstanding anything to the contrary herein, failure to deliver notice to a director of any such meeting in the manner required hereby may be waived by such Director, and a meeting shall be deemed to have been duly convened notwithstanding such defective notice if such failure or defect is waived prior to action being taken at such meeting, by all Directors entitled to participate at such meeting to whom notice was not duly given as aforesaid.

47. Quorum

Until otherwise unanimously decided by the Board of Directors, a quorum at a meeting of the Board of Directors shall be constituted by the presence in person or by telephone conference of a majority of the Directors then in office who are lawfully entitled to participate in the meeting. No business shall be transacted at a meeting of the Board of Directors unless the requisite quorum is present (in person or by telephone conference) when the meeting proceeds to business.

48. Chairman of the Board of Directors

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

49. Validity of Acts Despite Defects

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

CHIEF EXECUTIVE OFFICER AND PRESIDENT

50. Chief Executive Officer and President

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

MINUTES

51. Minutes

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

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

DIVIDENDS

52. Declaration of Dividends

The Board of Directors may from time to time declare, and cause the Company to pay, such interim dividend as may appear to the Board of Directors to be justified by the profits of the Company. The final dividend in respect of any fiscal period shall be proposed by the Board of Directors and shall be payable only after the same has been approved by Ordinary Resolution of the Company, but no such resolution shall provide for the payment of an amount exceeding that proposed by the Board of Directors for the payment of such final dividend, and no such resolution or any failure to approve a final dividend shall affect any interim dividend theretofore declared and paid. The Board of Directors shall determine the time for payment of such dividends, both interim and final, and the record date for determining the shareholders entitled thereto.

53. Funds Available for Payment of Dividends

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

54. Amount Payable by Way of Dividends

(a) Subject to the rights of the holders of shares as to dividends, any dividend paid by the Company shall be allocated among the members entitled thereto in proportion to the sums paid up or credited as paid up on account of the nominal value of their respective holdings of the shares in respect of which such dividend is being paid without taking into account the premium paid up for the shares. The amount paid up on account of a share which has not yet been called for payment or fallen due for payment and upon which the Company pays interest to the shareholder shall not be deemed, for the purposes of this Article, to be a sum paid on account of the share.

(b) Whenever the rights attached to any shares or the terms of issue of the shares do not provide otherwise, shares which are fully paid up or which are credited as fully or partly paid within any period which in respect thereof dividends are paid shall entitle the holders thereof to a dividend in proportion to the amount paid up or credited as paid up in respect of the nominal value of such shares and to the date of payment thereof (pro rata temporis).

55. Interest

No dividend shall carry interest as against the Company.

56. Payment in Specie

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

57. Implementation of Powers under Article 56

For the purpose of giving full effect to any resolution under Article 56, and without derogating from the provisions of Article 7(b) hereof, the Board of Directors may settle any difficulty which may arise in regard to the distribution as it thinks expedient, and, in particular, may issue fractional certificates, and may fix the value for distribution of any specific assets, and may determine that cash payments shall be made to any members upon the footing of the value so fixed, or that fractions of less value than the nominal value of one share may be disregarded in order to adjust the rights of all parties, and may vest any such cash, shares, debentures, debenture stock or specific assets in trustees upon such trusts for the persons entitled to the dividend or capitalized fund as may seem expedient to the Board of Directors. Where requisite, a proper contract shall be filed in accordance with Section 130 of the Companies Ordinance, and the Board of Directors may appoint any person to sign such contract on behalf of the persons entitled to the dividend or capitalized fund.

58. Dividends on Unpaid Shares

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

59. Retention of Dividends

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

(b) The Board of Directors may retain any dividend or other moneys payable or property distributable in respect of a share in respect of which any person is, under Articles 21 or 22, entitled to become a member, or which any person is, under said Articles, entitled to transfer, until such person shall become a member in respect of such share or shall transfer the same.

60. Unclaimed Dividends

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

61. Mechanics of Payment

Any dividend or other moneys payable in cash in respect of a share may be paid by check or warrant sent through the post to, or left at, the registered address of the person entitled thereto or by transfer to a bank account specified by such person (or, if two or more persons are registered as joint holders of such share or are entitled jointly thereto in consequence of the death or bankruptcy of the holder or otherwise, to the joint holder whose name is registered first in the Register of Members or his bank account or the person who the Company may then recognize as the owner thereof or entitled thereto under Article 21 or 22 hereof, as applicable, or such person's bank account), or to such person and at such other address as the person entitled thereto may be writing direct. Every such check or warrant shall be made payable to the order of the person to whom it is sent, or to such person as the person entitled thereto as aforesaid may direct, and payment of the check or warrant by the banker upon whom it is drawn shall be a good discharge to the Company.

62. Receipt from a Joint Holder

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

ACCOUNTS

63. Books of Account

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

64. Audit

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

65. Auditors

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

BRANCH REGISTERS

66. Branch Registers

Subject to and in accordance with the provisions of Sections 71 to 80, inclusive, of the Companies Ordinance and to all orders and regulations issued thereunder, the Company may cause branch registers to be kept in any place outside Israel as the Board of Directors may think fit, and, subject to all applicable requirements of law, the Board of Directors may from time to time adopt such rules and procedures as it may think fit in connection with the keeping of such branch registers.

67. Audit Committee

(a) For purposes of these Articles the terms "Office Holder", "Personal Interest" and "Relative" shall be defined as set forth in Section 96(24) of the Companies Ordinance.

(b) The Board of Directors shall appoint an Audit Committee which shall be composed of three members, none of which shall be Chairman or Co-Chairman of the Board of Directors, the Chief Executive Officer, Controller, Secretary or any other Office Holder who is an employee of the Company, and the majority of which shall not be shareholders of the Company holding more than 5% (five percent) of the issued and outstanding share capital of the Company, or their relatives.

(c) All of the following matters shall be brought before the Audit Committee, and no action in respect thereof shall be taken prior to receiving the Audit Committee's and the Board of Director's approval. Approval of the Board of Directors may be given only following the Audit Committee's approval.

(i) Proposed transactions to which the Company intends to be a party in which an Office Holder has a direct or indirect Personal Interest; and

(ii) Actions which may otherwise be deemed to constitute a breach of fiduciary duty or the duty of care, as defined In Section 96(27) of the Companies Ordinance, of an Office Holder of the Company; and

(iii) Agreements with directors as to the terms of their service; and

(iv) Indemnification of Office Holders.

(d) Approval by the majority of the Members of the Audit Committee shall be deemed approval of the Audit Committee for the purposes of this Article.

(e) The Audit Committee shall meet upon receiving prior written notice of seven days from the Board of Directors of the adjournment of a meeting. Such prior written notice shall contain details of the action in respect of which the meeting will be adjourned.

(f) Should a majority of the Audit Committee or of the Board of Directors have a Personal Interest in any of the matters detailed in Section 67(c) above, the action shall be raised at the next General Shareholders Meeting, and shall be subject to approval of the General Meeting.

(g) Any Office Holder whose interest is brought before the Audit Committee and the Board of Directors for approval shall not be present nor shall he have a vote at any meeting at which his interest shall be discussed or voted upon.

INDEMNITY AND INSURANCE

68. Insurance, Indemnification and Exculpation

The Company may insure, indemnify and exculpate its Office Holders to the fullest extent permitted by law, from time to time. Without limiting the generality of the foregoing:

(a) Subject to the provisions of the Companies Law 5759-1999 as amended from time to time (the "Companies Law"), the Company may enter into a contract for the insurance of its Office Holders, for act or omissions in their capacity as Office Holders, in whole or in part, against any of the following:

(i) breach of the duty of care owed to the Company or a third party;

(ii) breach of the fiduciary duty owed to the Company, provided that the Office Holder acted in good faith and had reasonable grounds to believe that his action would not harm the Company's interests;

(iii) monetary liability imposed on the Office Holder in favor of a third party; and

(iv) reasonable litigation expenses, including attorney fees, incurred by the Office Holder as a result of an administrative enforcement proceeding instituted against him (without limiting from the generality of the foregoing, such expenses will include a payment imposed on the Office Holder in favor of an injured party as set forth in Section 52(54)(a)(1)(a) of the Israel Securities Law, 5728-1968, as amended (the "Securities Law"), and expenses that the Office Holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees).

(b) Subject to the provisions of the Companies Law, the Company is entitled retroactively to indemnify any Office Holder, or to provide a prior undertaking to indemnify an Office Holder where such prior undertaking is limited (1) to categories of events that the Board believes are foreseeable in light of the Company's activities on the date of grant of the undertaking to indemnify, and (2) to an amount or in accordance with guidelines determined by the Board to be reasonable in the circumstances (and such undertaking includes the categories of events that the Board believes are foreseeable in light of the Company's activities on the date of grant of the undertaking to indemnify and to an amount or in accordance with guidelines determined by the Board to be reasonable in the circumstances), for an act that such Office Holder performed by virtue of being an Office Holder of the Company, for monetary liability imposed on the Office Holder in favor of a third party in a judgment, including a settlement or an arbitral award confirmed by a court.

(c) Subject to the provisions of the Companies Law, the Company is entitled retroactively to indemnify any Office Holder, or to provide a prior undertaking to indemnify an Office Holder for:

(i) monetary liability imposed on an Office Holder in favor of a third party in a judgment, including a settlement or an arbitral award confirmed by a court;

(ii) reasonable legal costs, including attorney's fees, expended by an Office Holder as a result of (x) an investigation or proceeding instituted against the Office Holder by a competent authority, provided that such investigation or proceeding concludes without the filing of an indictment against the Office Holder and either (A) no financial liability was imposed on the Office Holder in lieu of criminal proceedings, or (B) financial liability was imposed on the Office Holder in lieu of criminal proceedings but the alleged criminal offense does not require proof of criminal intent; and (y) in connection with an administrative enforcement proceeding or a financial sanction (without derogating from the generality of the foregoing, such expenses will include a payment imposed on the Office Holder in favor of an injured party as set forth in Section 52(54)(a)(1)(a) of the Securities Law, and expenses that the Office Holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees; and

(iii) reasonable legal costs, including attorneys' fees, expended by the Office Holder or for which the Office Holder is charged by a court, (a) in an action brought against the Office Holder by or on behalf of the Company or a third party, or (b) in a criminal action in which the Office Holder is found innocent, or (c) in a criminal action in which the Office Holder is convicted and in which a proof of criminal intent is not required.

(d) Subject to the provisions of the Companies Law, the Company may exculpate an Office Holder in advance from liability, or any part of liability, for damages sustained by virtue of a breach of duty of care to the Company.

(e) Subject to the provisions of the Companies Law, the Company may procure insurance for, indemnify and exculpate any person who is not an Office Holder including, without limitation, any employee, agent, consultant or contractor of the Company who is not an Office Holder.

WINDING UP

69. Winding up

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

RIGHTS OF SIGNATURE, STAMP AND SEAL

70. Rights of Signature, Stamp and Seal

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

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

(c) The Company may exercise the powers conferred by Section 102 of the Companies Ordinance regarding a seal for use abroad, and such powers shall be vested in the Board of Directors.

NOTICES

71. Notices

(a) Any written notice or other document may be served by the Company upon any member either personally or by sending it by prepaid mail (airmail if sent internationally) addressed to such member at his address as described in the Register of Members or such other address as he may have designated in writing for the receipt of notices and other documents. Any written notice or other document may be served by any member upon the Company by tendering the same in person to the Secretary or the General Manager of the Company at the principal office of the Company or by sending it by prepaid registered mail (airmail if posted outside Israel) to the Company at its Registered Address. Any such notice or other document shall be deemed to have been served forty-eight (48) hours after it has been posted (seven (7) business days if sent internationally), or when actually received by the addressee if sooner than forty-eight hours or seven days, as the case may be, after it has been posted, or when actually tendered in person, to such member (or to the Secretary or the General Manager). Notice sent by cablegram, telex, facsimile or electronic mail shall be deemed to have been served when actually received by such member (or by the Company). If a notice is, in fact, received by the addressee, it shall be deemed to have been duly served, when received, notwithstanding that it was defectively addressed or failed, in some other respect, to comply with the provisions of this Article 71(a).

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

(c) Any member whose address is not described in the Register of Members, and who shall not have designated in writing an address for the receipt of notices, shall not be entitled to receive any notice from the Company.

(d) Notwithstanding anything to the contrary contained herein, notice by the Company of a General Meeting which is published in at least two daily newspapers in the State of Israel within the time otherwise required for giving notice of such meeting under Article 25 hereof and containing the information required to be set forth in such notice under such Article, shall be deemed to be a notice of such meeting duly given, for purposes of these Articles, to any member whose address as registered in the Register of Members is located in the State of Israel.

AMENDMENT #3
To The
Technology Development, License and Manufacturing Agreement

This Amendment #3 to the Technology Development, License and Manufacturing Agreement (this "Amendment #3") is entered into effective as of the date last signed by the parties below (the "Amendment Effective Date"), between: (i) Marvell International Ltd., a Bermuda corporation, with offices at Canon's Court, 22 Victoria Street, Hamilton, HM 12, Bermuda, on behalf of itself and its Affiliates, and Marvell Israel (M.I.S.L.) Ltd. (formerly known as Marvell Semiconductor Israel Ltd.), an Israeli corporation, with offices at 6 Hamada Street, Mordot HaCarmel Industrial Park, Yokneam, Israel 20692, on behalf of itself and its Affiliates (collectively "Marvell"), and (ii) EZchip Technologies Ltd., an Israeli corporation with offices at 1 Hatamar Street, PO Box 527, Yokneam 20692, Israel ("EZchip"). Marvell and EZchip are each a "party" hereto; and collectively, they are the parties" hereto.

Effective as of April 12th, 2006, Marvell and EZchip entered into a Technology Development, License and Manufacturing Agreement whereby the parties can agree in writing to future projects which establish the responsibilities of the parties with regard to certain Licensed Products to be added to the Master Agreement; and on April 12th, 2006, Marvell and EZchip entered into Amendment #1 to the Master Agreement adding the 98NXxxx Project (otherwise referred to as the NP3 Licensed Product) and the corresponding 98NXxxx Exhibits to the Master Agreement ("Amendment #1); and on September 24th, 2009, Marvell and EZchip entered into Amendment #2 to the Master Agreement adding the NP4 Project and the corresponding NP4 Exhibits to the Master Agreement (the "Amendment #2, and together with Amendment #1 and this Amendment #3, the "Amendments"; and the Technology Development, License and Manufacturing Agreement (including all Exhibits thereto), as amended by the Amendments, the "Agreement" or the "Master Agreement"); and the parties now wish to amend the Master Agreement as set forth below. Unless the context requires otherwise, each capitalized term used in this Amendment #3 but not defined herein shall have the same meaning as defined in the Master Agreement. The parties now wish to amend the Master Agreement and the Amendments on the terms and conditions set forth in this Amendment #3.

ACCORDINGLY, THE PARTIES HEREBY FURTHER AGREE AS FOLLOWS:

1. Amended Items in the Master Agreement.

1.1 Termination Rights.

Section 8.3(i) is hereby amended to insert the word "materially" immediately following the word "EZchip" and before the word "fails".

Section 8.3(ii) is hereby amended to replace "[*] business days" with "[*] days" at lines 4 and 5.

* This portion has been omitted pursuant to a Request for Confidential Treatment under Rule 24b-2 of the Securities Exchange Act of 1934. The complete document, including the portions for which confidential treatment has been requested, has been filed separately with the Securities and Exchange Commission.

Section 8.3(iii) is hereby deleted and replaced with the words "[Intentionally Omitted]."

The second sentence of the first paragraph of Section 8.4 is hereby amended to insert the words "subject to the payment of Royalties as provided for herein" immediately following the words "termination of this Agreement" and before the words "in addition to any Escrow License".

The last sentence of the second paragraph of Section 8.4 that starts with the words "The parties further agree that" is hereby deleted and replaced with the following sentence: "The parties further agree that: (i) EZchip's support obligations set forth in Exhibit C of Amendment #2, Addendum 1 to Exhibit C of Amendment #3 and Exhibit C of Amendment #4 (EZchip Support) ("**EZchip's Support Obligations**"); (ii) absent an uncured breach by EZchip for nonpayment, the provisions of Addendum 1 to Exhibit C of Amendment #3 and Exhibit C of Amendment #4 (Marvell Support) ("**Marvell's Support Obligations**"); (iii) absent an uncured breach by EZchip for nonpayment, Marvell's supply obligations pursuant to Exhibit H_NP4 (including Marvell's obligations pursuant to Exhibit H-NP4), as amended by Amendment #3 and Amendment #4 ("**Marvell's Supply Obligations**"); and (iv) the provisions of Section 9.3, shall survive any termination of this Agreement, for any reason, with respect to all customers and programs affected thereunder.

1.2 Escrow Release Event.

The following words are added to Section 10.4 immediately following the words "under Section 8.3(ii)": "provided that, notwithstanding any other provision of this Agreement or any other agreement to which Marvell and EZchip are parties, a merger of EZchip with or into a third party and/or a change of the control in EZchip and/or a sale or an acquisition of all of EZchip's securities and/or all, or substantially all, of EZchip assets to any third party (an "**M&A Event**") shall not be deemed as a dissolution of EZchip and shall not be considered as a Release Event.

1.3 Exclusivity.

Section 9.3 of the Agreement is hereby deleted in its entirety and is replaced with the following: "Marvell may exclusively pursue and EZchip shall not independently sell (directly or indirectly) the NP-3C, NP-4c and NP-5c Licensed Products and their derivatives or variants to the Identified Customers for the Identified Programs designated on Exhibit E, provided that the foregoing exclusivity shall not apply to, and EZchip shall be free to sell to any third party (including any Identified Customer) (1) any other products, including the next generations of the foregoing products (e.g., NP-6c) provided that the other products, including the next generations of the foregoing products, are not a derivative or variant of the Licensed Products (2) any network processors that are not derivatives or variants of the Licensed Products, and (3) any customer designs existing as of the Effective Date, without any restriction. For the avoidance of doubt, errata fixes, minor enhancements, and or process shrinks of the Licensed Products shall be considered derivatives or variants of the Licensed Products."

1.4 Limitation of Liability.

The first paragraph of Section 12.9 is hereby replaced with the following: “EXCEPT FOR A BREACH OF SECTION 7 (CONFIDENTIAL INFORMATION), SECTION 11 (INTELLECTUAL PROPERTY INDEMNIFICATION) OR FRAUD OR WILLFUL MISCONDUCT, INCLUDING WITHOUT LIMITATION, (I) THE SALE BY MARVELL OF THE NP4-C TO ANY PARTY OTHER THAN IDENTIFIED CUSTOMERS, OR THE NP4-G, NP4-L OR [*] TO ANY PARTY OTHER THAN EZCHIP AND SELECTED CUSTOMERS, (II) A BREACH OF SECTION 9.3, OR (III) A BREACH OF MARVELL'S SUPPLY OBLIGATIONS, BUT ONLY TO THE EXTENT THAT SUCH BREACH (UNDER SUBSECTIONS I, II, OR III) IS DIRECTLY CAUSED BY A PARTY'S WILLFUL MISCONDUCT, IF ANY PARTY TO THIS AGREEMENT IS FOUND LIABLE (WHETHER UNDER CONTRACT, TORT OR OTHERWISE), THE CUMULATIVE LIABILITY OF SUCH PARTY FOR ALL CLAIMS WHATSOEVER ARISING OUT OF THIS AGREEMENT SHALL NOT EXCEED THE SUM OF ALL AMOUNTS PAID BY ONE PARTY TO THE OTHER PARTY DURING THE [*] MONTH PERIOD IMMEDIATELY PRECEDING THE EVENT WHICH GAVE RISE TO THE CLAIM, OR [*] MILLION DOLLARS [*] (), WHICHEVER IS GREATER.

The following phrase is added to the beginning of the Second Paragraph of Section 12.9:

“EXCEPT FOR A BREACH OF SECTION 7 (CONFIDENTIAL INFORMATION) OR FRAUD OR WILLFUL MISCONDUCT,”

1.5 NP-4 Exhibits.

Exhibit A-NP4 (SOW & Specifications), Exhibit B-NP4 (Milestones and Deliverables), Exhibit C-NP4 (Support), Exhibit D-NP4 (Quality), Exhibit E-NP4 (Identified Customers & Identified Programs), Exhibit F-NP4 (Royalties, Shared Engineering Fees, & License Fees Applicable to NP4-C Licensed Product for Cisco Systems Only), Exhibit G (Escrow), and Exhibit H (Terms of Sale) are amended per the Addendums attached to this Amendment #3 in order to add NP4-L and [*] and NP4-CL to the Master Agreement.

1.6 [*]

* This portion has been omitted pursuant to a Request for Confidential Treatment under Rule 24b-2 of the Securities Exchange Act of 1934. The complete document, including the portions for which confidential treatment has been requested, has been filed separately with the Securities and Exchange Commission.

1.7 [*]

2. Amendment Items in Amendment #1.

The following words are added to the end of Section 1.1.1 of Exhibit G of Amendment #1: "provided that, notwithstanding any other provision of this Exhibit or any other agreement to which Marvell and EZchip are parties, an "M&A Event (as defined in Amendment #3) shall not be deemed as a dissolution of EZchip and shall not be considered as a Release Event ,"

The following words are added after "under the SOW)" in lieu of the rest of the Section that starts with the words "after the occurrence of": at the end of the first paragraph of Section 1.2 of Exhibit G of Amendment #1: "and such failure is not cured within [*] days after Marvell's written notice and it requires Marvell's use of the escrowed technology to remedy said breach as provided under the Business Term Agreement with Cisco."

