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**FOR IMMEDIATE RELEASE**

**EZCHIP ANNOUNCES RECORD THIRD QUARTER 2011 RESULTS;  
THIRD QUARTER REVENUES INCREASE 14%  
YEAR-OVER-YEAR TO \$18.7 MILLION  
Decline in Revenues Expected in Fourth Quarter**

**Yokneam, Israel**, November 2, 2011 – EZchip Semiconductor Ltd. (NASDAQ: EZCH), a leader in Ethernet network processors, today announced its results for the third quarter ended September 30, 2011.

**Third Quarter 2011 Highlights:**

- Third quarter revenues increased 14% year-over-year and 8% sequentially, reaching \$18.7 million
- Gross margin reached 75.9% on a GAAP basis and 76.3% on a non-GAAP basis
- Net income was \$7.7 million on a GAAP basis, 41% of revenues
- Net income was \$9.9 million on a non-GAAP basis, 53% of revenues
- Operating cash flow of \$5.8 million
- End of quarter net cash was \$127.6 million

**Third Quarter 2011 Results:**

**Total revenues** in the third quarter of 2011 were \$18.7 million, an increase of 14% compared to \$16.4 million in the third quarter of 2010, and an increase of 8% compared to \$17.3 million in the second quarter of 2011.

**Net income, on a GAAP basis**, for the third quarter of 2011 was \$7.7 million, or \$0.27 per share (diluted), compared to net income of \$4.5 million, or \$0.17 per share (diluted), in the third quarter of 2010, and net income of \$4.8 million, or \$0.17 per share (diluted), in the second quarter of 2011.

**Net income, on a non-GAAP basis**, for the third quarter of 2011 was \$9.9 million, or \$0.35 per share (diluted), compared to non-GAAP net income of \$8.7 million, or \$0.32 per share (diluted), in the third quarter of 2010, and non-GAAP net income of \$9.4 million, or \$0.33 per share (diluted), in the second quarter of 2011.

**Cash, cash equivalents and marketable securities** as of September 30, 2011, totaled \$127.6 million, compared to \$121.0 million as of June 30, 2011. Cash generated from operations during the third quarter was \$5.8 million, cash used in investing activities was \$0.2 million, cash provided by financing activities (resulting from the exercise of options) was \$1.5 million and a decrease of \$0.5 million resulted from unrealized loss on marketable securities.

## First Nine Months 2011 Results

**Total revenues** for the nine months ended September 30, 2011 were \$49.2 million, a year-over-year increase of 10% compared to \$44.9 million for the nine months ended September 30, 2010. **Net income on a GAAP basis** for the nine months ended September 30, 2011 was \$13.9 million, or \$0.50 per share (diluted), compared to net income of \$9.6 million, or \$0.37 per share (diluted), for the nine months ended September 30, 2010. **Net income on a non-GAAP basis** for the nine months ended September 30, 2011 was \$24.7 million or \$0.87 per share (diluted), compared with non-GAAP net income of \$21.8 million, or \$0.82 per share (diluted), for the nine months ended September 30, 2010.

**Eli Fruchter, CEO of EZchip, commented,** “The third quarter of 2011 was another record quarter for EZchip, including achieving an outstanding 53% non-GAAP net income margin. NP-4 continues to make good progress and we expect to start shipping production chips to our customers this quarter. During the first three quarters of 2011 we shipped a large number of NP-4 samples to our customers – several times the number of NP-3 samples shipped in the comparable NP-3 sampling time period, and double the number of NP-3 chips shipped in the first full production year of NP-3. We believe this is a very strong indication of the revenue potential of NP-4 in the coming years.

“For the near term, the recent mixed market signals combined with discussions of a possible recession are leading contract manufacturers to reduce inventories. Based on current, very preliminary indications, we expect revenues in the fourth quarter of 2011 to decline by 25%-30% compared to the third quarter of 2011. We believe that over the long term, Service Providers will continue to invest in Carrier Ethernet, which will drive demand for our products.”

### Conference Call

The Company will be hosting a conference call later today, November 2, 2011, at 10:00am ET, 7:00am PT, 3:00pm UK time and 4:00pm Israel time. On the call, management will review and discuss the results, and will be available to answer investor questions.

