ALVARION LTD
Form 20-F
June 09, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

OR

o 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 000-30628

Alvarion Ltd.
(Exact name of Registrant as specified in its charter)

Israel
(Jurisdiction of incorporation or organization)

21A HaBarzel Street, Tel Aviv 69710, Israel
(Address of principal executive offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Name of each exchange on which registered
Ordinary Shares, NIS 0.01 par value per share	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.

As of December 31, 2010, there were 62,260,736 Ordinary Shares, NIS 0.01 par value per share, outstanding.

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

o Yes   x 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.

o Yes   x 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.

x Yes   o 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).

o Yes   o 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 in the Exchange Act. (Check one).

Large Accelerated Filer o   Accelerated Filer x   Non-Accelerated Filer o

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

U.S. GAAP x

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

Other o

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.

o Item 17   o 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).

o Yes x No

INTRODUCTION

Alvarion Ltd. (the “Company,” “we,” “our” or “us”) concentrates on the wireless broadband market, focusing on two lines of business: (i) the Carrier line of business, which includes top-tier operators, broadband service providers, competitive local exchange carriers (“CLECs”) and regional carriers, and (ii) the Enterprise line of business, which includes government authorities, municipalities, and Wireless Internet Service Providers (“WISPs”) with networks and solutions based on the fourth generation (“4G”) technology, mainly being the Worldwide Interoperability for Microwave Access (“WiMAX”) standard, as well as other wireless broadband solutions. In both lines of business above, we provide the Radio Access Networks (“RAN”) solution. Our solutions are designed to cover the full range of frequency bands with fixed, portable and mobile applications. Solutions for carriers include providing subscribers with home, office and personal broadband connectivity for internet access, social networking, gaming, VoIP, video and other bandwidth-intensive applications. Our solutions also enable government and municipal office connectivity, security and surveillance services, and emerging applications, such as smart power grid and public safety-related communications.

We were incorporated in September 1992 under the laws of the State of Israel. Since our inception, we have devoted substantially all of our resources to the design, development, manufacturing and marketing of wireless products. On August 1, 2001, Floware Wireless Systems Ltd., a company incorporated under the laws of the State of Israel (“Floware”), merged with and into us. As a result of the merger, we continued as the surviving company, and Floware’s separate existence ceased. Upon the closing of the merger, we changed our name from BreezeCOM Ltd. to Alvarion Ltd.

This annual report on Form 20-F (this “Annual Report”) contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our business, financial condition and results of operations. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including all or any of the risks discussed in “Item 3—Key Information—Risk Factors” and elsewhere in this Annual Report.

In some cases, you can identify forward-looking statements by terms such as "may", "might", "will", "should", "could", "would", "expect", "believe", "intend", "plan", "anticipate", "project", "estimate", "predict", "potential" or the negative of these terms, and similar expressions intended to identify forward-looking statements.

These statements reflect our current views with respect to future events, are based on current assumptions, expectations, estimates and projections, and are subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Except as required by applicable law, including the securities laws of the United States, we do not undertake any obligation nor intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

As used in this Annual Report, the terms "we", "us", "our", "our Company", and "Alvarion" mean Alvarion Ltd. and its subsidiaries, unless otherwise indicated. ALVARION, ALVARION & Design, BreezeCOM, BreezeMAX, BreezeACCESS, BreezeNET, BreezeLITE, WALKair, 4Motion and INTERWAVE are registered trademarks or service marks of Alvarion in certain jurisdictions. All other trademarks and trade names appearing in this Annual Report are owned by their respective holders.

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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 FINANCIAL DATA

The selected financial data, set forth in the table below, have been derived from our audited historical consolidated financial statements as of, and for each of the years ended, December 31, 2006, 2007, 2008, 2009 and 2010. The selected consolidated statement of operations data for the years ended December 31, 2008, 2009 and 2010, and the selected consolidated balance sheet data at December 31, 2009 and 2010, have been derived from our audited consolidated financial statements included elsewhere in this Annual Report. The selected consolidated statement of operations data for the years ended December 31, 2006 and 2007 and the selected consolidated balance sheet data at December 31, 2006, 2007 and 2008, have been derived from our previously published audited consolidated financial statements, which are not included in this Annual Report. We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). You should read the selected financial data together with the section of this Annual Report entitled, "Item 5—Operating and Financial Review and Prospects" and our consolidated financial statements and related notes included elsewhere in this Annual Report, and the selected financial data are qualified entirely by reference to such consolidated financial statements and related notes.