The phrase "including next generations of Identified Programs" and the phrase "next generations of these product lines" in the first paragraph of Section I of Exhibit E are hereby deleted in their entirety and any reference to such phrases is deleted as well.

3. Amendment Items in Amendment #2.

The following words are added to the end of Section 1.1.1 of Exhibit G of Amendment #2: "provided that, notwithstanding any other provision of this Exhibit or any other agreement to which Marvell and EZchip are parties, an "M&A Event (as defined in Amendment #3) shall not be deemed as a dissolution of EZchip and shall not be considered as a Release Event,"

The following words are added after "under the Amendment 2)" in lieu of the rest of the Section that starts with the words "after the occurrence of": at the end of the first paragraph of Section 1.2 of Exhibit G of Amendment #2: "and such failure is not cured within [*]days after Marvell's written notice and it requires Marvell's use of the escrowed technology to remedy said breach as provided under the Business Term Agreement with Cisco."

The phrase "including next generations of Identified Programs" and the phrase "next generations of these product lines" in the first paragraph of Section I of Exhibit E are hereby deleted in their entirety and any reference to such phrases is deleted as well.

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4. Amendments to other Agreements.

The parties shall cooperate reasonably and in good faith to amend any other agreement between them that deals with the foregoing issues (including the agreement among EZchip, Marvell and Cisco) in accordance with the terms and conditions of this Amendment #3.

5. General Provisions.

5.1 Full Force and Effect. The parties confirm that, except as modified by this Amendment, the Master Agreement remains in full force and effect in accordance with its terms. If any provision of this Amendment conflicts with any provision of the Master Agreement, then the provisions of this Amendment shall govern and control over the Master Agreement.

5.2 Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, and all of which together shall constitute one instrument. The parties agree that a facsimile of a signed counterpart shall be as effective and have the same force and effect as the original thereof.

Executed effective as of the Amendment Effective Date.

MARVELL INTERNATIONAL LTD.

By: _____
Name: _____
Title: _____
Date: _____

EZCHIP TECHNOLOGIES LTD.

By: _____
Name: _____
Title: _____
Date: _____

MARVELL ISRAEL (M.I.S.L.) LTD.

By: _____
Name: _____
Title: _____
Date: _____

**ADDENDUM 1
TO
EXHIBIT A-NP4**

STATEMENT OF WORK (SOW) & SPECIFICATIONS

I. GENERAL

This Addendum 1 to Exhibit A-NP4 adds NP4-L and [*] and NP4-CL Licensed Products described herein into Exhibit A-NP4.

For the avoidance of doubt, the parties acknowledge that pursuant to Section 4.2 of the Master Agreement, there will be “no” joint ownership of the EZchip Technology, the Marvell Technology, or other such related technologies of either party or their Intellectual Property Rights therein.

1. [*]
2. Marvell will supply the NP4-L exclusively to EZchip. EZchip shall be entitled to sell the NP4-L to any party, except for Identified Customers unless it has first obtained the express written consent of Marvell.
3. NP4-L and[*]contain a subset of the features of NP4-G, and will not contain ANY features deemed to be exclusive to Cisco as defined with respect to NP4-C.
4. NP4-CL contains a subset of the features of NP4-C and is to be sold only to Identified Customers by Marvell.

II. LICENSED PRODUCT SPECIFICATIONS

[*]

* This portion has been omitted pursuant to a Request for Confidential Treatment under Rule 24b-2 of the Securities Exchange Act of 1934. The complete document, including the portions for which confidential treatment has been requested, has been filed separately with the Securities and Exchange Commission.

NP4-L Features

- All NP4-G features as previously set forth in Amendment #2 with following changes

[*]

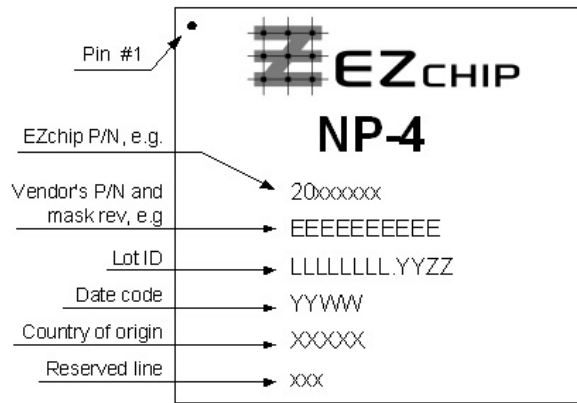
NP4-CL Features

[*]

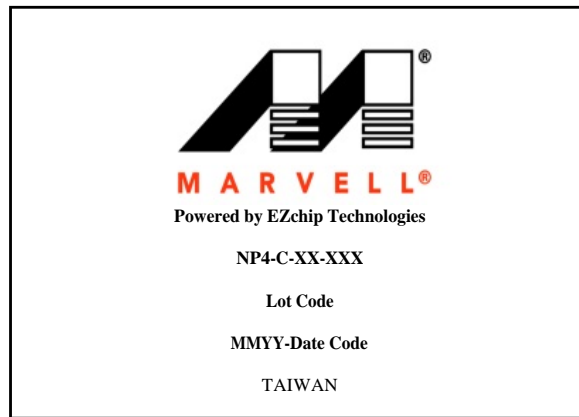
XVI. Manufacturing:

1. Marvell will add an eFuse to differentiate between[*] and NP4-L and NP4-CL (and NP4-C and NP4-G). EZChip design and RTL need to support this eFuse and capability to disabled the forbidden features from the silicon.
2. Marvell will provide NP4-L and[*]and NP4-CL samples, [*] of each, to EZchip to be used in the chip validation.
3. The NP4-L and[*] will be manufactured by Marvell and will be branded with the following EZchip Trademarks
4. [*]

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Provided Cisco elects to purchase NP4-CL, the NP4-CL will be manufactured by Marvell and will be branded with the following Marvell –EZchip Trademarks. Marvell Logo will include the following reference to EZchip: “Powered by EZchip Technologies”. Marvell may, at its discretion, change such marking, provided it keeps the reference and proportions to EZchip unchanged. Notwithstanding the foregoing, in response to Cisco’s written request to Marvell, Marvell may remove the EZchip Trademark and/or the above reference to EZchip from the NP4-CL manufactured by Marvell.



**ADDENDUM 1
TO
EXHIBIT B-NP4**

MILESTONES & DELIVERIES

[*]

* This portion has been omitted pursuant to a Request for Confidential Treatment under Rule 24b-2 of the Securities Exchange Act of 1934. The complete document, including the portions for which confidential treatment has been requested, has been filed separately with the Securities and Exchange Commission.

**ADDENDUM 1
TO
EXHIBIT C-NP4**

EZCHIP SUPPORT

- This Addendum 1 to Exhibit C-NP4 adds NP4-L and [*] and NP4-CL Licensed Products into Exhibit C-NP4.
- Notwithstanding EZchip's undertakings pursuant to Exhibit C-NP4, EZchip's technical support shall be provided to Marvell for free only to the extent that such technical support is required in order to: (i) address EZchip's deficiency; or (ii) address an issue or a change specifically requested in writing by the Identified Customer. Any other technical support shall be subject to the parties' prior written consent, acting reasonably.

MARVELL SUPPORT

- Marvell's support obligations shall be as follows:
 - A. **Technical Support.** For the longer of: (1) the Term of this Agreement, or (2) [*]years after First Commercial Shipment and subject to the terms of this Agreement, EZchip will be entitled to receive, free of charge Technical Support for Marvell Product (as defined below) sold to EZchip under this Agreement via email and, when necessary, by phone (the "**Technical Support**"). Marvell's Technical Support shall be provided to EZchip for free only to the extent that such technical support is required in order to: (i) address Marvell's deficiency; or (ii) address an issue or a change specifically requested in writing by the Identified Customer. Any other technical support shall be subject to the parties' prior written consent, acting reasonably. Marvell will use reasonable efforts to ensure that EZchip receives Technical Support from Marvell in connection with EZchip's purchase and use of the NP-4G, NP-5G chips and their variants, as defined in Exhibit B-NP4, and its addendum 1, of Amendment #3 to the Technology Development, License and Manufacturing Agreement for NP-4G and as defined in Exhibit B-NP4 of Amendment #4 to the Technology Development, License and Manufacturing Agreement for NP-5G ("the Marvell Product"); however, such

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Technical Support will be limited to only support for the Marvell Product issues related directly to the Marvell Deliverables, as defined under Section 1.13 of the April 16, 2006 Technology Development, Licensing and Manufacturing Agreement. For the avoidance of doubt:

- a. Technical Support shall include training of EZchip's support team and information related to the design, manufacturing and qualification of the devices, provide test results, product use documents, errata, and information to successfully use the Marvell Products, limited to the design section owned by Marvell, ("Technical Issues"), and
 - b. Technical Support shall exclude support for any Marvell Products issue not directly related to the Marvell Deliverables.
- B. **First Line Support.** EZchip's technical support department (or equivalent department) shall establish and maintain a process to provide "First Line Support" for the Marvell Products directly to EZchip customers. First Line Support shall include, but not be limited to, providing a:
1. direct response to EZchip customers with respect to inquiries concerning the performance, functionality or operation of the Marvell Products ;
 2. direct response to EZchip customers with problems or performance deficiencies with the Marvell Products ;
 3. diagnosis of problems or performance deficiencies of the Marvell Products ; and
 4. resolution of problems or performance deficiencies of the Marvell Products .
- C. **Second Line Support.** If after reasonable commercial efforts, EZchip's technical support department is unable to diagnose or resolve problems or performance deficiencies of the Marvell Products as relates directly with the Marvell Deliverables only , then EZchip shall contact Marvell for "Second Line Support" and Marvell shall provide EZchip with Technical Support for the Marvell Products, but limited only to the design sections related to the Marvell Deliverables, during normal "Business Hours" (8:00 a.m. - 5:00 p.m., Sunday to Thursday, Israeli time) as follows:

1. **Reporting Methods.** EZchip shall report to Marvell all unresolved Technical Issues:

(i) Each Party shall designate the following contacts for communications between them in regards to Technical Support under this Agreement and these contacts may be updated from time to time by a written notice to the other party. EZchip's Project Leader Contacts will be responsible for reporting Technical Issues to Marvell. Marvell's Technical Support Contacts will be responsible for providing the Technical Support to EZchip:

a. Marvell Technical Support Contacts:

- i.Name:
- ii.Address:
- iii.Phone: xxx-xxx-xxxx
- iv.Email: EZchipsupport@marvell.com

b. EZchip Project Leader Contacts

- i.Name:
- ii.Address:
- iii.Phone: xxx-xxx-xxxx
- iv.Email: xxxx@xxx.com

D. **Support Restrictions and Additional Support.** Marvell Technical Support under this Agreement will be restricted to the Technical Issues related to NP4-G and their variants.

E. **Communication with EZchip customers.** EZchip will be the only source of communication with its customers concerning any Technical Issues with the Marvell Products. For the avoidance of doubt, under this Agreement, Marvell will not directly or indirectly communicate with or work with EZchip's customers.

**ADDENDUM 1
TO
EXHIBIT D-NP4**

QUALITY

This Addendum 1 to Exhibit D-NP4 adds NP4-L and [*] and NP4-CL Licensed Products into Exhibit D-NP4

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**ADDENDUM 1
TO
EXHIBIT E-NP4**

IDENTIFIED CUSTOMERS & IDENTIFIED PROGRAMS

This Addendum 1 to Exhibit E-NP4 adds the NP4-CL Licensed Products into Exhibit E-NP4.

I. Identified Customer and Identified Programs.

- The Identified Programs are defined to include these product lines.

No.	Identified Customer	Identified Programs
1	Cisco Systems, which includes its Affiliates and any third party(s) authorized by Cisco to make purchases on Cisco's behalf	NP4-CL

II. For purposes of Section 9.3 of the Agreement, all Identified Customers and Identified Programs listed above are exclusive to Marvell.

For the avoidance of doubt (i) pursuant to Section 9.3 of the Master Agreement, Marvell may not sell NP4-CL to any party other than to Identified Customers, (ii) Marvell may not sell [*]and NP4-L to any party other than to EZchip without first obtaining the express written permission of EZchip, (iii) [*]and NP4-L may not be directly or indirectly sold by EZchip to Identified Customers; (iv) EZchip may sell the NP4-L to any third party except Identified Customers, and (v) EZchip is not permitted to sell the [*] to any party other than [*] or an [*]Affiliate. Each party has the right to appoint an independent third party auditor to conduct and audit of the other's relevant records to verify such party's compliance with the foregoing restrictions.

* This portion has been omitted pursuant to a Request for Confidential Treatment under Rule 24b-2 of the Securities Exchange Act of 1934. The complete document, including the portions for which confidential treatment has been requested, has been filed separately with the Securities and Exchange Commission.

**ADDENDUM 1
TO
EXHIBIT F-NP4**

**ROYALTIES, SHARED ENGINEERING FEES, & LICENSE FEES
Applicable to NP4-L and NP4-CL Licensed Product sold by Marvell to Identified Customers**

The license granted to Marvell under the Agreement shall be subject to the payment of the royalties below. If, for some reason, Marvell does not pay EZchip the royalties below and such breach is not cured within [*]days of EZchip's notice to that effect, the license shall expire and be of no further force and effect.

In the event that EZchip fails to perform its support or maintenance obligations with respect to the NP4C (as determined by Cisco in good faith and acting reasonably), which failure is not cured within [*]days of Cisco's notice to that effect, then Marvell shall withhold any royalty payments due EZchip with respect to the NP4C and place such amounts into an escrow account at a financial institution, mutually agreed by EZchip, Marvell and Cisco, which amounts shall be released once EZchip cures such failure (as determined by Cisco in good faith and acting reasonably).

1. This Addendum 1 to Exhibit F-NP4 adds NP4-L and NP4-CL Licensed Products into Exhibit F-NP4:

Royalties

The Royalty owed by Marvell to EZchip ("NP4-CL Royalty") for each unit of NP4-CL sold by Marvell shall be as follows:

[*]

[*] & NP4-L & NP4-CL

All Marvell non recurring engineering costs incurred for modifications to [*]and NP4-L and NP4-CL beyond the agreed upon Specifications must be agreed to in writing by EZchip and Marvell and will be paid by EZ Chip to Marvell.

2. [*]

3. [*]

4. Royalty, Backlog, Forecast and Shipping Reports

- Notwithstanding any other provision of the Agreement or any previous agreements between EZchip and Marvell, Marvell shall provide EZchip with:

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[*]

In the event that Marvell fails to provide EZchip with any of the foregoing reports, EZchip shall so notify Marvell in writing and the parties shall act in good faith in order to find a solution that is acceptable to both parties. For the avoidance of doubt, Marvell's failure to provide any of the foregoing reports in this Section 4 shall not constitute a breach of the Master Agreement and the foregoing process shall be the sole and exclusive remedy for any such failure.

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**ADDENDUM 1
TO
EXHIBIT G-NP4**

Escrow

This Addendum 1 to Exhibit G-NP4 adds the NP4-CL Licensed Products into Exhibit G-NP4, as amended by this Amendment #3.

**ADDENDUM 1
TO
EXHIBIT H-NP4**

TERMS OF SALE

This Addendum 1 to Exhibit H-NP4 amends the NP4-G pricing set forth in Amendment #2 and incorporates the terms of Exhibit H-NP4 of Amendment #2 with respect to NP4-L and [*] subject to the following amendments, as set forth herein.

1. The parties agree that Marvell will sell to EZchip (and only to EZchip), the NP4-L and [*] Licensed Products at the following pricing:

[*]

[*]

2. The parties agree that Marvell will sell to EZchip (and only to EZchip), the NP4-G Licensed Products at the following pricing:

[*]

[*]

3. Sections 5 through 9 and 11 through 14 of Exhibit H-NP4 of Amendment #2 are incorporated herein by reference, subject to the following changes:

- a. A reference to "NP4-G" in Sections 5, 6, 7, 8, 9, 10, 11, 12 and 14 shall also include a reference to the "[*] and NP4-L". For the avoidance of doubt, such Sections shall apply to each of the NP4-G, [*] and NP4-L respectively.

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- b. A reference to "NP4-C" in Section 14 shall also include a reference to "NP4-CL".
4. Notwithstanding Section 10 of Exhibit H-NP4 of Amendment #2, all sales of NP4-G, [*] and NP4-L License Product between Marvell and EZchip shall be subject to the terms and conditions contained in Marvell's Terms and Conditions of Sale document which is attached hereto as Schedule 01 to Addendum 1 to Exhibit H-NP4 of this Amendment 3.
5. [*]
6. The following language is hereby added to the beginning of Section 8:
"As long as EZchip is not in breach for nonpayment, which has not been cured within [*] days of Marvell's written notice,"
7. The following language is hereby added to the end of Section 8:
[*]
8. The final sentence of Section 9 is hereby deleted in its entirety and is replaced with the following sentence:
"Notwithstanding the foregoing, Marvell may not end-of-life NP4-G, [*] or NP4-L at any time earlier than the expiration of [*] years from the first commercial customer shipment ("FCS") (the "EOL Term")."
9. Section 11 is hereby deleted in its entirety and is replaced with the following section:

"Direct Purchase Right Notice. Within [*] days following EZchip's advance written notice (the "**Direct Purchase Right Notice**"), EZchip shall have the right, in its sole option and subject to its sole discretion (the "**Direct Purchase Right**") to purchase NP4-G, [*] and NP4-L [including NP4-G, [*], NP4-L as defined in Amendment #4] and their variants and derivatives (collectively "**Direct Purchase Products**") directly from Marvell's suppliers, including but not limited to Marvell's foundry, assembly, packaging and testing suppliers ("**Marvell Suppliers**"). In the event that EZchip exercises its Direct Purchase Right, Marvell shall use commercially reasonable efforts to execute all instruments and documents and do all things that may be necessary, including without limitation, contacting Marvell Suppliers on EZchip's behalf, to assist EZchip in exercising its Direct Purchase Rights with Marvell Suppliers. For the avoidance of doubt, the Direct Purchase Right shall apply to all of the Direct Purchase Products collectively and EZchip may not utilize this Direct Purchase Right for any individual Direct Purchase Product on a standalone basis, whether then in commercial production or not.

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Direct Purchase Right Requirements.

In the event that EZchip exercises its Direct Purchase Right, EZchip shall be required to:

- (a) execute all instruments, agreements, documents and other things that may be necessary, in order to purchase the Direct Purchase Products from Marvell's Suppliers; and
- (b) pay all associated Marvell Supplier fees; and
- (c) provided that a Triggering Event has not occurred, pay Marvell a non-recurring engineering fee of[*]calculated on the date that the Direct Purchase Right becomes effective, said non-recurring engineering fee amount shall decrease each year after the Amendment Effective Date by [*] years; and
- (d) Provided that a Triggering Event has not occurred, EZchip shall pay the following Direct Purchase Royalty to Marvell set forth in the tables below. The NP4 Direct Purchase Royalty is cumulative across purchases of NP4-G, [*] and NP4-L and its variants; and the NP4 Direct Purchase Royalty is cumulative across purchases of NP4-G, [*] and NP4-L and its variants. For the sake of clarity, purchases of NP4 do not count towards the volume tier calculation for NP4 and vice versa.
- (e) For the purposes of this Section, a "**Triggering Event**" shall be deemed to have occurred if Marvell shall (1) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of itself or of all or substantially all of its property; (2) make a general assignment for the benefit of its creditors; (3) file a petition seeking to take advantage of any law relating to bankruptcy, insolvency, reorganization for the benefit of its creditors, winding-up, or composition or readjustment of debts; (4) take any corporate action for the purpose of effecting any of the foregoing; (5) a proceeding or case shall be commenced against Marvell in any court of competent jurisdiction, seeking: (i) its liquidation, reorganization for the benefit of creditors, dissolution or winding-up, or the composition or readjustment of its debts; (ii) the appointment of a trustee, receiver, custodian, liquidator or the like to Marvell or of all or substantially all of its assets; or (iii) similar relief, order, judgment or decree approving any of the foregoing

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shall be entered and continue for a period of [*] days, (6) in the event that all or substantially all of the assets of Marvell (including the Master Agreement) are acquired in a merger or acquisition and the acquiring party does not agree in writing to assume all of Marvell's rights and obligations under the Master Agreement;

[*]

For the avoidance of doubt, if a Triggering Event has occurred,, EZchip shall not be required to make the payments set forth in Sections (c) and (d) above

In the event that EZchip exercises its Direct Purchase Right, Marvell is required to:

- (a) for products purchased from Marvell, support EZchip pursuant to the terms of Schedule 01 to Exhibit H-NP4 and NP-5, Addendum 1 to Exhibit C-NP4 and Addendum 1 to Exhibit C-NP4 for a period of[*] years after the date on which Marvell notifies EZchip in writing that it may approach and contact Marvell Suppliers, which notice shall be provided to EZchip within not more than [*]months following EZchip's Direct Purchase Right Notice (the "**Direct Purchase Right Effective Date**");
- (b) license Marvell's testing IP to Marvell's testing supplier, permitting said testing supplier to use Marvell's testing IP to test the Direct Purchase Products that are purchased by EZ under the Direct Purchase Right; and
- (c) Continue to sell Direct Purchase Products to EZchip for a period of [*] months from the Direct Purchase Right Effective Date.