To participate through the live webcast, please access the investor relations section of the Company’s web site at: [http://www.ezchip.com/investor\\_relations.htm](http://www.ezchip.com/investor_relations.htm), at least 10 minutes before the conference call commences. If you intend to ask a question on the call, please contact the investor relations team for the telephone dial in numbers.

For those unable to listen to the live call, a replay of the call will be available the day after the call under the 'Investor Relations' section of the website.

### Use of Non-GAAP Financial Information

In addition to disclosing financial results calculated in accordance with United States generally accepted accounting principles (GAAP), this release of operating results also contains non-GAAP financial measures, which EZchip believes are the principal indicators of the operating and financial performance of its business. The non-GAAP financial measures exclude the effects of stock-based compensation expenses recorded in accordance with FASB ASC 718, amortization of intangible assets and taxes benefit (taxes on income). Management believes the non-GAAP financial measures provided are useful to investors’ understanding and assessment of the Company’s on-going core operations and prospects for the future, as the charges eliminated are not part of the day-to-day business or reflective of the core operational activities of the Company. Management uses these



non-GAAP financial measures as a basis for strategic decisions, forecasting future results and evaluating the Company's current performance. However, such measures should not be considered in isolation or as substitutes for results prepared in accordance with GAAP. Reconciliation of the non-GAAP measures to the most comparable GAAP measures are provided in the schedules attached to this release.

## **ABOUT EZCHIP**

EZchip is a fabless semiconductor company that provides Ethernet network processors for networking equipment. EZchip provides its customers with solutions that scale from 1-Gigabit to 200-Gigabits per second with a common architecture and software across all products. EZchip's network processors provide the flexibility and integration that enable triple-play data, voice and video services in systems that make up the new Carrier Ethernet networks. Flexibility and integration make EZchip's solutions ideal for building systems for a wide range of applications in telecom networks, enterprise backbones and data centers. For more information on our company, visit the web site at <http://www.ezchip.com>.

*This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are statements that are not historical facts and may include financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations with respect to future operations, products and services, and statements regarding future performance. These statements are only predictions based on EZchip's current expectations and projections about future events. There are important factors that could cause EZchip's actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. Those factors include, but are not limited to, the impact of general economic conditions, competitive products, product demand and market acceptance risks, customer order cancellations, reliance on key strategic alliances, fluctuations in operating results, delays in development of highly-complex products and other factors indicated in EZchip's filings with the Securities and Exchange Commission (SEC). For more details, refer to EZchip's SEC filings and the amendments thereto, including its Annual Report on Form 20-F filed on March 31, 2011, as amended on September 27, 2011, and its Current Reports on Form 6-K. EZchip undertakes no obligation to update forward-looking statements to reflect subsequent occurring events or circumstances, or to changes in our expectations, except as may be required by law.*



**EZchip Semiconductor Ltd.**  
**Condensed Consolidated Statements of Operations**  
 (U.S. Dollars in thousands, except per share amounts)  
 (Unaudited)

	Three Months Ended			Nine Months Ended	
	September 30, 2011	June 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Revenues	\$ 18,703	\$ 17,306	\$ 16,377	\$ 49,188	\$ 44,862
Cost of revenues	4,509	3,535	3,833	11,023	11,207
Amortization of purchased technology	--	298	471	597	1,462
Gross profit	<u>14,194</u>	<u>13,473</u>	<u>12,073</u>	<u>37,568</u>	<u>32,193</u>
Operating expenses:					
Research and development, net	4,052	3,892	3,177	12,343	10,088
Selling, general and administrative	2,956	3,062	2,651	8,962	7,384
Total operating expenses	<u>7,008</u>	<u>6,954</u>	<u>5,828</u>	<u>21,305</u>	<u>17,472</u>
Operating income	<u>7,186</u>	<u>6,519</u>	<u>6,245</u>	<u>16,263</u>	<u>14,721</u>
Financial income, net	467	369	299	1,162	818
Income before taxes	<u>7,653</u>	<u>6,888</u>	<u>6,544</u>	<u>17,425</u>	<u>15,539</u>
Taxes on income	3	2,116	2,043	3,530	5,922
Net income	<u>\$ 7,650</u>	<u>\$ 4,772</u>	<u>\$ 4,501</u>	<u>\$ 13,895</u>	<u>\$ 9,617</u>
Net income per share:					
Basic	\$ 0.28	\$ 0.18	\$ 0.18	\$ 0.52	\$ 0.38
Diluted	\$ 0.27	\$ 0.17	\$ 0.17	\$ 0.50	\$ 0.37
Weighted average shares used in per share calculation:					
Basic	26,900,439	26,600,650	25,421,522	26,569,283	25,080,837
Diluted	<u>28,046,688</u>	<u>27,911,054</u>	<u>26,524,702</u>	<u>27,912,322</u>	<u>25,810,870</u>

