EZchip Semiconductor Ltd.

Conference Call Script

Q4 2009

CONFERENCE COORDINATOR:

Ladies and gentlemen, thank you for standing by.

Welcome to the EZchip Semiconductor fourth quarter 2009 conference call. All participants are at present in listen-only mode. Following management's formal presentation, instructions will be given for the question and answer session.

The remarks of management during their presentations and in the question and answer session may contain projections or other forward-looking statements regarding future events or the future performance of the Company or the industry. Please note that the safe harbor statement in today's press release also covers the contents of this conference call.

By now you should have all received the company's press release, if you have not received it you may view it in the news section of our company's website www.EZchip.com, or you may call CCG Investor Relations at 1 646 201 9246.

I would now like to hand over the call to Mr. Ehud Helft of CCG Investor Relations.

Mr. Helft, would you like to begin?

Ehud:

Thank you operator and good day everybody.

I would like to welcome all of you to EZchip's fourth quarter and full year 2009 conference call and thank EZchip's management for hosting this call.

With us on the line today are:

- Mr. Eli Fruchter, CEO
- Mr. Dror Israel, CFO

Before we begin I would like to point out that during this call certain non-GAAP financial measures will be discussed. These non-GAAP measures are used by management to make strategic decisions and forecast future results, and the Company believes that these figures provide a better method of evaluating the Company's current performance. A full reconciliation of the Company's non-GAAP financial measures to GAAP financial measures is included in the earnings release.

I will now hand over the call to EZchip's CEO, Eli Fruchter … Eli

ELI

Thank you Ehud, good day everyone and welcome to our fourth quarter and full year 2009 conference call.

I would like to open the call welcoming our new shareholders, following our successful public offering in December. This offering enabled us to acquire 100% ownership in EZchip, provide liquidity to our employees and assist our early investors in selling their holdings in the company, with minimum impact on our share price. This, we believe, was key in order to enable us to create long term shareholder value. So welcome to all our new investors!

NOW TO THE RESULTS. This has been a very strong year for EZchip, despite the macro economic climate and its impact on our customers.

We generated our highest revenues in history – surpassing 40 million dollars, up 19% over 2008, with annual gross margin for the year surpassing 72%, net income increasing 105% over last year reaching a record 14 million dollars and our cash position increasing 40% over last year reaching over 67 million dollars.

Throughout 2009 we strengthened our position as a vendor of choice for merchant network processors, ending the year with most of the world's leading Carrier Ethernet networking vendors being EZchip clients, developing their next generation products based on our processors.

We believe these results are testament to our innovative and market leading technology, long term product roadmap as well as strong customer base. As we move ahead, we intend to continue to grow both our top and bottom line, as we further leverage these core fundamentals, to drive growth in 2010 and beyond.

Now to the fourth quarter and year summary in further detail.

[RESULTS]

The fourth quarter of 2009 was a record quarter for EZchip, as we generated the highest quarterly revenue in our history reaching 12.9 million dollars, up 21% from the third quarter and 34% compared to the fourth quarter last year.

Gross margin for the quarter reached 72.7%, which, paired with our prudent expense management, enabled us to present a healthy non-GAAP net income of 5.5 million dollars for the quarter. Furthermore, this quarter we increased our cash balance by 6.6 million dollars to 67.2 million dollars in cash with zero debt at the end of the year.

Looking at our quarterly revenues in further detail.

[OTHER CUSTOMERS]

This quarter we continued to grow our revenues from an increasing number of additional networking equipment vendors. As we mentioned often in the past, we are constantly seeking to diversify and expand our customer base, steadily increasing revenues from new customers. These customers contributed to 4.5 million dollars in revenues in the fourth quarter, up 28% from last quarter, and to 15.3 million dollars in annual 2009 revenues, reaching 38% of our total revenues for the year. During the quarter we won several significant tier-1 designs with NPA and NP-4, ending the year with 11 of the 14 leading Carrier Ethernet networking vendors being EZchip clients, up from 9 at the end of Q3. Furthermore, we now have design wins with 4 of the world's 6 leading CESR vendors, up from 3 at the end of Q3.

Looking ahead, we expect this group of customers to become an even more significant growth driver as their NP-2 based products reach volume production, their NP-3 based products move into production and they design the NPA and the NP-4 into their next generation products.