Nothing in this section shall be considered as a sole remedy for EZchip or derogate from any other duty or obligation of Marvell under the Master Agreement or SOW; however, except as otherwise set forth above, Marvell shall have no obligation whatsoever (including any obligations under the Master Agreement) with respect to the Direct Purchase Products purchased directly from Marvell's Suppliers. Commencing on the Direct Purchase Right Effective Date, EZchip or its successor will have the right to continue to purchase Direct Purchase Products directly from Marvell for a period of [*] months from the Direct Purchase Right Effective Date. Upon expiration of said [*] month period, all outstanding purchase orders for Direct Purchase Products which Marvell has not started wafers shall be cancelled without any liability to EZchip."

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10. [*]

11. The following Section shall be added after Section 14:

15. Marvell's Supply Obligations as set forth in Exhibit H-NP-4, as amended by this Addendum 1, will survive any termination or expiration of the Agreement (and, for the avoidance of doubt, even if EZchip is acquired by Marvell's competitor), except in the event that Marvell terminates the Agreement because EZchip materially breached the Agreement and did not pay Marvell for the Licensed products and such breach was not cured within [*]days of Marvell's written notice to that effect to EZchip.

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Addendum 01
to
Schedule 01
of
EXHIBIT H-NP4

STANDARD TERMS AND CONDITIONS OF QUOTATION OF SALE

Exhibit H-NP4 of Amendment #2 is hereby deleted and replaced with this Addendum 1 to Schedule 01 of Exhibit H-NP4:

1. APPLICABILITY

The terms and conditions of sale set forth herein and the terms set forth in the Technology Development, License and Manufacturing Agreement entered into effective as of April 12, 2006 2008 between: (i) Marvell International Ltd., a Bermuda corporation, with offices at Argyle House, 41a Cedar Avenue, Hamilton, HM 12, Bermuda, on behalf of itself and its Affiliates, and Marvell Israel (M.I.S.L.) Ltd. (formerly known as Marvell Semiconductor Israel Ltd.), an Israeli corporation, with offices at 6 Hamada Street, Mordot HaCarmel Industrial Park, Yokneam, Israel 20692, on behalf of itself and its Affiliates (collectively "Seller"), and (ii) EZchipTechnologies Ltd., an Israeli corporation with offices at 1 Hatamar Street, PO Box 527, Yokneam 20692, Israel ("Buyer") (the "Master Agreement"), the Amendment #2 to the Master Agreement and the Statement of Work annexed to the Master Agreement relating to the NP4-C and NP4-G Licensed Products (as such terms are defined therein) (collectively, the "Terms and Conditions") shall apply to all contracts of sale entered into by and between Marvell (the "Seller") and EZchip (the "Buyer") with respect to the NP4-G Licensed Product. Notwithstanding that the Terms and Conditions may conflict with certain terms and conditions specified by Buyer in Buyer's order form or any contract between Buyer and Seller, Seller's acceptance of Buyer's order is on the condition that the Terms and Conditions set forth herein shall apply to such order. Any such changes Buyer seeks to impose on Seller will not be effective, unless accompanied by such written authorization and acceptance of Seller's Authorized Agent. Seller's failure to object to any term or condition contained in any communication from Buyer shall not be deemed a waiver of the terms and conditions herein. The Terms and Conditions set forth herein shall be applicable whether or not they are attached to or enclosed with the products sold hereunder.

2. PRICE

Irrespective of any prices quoted by Seller or listed on Buyer's purchase order, a purchase order for NP4-G Licensed Products is accepted only at the prices and on the terms agreed to by the parties pursuant to Exhibit H-NP4 of the SOW relating the NP4-C and NP4-G Licensed Products signed by the parties (the "NP4-SOW"). Notwithstanding Section 9 of these terms and conditions, Buyer shall be entitled to cancel any order, without any liability whatsoever, if Seller's price reflected on Seller's acknowledgement or invoice is different to a price set forth in Exhibit H-NP4 of the NP4 SOW and Seller has refused to change the price after being notified by Buyer of the inconsistency.

3. PAYMENT

All invoices are due and payable [*]days from the date of invoice. No discounts, rebates or credits of any kind are authorized, unless otherwise agreed to in writing by Seller. Unless Seller specifies otherwise, all payments shall be in United States dollars. Each shipment of products shall be considered a separate independent transaction, and payment therefor shall be made accordingly. If Buyer delays shipments, payments for such delayed shipments shall become due on the date when Seller is prepared to make shipment. Products held for Buyer shall be at the risk and expense of Buyer.

4. TAXES

All prices are quoted and all orders are accepted exclusive of any taxes or charges by any name imposed by any taxing authority of any state, nation or locality (other than taxes imposed on Seller's net income), and, as an example, are exclusive of national, state and local excise, sales, use, value added, goods and services, and similar taxes. Consequently in addition to the prices specified herein, the amount of any present or future excise, sales, use, value added, goods and services, or similar tax applicable to the sale of the product hereunder shall be paid by Buyer, or in lieu thereof, Buyer shall provide Seller with a tax exemption certificate acceptable to Seller. Buyer shall not be liable to taxes based on Seller's net income. When Seller has the legal obligation to collect such taxes, the appropriate amount shall be added to the applicable invoices and paid by the Buyer, unless Seller receives a proper tax exemption certificate from Buyer prior to shipment. In addition, if there are any withholding taxes payable with respect to the Buyer's payments to the Seller, the Buyer shall nevertheless pay Seller the amount due on the invoice less any portion for withholding tax, and pay the amount of withholding tax due to the appropriate taxing authority, providing Seller satisfactory evidence of such payment upon request.

5. TITLE AND DELIVERY

Unless otherwise expressly provided herein, delivery of the products ordered hereunder by Buyer shall be completed when made Ex Works (Incoterms 2000) Seller's designated point of shipment. In all cases, Seller's title shall pass to Buyer and the risk of loss or damage to any product in transit shall fall upon Buyer, whose responsibility shall be to file claims with the carrier, when delivery is made Ex Works (Incoterms 2000) Seller's designated point of shipment. Seller shall, with the prior written consent of Buyer, select the method of shipment, but in all cases, the carrier will be regarded as Buyer's agent. Shipping dates shall be in accordance with the dates specified in a purchase order submitted by Buyer to Seller from time to time, however, parties agree that subject to reasonable delays, shipping dates are approximate and are based upon prompt receipt of all necessary information from Buyer. In the absence of written instructions from Buyer, all of the products ordered hereunder shall be packed and prepared for shipment in a manner that: (i) follows good commercial practice; (ii) is acceptable to common carriers for shipment at the lowest rate; and (iii) is adequate to ensure safe arrival. Seller shall mark all containers with Buyer purchase order numbers, lot tracking information, date of shipment, Buyer's and Seller's names, and such labels and notices consistent with good standard practice, provided that in the event that any shipments directly to an Buyer customer by Seller, shall upon Buyer's request, omit Seller's name from the containers. Seller shall not be liable for delay in delivery or non-delivery due to causes beyond Seller's reasonable control, including but not limited to acts of God, acts of Buyer, acts of civil or military authority, war, riots, insurrection, sabotage, epidemic, labor disputes, labor shortages, utility shortages, materials shortages, delays in transportation or inability due to causes beyond Seller's reasonable control. In the event of any such delay, the date of delivery shall automatically be extended for a period equal to the time lost by reason of the delay. For other than these preceding causes, Seller shall not be in default for failure to deliver, unless Seller does not commence to cure such failure within [*]days after receipt of written notice of failure to deliver from Buyer.

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6. INDEMNIFICATION

Application. With regards to EZchip's purchase of Licensed Products under Exhibit H-NP4, Section 11 of the Master Agreement (Intellectual Property Indemnification) shall not apply to Marvell, and the following intellectual property indemnification shall be applicable to Marvell.

Indemnification. Seller will defend, hold harmless and indemnify Buyer and its affiliates from and against any and all claims, suits, losses, damages, expenses and liabilities, costs and expenses (including reasonable attorney's fees), incurred by Buyer and its affiliates solely as a result of any infringement by any products provided by Seller of any patent, copyright, trade secret, trademark, moral right, mask work right, trade secret, know-how or other intellectual property or proprietary right(s) of a third party, in any country or jurisdiction in the world, now or hereafter existing, and whether or not filed, perfected or recorded (the "Intellectual Property Right"). If any Intellectual Property Right is procured by Seller for use in the products provided hereunder by a third party, Seller shall be responsible for obtaining all required Intellectual Property Rights from all third parties in order to enable use by Buyer of the products provided by Seller hereunder.

Without derogating from the foregoing, if such a claim is made such that Buyer is prohibited or is reasonably likely to be prohibited from making any use, commercial or otherwise, of the products, Seller agrees, at Seller's sole option and expense, to either: (i) obtain for Buyer the right to continue to use and sell the products in accordance with these terms and conditions; (ii) modify the products so they are non-infringing and in compliance with these terms and conditions; (iii) replace the products with non-infringing products that comply with these terms and conditions and design specifications; or (iv) if the foregoing are not reasonably possible, accept the return of the infringing products and refund any amount paid.

Requirements. This indemnification shall apply to products provided by Seller to Buyer hereunder, excluding any direct infringement claims, or parts thereof, with respect to EZchip Deliverables included in NP4-G and shall only apply provided (i) Buyer provides Seller with prompt written notice of such claim within [*]days of the claim being made (provided that Buyer's failure to provide such notice will relieve Seller of its obligations hereunder only if and to the extent that such failure prejudices Seller's ability to defend such claims), (ii) Buyer provides Seller with full control over the defense and/or settlement of the claim (provided that Seller keeps Buyer apprised of the status of the claim and any settlement negotiations and no resolution or settlement of the claim obligates Buyer to pay damages, settlement costs or any other compensation to the plaintiff or effectuates an admission of any liability on the part of Buyer without the express written consent of Buyer), and (iii) Buyer provides Seller with all reasonable information and assistance (at Seller's expense) to handle the defense and/or settlement thereof. Notwithstanding the foregoing, Seller's indemnification shall also include a claim arising out of Seller's modification to the EZchip Deliverables, or use thereto which is not permitted by these Terms and Conditions, provided the infringement would not have incurred without said modification or use.

Exclusions. This indemnification does not apply to a claim, or any part thereof, which (a) arises out of the modification by Buyer of NP4-G, provided the infringement would not have occurred without said modification; or (b) arises out of the combination by Buyer of NP4-G with other elements (software, components or services) not furnished by Seller (unless recommended in writing, specified in writing, or approved in writing by Seller) where the NP4-G standing alone would not infringe, (c) arises out of Seller's compliance with Buyers written specifications, designs or instructions in the Master Agreement or those which are provided to Seller by or on behalf of Buyer and such claim would not have arisen had such specifications, designs or instructions not been used, (d) arises out of any use of NP4-G not permitted by these Terms and Conditions, or (e) any Buyer technology that is included in or is sold with NP4-G (individually and collectively, "Excluded Claims."). Buyer shall defend, indemnify, and hold Seller harmless from any costs or expenses arising from a rightful claim of infringement by a third party for any of the Excluded Claims, to the same extent as Seller has agreed to indemnify Buyer. Subject to Section 14 below, the foregoing states Seller's exclusive liability and Buyer's exclusive remedy arising from any Claim.

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7. NON-DISCLOSURE OF CONFIDENTIAL INFORMATION

Notwithstanding Section 7 of the Master Agreement, the parties acknowledge and agree that they shall be entitled to disclose Confidential Information with respect to the other party and these Terms and Conditions, in accordance with the other party's obligations pursuant to NASDAQ or the TASE rules and policies, and US and Israeli Securities Law. The parties acknowledge and agree that a disclosure of the other party's Confidential Information in accordance with this Section shall not constitute a breach of the Terms and Conditions.

8. ASSIGNMENT

Notwithstanding Section 12.3 of the Master Agreement, Buyer may assign, delegate or sublicense all or any portion of its rights and obligations under these terms and conditions to (i) its subsidiaries, affiliates or the surviving entity resulting from a merger or consolidation involving Buyer, (ii) the acquiring entity in a sale or other disposition of all or substantially all of the assets of Buyer as a whole or of any line of business or division of Buyer, or (iii) any other party that is created as a result of a spin-off from, or similar reorganization transaction of, Buyer or any line of business or division of Buyer.

9. CANCELLATIONS AND RESCHEDULING

A. Orders may be rescheduled or canceled solely in accordance with the terms of this Section. Orders may not be cancelled less than [*] weeks prior to the scheduled delivery date. In the event Buyer cancels all or any portion of an order less than [*] weeks prior to the originally scheduled shipment date, then Buyer agrees to pay Seller cancellation charges which shall include all reasonable costs, direct and indirect, incurred and committed by Seller together with a reasonable allowance for other expenses incurred by Seller in connection with such cancelled order. Seller's calculation of such cancellation charge shall be final and binding on Buyer and payment thereon shall be due from Buyer within [*]days of Buyer's receipt of notice of such cancellation charge. Notwithstanding the foregoing, Seller shall use commercially reasonable efforts to accept any cancellation by Buyer less than [*]weeks prior to the originally scheduled shipment date and to avoid incurring cancellation charges, or to charge Buyer for any charges or expenses associated with the cancellation not actually incurred by Seller in accordance with this Section. For the avoidance of doubt, Buyer shall not be liable to Seller for any amounts whatsoever with respect to a cancellation of any order [*] weeks prior to the scheduled delivery date. Orders for delivery of products may be rescheduled on not less than [*] days prior written notice to the scheduled delivery date, without any liability to Seller, including without limitation costs and expenses incurred by Seller as a result of the rescheduling or cancellation charges, and delivery may not be rescheduled by more than [*]additional days.

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In the event that the parties mutually agree to changes to the specifications, then said changes shall be instituted as agreed between the parties subject to Buyer and Seller agreeing, in writing, upon an adjustment to the delivery schedule. In the event of any such change to an existing order, Buyer will not be liable to Seller for any cancellation charges with respect to the cancellation or rescheduling of such an order.

10. GOVERNMENT CONTRACTS

If the products to be furnished under this order are to be used in the performance of a government contract or subcontract, there shall be incorporated herein such acquisition regulations as are required by law and accepted by Seller's Authorized Agent.

11. EXPORT CONTROL

Buyer will not export, reexport or transfer any of Seller's products, software, or technology (collectively, "Technology"), or any products developed with or utilizing Seller's Technology, in violation of any applicable laws or regulations of the United States and the country where Seller's Technology was legally obtained. In addition to the above, Seller's Technology may not, in the absence of authorization by U.S. and local law and regulations, as required, be used by or exported or reexported (i) to any U.S. sanctioned or embargoed country, or to foreign nationals or residents of such countries; or (ii) to any person, entity, organization or other party identified on the U.S. Department of Commerce's Denied Persons or Entity List, the U.S. Department of Treasury's Specially Designated Nationals or Blocked Persons Lists, or the Department of State's Debarred Parties List, as published and revised from time to time; or (iii) to any party engaged in nuclear, chemical/biological weapons or missile proliferation activities; or (iv) for use in the design, development or production of rocket systems or unmanned air vehicles. Further, Buyer confirms that it is not a person, entity, organization or other party identified on the U.S. Department of Commerce's Denied Persons or Entity List, the U.S. Department of Treasury's Specially Designated Nationals or Blocked Persons Lists or the Department of State's Debarred Parties List, as published and revised from time to time. Buyer will indemnify and hold Seller harmless from and against any claim, loss, or liability arising out of any breach by Buyer of this Section 11. Nothing in this Section 11 shall expand, or be deemed to expand, the rights granted to Buyer under these terms and conditions of sale. This Section 11 shall survive any termination or expiration of these terms and conditions of sale.

12. GOVERNING LAW; JURISDICTION AND VENUE; AND SEVERABILITY

These terms and conditions of sale shall be governed by and construed and enforced in accordance with the laws of the State of California, USA, without regard to conflicts or laws provisions. Buyer and Seller hereby consent to jurisdiction and venue in the state and federal courts in Santa Clara County, California or the courts of the state of Israel, wherever any dispute arising hereunder is first initiated. Any provision hereof which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining portions or affecting the validity or enforcement of such provisions in any other jurisdiction.

13. WARRANTIES AND REMEDIES

A. Defect Warranty. Seller warrants that from [*] months following the date of Seller's shipment of products (the "**Warranty Period**") all products (excluding the EZchip Deliverables) to be delivered hereunder shall be free from defects in material and workmanship and that no errors caused by

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Seller or its subcontractors, or other third parties furnished by Seller will cause the products to fail or to non-conform to the Specifications, subject to the conditions and procedures stated herein, except that in the case of Epidemic Failure the term shall be extended to [*] months following the date of Seller shipment.

1. Buyer shall promptly notify Seller's Authorized Agent in writing of any alleged breach of warranty and return for warranty adjustment such products. Any products so returned shall be shipped to Seller at Buyer's expense. To the extent that such products are found by Seller to be defective, Seller shall reimburse Buyer for such delivery charges and pay delivery charges of repaired or replacement products to the Buyer.
2. Upon receipt of the returned products, Seller will examine such products to determine to its own reasonable satisfaction that the alleged defect did not arise as a result of Buyer's (or parties furnished by buyer) abuse, misuse, neglect, tampering, unauthorized or improper use or installation, disassembly, repair, alteration, or accident, all of which are not covered by any of the warranties set forth herein.
3. If Seller finds that products are defective, Seller shall immediately issue a notice to Buyer advising of same and the action it shall take in accordance with Section 13B. Seller shall promptly and as soon as practicable, make the necessary repairs (if applicable), replace the products, or provide Buyer with a credit of the purchase price, of any non-conforming products.
4. Seller will promptly notify Buyer in the event the products are not subject to warranty adjustment. Unless instructions as to the disposition of such products not subject to warranty adjustment are received from Buyer within [*] calendar days of such notification, the products will be returned to Buyer, freight collect; and
5. Seller's products are not authorized for use as critical components in medical devices, military systems, life or critical support devices or related systems, and Seller provides no warranty or indemnity to Buyer or Buyer's customers related to such non-authorized uses.

B. Limitation of Remedies. Subject to Section 13D and Section 14 below, (i) Buyer's sole and exclusive remedy under this warranty shall be, at both party's reasonable option, either to repair or replace, or credit to Buyer the purchase price of, any non-conforming product or products; and (ii) in no event shall Seller, its affiliates, agents, officers, directors, insurers, successors and assigns or employees be liable to Buyer or any third party for loss of profits, loss of use or any incidental, consequential, indirect, contingent, secondary, special damages or expenses whatsoever and howsoever arising, even if Seller has been advised of the possibility of such damages.

C. Extended Warranty. Replacement and repaired products shall be warranted for the Warranty Period starting from the date Seller delivers such replaced or repaired products to Buyer.

D. Epidemic Failure Warranty. Seller warrants that that from the date of delivery of the products to Buyer and for a period of [*] years thereafter, products provided to Buyer by Seller (excluding the EZchip Deliverables) will not experience Epidemic Failure. "Epidemic Failure" means a single root cause defect or malfunction of a product that materially impairs performance of such product, where the defect or malfunction is reasonably verified by Seller, as being attributable to defects warranted under Section 13A, and such defect is exhibited within the Warranty Period by at least [*] percent [*] of the products delivered within [*] consecutive lots. In the event of an Epidemic Failure, all products of the same lots will be presumed defective under Section 13A and subject to the remedy in Section 13B. In addition, Seller will provide a corrective action plan reasonably acceptable to Buyer as soon as possible after being notified of the Epidemic Failure, and further implement the corrective action plan accepted by Buyer as soon as possible at no additional charge to Buyer. Buyer may cancel or postpone all purchase orders pending implementation of the corrective action plan, without any penalty.

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E. Excluded Warranties. EXCEPT FOR THE EXPRESS WARRANTY SET FORTH HEREIN, SELLER MAKES NO OTHER WARRANTIES OR GUARANTEES REGARDING THE PRODUCT, WHETHER EXPRESS, ORAL, IMPLIED, STATUTORY, ARISING BY OPERATION OF LAW, OR AS A RESULT OF USAGE OF TRADE, COURSE OF DEALING, OR COURSE OF PERFORMANCE. SELLER HEREBY EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES OR WARRANTIES OTHERWISE ARISING BY OPERATION OF LAW, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT. NOTWITHSTANDING THE FOREGOING, IF ANY PRODUCT COVERED BY THIS ORDER IS DESIGNATED FOR DEVELOPMENTAL OR EXPERIMENTAL USE, NO WARRANTY WHATSOEVER SHALL BE APPLICABLE THERETO, AND BUYER SHALL INDEMNIFY SELLER FOR ANY AND ALL CLAIMS OR LIABILITY ASSERTED AGAINST SELLER IN CONNECTION WITH SUCH DEVELOPMENTAL OR EXPERIMENTAL USAGE.

F. Allocation of Risk. This warranty allocates risks of product failure between Seller and Buyer. This allocation is recognized by both parties and is reflected in the price of the products. Buyer acknowledges that it has read this warranty, understands it, and is bound by its terms and limitations.

14. LIMITATION OF LIABILITIES.

EXCEPT FOR A BREACH OF SECTION 7 (CONFIDENTIAL INFORMATION), SECTION 11 (INTELLECTUAL PROPERTY INDEMNIFICATION) OR FRAUD OR WILLFUL MISCONDUCT, INCLUDING WITHOUT LIMITATION, (I) THE SALE BY MARVELL OF THE NP4-C TO ANY PARTY OTHER THAN IDENTIFIED CUSTOMERS, OR THE NP4-G, NP4-L OR [*] TO ANY PARTY OTHER THAN EZCHIP AND SELECTED CUSTOMERS, (II) A BREACH OF SECTION 9.3, OR (III) A BREACH OF MARVELL'S SUPPLY OBLIGATIONS, BUT ONLY TO THE EXTENT THAT SUCH BREACH (UNDER SUBSECTIONS I, II, OR III) IS DIRECTLY CAUSED BY A PARTY'S WILLFUL MISCONDUCT, IF ANY PARTY TO THIS AGREEMENT IS FOUND LIABLE (WHETHER UNDER CONTRACT, TORT OR OTHERWISE), THE CUMULATIVE LIABILITY OF SUCH PARTY FOR ALL CLAIMS WHATSOEVER ARISING OUT OF THIS AGREEMENT SHALL NOT EXCEED THE SUM OF ALL AMOUNTS PAID BY ONE PARTY TO THE OTHER PARTY DURING THE [*] MONTH PERIOD IMMEDIATELY PRECEDING THE EVENT WHICH GAVE RISE TO THE CLAIM, OR [*] ([*]), WHICHEVER IS GREATER.