	Year Ended December 31,				
	2006(*)	2007(*)	2008(*)	2009(*)	2010(*)
	(in thousands except per share data)				
Statement of Operations Data:					
Sales	$181,594	$236,573	$281,281	$245,239	$205,815
Cost of sales	80,410	114,099	144,326	128,461	128,578
Write-off of excess inventory and provision for inventory purchase commitments	9,472	4,762	3,457	3,993	4,897
Gross profit	91,712	117,712	133,498	112,785	72,340
Operating costs and expenses:					
Research and development, gross	42,042	54,967	69,952	54,674	41,744
Less grants and participations	3,235	3,578	10,273	3,884	3,027
Research and development, net	38,807	51,389	59,679	50,790	38,717
Selling and marketing	44,929	55,943	60,521	52,022	43,376
General and administrative	13,680	15,426	18,813	15,087	19,920
Amortization of intangible assets	2,676	2,544	1,327	132	130
Impairment of investment	-	-	-	1,554	-
Impairment of goodwill and intangible assets	-	-	-	-	57,110
Restructuring and other related expenses	-	-	2,914	2,787	3,573

Total operating costs and expenses	100,092	125,302	143,254	122,372	162,826
Operating profit (loss)	(8,380)	(7,590)	(9,756)	(9,587)	(90,486)
Other (loss) income	-	8,265	-	731	(7,000)
Financial income (expenses), net	3,796	6,453	4,297	1,668	(99)
Income (loss) before tax	(4,584)	7,128	(5,459)	(7,188)	(97,585)
Taxes on Income	-	-	-	-	894
Income (loss) from continuing operations	(4,584)	7,128	(5,459)	(7,188)	(98,479)
Income (loss) from discontinued operations, net	(36,167)	5,413	-	-	-
Net income (loss)	$(40,751)	$12,541	$(5,459)	$(7,188)	$(98,479)
Net earnings (loss) per share:					
Basic:					
Continuing operations	$(0.08)	$0.11	$(0.09)	$(0.12)	$(1.58)
Discontinued operations	(0.59)	0.09	-	-	-
Total	$(0.67)	$0.20	$(0.09)	$(0.12)	$(1.58)
Weighted average number of shares used in computing basic net earnings (loss) per share	60,841	62,345	62,925	62,023	62,199
Diluted:					
Continuing operations	$(0.08)	$0.11	$(0.09)	$(0.12)	$(1.58)
Discontinued operations	(0.59)	0.08	-	-	-
Total	$(0.67)	$0.19	$(0.09)	$(0.12)	$(1.58)
Weighted average number of shares used in computing diluted net earnings (loss) per share	60,841	64,626	62,925	62,023	62,199

(*) Includes charges for stock-based compensation of approximately $6.9 million, $7.4 million, $7.6 million, $4.2 million and $3.3 million as a result of ASC 718 Compensation – "Stock Compensation" for the years ended December 31, 2006, 2007, 2008, 2009 and 2010, respectively.

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	As of December 31,				
	2006	2007	2008	2009	2010
	(in thousands)				
Working capital	$97,169	$113,118	$115,817	$132,813	$109,978
Total assets	$280,063	$313,143	$338,110	$301,544	$214,764
Shareholders' equity	$195,301	$220,553	$215,906	$216,644	$122,087
Capital Stock	$403,708	$415,213	$423,468	$428,086	$431,534

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Our business, financial condition and results of operations could be seriously harmed due to any of the following risks, among others. If we do not successfully address the risks to which we are subject, we could experience a material adverse effect on our business, results of operations and financial condition, and our share price may decline. We cannot assure you that we will successfully address any of these risks.

Risks Related to Our Business and Our Industry

We have incurred significant losses in the past and we may continue to incur losses in the future.