[MARVELL]

Revenues from our specialized NP-3 processor, sold through Marvell, continue to grow, reaching 7% of revenues in the fourth quarter, up from the 4% last quarter, and up substantially from last year. These chips are still in the initial stages of being used in production systems, though we are encouraged by the initial ramp, and believe that Marvell has the potential to become our largest customer.

As we mentioned in the past, our customers are selling their EZchip based products to carriers, and it takes these carriers roughly a year to approve new products before installing them in their network. Once approved however, such products can ramp quickly and be continuously purchased for a period that typically ranges from five to seven years.

[JUNIPER]

Fourth quarter revenues from our largest customer, Juniper, totaled 7.4 million dollars, up 12% from last quarter, or 58% of the quarter revenues, bringing total annual revenues from Juniper to 21.6 million dollars, or 54% of 2009 revenues.

Demand from Juniper was strong in the fourth quarter with some new NP-2 based Juniper products entering production. We expect sales to Juniper in 2010 to be greater than 2009. Looking further out, should we see a decline in 2011 sales to Juniper as this customer transitions to its internally developed processor, we expect the increase in revenues from our other customers to more than offset this decline. We therefore expect our revenues to continue growing year over year in 2010 and 2011.

[NEXT GENERATION]

Turning now to our innovative next generation products which are already gaining momentum.

The first is our NP-4, for which we have received samples and started the testing phase with very positive results so far. We believe the NP-4 is the world's first 100-Gigabit NPU. Through its performance and integration we believe NP-4 will lead the high-speed NPUs market for years to come. The high level of integration of the NP-4 coupled with its extensive feature set, has resulted in an excellent market response. The NP-4 is a true enabler for accelerating the proliferation of 10-Gigabit ports and the introduction of 100-Gigabit ports in carrier networks. It allows system vendors to evolve their line-cards from 80-160 Gbps to 200-400 Gbps. These line cards can then provide multiple 100-Gigabit ports or twenty to forty 10-Gigabit ports per card, bringing 10-Gigabit to par with 1-Gigabit port density.

As mentioned in the past, this processor is one of our key growth drivers, being, we believe, at least two years ahead of other designs for enabling 200 and 400 Gigabit line cards. We are witnessing many customers ready to build NP-4 based line cards, in order to provide higher bandwidth and greater 10-Gigabit port density per line card. This is evident from our design wins with four of the top six CESR vendors, with a new CESR vendor joining the roster during the fourth quarter, as well as additional tier-1 vendors in other Carrier Ethernet segments. We expect to continue achieving design wins throughout 2010 with this product starting to contribute to our revenues in the latter part of 2010, and initial production revenues in 2011.

Furthermore, our new family of NPA chips, which targets the Carrier Ethernet Access Platforms and opens for us an entire new market of carrier access, is progressing rapidly, having completed lab testing and now entering production. The NPA continues to gain new design wins, especially within the PON and mobile backhaul segments of the market, having substantial potential to serve as a key growth driver in coming years. We expect this product to start contributing to revenues already in 2010 as the NPA moves into production at the end of the first quarter, and to contribute material revenues in 2011 as customers introduce an increasing number of end products, in a process that has a shorter development cycle than in the high speed network processor segment.

All in all we are ending 2009 on a high note and believe that we are very well positioned to continue growing in 2010 and beyond. The increasing global demand for bandwidth, driven by growing video and upcoming High Definition traffic and ongoing migration from legacy Sonet/ATM networks to Ethernet networks, continues to raise estimates on the Carrier Ethernet market's potential, and EZchip is well positioned to leverage this growth potential.

[GUIDANCE]

Looking ahead to 2010 we believe we will continue to generate year over year revenue and profit growth driven by increasing demand from all our customers, especially the royalty revenues from Marvell related to their sales to our largest potential customer. As a result, we expect gross margins to remain above 72% and potentially grow to the 73% to 74% range as we move into the second half of 2010. OPEX is expected to grow to 19 million dollars in 2010 up from 16 million in 2009. We also expect revenues in the first quarter of 2010 to present a sequential growth compared to the fourth quarter of 2009. As we progress into 2011 we believe that the strong anticipated growth of our NP-3, NP-4 and NPA processors will offset any potential decline in NP-2 revenues.

I would now like to turn over the call to our CFO Dror Israel for a more detailed financial review.

Dror?