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EXCEPT FOR A BREACH OF SECTION 7 (CONFIDENTIAL INFORMATION) OR FRAUD OR WILLFUL MISCONDUCT, NEITHER PARTY SHALL BE LIABLE TO THE OTHER OR ANY THIRD PARTY FOR ANY INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES OR PUNITIVE DAMAGES, INCLUDING, WITHOUT LIMITATION, ANY LOSS OR DAMAGE TO BUSINESS EARNINGS, LOST PROFITS OR GOODWILL, LOST OPPORTUNITIES AND LOST OR DAMAGED DATA OR DOCUMENTATION, SUFFERED BY ANY PERSON, ARISING FROM AND/OR RELATED WITH AND/OR CONNECTED TO THIS AGREEMENT, EVEN IF SUCH PARTY IS ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. THE PARTIES HEREBY DISCLAIM ALL WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NONINFRINGEMENT REGARDING ANY DELIVERABLE OF A PARTY PROVIDED HEREUNDER.

A reference to "NP4-G" shall also include a reference to the "[*] and NP4-L". For the avoidance of doubt, each Section shall apply to each of the NP4-G, [*] and NP4-L respectively. **

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** The original document with confidential information omitted pursuant to a confidential treatment request consists of 29 pages, of which 3 pages were omitted in this public filing.

**AMENDMENT #4
To The
Technology Development, License and Manufacturing Agreement**

This Amendment #4 to the Technology Development, License and Manufacturing Agreement (this "Amendment") is entered into effective as of the date last signed by the parties below (the "Amendment Effective Date"), between: (i) Marvell International Ltd., a Bermuda corporation, with offices at Canon's Court, 22 Victoria Street, Hamilton, HM 12, Bermuda, on behalf of itself and its Affiliates, and Marvell Israel (M.I.S.L.) Ltd. (formerly known as Marvell Semiconductor Israel Ltd.), an Israeli corporation, with offices at 6 Hamada Street, Mordot HaCarmel Industrial Park, Yokneam, Israel 20692, on behalf of itself and its Affiliates (collectively "Marvell"), and (ii) EZchipTechnologies Ltd., an Israeli corporation with offices at 1 Hatamar Street, PO Box 527, Yokneam 20692, Israel ("EZchip"). Marvell and EZchip are each a "party" hereto; and collectively, they are the parties" hereto.

Effective as of April 12th, 2006, Marvell and EZchip entered into a Technology Development, License and Manufacturing Agreement (the "Master Agreement") whereby the parties can agree in writing to future projects which establish the responsibilities of the parties with regard to certain Licensed Products to be added to the Master Agreement; and on April 12th, 2006, Marvell and EZchip entered into Amendment #1 to the Master Agreement adding the 98NXxxx Project (otherwise referred to as the NP3 Licensed Product) and the corresponding 98NXxxx Exhibits to the Master Agreement ("Amendment #1"); and on September 24th, 2009, Marvell and EZchip entered into Amendment #2 to the Master Agreement adding the NP4 Project and the corresponding NP4 Exhibits to the Master Agreement (the "Amendment #2"); and on the same date as entering into this Amendment, Marvell and EZchip entered into Amendment #3 to the Master Agreement amending the NP4 Project and the corresponding NP4 Exhibits to the Master Agreement (the Amendment #3, and together with Amendment #1, Amendment #2 and this Amendment #4, the "Amendments"; and the Technology Development, License and Manufacturing Agreement (including all Exhibits thereto), as amended by the Amendments, the "Agreement" or the "Master Agreement"); and Marvell and EZchip now wish to amend the Master Agreement to add the NP5 Project and the corresponding NP5 Exhibits to the Master Agreement as set forth below. Unless the context requires otherwise, each capitalized term used in this Amendment but not defined herein shall have the same meaning as defined in the Master Agreement. The parties now wish to amend the Master Agreement on the terms and conditions set forth in this Amendment #4.

ACCORDINGLY, THE PARTIES HEREBY FURTHER AGREE AS FOLLOWS:

1. Exhibits. Exhibit A-NP5 through Exhibit H-NP5 attached hereto are hereby added to the Master Agreement.
2. Reserved.

3. [*]

4. Marvell's Subcontractors.

[*]

5. General Provisions.

5.1 Full Force and Effect. The parties confirm that, except as modified by this Amendment, the Master Agreement remains in full force and effect in accordance with its terms. If any provision of this Amendment conflicts with any provision of the Master Agreement, then the provisions of this Amendment shall govern and control over the Master Agreement.

5.2 Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, and all of which together shall constitute one instrument. The parties agree that a facsimile of a signed counterpart shall be as effective and have the same force and effect as the original thereof.

Executed effective as of the Effective Date.

MARVELL INTERNATIONAL LTD.

By: _____
Name: _____
Title: _____
Date: _____

EZCHIP TECHNOLOGIES LTD.

By: _____
Name: _____
Title: _____
Date: _____

MARVELL ISRAEL (M.I.S.L.) LTD.

By: _____
Name: _____
Title: _____
Date: _____

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EXHIBIT A-NP5

STATEMENT OF WORK (SOW) & SPECIFICATIONS**I. GENERAL**

This SOW is governed by the Master Agreement and the terms of this SOW relate solely to the NP5-C and NP5-G Licensed Products described herein.

Pursuant to Section 4.2 of the Master Agreement, the parties acknowledge that there will be "no" joint development of the EZchip Technology, the Marvell Technology, or other such related technologies of either party or their Intellectual Property Rights therein.

1. Both parties will work together to co-develop the NP5-C and NP5-G Licensed Products for the purpose of providing higher density programmable solutions for the customers. The parties agree that the NP5-G Licensed Products will include the [*] and NP5-L fuse based variants and the technical specifications of the variants will be defined in good faith by the parties following the basic structure and principals that were agreed to in this Amendment.
2. The NP5-C Licensed Product is to be sold by Marvell exclusively to the Identified Customers listed in Exhibit E.
3. Unless otherwise specified in this SOW, the NP5-G Licensed Product is to be sold by EZchip exclusively to parties other than Identified Customers.
4. Product definition will be done together by Marvell and EZchip in good faith.
5. This product should be based on latest EZchip NP Core with the required modifications to be defined by Marvell & EZchip.
6. Additional requirement following the final PRD to be commonly agreed between both parties.
7. Marvell has option to give their part of work to subcontractors if needed, all subject to the provisions of the Master Agreement and subject to the Sections 3 and 4 of Amendment #4.
8. EZchip agrees to work with Marvell in good faith to meet Cisco's requirements for cost reduction for the NP5-C Licensed Products as described in the Business Term Agreement to be agreed to between EZchip, Marvell and Cisco Systems, Inc. ("Cisco"). The parties agree to use good faith to promptly negotiate and enter into the Business Term Agreement within thirty (30) days of Cisco's request to do so.
9. In any case of contradiction between the Master Agreement and this Amendment or any of the following Exhibits, the express provisions of this Amendment shall prevail only with respect to the NP5-C and NP5-G Licensed Products.

II. LICENSED PRODUCT SPECIFICATIONS

The parties agree to use good faith to establish the Specifications for the Licensed Products in cooperation with Cisco. The Specifications for NP5-C will be set forth in the Business Term Agreement.

The Specifications for NP5-C and NP5-G are attached here: [*]

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[*]

III. PROGRAM MANAGEMENT

The Parties shall create a coordination team (“**Coordination Team**”) to oversee the implementation of this SOW and to constitute the primary vehicle for communication, decision-making and executive management of the Statement of Work.

The Coordination Team shall comprise of the Project Managers of the Parties, and any other representatives as agreed between the Parties, and shall be led by the Marvell Project Manager. Each Party shall appoint a Project Manager. The Project Managers shall conduct status meetings regularly (at least on a weekly basis) either by teleconferences or face-to-face meetings. Such status meetings shall include, among others, the exchange of technical Information, the activity under, and the performance of, this SOW, and the progress of the Services. The Coordination Team shall keep formal minutes of its meetings.

Among the responsibilities of the Coordination Team is the resolution of matters concerning the performance of this SOW, such as technical problems, and progress issues. The Coordination Team shall review changes, and shall ensure they are within the framework of this SOW. The Coordination Team shall have full and constant visibility on the process and information,

During the entire term of this SOW, Marvell’s and EZchip’s Project Manager (or a representative on its behalf) shall be entitled to visit EZchip’s facilities in order to inspect and evaluate Marvell’s and EZchip’s progress and to ensure that such progress is compatible with the Requirements, and with Marvell’s and EZchip’s quality assurance; provided however, that Marvell and EZchip shall provide each other with reasonable prior notice, and that the visit shall take place during regular business hours.

1. Marvell and EZchip will jointly develop a detailed execution plan including schedule for the major activities, milestones, reviews and deliverables submission dates,
2. Marvell and EZchip shall provide each other with Weekly Status Reports that will cover the week’s Work focus/accomplishments and issues.
3. EZchip and Marvell acknowledge that time is of the essence in the performance of the development. Both Parties shall notify each other promptly of any factor, occurrence, or event coming to their attention that may affect their ability to substantially perform the development, or that is likely to occasion any material delay in delivery of Deliverables. Such notice shall be given, without limitation, in the event of any loss or reassignment of key employees, threat of strike, or major equipment failure. In any such event, the parties shall attempt to reach a prompt resolution which would allow to nevertheless meeting the schedule. In such an event, both Parties shall treat the other Party as a favored customer.

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4. Both Parties will update each other with any bug or violation discovered on any of their products that has relevance to the NP5-C or NP5-G based on previous generation of their respective products or on the committed product Specifications, and shall take all measures reasonably required in order to immediately resolve any such bug or violation.
5. During, and upon the completion of, the implementation of the Services, Marvell shall be entitled to conduct reviews and/or acceptance testing which Marvell deems necessary in order to verify whether the Development and/or Deliverables conform to all of the specifications and the Requirements.

BOTH PARTIES HEREBY REPRESENT AND WARRANT THAT THEY, AND THEIR LICENSORS, ARE, AND WILL BE, THE SOLE AUTHOR OF ALL THEIR RESPECTIVE DELIVERABLES, AND THAT NEITHER THE DEVELOPMENT NOR THE DELIVERABLES WILL IN ANY WAY INFRINGE ANY THIRD PARTY'S RIGHTS, INCLUDING THEIR INTELLECTUAL PROPERTY RIGHTS. WITHOUT LIMITING THE FOREGOING, BOTH PARTIES SHALL BE RESPONSIBLE TO PROVIDE TO THE OTHER PARTY ANY THIRD PARTY LICENSES, OTHER THAN LICENSES OF THIRD PARTY TOOLS, REQUIRED TO ENABLE THEM TO UTILIZE THE DELIVERABLES UNDER THE TERMS OF THE MASTER AGREEMENT. THE PARTY RECEIVING THE THIRD PARTY LICENSES AGREES TO COOPERATE WITH THE OTHER PARTY TO OBTAIN ANY NECESSARY THIRD PARTY APPROVALS. SAID COOPERATION MAY INCLUDE, BUT IS NOT LIMITED TO, ENTERING INTO NON-DISCLOSURE AGREEMENTS AND LIMITED USE LICENSE AGREEMENTS WITH THE THIRD PARTY LICENSORS AS A CONDITION OF USE.

IV. LICENSED PRODUCT DESIGN FLOW

RTL / Coding

[*]

NP5-C and NP5-G Interfaces

Listed above under Section II of this Exhibit A-NP5.

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V. BACK END AND LAYOUT

[*]

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VI. PRE-SILICON VERIFICATION

[*]

VII. DESIGN FOR TESTABILITY (DFT) AND DESIGN FOR VALIDATION (DFV), MEMORY REPAIR (MR)

[*]

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VIII. PACKAGE DESIGN

[*]

IX. POST SILICON FUNCTIONAL VALIDATION (CHIP & SYSTEM)

[*]

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X. POST SILICON ELECTRICAL VALIDATION

1. Marvell will be responsible for the electrical validation test plan definition and execution according to Marvell flow and provide EZchip with all results.
2. Post silicon electrical validation should be enabled on the validation platform designed by EZchip. This platform will be designed following Marvell hardware design guidelines to enable testing of all NP5-C and NP5-G functional and electrical aspects. Additional to this, the validation platform will include all the hooks needed for the electrical validation as defined by Marvell. All these subject to the features required for electrical testing do not degrade the ability to perform functional and performance testing on the validation platform, in which case Marvell would need to develop the means to perform those tests which can't be done on the validation platform.
3. Marvell has the right to design and manufacture its own platform to be used solely for electrical validation or demo purposes. This system may be based/derived from the system designed by EZchip, as decided by Marvell.
4. EZchip will provide all required support and information to enable the NP5-C and NP5-G electrical validation.
5. Marvell will perform the functional PVT stress tests based on Marvell Requirements and review the results with EZchip. EZchip will provide a functional PVT stress test release, as jointly defined with Marvell; and will support the production team as per Marvell's functional PVT stress test flow.
6. [*]
7. EZchip commits to supply the above platforms in a period of [*] weeks from the time the order was placed but not before EZchip concluded the bring up of such platforms.
8. These platforms will be delivered in stable working conditions by EZchip experts at Marvell lab including, but not limited to:
 - a. Fully populated NP5-C and NP5-G development boards with sockets
 - b. Chassis or any other platform needed to run the NP5-C and NP5-G development boards
 - c. Power supplies
 - d. Cables
 - e. Initialization files
 - f. User manual
 - g. Application software
 - h. Drivers
9. The validation platforms will be delivered no later than [*] weeks after Marvell delivered the required NP5-C and NP5-G devices to EZchip but not before EZchip concluded the bring up of such platforms.
10. Marvell will share the electrical validation results with EZchip.
11. EZchip will provide at the above mentioned cost, [*] additional NP5-C and NP5-G validation boards to be populated with corner devices.
12. EZchip experts will provide training at Marvell facilities to Marvell engineers on the validation platforms upon platforms delivery.

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13. EZchip will provide and support the EZchip SW driver component needed to run the electrical validation environment (See S/W section)
14. EZchip will provide a list of SW APIs as will be mutually defined with Marvell that are needed for performing the electrical test plan (for generating/verifying the test, controlling the interfaces, etc.); EZchip will provide support as needed for this SW suite during the ETP execution.
15. Marvell will perform and execute the System Level Screening (SLS). EZchip will provide an SLS release, as jointly defined with Marvell; and will support the production team as per Marvell's SLS flow.

XI. POST SILICON TEST PROGRAM (TESTER)

1. Marvell will be responsible for Test Program development and Q&R testing. EZchip will support the Test Program development.
2. Testing location and the type of tester will be selected by Marvell.
3. Test Vector Generation is EZchip responsibility except for the ATPG vectors generation and debug that is under Marvell responsibility. Debug for the functional vector at the tester is EZchip and Marvell responsibility.
4. Marvell will be responsible for the vectors conversion and release to the production test floor.
5. EZchip will provide all required support and information to Marvell to enable test and qualification infrastructure development – such as test h/w, BI h/w and any other h/w required for product ramp and qualification.

XII. POST SILICON – QUALITY AND RELIABILITY

1. Marvell will be responsible for the quality and reliability testing of the NP5-C and NP5-G.
2. Marvell will conduct any required failure analysis.
3. EZchip and Marvell shall support each other for failure analysis and corrective action implementation upon need (logic analysis, electrical analysis, and test enhancement), this in line with Marvell's FA standard response time, and in accordance with Section 5 of the Master Agreement. This applies to: qualification failures, customer returns and yield enhancement activities.
4. EZchip will provide all information and engineering support required to bring up the qualification infrastructure.
5. Each company will be responsible to support its customers' FAs.

XIII. SOFTWARE

1. EZchip will provide training to Marvell on the NP5-C and NP5-G drivers and its architecture.
2. EZchip will supply required S/W and tools developed by EZ Chip to perform the Electrical Validation as will be defined by Marvell and in agreement with EZchip.
3. EZchip will provide SW APIs as will be mutually defined with Marvell.
4. [*]

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XIV. APPLICATION SUPPORT

1. Marvell will directly support its customers on any electrical, thermal and quality related issues.
2. EZchip will be responsible for application, training and customer support for the NP5-C and NP5-G for functional, architecture and performance related issues and for all SW related issues.
3. EZchip is responsible for all the firmware, driver and architectural related collateral issues, training and customer bring-up.
4. Marvell will provide support to EZchip team on any hardware, electrical, thermal or quality related issues coming from EZchip customers.
5. EZchip will respond promptly to support Marvell customers and Marvell field/sales teams with issues related to proactive and reactive support events in accordance with Exhibit C.

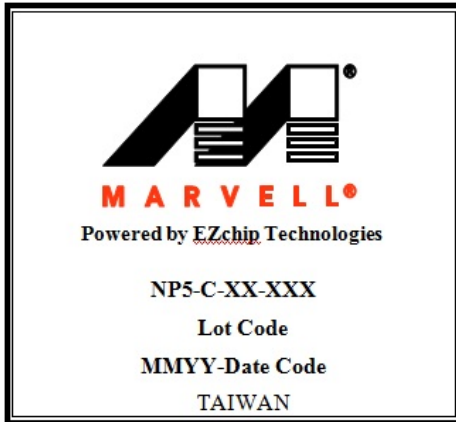
XV. DOCUMENTATION AND COLLATERALS

- EZchip will create and deliver to Marvell the relevant parts of the NP5-C functional specification including the internal and external register tables. EZchip will deliver the above specifications before silicon arrival.
- Marvell will provide to EZchip all the register and configuration related to the Marvell IP integrated in the NP5-C and NP5-G.
- EZchip will deliver the below listed documents to Marvell and shall use the EZchip standard documentation tools.
- For collaterals not specified herein to be created using the Marvell standard documentation tools, the flow to migrate EZchip collaterals to final NP5-C and NP5-G files will be defined by EZchip and Marvell.
- EZchip will create, release and maintain the following documentation and collateral for the NP5-C and NP5-G:
 1. Errata
 2. Reference Design/Development Board User Manual and Jumper Settings
 3. Reference Design/Development Board Schematics and BOM
 4. Reference Design/Development Board Schematics checklist
- Marvell will create, release and maintain the following documentation and collateral
 1. Datasheet (Hardware Specification)
 2. Hardware Design Guide
 3. IBIS
 4. BSDL
 5. Hardware, Electrical and Thermal Application Notes/Technical Bulletins (if required)
- Both Parties will supply the other party with the above mentioned end-user customer collateral and documentation. This collateral and documentation content will be agreed by EZchip and Marvell. These documents will be provided in editable soft copy. Both parties can modify the content of all end-customer collateral and documentation including content, format, logos and copyright markings, provided said modifications are permitted under Marvell's Trademark Use Agreement to be entered into by EZchip prior to the use/modification of any Marvell trademarks. For the avoidance doubt, removing a Marvell trademark from Marvell collateral and documentation does not constitute a use/modification.
- Marvell will be authorized to distribute the above listed collateral and documentation only to the Identified Customer and NP5-G customers pursuant to Have Made Rights. EZchip will be authorized to distribute the above listed collateral and documentation to its customers. Both Parties will be authorized to distribute the collateral under the own marking and branding.

- Each party is responsible for release of all respective collateral and documentation updates and revisions, in a timely manner and according to a release schedule agreed upon by Marvell and EZchip.

XVI. Manufacturing:

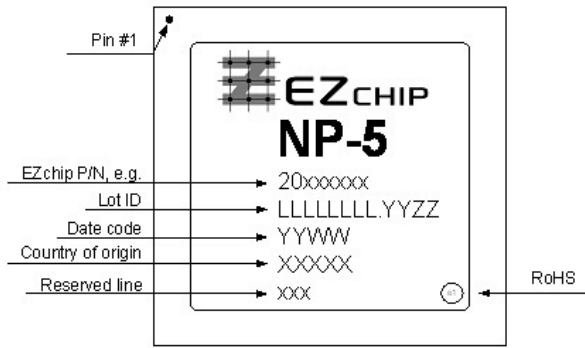
The NP5-C will be manufactured by Marvell and will be branded with the following Marvell –EZchip Trademarks. Marvell Logo will include the following reference to EZchip: “Powered by EZchip Technologies”. Marvell may, at its discretion, change such marking, provided it keeps the reference and proportions to EZchip unchanged. Notwithstanding the foregoing, in response to Cisco’s written request to Marvell, Marvell may remove the EZchip Trademark and/or the above reference to EZchip from the NP5-C manufactured by Marvell.



1. Marvell will add an eFuse to differentiate between NP5-C and NP5-G
2. Marvell will provide NP5-C and NP5-G samples, [*]of each, to EZchip to be used in the chip validation.
3. EZchip and Marvell will track and investigate the root cause of anomalies and silicon bugs. Both companies will jointly determine the priority and which ones need to be fixed before production release
4. EZchip and Marvell will work to provide functional silicon to meet product requirements. This may include subsequent metal steps or full steps of the silicon. The parties agree to use their mutual best efforts to complete any required metal steps or full steps of the silicon on an expedited basis
5. Marvell and EZchip will work together on any yield improvement and enhancement issues.