In 2010, our operating loss and net loss were approximately $(90.5) million and $(98.5) million, respectively. Our losses in 2010 were mainly due to the $57.1 million impairment of goodwill that was written-off by us. Due to the global economic downturn that had negatively affected our business and a significant reduction in our market capitalization, we determined that there would be no implied value attributable to our reporting unit goodwill. As of December 31, 2010, we have no goodwill in our balance sheet. Furthermore, our losses in 2010 also resulted from an impairment of a short term investment in an amount of $7.0 million, the global economic slowdown, the limited availability of credit in the global capital markets, the aggressive competition which we face (especially from Chinese vendors), the continued delay in new project launches and delays in allocating spectrum in several countries. Each of the above reasons led to a sequential decline in our gross margin during 2010 and may continue to adversely affect our business and operating results in the future.

In 2009 and 2008, our operating loss was approximately $(9.6) million and $(9.8) million, respectively, and our net loss was approximately $(7.2) million and $(5.5) million, respectively. In addition, we have incurred operating losses in each of our last five fiscal years, and net losses in four of our last five fiscal years (with the exception of 2007). We may continue to incur operating losses and net losses in the future. Further, in the event our recent restructuring plan (as hereinafter described in Item 4) does not reduce costs as expected, it may have an adverse affect on our business and our operations may continue to incur losses. Continuing losses could have a material adverse effect on our business, financial condition and results of operations, and on the value and market price of our ordinary shares.

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

The crisis in the financial and credit markets in the United States, Europe and Asia in 2008 and 2009 led to a global economic slowdown, with the economies of the United States and Europe showing significant signs of weakness. If the economies in the countries in which we operate do not improve or weaken further, carriers in such countries may further reduce or postpone their technology spending significantly as well as require aggressive vendor financing. This could result in continued reductions in sales, further decreases in our revenues, longer sales cycles, slower market acceptance of our products and increased price competition. Any of these events would likely harm our

business, operating results and financial condition. If global economic and market conditions, or economic conditions in the United States, Europe or Asia or other key markets do not improve or weaken further, our business, operating results and financial condition may be materially adversely affected.

Adverse conditions in the telecommunications industry and in the telecommunications equipment market may decrease demand for our products and may harm our business, financial condition and results of operations.

Our systems are used by telecom carriers and service providers and within vertical markets, such as municipalities and utility companies. As a result of our customers' tightened spending as well as the limited licenses and substantial capital requirements which limit growth into new markets, our revenues declined in 2010 and may continue to decline and our losses may increase in the future. Some carriers and service providers that use wireless broadband are emerging companies with unproven business models. Adverse market conditions in the past years have also led our customers and potential customers to be conservative in their spending, and this could continue in the future. Due to such conditions, the markets in which we operate may not grow as we expect or may decrease, and our overall expansion plan may be affected. While our goal is to increase our sales by expanding the range of customers that we address, there can be no assurance that we will be successful. Moreover, the number of orders received by carriers and service providers who are our current and potential customers may decrease because of the limited number of licenses granted in each country and the substantial capital requirements involved in establishing networks as well as the fierce competition we face in our business. As a result, our revenues have declined in 2010 and our losses have increased in 2010, and our revenues may continue to decline and our losses may continue to increase.

We may fail to deliver "turn-key" solutions to our customers.

We are experiencing an increasing demand from existing and potential customers within our carrier line of business to provide a complete operational or "turn-key" solution for their deployment needs, where we are responsible for overall project management, including third-party deliverables. These projects require us to integrate third parties' technologies, equipment and services with our own. Relying on third parties increases our responsibilities towards our customers. If we or any of our third parties fail to fully comply with our customers' requirements, or we, as the end-to-end provider, fail to deliver the project in a timely manner and to the satisfaction of our customers, such failure may adversely affect our results of operations.

New markets we attempt to penetrate may not become substantial commercial markets. In addition, if we do not maintain or increase our market share of the wireless broadband equipment market, our business will suffer.