DROR:

Thank you Eli.

In order to better understand our business we are providing both GAAP and non- GAAP results. While we discuss the non-GAAP results on this call, the GAAP results, and the reconciliation between the figures, are included in our earnings release. The non-GAAP financial measures exclude the effects of stock-based compensation, in-process R&D charge, amortization of intangible assets and net loss attributed to non-controlling interest. In addition, this quarter we had a major one-time tax benefit resulting from recognizing $11.7 million deferred tax asset, which is also excluded from the non-GAAP financial measures. A more detailed discussion of this deferred tax asset is described in our earning release.

And now to the results…

Revenues for the fourth quarter of 2009 totaled 12.9 million dollars, up 34% from the 9.6 million in the fourth quarter last year, and up 21% from the 10.7 million in the prior quarter.

- **Juniper** accounted for 7.4 million or 58% of revenues for the quarter. Marvell accounted for 0.9 million or 7% of revenues. As we mentioned several times in the past, the current Marvell revenues represent early production shipments of our leading CESR vendor.

- Our **other NP-2 and NP-3 customers**, which include some of the world's other tier 1 networking vendors, as a group, continued to grow this quarter with revenues reaching 4.5 million or 35% of revenues, up from 3.6 million, or 33% of revenues last quarter.

For the **year, revenues** totaled 40.0 million, up 19% from 33.6 million last year. Juniper, our largest customer, accounted for 21.6 million or 54% of annual revenues, Marvell accounted for 3.1 million or 8% of revenues and our other customers as a group accounted for 15.3 million or 38% of revenues.

Non-GAAP gross margin for the quarter totaled 72.7%, up from the 69.2% in the fourth quarter of 2008, and slightly above the 72.6% last quarter. Non GAAP gross margin for the year reached 72.6% compared to the 66.6% gross margin last year. As we have mentioned many times, the special version NP-3 processor that we sell through Marvell bears a royalty model and we therefore expect gross margins to remain above the 72% level going forward and potentially grow to the 73% to 74% range.

Non-GAAP R&D expenses, net, for the quarter and for the year, totaled 2.5 million and 10.3 million respectively. This amount included 0.9 million and 3.0 million, for the quarter and year, respectively, in R&D grants received from the Israeli Office of the Chief Scientist. On a gross basis, our R&D expenses for the quarter totaled 3.4 million and 13.4 million for the year.

Non-GAAP operating expenses for the quarter totaled 4 million, compared to 4.4 million in the fourth quarter last year, and compared to 4.1 million in the prior quarter. Operating expenses for the year totaled 16 million, compared to 17 million in 2008. We expect that our annual OPEX level in 2010 will be around 19 million.

Non-GAAP operating income for the quarter was 5.3 million, an increase of almost 140% from the 2.2 million operating income in the fourth quarter last year, and up 46% compared to 3.7 million in the prior quarter. Non GAAP operating income for the year reached 13.1 million, more than double the 5.4 million operating income in 2008.

Non-GAAP net income for the quarter totaled 5.5 million, more than doubled from the 2.6 million last year, and up 42% from the 3.9 million in the previous quarter.

Moving over to the **balance sheet**, cash, cash equivalents and marketable securities totaled 67.2 million at the end of December 31, 2009, compared to 60.6 million at the end of the previous quarter. Cash generated from operations during the quarter was $5.6 million, cash used in investing activities was $0.2 million and cash provided by financing activities was $1.2 million.

[SECONDARY]

With regards to our public offering

In December 2009 we completed a public offering of 3.9 million shares. The transaction constituted mainly a secondary sale of approximately 3.2 million shares held by our long term significant investors who sold their share blocks into the market, as well as a sale of 700,000 primary shares by the company, with the proceeds used as part of an employee exchange offer.

In this exchange offer, our current and former employees exchanged their shares and options in our main subsidiary, EZchip Technologies, for EZchip Semiconductor shares and options and cash, granting us full ownership over the EZchip Technologies subsidiary.

The dilution to each of our shareholder's percentage of ownership was substantially offset by the increase in our holdings in the EZchip Technologies subsidiary to 100%.

This exchange transaction concluded the exchange process, initiated a few years ago, whereby EZchip Technologies, which incorporates our sole operating activity, is now fully owned by EZchip Semiconductor.

And with that I would like to open the call for the Q&A session.

Operator?