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6. Manufacturing flow and platforms will be determined by Marvell.
7. The NP5-G will be manufactured by Marvell and will be branded with the following EZchip Trademarks:



(Marvell to provide a Booking Part# and custom Marking Spec. with both EZchip and Marvell approval as it was done for NP4)

8. If for any reason, Marvell's third party foundry supplier discontinues a process, Marvell shall give EZchip prompt written notice and will use its diligent efforts to provide EZchip with longer than [*]months notice of same. Marvell shall use commercially reasonable efforts to locate a suitable substitute third party foundry supplier for EZchip, provided that the engagement of each such substitute third party foundry supplier shall be subject to EZchip's reasonable approval; should EZchip approve such replacement, Marvell shall be responsible, at its sole expense for re-qualifying and re-characterizing the Licensed Product and all other actions reasonably required in order to facilitate such replacement, and the parties will work out a detailed plan to specify what actions the parties will undertake and how payments shall be made. In the event that EZchip does not approve said replacement or in the event that a suitable replacement is not found prior to said process discontinuance, then either party may terminate this SOW for convenience upon written notice and if the NRE schedule set forth in Exhibit F-NP5 has not been completed, then EZchip will owe to Marvell a prorated amount of the next milestone based on the percentage completed as of said termination date.

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XVII. CERTAIN DELIVERABLES

1. Marvell will provide the following Marvell Deliverables, to be integrated by EZchip in the NP5-C and NP5-G Licensed Product model for simulation and Netlist closure purposes

[*]

2. The Deliverables to be provided by each party, as set forth on Exhibit B, shall be deemed to be Marvell Deliverables or EZchip Deliverables (depending on the providing party) for purposes of this SOW.

* This portion has been omitted pursuant to a Request for Confidential Treatment under Rule 24b-2 of the Securities Exchange Act of 1934. The complete document, including the portions for which confidential treatment has been requested, has been filed separately with the Securities and Exchange Commission.

XVIII. EXCLUSIVE CISCO FEATURES.

The parties agree that, subject to written agreement between Marvell, EZchip and Cisco Systems, Inc. or a corporate affiliate of Cisco Systems, Inc. (collectively, "Cisco"), the following features to be included in the NP5-C Licensed Products will be exclusive to Cisco [*].

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[*]

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XIX. DISCONTINUANCE OF NP5-C.

1. If for any reason, the implementation, manufacture or supply of the NP5-C as described in this SOW ceases or is discontinued or in the event that that the Identified Customer discontinues purchasing NP5-C from Marvell for any reason (the "**Date of Discontinuance**"), (i) Marvell shall continue the implementation, manufacture and supply of the NP5-G Licensed Product in accordance with this SOW and (ii) EZchip's obligation to pay the NRE Fee (as defined below) shall continue and shall constitute the full and entire consideration due to Marvell for the performance of its NRE obligations under this SOW. In the event EZchip is in breach of the Business Term Agreement with Cisco and fails to cure said breach, EZchip may still purchase NP5-G Licensed Product from Marvell. Subject to the provisions of the Business Term Agreement with Cisco ([*] performance enhancement differences, etc.), Marvell may discontinue the supply of NP5-G Licensed Product only if EZchip is in breach for nonpayment to Marvell and has not cured such breach and only during the period of time such breach for nonpayment to Marvell has not been cured.
2. Notwithstanding anything to the contrary in this Master Agreement, in the event that Cisco discontinues or does not purchase NP5-C from Marvell, then Cisco may elect to purchase NP5-G directly from Marvell. In such event, Marvell shall sell the NP5-G to Cisco [*].

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Only Marvell may sell NP5-G to the Identified Parties. Neither EZchip, nor any of its licensee's or customers, shall be permitted to sell NP5-G to the Identified Parties. In the event that Marvell sells NP5-G to Cisco, Marvell shall owe the following royalty to EZchip which is computed as follows:

[*]

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Exhibit B-NP5

MILESTONES & DELIVERIES

[*]

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EXHIBIT C-NP5**EZCHIP SUPPORT****Background and Purpose**

This Exhibit C sets forth EZchip's support and training obligations to Marvell and its customers for the Licensed Products. The parties agree that the purpose of this Exhibit C is to ensure that Marvell's customers receive prompt and useful support from EZchip in connection with such customer's purchase and use of any Licensed Product.

To ensure the successful development and sale of the Licensed Products, EZchip commits to provide all engineering and support resources as may be required in order to meet Marvell's customers' needs to each Licensed Product's end of life. Marvell commits similar resources to this end, as well. In accordance with the terms of this Exhibit C, EZchip will commit to assign support resources to be available at locations designated locations sites, whenever such resources are required to meet end customer commitments or requests.

EZchip and Marvell, if appropriate, will release any and all errata for each Licensed Product within [*] of discovery thereof, and will share with each other the detailed development progress, risks and mitigation plans for each such erratum. EZchip will fix critical errata on a timely manner

Severity Levels Defined**1.0 DEFINITIONS**

- 1.1 Severity 1 Support Request(s) means a customer problem reported to Marvell or EZchip where an immediate EZchip engagement and assistance is required in providing resolution. A Severity 1 situation includes, but is not limited to, any of the following situations:
- A problem which critically impacts the end customer's ability to do business,
 - A customer reports a problem, which such customer designates as a "Severity 1 or Level 1, etc." problem
 - A problem reported by the customer is significantly affecting customer's project time schedule, or
 - The customer's Licensed Product based system is down or severely degraded.

The customer's interpretation of the severity of the problem will always be honored.

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- 1.2 Severity 2 Support Request(s) means a customer problem reported to Marvell where an urgent EZchip engagement and assistance is required in providing resolution. A Severity 2 situation includes, but is not limited to, any of the following situations:
- A problem which impacts the end customer's ability to do business, the severity of which is significant and may be repetitive in nature,
 - A customer reports a problem, which such customer designates as a "Severity 2 or Level 2, etc." problem, or
 - A function of the customer's Licensed Product based system is impacted which impedes the customer from meeting daily requirements.

The customer's interpretation of the severity of the problem will always be honored.

- 1.3 Severity 3 Support Request(s) means a customer problem reported to Marvell where a timely EZchip engagement and assistance is required in providing resolution. A Severity 3 situation includes, but is not limited to, any of the following occur:
- A problem, which negligibly impacts end customer's ability to do business,
 - A customer reports a problem, which such customer designates as a "Severity 2 or Level 2, etc." problem. , or
 - Any questions and/or general consultation requested by Marvell or a customer.

The customer's interpretation of the severity of the problem will always be honored.

2.0 EZCHIP SUPPORT INCIDENT RESPONSE BY SEVERITY

[*]

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3.0 TECHNICAL SUPPORT PROCEDURES

EZchip will be fully responsible for customer support. Any customer request for support will be referred to EZchip support team. Both Marvell and EZchip will specify initial Technical Escalation Contacts, which may be updated from time to time by mutual written agreement of the parties. Such written agreement may be in the form of electronic mail.

3.1 Technical Support Engagement

To ensure a smooth transition during technical collaboration or escalation, it is essential that all parties remain engaged until the next level is fully engaged, including access to all relevant contact information and technical activity to date.

3.2 Solution Delivery

EZchip will be the primary source of communication with the end customer. Marvell will assist with this communication process as requested. If the problem cannot be reproduced in EZchip's labs, Marvell and the customer will provide EZchip access to the customer's site to allow EZchip's engineering/support staff to debug the problem. Marvell application team will be copied to any correspondence between EZchip and Marvell customers.

3.3 Third Party Dependency

In the event that EZchip is dependent upon a third party to provide support for a product or product component, it is incumbent upon EZchip to establish a written agreement with the third party, such that EZchip is capable of meeting the expectations identified in the Agreement by working through the third party.

4.0 Support Collaboration Guidelines and Resolution Requirements

[*]

5.0 Support Training Requirements

EZchip agrees to provide Marvell with training at a mutually agreeable time and location, which such training shall cover the following information related to NP5-C and NP5-G:

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- o Data flow
- o Engineering specifications
- o New technology primer
- o Complete list of erratas
- o Error handling
- o Trouble-shooting steps/procedures
- o Diagnostic capability
- o Basic reference design installation/re-installation procedures
- o Setup procedures
- o Product tests results
- o Product White Papers if available

The training may be broken to phases, per Marvell and EZchip agreement

6.0 EZchip and Marvell Support Materials

EZchip Support Materials

- o Option for Marvell to purchase more NP5-C and NP5-G validation/evaluation platforms from EZchip for agreed price, and within [*] weeks of delivery
- o All EZchip's relevant documents will have to be provided in source format (word doc or frame maker) and within a timely manner of any change to these documents
- o EZchip to communicate:
 - o Any new bug or errata within [*] of discovery
 - o Performance test reports
 - o Schematics and reference design in source file (PCB, BRD, SCH files)
- o EZchip to provide Test plans
- o Software drivers should be kept in version controlled data base

7.0 Travel Agreement

[*]

8.0 Non Solicitation.

During the term of the Master Agreement and for a period of two (2) years following termination hereof, each of Marvell and EZchip agrees that it will not directly or indirectly solicit, attempt to solicit or encourage the resignation of any employees of the other party, by direct or indirect inducements or otherwise.

Notwithstanding the foregoing, EZchip's technical support shall be provided to Marvell for free only to the extent that such technical support is required in order to: (i) address EZchip's deficiency; or (ii) address an issue or a change specifically requested in writing by the Identified Customer. Any other technical support shall be subject to the parties' prior written consent, acting reasonably.

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MARVELL SUPPORT

- A. **Technical Support.** For the longer of: (1) the Term of this Agreement, or (2) [*] years after First Commercial Shipment and subject to the terms of this Agreement, EZchip will be entitled to receive, free of charge, Technical Support for Marvell Products (as defined below) sold to EZchip under this Agreement via email and, when necessary, by phone (the “**Technical Support**”). Marvell’s Technical Support shall be provided to EZchip for free only to the extent that such technical support is required in order to: (i) address Marvell’s deficiency; or (ii) address an issue or a change specifically requested in writing by the Identified Customer. Any other technical support shall be subject to the parties’ prior written consent, acting reasonably. Marvell will use reasonable efforts to ensure that EZchip receives Technical Support from Marvell in connection with EZchip’s purchase and use of the NP-4G, NP-5G chips and their variants, as defined in Exhibit B-NP4, and its addendum 1, of Amendment #3 to the Technology Development, License and Manufacturing Agreement for NP-4G and as defined in Exhibit B-NP5 of Amendment #4 to the Technology Development, License and Manufacturing Agreement for NP-5G (“the Marvell Product”); however, such Technical Support will be limited to only support for the Marvell Product issues related directly to the Marvell Deliverables, as defined under Section 1.13 of the April 16, 2006 Technology Development, Licensing and Manufacturing Agreement. For the avoidance of doubt:
- a. Technical Support shall include training of EZchip’s support team and information related to the design, manufacturing and qualification of the devices, provide test results, product use documents, errata, and information to successfully use the Marvell Products, limited to the design section owned by Marvell, (“Technical Issues”), and

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b. Technical Support shall exclude support for any Marvell Products issue not directly related to the Marvell Deliverables.

B. **First Line Support.** EZchip's technical support department (or equivalent department) shall establish and maintain a process to provide "First Line Support" for the Marvell Products directly to EZchip customers. First Line Support shall include, but not be limited to, providing a:

1. direct response to EZchip customers with respect to inquiries concerning the performance, functionality or operation of the Marvell Products ;
2. direct response to EZchip customers with problems or performance deficiencies with the Marvell Products ;
3. diagnosis of problems or performance deficiencies of the Marvell Products ; and
4. resolution of problems or performance deficiencies of the Marvell Products .

C. **Second Line Support.** If after reasonable commercial efforts, EZchip's technical support department is unable to diagnose or resolve problems or performance deficiencies of the Marvell Products as relates directly with the Marvell Deliverables only , then EZchip shall contact Marvell for "Second Line Support" and Marvell shall provide EZchip with Technical Support for the Marvell Products , but limited only to the design sections related to the Marvell Deliverables, during normal "Business Hours" (8:00 a.m. - 5:00 p.m., Sunday to Thursday, Israeli time) as follows:

1. **Reporting Methods.** EZchip shall report to Marvell all unresolved Technical Issues:

- (i) Each Party shall designate the following contacts for communications between them in regards to Technical Support under this Agreement and these contacts may be updated from time to time by a written notice to the other party. EZchip's Project Leader Contacts will be responsible for reporting Technical Issues to Marvell. Marvell's Technical Support Contacts will be responsible for providing the Technical Support to EZchip:

- a. Marvell Technical Support Contacts:
 - i. Name:
 - ii. Address:
 - iii. Phone: xxx-xxx-xxxx
 - iv. Email: EZchipsupport@marvell.com

b. EZchip Project Leader Contacts

- i. Name:
- ii. Address:
- iii. Phone: xxx-xxx-xxxx
- iv. Email: xxxx@xxxx.com

D. **Support Restrictions and Additional Support**. Marvell Technical Support under this Agreement will be restricted to the Technical Issues related to NP5-G and their variants.

E. **Communication with EZchip customers**. EZchip will be the only source of communication with its customers concerning any Technical Issues with the Marvell Products. For the avoidance of doubt, under this Agreement, Marvell will not directly or indirectly communicate with or work with EZchip's customers.

EXHIBIT D-NP5

QUALITY

Marvell Quality Standards

[*]

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EXHIBIT E-NP5

IDENTIFIED CUSTOMERS & IDENTIFIED PROGRAMS

I. Identified Customer and Identified Programs.

- The Identified Programs are defined to include only these product lines.

No.	Identified Customer	Identified Programs
1	Cisco Systems, which includes its Affiliates and any third party (s) authorized by Cisco to make purchases on Cisco's behalf	NP5-C

II. For purposes of Section 9.3 of the Agreement, all Identified Customers and Identified Programs listed above are exclusive to Marvell.

For the avoidance of doubt, Marvell is not permitted to sell the NP5-C to any party other than Cisco Systems or a Cisco Systems Affiliate without first obtaining the express written permission of EZchip. Furthermore, Marvell is not permitted to sell the NP5-G to any party other than EZchip or an EZchip Affiliate without first obtaining the express written permission of EZchip except as otherwise provided in Section XIX of Exhibit A-NP5 (sale to Identified Customers), or, subject to EZchip's written consent, Section 13 of Exhibit H-NP5 (Selected Customers).

EXHIBIT F-NP5

**ROYALTIES, SHARED ENGINEERING FEES, & LICENSE FEES
Applicable to NP5-C Licensed Product for Cisco Systems Only**

The license granted to Marvell under the Agreement shall be subject to the payment of the royalties below. If, for some reason, Marvell does not pay EZchip the royalties below and such breach is not cured within [*]days of EZchip's notice to that effect, the license shall expire and be of no further force and effect.

In the event that EZchip fails to perform its support or maintenance obligations with respect to the NP5C (as determined by Cisco in good faith and acting reasonably), which failure is not cured within [*] days of Cisco's notice to that effect, then Marvell shall withhold any royalty payments due EZchip with respect to the NP5C and place such amounts into an escrow account at a financial institution, mutually agreed by EZchip, Marvell and Cisco, which amounts shall be released once EZchip cures such failure (as determined by Cisco in good faith and acting reasonably).

L. Royalties

1. The Royalty owed by Marvell to EZchip ("NP5C Royalty") for each unit of NP5-C sold by Marvell shall be as follows:
[*]

Marvell's pricing of the NP5-C shall be negotiated exclusively between Cisco and Marvell. Marvell and EZchip agree to negotiate, in good faith, on reductions of royalty payments to EZchip based on any request for a price reduction from Cisco, which the parties acknowledge, such reduction can be accepted or rejected by EZchip in its sole discretion.

2. [*]

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[*]

II. Engineering Costs.

Upon completion of milestones per the schedule below, EZchip shall pay to Marvell the sums specified in the schedule below, up to a total of [*]Dollars [*] in non-recurring engineering fees (the "NRE Fee"). Marvell will bear all other costs related to bringing of NP5-C and NP5-G to production. The payment schedule for the NRE Fee shall be as follows:
[*]

NP5-C

Marvell and EZChip will each invest the appropriate resources to meet their respective development milestones and deliverables with respect to the NP5-C. Except for the NRE fees set forth above in this Section, the engineering costs and license fees incurred by each party will be borne by each respective party.

NP5-G

All Marvell non recurring engineering costs incurred for modifications to NP5-G beyond the agreed upon Specifications must be agreed to in writing by EZchip and Marvell and will be paid by EZ Chip to Marvell.

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III. Royalty, Backlog, Forecast and Shipping Reporting.

Notwithstanding the provisions of the Master Agreement or any previous agreements between EZchip and Marvell to the contrary, Marvell shall provide EZchip with:

[*]

In the event that Marvell fails to provide EZchip with any of the foregoing reports, EZchip shall so notify Marvell in writing and the parties shall act in good faith in order to find a solution that is acceptable to both parties. For the avoidance of doubt, Marvell's failure to provide any of the foregoing reports in this Section III shall not constitute a breach of the Master Agreement and the foregoing process shall be the sole and exclusive remedy for any such failure.

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EXHIBIT G-NP5

Escrow

The parties agree that the following terms shall set forth all of the terms applicable to the escrow arrangement with respect to the NP5-C Licensed Product sold to Cisco Systems Inc. and its affiliates ("Cisco") and will replace the escrow provisions set forth in Section 10 of the Master Agreement solely with respect to the NP5-C Licensed Product.

1. For purposes of this Exhibit G, the term "**Release Event**" refers to any of the following events:
 - 1.1. The termination of the Master Agreement by Marvell due to the occurrence of any of the following:
 - 1.1.1. EZchip (a) becomes insolvent or makes a general assignment for the benefit of its creditors, or (b) dissolves, except where such dissolution results directly from (i) a corporate reorganization or merger or acquisition which results in the holders of a majority of EZchip's voting securities - prior to such reorganization - (x) continuing to hold at least 51% of the voting securities of the entity surviving such reorganization, or (y) holding substantially all of the assets of EZchip and continuing to operate the business of EZchip, or (ii) EZchip merging with or into a third party, as a result of which holders of EZchip's equity securities prior to the merger hold less than 50% of the equity securities of EZchip after the closing of such merger, or EZchip sells all or substantially all of its assets to a third party, provided that (x) EZchip does not materially fail to perform its support obligations arising under Section 5 of the Master Agreement (Parties' Support Obligations) (excluding delivery of Bug Fixes which is covered by Section 1.3 below) or does not materially fail to perform its development obligations under this Amendment for NP5-C Licensed Product (other than due to Marvell's failure to perform its obligations in connection with such development) provided that, notwithstanding any other provision of this Exhibit or any other agreement to which Marvell and EZchip are parties, a merger of EZchip with or into a third party and/or a change of the control in EZchip and/or a sale or an acquisition of all of EZchip's securities and/or all, or substantially all, of EZchip assets to any third party (an "M&A Event") shall not be deemed as a dissolution of EZchip and shall not be considered as a Release Event.
 - 1.1.2. a voluntary or involuntary petition or proceeding is commenced by or against EZchip under the Federal Bankruptcy Act or any other statute of any state or country relating to insolvency or the protection of the rights of creditors, or any other insolvency or bankruptcy proceeding or other similar proceeding for the settlement of EZchip's debt is instituted and is not dismissed within 60 days from the date of such filing;

- 1.1.3. a receiver of all or substantially all of EZchip's property is appointed, and is not removed within 30 days; or
- 1.1.4. EZchip materially breaches the Master Agreement provided the breach requires Marvell's use of any Escrowed Technology to remedy said breach.
- 1.2. EZchip materially fails to perform its support obligations arising under Section 5 of the Master Agreement (Parties' Support Obligations) (other than the delivery of Bug Fixes covered by Section 1.3 below) or materially fails to perform its development obligations under this Amendment for the NP5-C Licensed Product (other than due to Marvell's failure to perform its obligations in connection with such development under this Amendment) and such failure is not cured within[*] days after Marvell's written notice and it requires Marvell's use of the escrowed technology to remedy said breach as provided under the Business Term Agreement with Cisco.
- 1.3. EZchip's material and ongoing failure to perform or propose a Bug Fix deemed by Cisco to be required with respect to the NP5-C Licensed Product, the applicable Deliverables or the applicable Design Materials.
2. Promptly following, the execution of the Amendment to which this document is attached as Exhibit G, or within thirty (30) days thereafter (whichever is sooner), the parties shall execute a three-party escrow contract (the "**Escrow Agreement**") with a designated professional technology escrow agent (the "**Escrow Agent**"), which agreement shall be in a mutually acceptable form, and shall be attached hereto following its execution. All costs related to the execution and maintenance of escrow services hereunder shall be borne by Marvell.
3. Beginning on the date which is ten (10) days from the date on which the Escrow Agreement is executed by all parties, and continuing thereafter during the Term (as defined in the Master Agreement), EZchip shall continue to deposit the Escrowed Technology (as defined below) with the Escrow Agent. Deposits shall be made upon completion of each material development milestone and also within 5 business days following any update to the materials already deposited, in accordance with the provisions of this Amendment and the Escrow Agreement. Unless the parties agree otherwise in writing, termination of the Master Agreement other than by EZchip in accordance with the provisions of Section 8.2(i), shall not relieve EZchip of its duties to deposit the Escrowed Technology in accordance with the terms of this Amendment for a period of twenty four (24) months following such termination.