The wireless broadband market, both fixed and mobile, and other new markets we attempt to penetrate may not become substantial commercial markets or may not evolve in a manner that will enable our products to achieve market acceptance. If such markets do not evolve or develop or we do not maintain or increase our market share within these commercial markets, our revenues may continue to decrease. In particular, Mobile WiMAX technology targets 4G services and therefore competes with other technologies such as Long Term Evolution ("LTE"), which is becoming the 4G leading technology and the major competitor of WiMAX for wireless broadband markets. WiMAX market acceptance may be hampered by competing technologies or intellectual property rights disputes. In addition, in order to maintain or increase our market share in the markets in which we operate, we must:

- continue to innovate and differentiate our technology position in designing, developing and manufacturing broadband wireless access products;

- develop and cultivate additional sales channels in addition to our direct sales from which we generate our main revenues today, including regional local partners or other strategic arrangements with leading manufacturers of access equipment, who can market our wireless broadband products to prospective customers, such as local exchange carriers, international cellular operators, Internet and application service providers, municipalities and local telephone companies;
- effectively establish and support relationships with customers, including local exchange carriers, Internet and application service providers, public fixed or mobile telephone service providers and private network operators;
- effectively develop and market our OPEN WiMAX strategy in our broadband mobile solution, together with our current and potential partners; and
- continue to enhance our maintenance and support services.

Our efforts in these markets may not succeed.

Intense competition in the markets for our products may have an adverse effect on our sales and profitability.

The strengthening of Chinese vendors in the past few years affected the competitive landscape of the WiMAX industry as a whole and may continue to negatively affect our sales, revenues and profitability in the future.

Many companies compete with us in the wireless broadband equipment market in which we sell our products, particularly Chinese vendors. Such vendors have substantially increased their market share in the past few years. We expect that competition from large vendors will increase in the future, including with respect to products that we currently offer and products that we intend to introduce in the future. As the market transitions toward standardization and LTE technology, competition becomes increasingly more challenging for us. In addition, some system integrators and other strategic partners to which we sell our wireless broadband products could develop the capability to manufacture systems similar to our wireless broadband products or choose to work exclusively with our competitors. We expect our competitors to continue improving the performance of their current products and to introduce new products or new technologies that may supplant or provide lower cost alternatives to our products or perform better than our products. We also face additional and new competition from large telecommunication equipment vendors, such as Huawei, Nokia Siemens, Samsung and ZTE Corporation and we expect this competition to grow, especially with respect to the mobile WiMAX-based products. Tier One operators, which form the largest and most established group of telecom operators, may prefer to purchase products from these large vendors, as has occurred on a number of occasions. During recent years, there has been a trend of consolidation in the telecommunication equipment market such as Alcatel-Lucent and Motorola with NSN. This trend continued in the past year and may continue in the future and may result in larger competitors with enhanced financial and other resources. This may further intensify the competitive nature of the markets in which we operate.

We expect these competitors to continue improving their technologies and products, which may cause us to lose some of our customers or prevent us from entering into new markets. Some of our existing and potential competitors, including large competitors arising from the continued consolidation in the telecommunications equipment market as well as increased competition of Chinese vendors, have substantially greater resources, including financial, technological, manufacturing and marketing, and distribution capabilities, and enjoy greater market recognition than we do. Increased competition, direct and indirect, has resulted in, and is likely to continue to result in, reductions of average selling prices, shorter product life cycles due to our competitors' launch of innovative products in the market more frequently, reduced gross margins, longer sales cycles and potential loss of market share and, consequently, could adversely affect our sales and profitability.

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We may not be able to differentiate our products from those of our competitors, successfully develop or introduce new products that are less costly, offer better performance than the products of our competitors, or offer our customers payment or other commercial terms as favorable as those offered by our competitors. In addition, we may not be able to offer our products as part of integrated systems or solutions or provide extensive services to the same extent as our competitors. A failure to accomplish one or more of these objectives could materially adversely affect our sales and profitability, harming our financial condition and results of operations.

Some of our standards-compliant WiMAX products may not receive the certification that we expect, which may affect our future business.

We rely on WiMAX technology. Products based on this technology may not receive certification in the time frame we expect, or at all, and may therefore not achieve the wide acceptance that we are seeking. This may harm the sales of our standards compliant products, and consequently, our results of operations.