**EZchip Semiconductor Ltd.**  
**Reconciliation of GAAP to Non-GAAP Measures**  
**(U.S. Dollars in thousands, except per share amounts)**  
**(Unaudited)**

	Three Months Ended			Nine Months Ended	
	September 30, 2011	June 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
<b>GAAP gross profit</b>	\$ 14,194	\$ 13,473	\$ 12,073	\$ 37,568	\$ 32,193
Stock-based compensation	73	73	58	286	169
Amortization of purchased technology	--	298	471	597	1,462
<b>Non-GAAP gross profit</b>	<b>\$ 14,267</b>	<b>\$ 13,844</b>	<b>\$ 12,602</b>	<b>\$ 38,451</b>	<b>\$ 33,824</b>
GAAP gross profit as percentage of revenues	75.9%	77.9%	73.7%	76.4%	71.8%
Non-GAAP gross profit as percentage of revenues	76.3%	80.0%	76.9%	78.2%	75.4%
<b>GAAP operating expenses</b>	<b>\$ 7,008</b>	<b>\$ 6,954</b>	<b>\$ 5,828</b>	<b>\$ 21,305</b>	<b>\$ 17,472</b>
Stock-based compensation:					
Research and development	(1,107)	(1,119)	(754)	(3,352)	(2,159)
Selling, general and administrative	(1,012)	(908)	(677)	(2,750)	(1,870)
Amortization of intangible assets					
Selling, general and administrative	(95)	(95)	(194)	(285)	(580)
<b>Non-GAAP operating expenses</b>	<b>\$ 4,794</b>	<b>\$ 4,832</b>	<b>\$ 4,203</b>	<b>\$ 14,918</b>	<b>\$ 12,863</b>
<b>GAAP operating income</b>	<b>\$ 7,186</b>	<b>\$ 6,519</b>	<b>\$ 6,245</b>	<b>\$ 16,263</b>	<b>\$ 14,721</b>
<b>Non-GAAP operating income</b>	<b>\$ 9,473</b>	<b>\$ 9,012</b>	<b>\$ 8,399</b>	<b>\$ 23,533</b>	<b>\$ 20,961</b>
<b>GAAP net income</b>	<b>\$ 7,650</b>	<b>\$ 4,772</b>	<b>\$ 4,501</b>	<b>\$ 13,895</b>	<b>\$ 9,617</b>
Stock-based compensation	2,192	2,100	1,489	6,388	4,198
Amortization of purchased intangible assets	95	393	665	882	2,042
Taxes on income*	3	2,116	2,043	3,530	5,922
<b>Non-GAAP net income</b>	<b>\$ 9,940</b>	<b>\$ 9,381</b>	<b>\$ 8,698</b>	<b>\$ 24,695</b>	<b>\$ 21,779</b>
Non-GAAP net income per share - Diluted	\$ 0.35	\$ 0.33	\$ 0.32	\$ 0.87	\$ 0.82
Non-GAAP weighted average shares - Diluted**	28,577,753	28,455,818	27,130,452	28,381,465	26,427,024

\* Taxes on income represent the non-cash utilization of a deferred tax asset with respect to the Company's estimate of its accumulated taxable income in accordance with FASB ASC 740. Once the Company completes the utilization of the deferred tax asset, the Company expects to be exempt from Israeli companies taxes for a period of ten years due to benefits provided to the Company pursuant to the Company's Israeli approved and privileged enterprise programs.