For purposes of this Exhibit G, "**Escrowed Technology**" means the technical and other manufacturing information and know-how, reasonably required in order to manufacture the NP5-C Licensed Product provided by EZchip hereunder, as well as the micro-code, software development environment tools and documentation, RTL code and any related documentation, timing and synthesis scripts, related product collaterals and hardware design and other technical and other manufacturing information and know-how, reasonably required in order for Marvell and its Affiliates to manufacture the NP5-C Licensed Product, support Cisco with respect to the NP5-C Licensed Product, create Bug Fixes, either in the IC or its related tools or micro-code for the NP5-C Licensed Product, perform process shrink on the IC to keep a competitive cost structure for Cisco, which may require re-synthesizing and doing all the backend of the RTL in new silicon geometry. The parties agree that the Escrowed Technology will not be used or incorporated in any other device other than a NP5-C Licensed Product and may not be used other than in the manner and for the purposes expressly set forth hereunder.

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4. Upon the occurrence of a Release Event, the following shall occur:

- 4.1. with respect to the Release Events described in Sections 1.1.1-1.1.3 above (inclusive), Marvell shall be entitled to deliver to the Escrow Agent (with a copy to EZchip), a Release Notice (the "**Release Notice**") together with an affidavit (the "**Affidavit**"), executed by Marvell, which describes in reasonable detail the Release Event which took place. The Escrow Agent shall be required to promptly confirm the receipt of said Release Notice and Affidavit by EZchip (the "**Notice Confirmation**").

As shall be more fully set forth in Escrow Agreement, the Escrow Agent shall be required to release the Escrowed Technology to Marvell within [*]business days following the receipt of the Release Notice and not before [*]business days from the Notice Confirmation; unless the Release Event is deemed cured in accordance with the following paragraph.

This Release Event shall be deemed cured only if (i) with respect to Section 1.1.2, EZchip provides Marvell with written evidence of the dismissal of any proceedings set forth therein, (ii) with respect to Section 1.1.3, EZchip provides Marvell with written evidence of the removal of the receiver, or (iii) with respect to Sections 1.1.1-1.1.3, EZchip otherwise provides Marvell with sufficient evidence, as shall be determined by Marvell in its reasonable judgment that EZchip is able and willing to continue to perform its obligations under the Master Agreement and this Amendment.

- 4.2. with respect to the Release Event described in Section 1.3 above, EZchip shall have a period of[*]days following the receipt of Marvell's written notice and demand for cure thereof (the "**Bug Fix Cure period**") to, provide a plan ("**Bug Fix Cure Plan**") that describes in detail the resources and effort by EZchip to provide a bug fix. Marvell acknowledges that a Bug Fix proposed by EZchip may require the assistance and cooperation of Marvell, and Marvell agrees to provide any such assistance or cooperation as is reasonably required. Marvell shall have the right to audit on a weekly basis the Bug Fix Cure Plan execution and, subject to its confidentiality undertakings towards EZchip, disclose such audits to Cisco. Should it be determined through the audit by Marvell, acting reasonably, that the Bug Fix Cure Plan is not being executed in accordance with the terms therein due to a failure on EZchip's part, then Marvell shall be entitled to deliver the Release Notice and Affidavit to the Escrow Agent (with a copy to EZchip). Without derogating from Marvell rights, the Escrow Agent shall be required to promptly confirm the receipt of said Release Notice and Affidavit by EZchip (with a copy to EZchip). The Escrow Agent shall be required to promptly obtain Notice Confirmation from EZchip confirming that the Bug Fix Cure Plan is not being executed in accordance with the terms therein due to a failure on EZchip's part.

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As shall be more fully set forth in Escrow Agreement, the Escrow Agent shall be required to release the Escrowed Technology to Marvell within [*]business days following such notice and not before [*] business days from the Notice Confirmation; unless EZchip provides sufficient evidence that it has provided the Bug Fix or it has complied or is in compliance with the Bug Fix Cure Plan. Marvell shall be required to return the Escrowed Technology to the Escrow Agent upon the sooner of (a) the date [*] months after the release date, or (b) the date that EZchip provides the applicable Bug Fix.

- 4.3. with respect to the Release Event described in Sections 1.1.4 and 1.2 above, upon the occurrence of such event, Marvell shall be required to provide EZchip with a written notice informing EZchip of the occurrence of such event in reasonable detail. By no later than[*] days following the receipt of such written notice, EZchip shall be required to provide Marvell with a written plan for the cure of such Release Event (the “**Cure Plan**”) which plan must describe in reasonable detail the steps which EZchip intends to take in order to cure such Release Event and the estimated schedule. Marvell shall be entitled to disclose such plan to Cisco under an obligation of confidentiality.

In the event that EZchip fails to (i) provide Marvell an acceptable Cure Plan within such [*] day period, or (ii) EZchip fails to cure the Release Event within the period more fully set forth in an accepted Cure Plan, then Marvell shall be entitled to deliver the Release notice and Affidavit to the Escrow Agent (with a copy to EZchip). The Escrow Agent shall be required to promptly obtain Notice Confirmation from EZchip.

As shall be more fully set forth in Escrow Agreement, the Escrow Agent shall be required to release the Escrowed Technology to Marvell within [*] business days following Marvell’s provision of such notice, and Affidavit, and not before [*] business days from the Notice Confirmation; unless, EZchip provides sufficient evidence that either it has provided a Cure Plan within the [*]day period aforementioned or it has complied or is in compliance with the Cure Plan, as applicable. Marvell shall be required to return the Escrowed Technology to the Escrow Agent upon the sooner of (a) the date twelve (12) months after the release date, or (b) the date that the applicable Release Event is cured.

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5. Upon the release of the Escrowed Technology by the Escrow Agent to Marvell in accordance with the provisions contained herein and for so long as such Release Event has not been cured by EZchip (or, to the extent applicable, Marvell) (as further set forth herein), Marvell shall be automatically granted a temporary worldwide, royalty bearing, non-exclusive, non-transferable license under all of EZchip's Intellectual Property Rights embodied in the EZchip Deliverables and the License Product, but solely for the purpose of curing the Release Event if the applicable Release Event occurs under Sections 1.1.4 (to the extent that the Escrowed Technology is required by Marvell to remedy a breach thereto), 1.2 or 1.3, and, to the extent applicable, to utilize the Escrow License set forth in Section 10.7 of the Master Agreement (solely according to the NP5-C SOW), which includes the right modify, all as permitted by and strictly in accordance with the terms of the Master Agreement and the NP5-C SOW. It is hereby clarified that notwithstanding anything to the contrary contained herein, any Escrow License shall terminate within[*] days following the cure of the Release Event by EZchip (or, to the extent applicable, Marvell).
6. The foregoing limited license shall be subject to Marvell's full compliance with the applicable provisions of the Master Agreement (including, but not limited to, the Royalty, Royalty reports or other payment terms, restrictions on the identity of the purchaser of the NP5-C Licensed Product (i.e., Cisco), restriction on the use of EZchip Deliverables and EZchip's Intellectual Property Rights, provisions relating to the protection of EZchip's Intellectual Property) and the restrictions contained herein.

To the extent applicable, the provisions of Sections 5.1 and 6 of the Master Agreement (Financial Obligations) and the provisions of Exhibits F (Royalties) and C (Support) of this Amendment shall apply to such activities following the release of the Escrowed Technology to Marvell and its Affiliates, regardless of whether the Master Agreement is terminated by Marvell in accordance with the provisions of the Master Agreement.

Except for the license granted herein, no other licenses or rights are granted by one party to the other, whether by estoppel, implication or otherwise, and neither Marvell nor any of its Affiliates or customers shall be granted any ownership rights with respect to the Escrowed Technology (including, for the avoidance of doubt, EZchip's Intellectual Property Rights and EZchip Deliverables).

It is hereby clarified that Marvell and its Affiliates shall be prohibited from disclosing any of the Escrowed Technology (including, for the avoidance of doubt, EZchip's Intellectual Property Rights and EZchip Deliverables) to any third party, including but not limited to, Cisco or any other customer of Marvell.

7. Without derogating from the foregoing, the parties agree that the Escrowed Technology will not be used or incorporated in any other device other than a NP5-C Licensed Product and may not be used other than in the manner and for the purposes expressly set forth in the Master Agreement.

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8. Without derogating from the foregoing, upon the release of the Escrowed Technology to Marvell in accordance with the provisions of this Exhibit G and unless Marvell unreasonably rejected the applicable Cure Plan proposed by EZchip, in accordance with the provisions contained herein, EZchip shall use its best efforts to ensure Marvell is allowed to fully exercise its Escrow License with respect to the Escrowed Technology and is supported in accordance with the requirements of Section 5 of the Master Agreement and Exhibit C of this Amendment until the Escrow License expires or terminates in accordance with the provisions contained herein. Prior to the earlier to occur of (i) the cure of the Release Event by EZchip (or, to the extent applicable, Marvell), and (ii) the termination of 24 months after the date of the release of the Escrowed Technology to Marvell in accordance with the provisions contained herein, to the extent applicable, EZchip agrees to provide Marvell with problem determination aids, test suites and source code, architecture and micro-architecture design documents, test software/setup/environment and any other associated documentation (including hardware and software design documentation and end user documentation), all schematics, blueprints, parts lists, and all other data, information and documentation necessary for Marvell to exercise the Escrow License granted herein.
9. Until the earlier to occur of (i) the cure of the Release Event by EZchip (or, to the extent applicable, Marvell), and (ii) the termination of 24 months after the date of the release of the Escrowed Technology in accordance with the provisions contained herein, to the extent applicable, EZchip shall furnish Marvell with basic consultation, training and technical assistance, including but not limited to, training and assistance on the training material and product documentation for the EZchip Deliverables, as part of fully transferring EZchip's know how regarding the EZchip Deliverables and the NP5-C Licensed Product, subject, however, to the confidentiality undertakings of the Master Agreement and herein and to the scope of the Escrow License granted herein.
10. Marvell acknowledges that the Escrowed Technology to the extent released to Marvell in accordance with the provisions of this Exhibit G, are being provided "AS IS" and EZchip makes no warranties, express, implied or otherwise, regarding such Escrowed Technology.
11. Except as expressly set forth in this Exhibit G, the other terms and conditions of the Master Agreement shall remain unchanged. All capitalized terms which are not defined herein shall have the meaning attributed to such terms in the Master Agreement and this Amendment.

EXHIBIT H-NP5

TERMS OF SALE

1. The parties agree that Marvell will sell to EZchip the NP5-G at an initial selling price of \$[*]. In the event EZchip is in breach of the Business Term Agreement with Cisco and fails to cure said breach, EZchip may still purchase NP5-G Licensed Product from Marvell at the then-current contract price.
2. The parties agree that Marvell will sell to EZchip the NP5-G variants at an initial selling price of \$[*]. In the event EZchip is in breach of the Business Term Agreement with Cisco and fails to cure said breach, EZchip may still purchase the NP5-G variants from Marvell at the then-current contract price.
3. [*]
[*]
4. [*]
5. [*]
6. EZchip shall not sell the NP5-G and NP5-G variants License Product to the Identified Customer, and EZchip shall not grant rights to any other party to sell the NP5-G and NP5-G variants Licensed Product to the Identified Customer.

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7. EZchip shall have no obligation with respect to the purchase of Licensed Products until such Licensed Products are specified in a purchase order issued by EZchip to Marvell that contains specific delivery dates for specific Licensed Products (the "**Purchase Order**"). Unless agreed to otherwise by the Parties, the lead-times for Licensed Product delivery (the "**Lead-Time**") shall be [*] weeks from the date of submission of the Purchase Order.
8. Following release to production of the Licensed Product, EZchip shall provide Marvell with a non-binding [*] month forecast of its purchase requirements for the Licensed Product (hereinafter, a "**Forecast**"). Each month thereafter, EZchip shall provide a rolling non-binding [*] month Forecast of its purchase requirements. Any Forecasts provided by EZchip are for planning purposes only and do not constitute a delivery release or other commitment by EZchip. EZchip shall have no obligation with respect to the purchase of the Licensed Product unless specified in an issued Purchase Order that contains specific delivery release dates for specific products.
9. As long as EZchip is not in breach for nonpayment, which has not been cured within [*] days of Marvell's written notice, Marvell will be required to accept Purchase Orders which are in conformity with the prices set forth in Section 1 of this Exhibit H-NP5 and the Lead-Time, and in quantities no greater than [*] % of the Forecast, within [*] business days following their receipt and will use reasonable efforts to accommodate Purchase Orders which contain greater quantities or shorter Lead Times than those agreed upon hereunder. Without derogating from the foregoing, any Purchase Order received and accepted by Marvell, without change, shall be binding on EZchip, subject to the terms and conditions of the Master Agreement, this Amendment #4, this SOW and the Terms and Conditions of Sale document attached to this Exhibit and which is incorporated herein by this reference as Schedule 01 to this Exhibit H-NP5. [*]
10. End of Life. In the event that Marvell decides to end-of-life of the NP5-G Licensed Product, or in the event that Marvell terminates this Agreement pursuant to Section 8.3(iii), then:
 - (i) Marvell shall give to EZchip written notice thereof at least [*] months before Marvell stops accepting Purchase Orders for NP5-G (such notice period, the "EOL Period"); (ii) during the EOL Period, EZchip may continue to place Purchase Orders for NP5-G with delivery dates which cannot exceed [*] months beyond the end of the EOL period; and (iii) Marvell may require full payment for each such Purchase Order before such Purchase Order is accepted and/or before starting materials planning to fulfill such Purchase Order. Notwithstanding the foregoing, Marvell may not end-of-life the NP5-G [*], NP-5L, NP-5C Licensed Product and their variants at any time earlier than the expiration of [*] years from the first commercial customer shipment ("**FCS**") (the "**EOL Term**"), even if the Master Agreement is terminated and, for the avoidance of doubt, even if EZchip is acquired by a Marvell competitor.

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11. All sales of NP5-G License Product between Marvell and EZchip shall be subject to the terms and conditions contained in Marvell's Terms and Conditions of Sale document which is attached hereto as Schedule 01 to this Exhibit H-NP5.
12. The Direct Purchase Rights that were amended into Section 11 of Exhibit H by Amendment 3 include NP5-G, [*], and NP-5L. Section 9 of Addendum 1 to Exhibit H-NP4 is incorporated herein by reference and EZchip shall be granted with the Direct Purchase Right with respect to the NP5-G, [*], and NP-5L Licensed Products.
13. Marvell acknowledges and agrees that EZchip may grant to several of EZchip's selected customers ("**Selected Customers**"), the right to purchase NP5-G directly from Marvell, upon separate agreement between Marvell, EZchip and the Selected Customer and subject to mutually agreed upon terms between Marvell, EZchip and the Selected Customer, provided that (i) Marvell shall be permitted to sell the NP5-G Licensed Product to a Selected Customer on "as is" terms, and (ii) without any obligation to provide support for EZchip Technology. In the event that EZchip desires to grant a competitor of Marvell the right to become a Selected Customer, then EZchip must obtain Marvell's advance written consent.
14. The pricing information contained in this Exhibit is Confidential Information which may not be disclosed by either party to any third party (including but not limited to Cisco, Identified Customers or customers of EZchip) except upon the express written consent of the party that disclosed such Confidential Information.
15. [*]

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16. Marvell's Supply Obligations as set forth in this Exhibit H-NP-5, will survive any termination or expiration of the Agreement (and, for the avoidance of doubt, even if EZchip is acquired by Marvell's competitor), except in the event that Marvell terminates the Agreement because EZchip materially breached the Agreement and did not pay Marvell for the Licensed products and such breach was not cured within [*] days of Marvell's written notice to that effect to EZchip.

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Schedule 01
to
EXHIBIT H-NP5

STANDARD TERMS AND CONDITIONS OF QUOTATION OF SALE

1. APPLICABILITY

The terms and conditions of sale set forth herein and the terms set forth in the Technology Development, License and Manufacturing Agreement entered into effective as of April 12, 2006 2008 between: (i) Marvell International Ltd., a Bermuda corporation, with offices at Argyle House, 41a Cedar Avenue, Hamilton, HM 12, Bermuda, on behalf of itself and its Affiliates, and Marvell Israel (M.I.S.L.) Ltd. (formerly known as Marvell Semiconductor Israel Ltd.), an Israeli corporation, with offices at 6 Hamada Street, Mordot HaCarmel Industrial Park, Yokneam, Israel 20692, on behalf of itself and its Affiliates (collectively "Seller"), and (ii) EZchipTechnologies Ltd., an Israeli corporation with offices at 1 Hatamar Street, PO Box 527, Yokneam 20692, Israel ("Buyer") (the "Master Agreement"), the Amendment #2 to the Master Agreement and the Statement of Work annexed to the Master Agreement relating to the NP5-C and NP5-G Licensed Products (as such terms are defined therein) (collectively, the "Terms and Conditions") shall apply to all contracts of sale entered into by and between Marvell (the "Seller") and EZchip (the "Buyer") with respect to the NP5-G Licensed Product. Notwithstanding that the Terms and Conditions may conflict with certain terms and conditions specified by Buyer in Buyer's order form or any contract between Buyer and Seller, Seller's acceptance of Buyer's order is on the condition that the Terms and Conditions set forth herein shall apply to such order. Any such changes Buyer seeks to impose on Seller will not be effective, unless accompanied by such written authorization and acceptance of Seller's Authorized Agent. Seller's failure to object to any term or condition contained in any communication from Buyer shall not be deemed a waiver of the terms and conditions herein. The Terms and Conditions set forth herein shall be applicable whether or not they are attached to or enclosed with the products sold hereunder.

2. PRICE

Irrespective of any prices quoted by Seller or listed on Buyer's purchase order, a purchase order for NP5-G Licensed Products is accepted only at the prices and on the terms agreed to by the parties pursuant to Exhibit H-NP5 of the SOW relating the NP5-C and NP5-G Licensed Products signed by the parties (the "NP5-SOW"). Notwithstanding Section 9 of these terms and conditions, Buyer shall be entitled to cancel any order, without any liability whatsoever, if Seller's price reflected on Seller's acknowledgement or invoice is different to a price set forth in Exhibit H-NP5 of the NP5 SOW and Seller has refused to change the price after being notified by Buyer of the inconsistency.

3. PAYMENT

All invoices are due and payable [*] ([*]) days from the date of invoice. No discounts, rebates or credits of any kind are authorized, unless otherwise agreed to in writing by Seller. Unless Seller specifies otherwise, all payments shall be in United States dollars. Each shipment of products shall be considered a separate independent transaction, and payment therefor shall be made accordingly. If Buyer delays shipments, payments for such delayed shipments shall become due on the date when Seller is prepared to make shipment. Products held for Buyer shall be at the risk and expense of Buyer.

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4. TAXES

All prices are quoted and all orders are accepted exclusive of any taxes or charges by any name imposed by any taxing authority of any state, nation or locality (other than taxes imposed on Seller's net income), and, as an example, are exclusive of national, state and local excise, sales, use, value added, goods and services, and similar taxes. Consequently in addition to the prices specified herein, the amount of any present or future excise, sales, use, value added, goods and services, or similar tax applicable to the sale of the product hereunder shall be paid by Buyer, or in lieu thereof, Buyer shall provide Seller with a tax exemption certificate acceptable to Seller. Buyer shall not be liable to taxes based on Seller's net income. When Seller has the legal obligation to collect such taxes, the appropriate amount shall be added to the applicable invoices and paid by the Buyer, unless Seller receives a proper tax exemption certificate from Buyer prior to shipment. In addition, if there are any withholding taxes payable with respect to the Buyer's payments to the Seller, the Buyer shall nevertheless pay Seller the amount due on the invoice less any portion for withholding tax, and pay the amount of withholding tax due to the appropriate taxing authority, providing Seller satisfactory evidence of such payment upon request.

5. TITLE AND DELIVERY

Unless otherwise expressly provided herein, delivery of the products ordered hereunder by Buyer shall be completed when made Ex Works (Incoterms 2000) Seller's designated point of shipment. In all cases, Seller's title shall pass to Buyer and the risk of loss or damage to any product in transit shall fall upon Buyer, whose responsibility shall be to file claims with the carrier, when delivery is made Ex Works (Incoterms 2000) Seller's designated point of shipment. Seller shall, with the prior written consent of Buyer, select the method of shipment, but in all cases, the carrier will be regarded as Buyer's agent. Shipping dates shall be in accordance with the dates specified in a purchase order submitted by Buyer to Seller from time to time, however, parties agree that subject to reasonable delays, shipping dates are approximate and are based upon prompt receipt of all necessary information from Buyer. In the absence of written instructions from Buyer, all of the products ordered hereunder shall be packed and prepared for shipment in a manner that: (i) follows good commercial practice; (ii) is acceptable to common carriers for shipment at the lowest rate; and (iii) is adequate to ensure safe arrival. Seller shall mark all containers with Buyer purchase order numbers, lot tracking information, date of shipment, Buyer's and Seller's names, and such labels and notices consistent with good standard practice, provided that in the event that any shipments directly to an Buyer customer by Seller, shall upon Buyer's request, omit Seller's name from the containers. Seller shall not be liable for delay in delivery or non-delivery due to causes beyond Seller's reasonable control, including but not limited to acts of God, acts of Buyer, acts of civil or military authority, war, riots, insurrection, sabotage, epidemic, labor disputes, labor shortages, utility shortages, materials shortages, delays in transportation or inability due to causes beyond Seller's reasonable control. In the event of any such delay, the date of delivery shall automatically be extended for a period equal to the time lost by reason of the delay. For other than these preceding causes, Seller shall not be in default for failure to deliver, unless Seller does not commence to cure such failure within [*] days after receipt of written notice of failure to deliver from Buyer.