Technological changes may have an adverse effect on the market acceptance of our products and may adversely affect our results of operations.

The markets for our products and the technologies utilized in the industry in which we operate evolve continuously. We rely on key technologies, including wireless local area network (“LAN”), wireless packet data, orthogonal frequency division multiplexing (“OFDM”), orthogonal frequency division multiple access (“OFDMA”), time division multiplexing, modem and radio technologies as well as WiMAX, multiple-input multiple-output communications (“MIMO”), Sub Channelization, beam forming, high power base station and other technologies. These technologies may be replaced with alternative technologies or may otherwise not achieve the wide acceptance that we are seeking.

In addition, market changes could render our products and technologies obsolete or subject them to intense competition by alternative products or technologies or by improvements in existing products or technologies. For example, the wireless broadband equipment market may stop growing as a result of the deployment of alternative technologies that are constantly improving, such as DSL, cable modem, fiber optic, coaxial cable, satellite systems, Wi-Fi technology, third or fourth generation cellular systems, or high speed packet access (“HSPA”) and LTE technologies. New or enhanced products developed by our competitors may be technologically superior to our products, may limit our target markets or may render our products obsolete, and consequently adversely affect our results of operations. New chips introduced may include built-in capabilities which are currently an Alvarion product differentiator, which would lower the barrier for competition.

The success of our technology depends on the following factors, among others:

- acceptance of new and innovative technologies;
- acceptance of standards for wireless broadband products;
- timely availability and maturity of technology from technology suppliers and chip-vendors, such as Sequans, Beceem, Gemtek, Cisco and Tellabs;
- capacity to handle growing demands for faster transmission of increasing amounts of data and voice;
- cost-effectiveness and performance compared to other broadband wireless technologies;
- reliability and security;

- suitability for a sufficient number of geographic regions;
- the availability of sufficient frequencies and site locations for carriers to deploy and install products at commercially reasonable rates; and
- safety and environmental concerns regarding wireless broadband transmissions.

We may experience difficulties or delays in the introduction of new or enhanced products, which could result in reduced sales or unexpected expenses.

The development of new or enhanced products, such as the development of new products in the 4G market, is a complex and uncertain process. For example, the development of new products in the 4G market is a multi-disciplinary process, which involves hardware design and development, software, integration, and intensive and complicated system design, resulting in a long development cycle. We are engaged in the development of very advanced technologies. We have experienced and may continue to experience design, manufacturing, marketing and other difficulties due to delays in our development or delays by third party vendors, and these delays could continue to cause difficulties or prevent our development, introduction or marketing of new products or product enhancements and intensified competition. Such difficulties could result in reduced sales, unexpected expenses or delays in the launch of new or enhanced products or our inability to timely introduce to the market our products, any of which may adversely affect our results of operations. Also, such delays could lead sales partners and distributors to turn to competing vendors.

We engaged and may continue to engage in mergers and acquisitions which could harm our business, results of operations and financial condition, and dilute our shareholders' equity.

We have pursued and, subject to market conditions, may continue to pursue, growth opportunities through internal growth and acquisition of complementary businesses, products and technologies. We are unable to predict whether or when any prospective acquisitions will be completed. The process of integrating an acquired business may be prolonged due to unforeseen difficulties and may require a disproportionate amount of our resources and management's attention. We cannot assure you that we will be able to successfully identify suitable acquisition candidates, complete acquisitions, integrate acquired businesses into our operations, or expand into new markets. Further, once integrated, acquisitions may not achieve comparable levels of revenues, profitability or productivity as our existing business or otherwise perform as expected. The occurrence of any of these events could harm our business, financial condition or results of operations. Past and future acquisitions may require substantial capital resources, which may require us to seek additional debt or equity financing, and could result, without limitation, in the following, any of which could seriously harm our results of operations or the price of our ordinary shares:

- issuance of equity securities that would dilute our current shareholders;
- large write-offs;
- the incurrence of debt and contingent liabilities;
- difficulties in the assimilation and integration of operations, personnel, technologies, products and information systems of the acquired companies;
- diversion of management's attention from other business concerns;
- contractual disputes;
- risks of entering geographic and business markets in which we have limited or no prior experience;
- loss of key employees of acquired organizations; and
- negative impact on our cash reserve.