\*\* In calculating diluted non-GAAP net income per share, the diluted weighted average number of shares outstanding excludes the effects of stock-based compensation expenses in accordance with FASB ASC 718.



**EZchip Semiconductor Ltd.**  
**Condensed Consolidated Balance Sheet**  
**(U.S. Dollars in thousands)**

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash, cash equivalents and marketable securities	\$ 127,637	\$ 101,310
Trade receivables, net	10,339	8,988
Other receivables	1,260	1,178
Inventories	6,047	4,522
Deferred tax assets, net	--	3,443
Total current assets	<u>145,283</u>	<u>119,441</u>
<b>NON CURRENT ASSETS:</b>		
Severance pay fund	5,185	5,209
Long term investment and others	343	335
Total non current assets	<u>5,528</u>	<u>5,544</u>
PROPERTY AND EQUIPMENT, NET	510	419
Goodwill	96,276	96,276
Intangible assets, net	300	1,181
TOTAL ASSETS	<u><u>\$ 247,897</u></u>	<u><u>\$ 222,861</u></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade payables	\$ 716	\$ 1,289
Other payables and accrued expenses	5,663	6,569
Total current liabilities	<u>6,379</u>	<u>7,858</u>
<b>LONG TERM LIABILITIES:</b>		
Accrued severance pay	6,082	5,974
<b>SHAREHOLDERS' EQUITY:</b>		
Share capital	154	149
Additional paid-in capital	285,713	271,959
Accumulated other comprehensive income (loss)	(707)	540
Accumulated deficit	(49,724)	(63,619)
Total shareholders' equity	<u>235,436</u>	<u>209,029</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 247,897</u></u>	<u><u>\$ 222,861</u></u>

**EZchip Semiconductor Ltd.**  
**Selected Condensed Consolidated Cash Flow Data**  
**(U.S. Dollars in thousands)**  
**(Unaudited)**

	Three Months Ended			Nine Months Ended	
	September 30, 2011	June 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
<b>Cash flows from operating activities:</b>					
Net income	\$ 7,650	\$ 4,772	\$ 4,501	\$ 13,895	\$ 9,617
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	162	452	712	1,064	2,191
Decrease (increase) in trade and other receivables, net	(2,100)	(929)	(1,199)	(1,734)	3,810
Increase in inventory	(87)	(12)	(922)	(1,525)	(2,076)
Decrease in deferred tax asset	--	2,110	2,011	3,513	5,859
Increase (decrease) in trade payables and other accrued liabilities, net	(1,996)	674	403	(1,707)	(3,469)
Stock-based compensation	2,192	2,100	1,489	6,388	4,198
Net cash provided by operating activities	<u>5,821</u>	<u>9,167</u>	<u>6,995</u>	<u>19,894</u>	<u>20,130</u>
<b>Cash flows from investing activities:</b>					
Purchase of property and equipment	(138)	(51)	(46)	(314)	(311)
Cash paid for investment in affiliated Company	--	--	(200)	--	(200)
Net cash used in investing activities	<u>(138)</u>	<u>(51)</u>	<u>(246)</u>	<u>(314)</u>	<u>(511)</u>
<b>Cash flows from financing activities:</b>					
Proceeds from issuance of share capital	--	--	--	--	1,072
Proceeds from exercise of options	1,466	3,432	2,795	7,371	5,098
Net cash provided by financing activities	<u>1,466</u>	<u>3,432</u>	<u>2,795</u>	<u>7,371</u>	<u>6,170</u>
Unrealized gain (loss) on marketable securities, net	<u>(542)</u>	<u>9</u>	<u>288</u>	<u>(624)</u>	<u>107</u>
Increase in cash, cash equivalents and marketable securities	6,607	12,557	9,832	26,327	25,896
Cash, cash equivalents and marketable securities at the beginning of the period	<u>121,030</u>	<u>108,473</u>	<u>83,302</u>	<u>101,310</u>	<u>67,238</u>
Cash, cash equivalents and marketable securities at the end of the period	<u>\$ 127,637</u>	<u>\$ 121,030</u>	<u>\$ 93,134</u>	<u>\$ 127,637</u>	<u>\$ 93,134</u>

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