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6. INDEMNIFICATION

Application. With regards to EZchip's purchase of Licensed Products under Exhibit H-NP5, Section 11 of the Master Agreement (Intellectual Property Indemnification) shall not apply to Marvell, and the following intellectual property indemnification shall be applicable to Marvell.

Indemnification. Seller will defend, hold harmless and indemnify Buyer and its affiliates from and against any and all claims, suits, losses, damages, expenses and liabilities, costs and expenses (including reasonable attorney's fees), incurred by Buyer and its affiliates solely as a result of any infringement by any products provided by Seller of any patent, copyright, trade secret, trademark, moral right, mask work right, trade secret, know-how or other intellectual property or proprietary right(s) of a third party, in any country or jurisdiction in the world, now or hereafter existing, and whether or not filed, perfected or recorded (the "Intellectual Property Right"). If any Intellectual Property Right is procured by Seller for use in the products provided hereunder by a third party, Seller shall be responsible for obtaining all required Intellectual Property Rights from all third parties in order to enable use by Buyer of the products provided by Seller hereunder.

Without derogating from the foregoing, if such a claim is made such that Buyer is prohibited or is reasonably likely to be prohibited from making any use, commercial or otherwise, of the products, Seller agrees, at Seller's sole option and expense, to either: (i) obtain for Buyer the right to continue to use and sell the products in accordance with these terms and conditions; (ii) modify the products so they are non-infringing and in compliance with these terms and conditions; (iii) replace the products with non-infringing products that comply with these terms and conditions and design specifications; or (iv) if the foregoing are not reasonably possible, accept the return of the infringing products and refund any amount paid.

Requirements. This indemnification shall apply to products provided by Seller to Buyer hereunder, excluding any direct infringement claims, or parts thereof, with respect to EZchip Deliverables included in NP5-G and shall only apply provided (i) Buyer provides Seller with prompt written notice of such claim within [*] days of the claim being made (provided that Buyer's failure to provide such notice will relieve Seller of its obligations hereunder only if and to the extent that such failure prejudices Seller's ability to defend such claims), (ii) Buyer provides Seller with full control over the defense and/or settlement of the claim (provided that Seller keeps Buyer apprised of the status of the claim and any settlement negotiations and no resolution or settlement of the claim obligates Buyer to pay damages, settlement costs or any other compensation to the plaintiff or effectuates an admission of any liability on the part of Buyer without the express written consent of Buyer), and (iii) Buyer provides Seller with all reasonable information and assistance (at Seller's expense) to handle the defense and/or settlement thereof. Notwithstanding the foregoing, Seller's indemnification shall also include a claim arising out of Seller's modification to the EZchip Deliverables, or use thereto which is not permitted by these Terms and Conditions, provided the infringement would not have incurred without said modification or use.

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Exclusions. This indemnification does not apply to a claim, or any part thereof, which (a) arises out of the modification by Buyer of NP5-G, provided the infringement would not have occurred without said modification; or (b) arises out of the combination by Buyer of NP5-G with other elements (software, components or services) not furnished by Seller (unless recommended in writing, specified in writing, or approved in writing by Seller) where the NP5-G standing alone would not infringe, (c) arises out of Seller's compliance with Buyer's written specifications, designs or instructions in the Master Agreement or those which are provided to Seller by or on behalf of Buyer and such claim would not have arisen had such specifications, designs or instructions not been used, (d) arises out of any use of NP5-G not permitted by these Terms and Conditions, or (e) any Buyer technology that is included in or is sold with NP5-G (individually and collectively, "Excluded Claims."). Buyer shall defend, indemnify, and hold Seller harmless from any costs or expenses arising from a rightful claim of infringement by a third party for any of the Excluded Claims, to the same extent as Seller has agreed to indemnify Buyer. Subject to Section 14 below, the foregoing states Seller's exclusive liability and Buyer's exclusive remedy arising from any Claim.

7. NON-DISCLOSURE OF CONFIDENTIAL INFORMATION

Notwithstanding Section 7 of the Master Agreement, the parties acknowledge and agree that they shall be entitled to disclose Confidential Information with respect to the other party and these Terms and Conditions, in accordance with the other party's obligations pursuant to NASDAQ or the TASE rules and policies, and US and Israeli Securities Law. The parties acknowledge and agree that a disclosure of the other party's Confidential Information in accordance with this Section shall not constitute a breach of the Terms and Conditions.

8. ASSIGNMENT

Notwithstanding Section 12.3 of the Master Agreement, Buyer may assign, delegate or sublicense all or any portion of its rights and obligations under these terms and conditions to (i) its subsidiaries, affiliates or the surviving entity resulting from a merger or consolidation involving Buyer, (ii) the acquiring entity in a sale or other disposition of all or substantially all of the assets of Buyer as a whole or of any line of business or division of Buyer, or (iii) any other party that is created as a result of a spin-off from, or similar reorganization transaction of, Buyer or any line of business or division of Buyer.

9. CANCELLATIONS AND RESCHEDULING

A. Orders may be rescheduled or canceled solely in accordance with the terms of this Section. Orders may not be cancelled less than [*]([*]) weeks prior to the scheduled delivery date. In the event Buyer cancels all or any portion of an order less than [*] weeks prior to the originally scheduled shipment date, then Buyer agrees to pay Seller cancellation charges which shall include all reasonable costs, direct and indirect, incurred and committed by Seller together with a reasonable allowance for other expenses incurred by Seller in connection with such cancelled order. Seller's calculation of such cancellation charge shall be final and binding on Buyer and payment thereon shall be due from Buyer within [*] days of Buyer's receipt of notice of such cancellation charge. Notwithstanding the foregoing, Seller shall use commercially reasonable efforts to accept any cancellation by Buyer less than [*] weeks prior to the originally scheduled shipment date and to avoid incurring cancellation charges, or to charge Buyer for any charges or expenses associated with the cancellation not actually incurred by Seller in accordance with this Section.

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For the avoidance of doubt, Buyer shall not be liable to Seller for any amounts whatsoever with respect to a cancellation of any order [*] () weeks prior to the scheduled delivery date. Orders for delivery of products may be rescheduled on not less than [*] days prior written notice to the scheduled delivery date, without any liability to Seller, including without limitation costs and expenses incurred by Seller as a result of the rescheduling or cancellation charges, and delivery may not be rescheduled by more than [*] additional days.

In the event that the parties mutually agree to changes to the specifications, then said changes shall be instituted as agreed between the parties subject to Buyer and Seller agreeing, in writing, upon an adjustment to the delivery schedule. In the event of any such change to an existing order, Buyer will not be liable to Seller for any cancellation charges with respect to the cancellation or rescheduling of such an order.

10. GOVERNMENT CONTRACTS

If the products to be furnished under this order are to be used in the performance of a government contract or subcontract, there shall be incorporated herein such acquisition regulations as are required by law and accepted by Seller's Authorized Agent.

11. EXPORT CONTROL

Buyer will not export, reexport or transfer any of Seller's products, software, or technology (collectively, "Technology"), or any products developed with or utilizing Seller's Technology, in violation of any applicable laws or regulations of the United States and the country where Seller's Technology was legally obtained. In addition to the above, Seller's Technology may not, in the absence of authorization by U.S. and local law and regulations, as required, be used by or exported or reexported (i) to any U.S. sanctioned or embargoed country, or to foreign nationals or residents of such countries; or (ii) to any person, entity, organization or other party identified on the U.S. Department of Commerce's Denied Persons or Entity List, the U.S. Department of Treasury's Specially Designated Nationals or Blocked Persons Lists, or the Department of State's Debarred Parties List, as published and revised from time to time; or (iii) to any party engaged in nuclear, chemical/biological weapons or missile proliferation activities; or (iv) for use in the design, development or production of rocket systems or unmanned air vehicles. Further, Buyer confirms that it is not a person, entity, organization or other party identified on the U.S. Department of Commerce's Denied Persons or Entity List, the U.S. Department of Treasury's Specially Designated Nationals or Blocked Persons Lists or the Department of State's Debarred Parties List, as published and revised from time to time. Buyer will indemnify and hold Seller harmless from and against any claim, loss, or liability arising out of any breach by Buyer of this Section 11. Nothing in this Section 11 shall expand, or be deemed to expand, the rights granted to Buyer under these terms and conditions of sale. This Section 11 shall survive any termination or expiration of these terms and conditions of sale.

12. GOVERNING LAW; JURISDICTION AND VENUE; AND SEVERABILITY

These terms and conditions of sale shall be governed by and construed and enforced in accordance with the laws of the State of California, USA, without regard to conflicts or laws provisions. Buyer and Seller hereby consent to jurisdiction and venue in the state and federal courts in Santa Clara County, California or the courts of the state of Israel, wherever any dispute arising hereunder is first initiated. Any provision hereof which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining portions or affecting the validity or enforcement of such provisions in any other jurisdiction.

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13. WARRANTIES AND REMEDIES

A. Defect Warranty. Seller warrants that from [*] ([*]) months following the date of Seller's shipment of products (the "**Warranty Period**") all products (excluding the EZchip Deliverables) to be delivered hereunder shall be free from defects in material and workmanship and that no errors caused by Seller or its subcontractors, or other third parties furnished by Seller will cause the products to fail or to non-conform to the Specifications, subject to the conditions and procedures stated herein, except that in the case of Epidemic Failure the term shall be extended to [*] ([*]) months following the date of Seller shipment.

1. Buyer shall promptly notify Seller's Authorized Agent in writing of any alleged breach of warranty and return for warranty adjustment such products. Any products so returned shall be shipped to Seller at Buyer's expense. To the extent that such products are found by Seller to be defective, Seller shall reimburse Buyer for such delivery charges and pay delivery charges of repaired or replacement products to the Buyer.
2. Upon receipt of the returned products, Seller will examine such products to determine to its own reasonable satisfaction that the alleged defect did not arise as a result of Buyer's (or parties furnished by buyer) abuse, misuse, neglect, tampering, unauthorized or improper use or installation, disassembly, repair, alteration, or accident, all of which are not covered by any of the warranties set forth herein.
3. If Seller finds that products are defective, Seller shall immediately issue a notice to Buyer advising of same and the action it shall take in accordance with Section 13B. Seller shall promptly and as soon as practicable, make the necessary repairs (if applicable), replace the products, or provide Buyer with a credit of the purchase price, of any non-conforming products.
4. Seller will promptly notify Buyer in the event the products are not subject to warranty adjustment. Unless instructions as to the disposition of such products not subject to warranty adjustment are received from Buyer within [*] calendar days of such notification, the products will be returned to Buyer, freight collect; and
5. Seller's products are not authorized for use as critical components in medical devices, military systems, life or critical support devices or related systems, and Seller provides no warranty or indemnity to Buyer or Buyer's customers related to such non-authorized uses.

B. Limitation of Remedies. Subject to Section 13D and Section 14 below, (i) Buyer's sole and exclusive remedy under this warranty shall be, at both party's reasonable option, either to repair or replace, or credit to Buyer the purchase price of, any non-conforming product or products; and (ii) in no event shall Seller, its affiliates, agents, officers, directors, insurers, successors and assigns or employees be liable to Buyer or any third party for loss of profits, loss of use or any incidental, consequential, indirect, contingent, secondary, special damages or expenses whatsoever and howsoever arising, even if Seller has been advised of the possibility of such damages.

C. Extended Warranty. Replacement and repaired products shall be warranted for the Warranty Period starting from the date Seller delivers such replaced or repaired products to Buyer.

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D. **Epidemic Failure Warranty.** Seller warrants that that from the date of delivery of the products to Buyer and for a period of [*]years thereafter, products provided to Buyer by Seller (excluding the EZchip Deliverables) will not experience Epidemic Failure. "Epidemic Failure" means a single root cause defect or malfunction of a product that materially impairs performance of such product, where the defect or malfunction is reasonably verified by Seller, as being attributable to defects warranted under Section 13A, and such defect is exhibited within the Warranty Period by at least [*] percent ([*]) of the products delivered within [*] consecutive lots. In the event of an Epidemic Failure, all products of the same lots will be presumed defective under Section 13A and subject to the remedy in Section 13B. In addition, Seller will provide a corrective action plan reasonably acceptable to Buyer as soon as possible after being notified of the Epidemic Failure, and further implement the corrective action plan accepted by Buyer as soon as possible at no additional charge to Buyer. Buyer may cancel or postpone all purchase orders pending implementation of the corrective action plan, without any penalty.

E. **Excluded Warranties.** EXCEPT FOR THE EXPRESS WARRANTY SET FORTH HEREIN, SELLER MAKES NO OTHER WARRANTIES OR GUARANTEES REGARDING THE PRODUCT, WHETHER EXPRESS, ORAL, IMPLIED, STATUTORY, ARISING BY OPERATION OF LAW, OR AS A RESULT OF USAGE OF TRADE, COURSE OF DEALING, OR COURSE OF PERFORMANCE. SELLER HEREBY EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES OR WARRANTIES OTHERWISE ARISING BY OPERATION OF LAW, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT. NOTWITHSTANDING THE FOREGOING, IF ANY PRODUCT COVERED BY THIS ORDER IS DESIGNATED FOR DEVELOPMENTAL OR EXPERIMENTAL USE, NO WARRANTY WHATSOEVER SHALL BE APPLICABLE THERETO, AND BUYER SHALL INDEMNIFY SELLER FOR ANY AND ALL CLAIMS OR LIABILITY ASSERTED AGAINST SELLER IN CONNECTION WITH SUCH DEVELOPMENTAL OR EXPERIMENTAL USAGE.

F. **Allocation of Risk.** This warranty allocates risks of product failure between Seller and Buyer. This allocation is recognized by both parties and is reflected in the price of the products. Buyer acknowledges that it has read this warranty, understands it, and is bound by its terms and limitations.

14. LIMITATION OF LIABILITIES.

EXCEPT FOR A BREACH OF SECTION 7 (CONFIDENTIAL INFORMATION), SECTION 11 (INTELLECTUAL PROPERTY INDEMNIFICATION) OR FRAUD OR WILLFUL MISCONDUCT, INCLUDING WITHOUT LIMITATION, (I) THE SALE BY MARVELL OF THE NP4-C TO ANY PARTY OTHER THAN IDENTIFIED CUSTOMERS, OR THE NP4-G, NP4-L OR [*] TO ANY PARTY OTHER THAN EZCHIP AND SELECTED CUSTOMERS, (II) A BREACH OF SECTION 9.3, OR (III) A BREACH OF MARVELL'S SUPPLY OBLIGATIONS, BUT ONLY TO THE EXTENT THAT SUCH BREACH (UNDER SUBSECTIONS I, II, OR III) IS DIRECTLY CAUSED BY A PARTY'S WILLFUL MISCONDUCT, IF ANY PARTY TO THIS AGREEMENT IS FOUND LIABLE (WHETHER UNDER CONTRACT, TORT OR OTHERWISE), THE CUMULATIVE LIABILITY OF SUCH PARTY FOR ALL CLAIMS WHATSOEVER ARISING OUT OF THIS AGREEMENT SHALL NOT EXCEED THE SUM OF ALL AMOUNTS PAID BY ONE PARTY TO THE OTHER PARTY DURING THE [*] ([*]) MONTH PERIOD IMMEDIATELY PRECEDING THE EVENT WHICH GAVE RISE TO THE CLAIM, OR [*] DOLLARS (\$[*]), WHICHEVER IS GREATER.

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EXCEPT FOR A BREACH OF SECTION 7 (CONFIDENTIAL INFORMATION) OR FRAUD OR WILLFUL MISCONDUCT, NEITHER PARTY SHALL BE LIABLE TO THE OTHER OR ANY THIRD PARTY FOR ANY INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES OR PUNITIVE DAMAGES, INCLUDING, WITHOUT LIMITATION, ANY LOSS OR DAMAGE TO BUSINESS EARNINGS, LOST PROFITS OR GOODWILL, LOST OPPORTUNITIES AND LOST OR DAMAGED DATA OR DOCUMENTATION, SUFFERED BY ANY PERSON, ARISING FROM AND/OR RELATED WITH AND/OR CONNECTED TO THIS AGREEMENT, EVEN IF SUCH PARTY IS ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. THE PARTIES HEREBY DISCLAIM ALL WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NONINFRINGEMENT REGARDING ANY DELIVERABLE OF A PARTY PROVIDED HEREUNDER.

A reference to "NP5-G" shall also include a reference to the "[*] and NP5-L". For the avoidance of doubt, each Section shall apply to each of the NP5-G, [*] and NP5-L respectively.**

* This portion has been omitted pursuant to a Request for Confidential Treatment under Rule 24b-2 of the Securities Exchange Act of 1934. The complete document, including the portions for which confidential treatment has been requested, has been filed separately with the Securities and Exchange Commission.

** The original document with confidential information omitted pursuant to a confidential treatment request consists of 46 pages, of which 10 pages were omitted in this public filing.

**CISCO, MARVELL AND EZCHIP
BUSINESS TERM AGREEMENT**

The purpose of this Business Term Agreement ("Agreement") is to agree on key business terms between Cisco Systems, Inc. a California corporation, having principal offices at 170 West Tasman Drive, San Jose, California 95134-1706 ("Cisco"), Marvell International Ltd., a Bermuda corporation, with offices at Canon's Court, 22 Victoria Street, Hamilton, HM 12, Bermuda, Marvell Israel Ltd. (formerly known as Marvell Semiconductor Israel Ltd), an Israeli corporation, with offices at 6 Hamada Street, Mordot HaCarmel Industrial Park, Yokneam, Israel 20692, (Marvell International Ltd. and Marvell Israel Ltd. are collectively referred to as "Marvell"), EZchip Technologies Ltd., an Israel corporation, having principal offices at 1 Hatamar Street, Yokneam 20692, Israel, and EZchip Inc., a Delaware corporation, having principal offices at 900 E. Hamilton Avenue, Suite 100, Campbell, California 95008, (EZchip Technologies Ltd. and EZchip Inc. are collectively referred to as "EZchip" or "EZChip") to meet Cisco's technical and business requirements for certain Cisco products. This Agreement shall be effective as of the date last signed by the parties below (the "Effective Date") between and among the parties and their affiliates identified below.

BACKGROUND

- A. Marvell International Limited, a Bermuda corporation with offices at Canon's Court, 22 Victoria Street, Hamilton, HM 12, Bermuda, together with Marvell Semiconductor Israel Ltd (which subsequently changed its name and currently operates under the name Marvell Israel Ltd), an Israeli corporation located at 6 Hamada Street, Mordot HaCarmel Industrial Park, Yokneam, Israel 20692, and EZchip Technologies Ltd, an Israeli corporation located at 1 Hatamar Street, PO Box 527 Yokenam, 20692, ("EZchip") are parties to the Technology Development, License and Manufacturing Agreement dated April 12, 2006, as amended by Amendment #1 dated September 30, 2006 and Amendment #2 dated September 24, 2009 and as further amended on a date contemporaneous with the execution of this Agreement by Amendment #3 and Amendment #4 (collectively, "DLA"), and
- B. Cisco Systems International B.V., a Netherlands corporation, with offices at Hoogoorddreef 9, 1101 BA, Amsterdam, Netherlands, and Marvell Technology Group Ltd., a Bermuda corporation, with business offices at Canon's Court, 22 Victoria Street, Hamilton, HM 12, Bermuda, are parties to a [*] Agreement as amended ("[*]") dated [*].
- C. Cisco Systems, Inc., Marvell International Ltd., and Marvell Israel Ltd., together with EZchip have previously agreed to a "Cisco/Marvell/EZChip Business Term Agreement," pertaining to the "NP3C" network processor.
- D. Cisco Systems, Inc., Marvell International Ltd., and Marvell Israel Ltd., together with EZchip have previously agreed to a "Cisco/Marvell/EZChip Business Term Agreement" dated December 7, 2010, pertaining to the "NP4C" and "NP4" network processors.
- E. Cisco Systems, Inc., Marvell International Ltd. and EZchip Technologies Ltd. are parties to a Software License Agreement for EZChip Design Development Tools, dated on or about April 11, 2007, pursuant to which certain EZchip software is licensed to Cisco (the "SLA").
- F. Cisco, Marvell and EZchip now wish to establish the terms and conditions for the development, licensing and manufacture of the next generation network processor, identified as "NP5" (also known as NP5-G or NP-5) and "NP5C" (also known as NP5-C or NP-5C).

* This portion has been omitted pursuant to a Request for Confidential Treatment under Rule 24b-2 of the Securities Exchange Act of 1934. The complete document, including the portions for which confidential treatment has been requested, has been filed separately with the Securities and Exchange Commission.

G. Cisco and EZchip are entering into an addendum to this Agreement to further describe the features, functionalities and specifications for the NPC5 (the "Addendum").

1. Identification of Parties

Cisco Systems, Inc. and Cisco Systems International B.V., and their affiliates, are collectively referred to as "Cisco".

Marvell Technology Group, Marvell International Ltd., and Marvell Israel Ltd are collectively referred to as "Marvell."

EZchip Technologies Ltd. and EZchip Inc. are collectively referred to as "EZchip."

Marvell and EZchip are each a "Supplier" and collectively referred to as the "Suppliers".

2. Representations and Warranties

Marvell and EZchip represent and warrant that they have entered into the DLA which includes support obligations by EZchip, protection of confidential information, intellectual property licenses from EZchip and intellectual property (IP) escrow provisions. Marvell and EZchip represent that the terms of the DLA are sufficient for Marvell and EZchip to fulfill their respective obligations to Cisco under this Agreement.