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We have experienced in the past, and may experience in the future, quarterly and annual fluctuations in our results of operations which may cause volatility in the market price of our ordinary shares.

We have experienced, and may continue to experience, significant fluctuations in our quarterly and annual results of operations, in particular, in light of intense competition, especially from Chinese vendors as outlined earlier and hereinafter, the continuing effects of the global slowdown and the continued limited availability of credit in the global capital markets. Any fluctuations may cause our results of operations to decrease below the expectations of securities analysts and investors. This would likely affect the market price of our ordinary shares.

Our quarterly and annual results of operations may vary significantly in the future for a variety of reasons, many of which are outside of our control, including the following:

- the uneven pace of spectrum licensing to carriers and service providers;
- purchasing patterns of our customers, the size and timing of orders and the timing of large scale deployments;
- the fulfillment of all revenue recognition criteria;
- customer deferral of orders in anticipation of new products, product features or price reductions;
- the introduction of our new products or enhancements or those of our competitors or of providers of complementary products;
- seasonality, including the relatively low level of general business activity in the first and third quarters of each year;
- disruption or changes in the quality of our sources of supply;
- changes in the mix of products sold by us;
- mergers or acquisitions, by us, our competitors and existing and potential customers, if any;
- one-time charges such as asset impairment and restructuring charges;
- fluctuations in the exchange rate of the New Israeli Shekel (the “NIS”) against the United States dollar;
- general economic conditions, including the unfavorable global economic conditions; and
- network approval process dependencies.

Our customers ordinarily require the delivery of products promptly after their orders are accepted. Historically, our business does not have a significant backlog of accepted orders. Consequently, revenues in any quarter depend primarily on orders that are received and accepted in that quarter. The deferral of the placing and acceptance of any large order from one quarter to another could materially and adversely affect our results of operations for the former quarter. Our revenue recognition is complex and dependent on various parameters and milestones. If revenues from our business in any quarter remain in the same level or decline in comparison to any previous quarter, our results of operations could be harmed.

In addition, our operating expenses may increase significantly. If revenues in any quarter do not increase correspondingly or at a higher rate, or if we do not reduce our expenses in a timely manner in response to lower level

or declining revenues, our results of operations for that quarter would be materially adversely affected. Because of the variations that we have experienced in our quarterly results of operations, we do not believe quarter-to-quarter comparisons of our results of operations are necessarily meaningful and you should not rely on results of operations in any particular quarter as an indication of future performance.

Our products have long and unpredictable sales cycles which could adversely impact our revenues and results of operations.

The sales cycle for most of our products encompasses significant technical evaluation and testing by each potential purchaser and a commitment of significant cash and other resources. The sales cycle can extend for more than one year and sometimes even two years from initial contact with a carrier to receipt of a purchase order. This time frame may be extended due to, among other reasons, a carrier’s desire to ensure that the systems work for a long period with increased number of subscribers’ coverage and capacity, a carrier’s need to obtain financing or other means of collateral to purchase systems incorporating our products, the regulatory authorization of competition in local services, delays in the licensing of spectrum for these services and other regulatory hurdles.

As a result of the length of these sales cycles, revenues from our products may fluctuate from quarter to quarter and fail to correspond with associated expenses, which are largely based on anticipated revenues. In addition, the delays inherent in the sales cycles of our products raise additional risks of customers canceling or changing their product plans. Our revenues will be adversely affected if a significant customer, or a significant potential customer, reduces, delays or cancels orders during the sales cycle or chooses not to deploy networks incorporating our products. Any such fluctuation in revenue or cancellation of orders may have an adverse effect on our business and may affect the market price of our ordinary shares. In addition, the global economic financial recession may continue to have an adverse effect on the length of our sales cycle.

Our business is dependent upon the success of our distributors, system integrators and other partners, who are under no obligation to purchase our products.