Marvell represents that it has entered into appropriate support arrangements and Marvell represents that it possesses sufficient rights and licenses to EZchip's intellectual property rights, needed by Marvell Technology Group Ltd., a Bermuda corporation with offices at Canon's Court, 22 Victoria Street, Hamilton, HM 12, Bermuda, ("Marvell Technology Group") to fulfill its obligations to Cisco with respect to the manufacture, sale and support of network processors described herein for the duration of time set forth in the [*].

Below is a list of intellectual property licensed by Marvell from EZchip subject to the terms and conditions of the DLA for the purposes of developing the network processor described in this Agreement:

- (i) Network processor technology;
- (ii) Traffic management technology; and
- (iii) The EZchip Intellectual Property Listed on Exhibits A and B

3. Escrow

Without limiting any other right or remedy of Cisco, the requisite EZchip intellectual property, manufacturing information and materials relating to the network processors described in this Agreement shall be placed in escrow by EZchip for release to Marvell at any time upon the occurrence of any of the events set forth in Exhibit C (each a "Trigger Event") to allow Marvell to manufacture and sell the network processors to Cisco as contemplated under this Agreement. Marvell will ensure that all such EZchip intellectual property, manufacturing information and materials are placed in escrow.

4. Ownership

As between EZchip and Marvell, EZchip acknowledges that Marvell shall own the mask set for the NP5C network processor (excluding any Cisco intellectual property and any EZchip intellectual property) subject to the terms and conditions of the DLA. Notwithstanding the foregoing, EZchip shall retain ownership of the EZchip intellectual property and derivatives thereof, excluding any Cisco intellectual property.

* This portion has been omitted pursuant to a Request for Confidential Treatment under Rule 24b-2 of the Securities Exchange Act of 1934. The complete document, including the portions for which confidential treatment has been requested, has been filed separately with the Securities and Exchange Commission.

5. Marvell Responsibilities

Marvell will be responsible for manufacturing, qualification and selling of the network processors described in this Agreement to Cisco and its designated third parties, at Cisco's election. Subject to the terms of the DLA, EZchip shall be responsible for the qualification of the EZchip intellectual property licensed by EZchip to Marvell. For the avoidance of doubt, the NP5 and NP5C shall be deemed "Products" under the [*] and Marvell shall supply the NP5 and NP5C to Cisco and its designated third parties in accordance with the terms of the [*] as supplemented by the terms of this Agreement.

Subject to the terms of the DLA, Marvell shall license EZchip intellectual property rights and combine it with Marvell intellectual property to develop the NP5 and NP5C. The NP5C will have and perform the features and functionalities described in Exhibit A, Exhibit B and the Addendum in accordance with any technical or other specifications for the NP5C.

Marvell will promptly disclose to EZchip the non-binding [*] ([*]) month volume forecasts and shipping plans of Cisco's requirements for the NP5C, NP4C and NP3C on a [*] basis.

6. Exclusivity

Definitions:

"NP5" means the next version to the NP4 network processor that EZchip will make generally available to customers as set forth herein.

"NP5C" means the Cisco-specific version of the NP5 network processor. Marvell and EZchip will make the NP5C available to Cisco on an exclusive basis as set forth herein.

"NP5 Samples" means pre-production NP5 network processors that have not completed or passed electrical testing and reliability testing, and are not deemed to be production qualified by EZchip.

[*]

[*]

* This portion has been omitted pursuant to a Request for Confidential Treatment under Rule 24b-2 of the Securities Exchange Act of 1934. The complete document, including the portions for which confidential treatment has been requested, has been filed separately with the Securities and Exchange Commission.

[*]

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If NP5C Product Unavailable to Cisco:

If at any time Cisco reasonably believes (i) Marvell or EZchip is or will be unable to manufacture, deliver, or sell the NP5C to Cisco and its designated third parties in the quantities requested by Cisco or (ii) there are significant bugs or performance issues in the NP5C, then the Suppliers agree that Marvell will offer to sell and deliver the NP5 to Cisco and its designated third parties in the quantities requested by Cisco, subject to the [*].

7. Compatibility

(a) The Suppliers shall provide Cisco the Software (as defined in the SLA) for the NP5C and NP5 in accordance with the SLA and this Agreement. The NP5C and NP5 (including the Software for the NP5C and NP5) will be downward compatible with the NP4C and NP4 (including the Software for the NP4C and NP4), respectively, and comply with the compatibility specifications referenced in Exhibit D (the "Compatibility Specifications").

(b) If at any time Cisco reasonably believes that the NP5C and/or the NP5 (including the Software for the NP5C and/or NP5) is not downward compatible or does not comply with the Compatibility Specifications, Cisco will notify the Suppliers in writing of any such non-compliance. If necessary, Cisco and the Suppliers shall meet promptly, but in no event later than [*] () business days after the date of Cisco's notice, to discuss such non-compliance and a plan to remedy such non-compliance. Cisco shall determine, in its sole discretion, in good faith and acting reasonably, the extent to which the NP5C and/or NP5 is not downward compatible or does not comply with the Compatibility Specifications.

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8. Pricing

[*]

9. Schedule and Milestone

Milestone	Committed	Description	Resp. Party
Full chip final RTL drop	[*]	Fully verified, Timing fixed, Final netlist	EZChip
Last ECO	[*]	No ECO beyond this date	EZChip
Tape-Out	[*]		Marvell
Samples @ Cisco	[*]	With Expedites, Hand Carry, Super Hot Lots	Marvell

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10. NP5 and NP5C Marking Requirement

[*]

11. Confidentiality

The parties have executed a non disclosure agreement dated January 2, 2006 ("NDA"). To the extent that the term stated in the NDA terminates prior to the termination of this Agreement, the parties agree that the term of the NDA shall be automatically extended to the term of this Agreement. In addition, notwithstanding any limitations in the NDA, the NDA shall apply to all Confidential Information disclosed in connection with this Agreement, and the purpose of such disclosures shall include the purposes of this Agreement. The parties agree that the contents of this Agreement are Confidential Information within the meaning of that term in the NDA, and that no party will disclose to any third party the existence, intent or terms of this Agreement or the occurrence, content or other information about any discussions, or negotiations which have occurred or will occur, except in accordance with the NDA. To the extent there is a conflict between the confidentiality obligations of this Agreement and the NDA with respect to the[*], the confidentiality obligations of this Agreement will control.

The Cisco/Marvell/EZChip Business Term Agreements pertaining to the NP3C, NP4 and NP4C network processors (referenced in the "Background" section of this Agreement) incorrectly identified the date of the NDA as "Feb 2, 2006". The parties wish to clarify that the correct date of the NDA referenced in such Cisco/Marvell/EZChip Business Term Agreements is January 2, 2006.

12. Term and Termination

This Agreement shall commence on the Effective Date and shall continue in effect until terminated in accordance with this Section 12.

Cisco may terminate this Agreement upon prior written notice to Marvell and EZchip in the event that: (i)(a) the NP5C does not meet the enhanced feature criteria set forth in Exhibit A; or (b) EZChip fails to perform its support obligations under the Statement of Work applicable to the NP5C; and (ii) such breach is not cured within [*] days after written notice.

* This portion has been omitted pursuant to a Request for Confidential Treatment under Rule 24b-2 of the Securities Exchange Act of 1934. The complete document, including the portions for which confidential treatment has been requested, has been filed separately with the Securities and Exchange Commission.

13. Limitation of Liability

NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS AGREEMENT, EXCEPT FOR I) BREACH OF CONFIDENTIALITY OBLIGATIONS HEREUNDER; OR II) BREACH OF ANY OBLIGATION PURSUANT TO SECTION 6, EXCLUSIVITY, UNDER NO CIRCUMSTANCES WILL A PARTY, ITS EMPLOYEES, OFFICERS OR DIRECTORS, AGENTS, SUCCESSORS OR ASSIGNS BE LIABLE TO THE OTHER PARTIES UNDER ANY CONTRACT, STRICT LIABILITY, TORT (INCLUDING NEGLIGENCE) OR OTHER LEGAL OR EQUITABLE THEORY, FOR ANY SPECIAL, INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES OR COSTS, INCLUDING, WITHOUT LIMITATION, LOST PROFITS, ARISING OUT OF, OR RELATING IN ANY WAY TO, THE SUBJECT MATTER OF THIS AGREEMENT, REGARDLESS OF WHETHER A PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. THIS SECTION DOES NOT LIMIT A PARTY'S LIABILITY FOR BODILY INJURY (INCLUDING DEATH), OR PHYSICAL DAMAGE TO TANGIBLE PROPERTY. EACH PARTY ACKNOWLEDGES THAT THIS WAIVER OF CONSEQUENTIAL AND OTHER DAMAGES REFLECTS THE ALLOCATION OF RISKS BETWEEN THEM AND FORMS AN ESSENTIAL PART OF THE BARGAIN BETWEEN THEM.

14. General Terms

Any terms not defined in this Agreement shall have the meaning stated in the DLA, [*], and/or SLA. Except as modified by this Agreement, all terms and conditions of the DLA, [*], and SLA shall remain in full force and effect. In the event of a conflict between the terms and conditions of this Agreement and any terms and conditions of the DLA, [*], and/or SLA, this Agreement will prevail with regard to the subject matter herein to the extent that a party is a party to such an agreement.

This Agreement and the DLA, [*], and SLA are the complete agreements between the parties to the extent that a party is a party to such an agreement and supersede all prior oral and written agreements, representations, warranties and commitments of the parties regarding subject matter herein.

[SIGNATURE PAGE FOLLOWS]

* This portion has been omitted pursuant to a Request for Confidential Treatment under Rule 24b-2 of the Securities Exchange Act of 1934. The complete document, including the portions for which confidential treatment has been requested, has been filed separately with the Securities and Exchange Commission.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed. Each party warrants and represents that its respective signatories whose signatures appear below have been and are on the date of signature duly authorized to execute this Agreement.

CISCO SYSTEMS, INC.

By _____
Name _____
Title _____
Date _____

Marvell International Ltd.

By _____
Name _____
Title _____
Date _____

EZchip Technologies Ltd.

By _____
Name _____
Title _____
Date _____

EZchip Inc.

By _____
Name _____
Title _____
Date _____

Marvell Israel Ltd

By _____
Name _____
Title _____
Date _____

Exhibit A

[*]

* This portion has been omitted pursuant to a Request for Confidential Treatment under Rule 24b-2 of the Securities Exchange Act of 1934. The complete document, including the portions for which confidential treatment has been requested, has been filed separately with the Securities and Exchange Commission.

Exhibit B

List of EZchip IP

NP-5C Features

Highlights

- Single-chip, programmable, 240Gbps wire-speed network processor with 240Gbps traffic manager for Carrier Ethernet applications
 - Up to 480Gbps peak processing data path and CoS classification
 - Flexible processing with programmable packet parsing, classifying, modifying and forwarding with embedded search engines, traffic policers and statistics
 - Fragmentation, reassembly and reordering
 - On-chip CPU and HW-blocks for OAM protocol processing offload
- Line card, services card and pizza box applications
- Microcode source code SW compatible to industry leading EZchip's NP-4 with higher performance

[*]

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Exhibit C

A Triggering Event refers to any of the following:

1. Termination by Marvell of the Technology Development, License and Manufacturing Agreement dated April 12, 2006, and as amended by Amendment #1 and Amendment #2 and as further amended on a date contemporaneous with the execution of this Agreement by Amendment #3 and Amendment #4 (collectively, "DLA"), due to any of the following.

- (a) EZchip becomes insolvent or makes a general assignment for the benefit of its creditors, or EZchip dissolves, except where such dissolution results directly from:
 - (i) a corporate reorganization which results in the holders of a majority of EZchip's voting securities - prior to such reorganization - (x) continuing to hold at least 51% of the voting securities of the entity surviving such reorganization, or (y) holding substantially all of the assets of EZchip and continuing to operate the business of EZchip, or
 - (ii) EZchip merging with or into a third party, as a result of which holders of EZchip's equity securities prior to the merger hold less than 50% of the equity securities of EZchip after the closing of such merger; or, EZchip sells all or substantially all of its assets to a third party;

Notwithstanding any other provision of this Exhibit, a merger of EZchip with or into a third party and/or a change of the control in EZchip and/or a sale or an acquisition of all of EZchip's securities and/or all, or substantially all, of EZchip assets to any third party (an "M&A Event") shall not be considered as a Triggering Event.

- (b) a voluntary or involuntary petition or proceeding is commenced by or against EZchip under the Federal Bankruptcy Act or any other statute of any state or country relating to insolvency or the protection of the rights of creditors, or any other insolvency or bankruptcy proceeding or other similar proceeding for the settlement of EZchip's debt is instituted and is not dismissed within 60 days from the date of such filing; or
- (c) a receiver of all or substantially all of EZchip's property is appointed, and is not removed within 60 days;

In these situations, Marvell shall be entitled deliver to the Escrow Agent and EZchip a Release Notice together with an affidavit. The Escrow Agent shall be required to promptly confirm receipt by EZchip.

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The Escrow Agent shall release the escrowed technology to Marvell between [*] and [*] business days from the escrow agent receiving notice confirmation from EZchip; unless the triggering event is cured. A triggering event is cured if EZchip provides sufficient evidence to this effect.

2. Additional Triggering Events

(a) EZchip materially breaches the DLA and such breach is not cured within [*] days and provided that the breach requires Marvell's use of any escrowed technology to remedy said breach.

(b) EZchip materially fails to perform its support obligations under the Statement of Work applicable to the NP5-C (other than due to Marvell's failure to perform its obligations in connection with such development) and such breach is not cured within [*] days.

(c) EZchip does not, or revokes the license to its requisite Intellectual Property Rights to Marvell to (xx) enable Marvell to combine the EZchip Intellectual Property Rights with Marvell's intellectual property and (yy) develop the NP5 and NP5C for Cisco, without material cause by Marvell.

In these situations, Marvell shall provide EZchip with a written notice informing EZchip of the occurrence of such event in reasonable detail. By no later than [*] days following the receipt of such written notice, EZchip shall be required to provide Marvell with a written cure plan in reasonable detail with the steps which EZchip intends to take in order to cure such plan. Marvell shall be entitled to disclose such plan to Cisco under an obligation of confidentiality.

In the event that EZchip fails to (i) provide Marvell an acceptable cure plan within such [*] ([*]) day period, or (ii) EZchip fails to cure the triggering event within the period set forth above in addition to any period specified in an accepted plan, Marvell shall be entitled to deliver the Release notice and Affidavit to the Escrow Agent (with a copy to EZchip). The Escrow Agent shall be required to promptly obtain Notice Confirmation from EZchip.

The Escrow Agent shall release the escrowed technology to Marvell between [*] and [*] business days from the escrow agent receiving notice confirmation from EZchip; unless EZchip provides sufficient evidence that it has provided a plan within the [*] day period above or it has complied or is in compliance with the plan. Marvell shall return the escrowed technology to the Escrow Agent upon the sooner of (a) the date [*] ([*]) months after the release date, or (b) the date that the applicable triggering event is cured.

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3. EZchip's material and ongoing failure to perform or propose a Bug Fix deemed by Cisco to be required with respect to the NP5-C, the applicable Deliverables or the applicable Design Materials and such breach is not cured within [*] days.

- Deliverables and Design Materials include EZchip IP, licensed software, technology and materials associated with the NP5-C.

In this situation, EZchip shall have a period of [*] days following the receipt of Marvell's written notice and demand for cure to provide a plan that describes EZchip's plan to provide a bug fix. Marvell agrees to provide assistance and shall have the right to audit EZchip on a weekly basis. Should it be determined by Marvell, acting reasonably, that the plan is not being executed in accordance with its terms due to a failure by EZchip, Marvell shall be entitled to deliver a Release Notice and Affidavit to the Escrow Agent (with a copy to EZchip). The Escrow Agent shall be required to promptly confirm the receipt by EZchip and EZchip's confirmation that the plan is not being executed in accordance with its due to a failure on its part.

The Escrow Agent shall release the escrowed technology to Marvell between [*] and [*] business days from the escrow agent receiving notice confirmation from EZchip; unless EZchip provides sufficient evidence that it has provided the Bug Fix or it has complied or is in compliance with the plan. Marvell shall return the escrowed technology to the Escrow Agent upon the sooner of (a) the date [*] ([*]) months after the release date, or (b) the date that EZchip provides the applicable Bug Fix.**

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Exhibit D

Compatibility Specifications

[*] [**]

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** The original document with confidential information omitted pursuant to a confidential treatment request consists of 21 pages, of which 10 pages were omitted in this public filing.

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**ADDENDUM TO THE CISCO, MARVELL AND EZCHIP
BUSINESS TERM AGREEMENT**

This Addendum to the Business Term Agreement (“Addendum”) is by and between Cisco Systems, Inc. a California corporation, having principal offices at 170 West Tasman Drive, San Jose, California 95134-1706 (“Cisco”), on the one hand, and EZchip Technologies Ltd., an Israel corporation, having principal offices at 1 Hatamar Street, Yokneam 20692, Israel, and EZchip Inc., a Delaware corporation, having principal offices at 900 E. Hamilton Avenue, Suite 100, Campbell, California 95008, on the other (EZchip Technologies Ltd. and EZchip Inc. are collectively referred to as “EZchip”). This Addendum shall be effective as of the date last signed by the parties below (the “Effective Date”) between and among the parties and their affiliates identified below.

BACKGROUND

A. Cisco Systems, Inc., Marvell International Ltd., and Marvell Israel Ltd., together with EZchip have agreed to a “Cisco/Marvell/EZChip Business Term Agreement” dated on or about the date of this Addendum, pertaining to the “NP5C” and “NP5” network processors (the “Agreement”).

B. Cisco and EZchip now wish to supplement the terms and conditions of the Agreement as set forth herein to further describe certain features, functionalities and specifications for the NP5C.

1. Identification of Parties

Cisco Systems, Inc. and Cisco Systems International B.V., and their affiliates, are collectively referred to as “Cisco”.

EZchip Technologies Ltd. and EZchip Inc. are collectively referred to as “EZchip.”

2. Features, Functionalities and Specifications

In addition to the features and functionalities described in the Agreement, EZchip shall ensure that the NP5C devices purchased by or on behalf of Cisco from Marvell will have and perform the features and functionalities described in Exhibit 1 to this Addendum in accordance with any technical or other specifications for the NP5C.

3. General Terms

This Addendum shall be subject to, governed by and incorporated by reference into the Agreement. Any terms not defined in this Addendum shall have the meaning ascribed to them in the Agreement. All terms and conditions of the Agreement shall remain in full force and effect.

4. Forecast and Consumption Reporting

On a [*] basis, Cisco shall provide EZchip with a non-binding estimate for the NP3C, NP4C and NP5C of the prior [*] consumption. On a [*] basis, Cisco shall provide EZchip with a non-binding estimate for the NP3C, NP4C and NP5C of the upcoming [*] month’s forecasted demand.

[SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, the parties hereto have caused this Addendum to be duly executed. Each party warrants and represents that its respective signatories whose signatures appear below have been and are on the date of signature duly authorized to execute this Addendum.

CISCO SYSTEMS, INC.

By _____
Name _____
Title _____
Date _____

EZchip Technologies Ltd.

By _____
Name _____
Title _____
Date _____

EZchip Inc.

By _____
Name _____
Title _____
Date _____

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Exhibit 1

[*] [**]

* This portion has been omitted pursuant to a Request for Confidential Treatment under Rule 24b-2 of the Securities Exchange Act of 1934. The complete document, including the portions for which confidential treatment has been requested, has been filed separately with the Securities and Exchange Commission.

** The original document with confidential information omitted pursuant to a confidential treatment request consists of 6 pages, of which 3 pages were omitted in this public filing.

Cisco Confidential

LIST OF SIGNIFICANT SUBSIDIARIES

EZchip Technologies Ltd. (Israel)

EZchip Inc. (Delaware)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended

I, Eli Fruchter, certify that:

1. I have reviewed this Annual Report on Form 20-F of EZchip Semiconductor Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 21, 2013

By: /s/Eli Fruchter*
Eli Fruchter
Principal Executive Officer

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

CERTIFICATION OF CHIEF FINANCIAL OFFICER
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended

I, Dror Israel, certify that:

1. I have reviewed this Annual Report on Form 20-F of EZchip Semiconductor Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 21, 2013

By: /s/Dror Israel*
Dror Israel
Chief Financial Officer

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the filing of the Annual Report of EZchip Semiconductor Ltd. (the "Company") on Form 20-F for the period ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eli Fruchter, Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 21, 2013

By: /s/Eli Fruchter*
Eli Fruchter
Principal Executive Officer

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

This certification accompanies this Annual Report on Form 20-F pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the filing of the Annual Report of EZchip Semiconductor Ltd. (the "Company") on Form 20-F for the period ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dror Israel, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 21, 2013

By: /s/Dror Israel*
Dror Israel
Chief Financial Officer

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

This certification accompanies this Annual Report on Form 20-F pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-134593, 333-148932, 333-148933, 333-164330, 333-164331, 333-170900, 333-170901 and 333-179491) and Form F-3 (Nos. 333-163353 and 333-164332) of our reports dated March 21, 2013, with respect to the consolidated financial statements of EZchip Semiconductor Ltd. for the year ended December 31, 2012 and the effectiveness of internal control over financial reporting of EZchip Semiconductor Ltd. included in this Annual Report on Form 20-F for the year ended December 31, 2012.

Tel-Aviv, Israel

March 21, 2013

/s/Kost Forer Gabbay & Kasierer
KOST, FORER, GABBAY AND KASIERER

A member of Ernst & Young Global