A portion of our revenues is derived from sales to our independent partners, such as distributors and system integrators. Our distributors resell our products to others, who further resell our products to end users. Changes in the distribution and sales channels of our products, a loss of a major distributor or a major distributor’s loss of a major end-user, or our inability to establish effective distribution and sales channels for new products may impact our ability to sell our products and result in a loss of revenues. Additionally, sales through our distributors and system integrator channels expose our business to a number of risks, each of which could result in a reduction in the sales of our products. For example, some of these distributors and system integrators may terminate their relationships with us, consolidate or face financial problems, as well as promote competing products or emphasize alternative technologies, which may turn them into our competitors rather than our partners, all of which may result in a decline in the purchase of our products.

We are dependent upon the acceptance of our products by the market through our partners' efforts in marketing and sales. In some cases, arrangements with our partners do not prevent them from selling competitive products and some of the arrangements do not contain minimum sales or marketing performance requirements. In addition, our efforts to increase sales may suffer from the lack of brand visibility resulting from the integration of these products into more comprehensive systems by distributors and system integrators. Changes in the financial condition, business or marketing strategies of our partners could have a material adverse effect on our results of operations. Any of these changes could occur suddenly and rapidly.

If our revenues decrease and our days- sales-outstanding (“DSO”) increase, we may suffer from a cash shortfall.

Our DSOs decreased to 87 days in 2010. However, we expect that over time our DSOs may increase and we expect our DSOs will range between 90 to 120 days during 2011, mainly due to our customers requesting more favorable payment terms from us as part of increased competition, as well as the limited availability of credit in the capital markets, which may also affect our inability to collect our customers' debts in a timely manner or at all. In addition, we may experience an increase in DSOs if we fail to timely collect revenues from our customers.

We may experience a continuing decrease in our gross margin levels in the future, which may adversely affect our financial results.

We believe that several market developments have caused, and may continue to cause, a decline in our gross margin, mainly due to (a) the fact that our revenue mix contained a high proportion of third party equipment, combined with the continued aggressive competition as described hereinabove and hereinafter, (b) the delay in new project launches and (c) the continued economic slowdown, all of which resulted in a low level of revenue which led to a large sequential decline in gross margin as evidenced in our 2010 results. Such developments include the following: (i) increased competition in the regions in which we currently operate; (ii) changes in the mix of our products, such as an increase in the volume of sales of lower-margin Customer Premise Equipment ("CPEs"); (iii) the entry of new, large vendors into our markets; (iv) changes in the market demand of some of our existing and potential products; (v) our engaging in "turn-key" projects, which involve lower margins on third party equipment and services; and (vi) our entry into new geographical markets with lower margins, such as India. We expect this decline in gross margin to continue over time. If our revenues do not increase and our operating expenses remain the same or increase, the decline in gross margin will have a negative impact on our results of operations.

Our products are complex and may have errors or defects that are detected only after deployment in complex networks.

Some of our products are highly complex and are designed to be deployed in complex networks. Although our products are tested during manufacturing and prior to deployment, our customers may discover errors after the products have been fully deployed. If we are unable to fix errors or other problems that may be identified in full deployment, including problems related to the site survey, radio planning and other problems that are not necessarily related to product functionality but to the associated services, or unable to correct the errors in a timely manner, we could experience:

- costs associated with remediation;
- loss of or delay in revenues;
- loss of customers;
- failure to achieve market acceptance and loss of market share;
- diversion of deployment resources;
- diversion of research and development resources to fix errors in the field;
- increased service and warranty costs;
- legal actions or demands for compensation by our customers; and
- increased insurance costs.

In addition, our products are often integrated with other network components. There may be incompatibilities between these components and our products that could significantly harm service providers or their subscribers. Product problems in the field could require us to incur costs or divert resources and may subject us to liability for damages caused by the problems or delay research and development projects because of the diversion of resources. These problems could also harm our reputation and competitive position in the industry.

We could be subject to warranty claims and product recalls, which could be very expensive and harm our financial condition.

Products like ours sometimes contain undetected errors. These errors can cause delays in product introductions or require design modifications. In addition, we are dependent on unaffiliated suppliers for key components incorporated into our products. Defects in systems in which our products are deployed, whether resulting from faults in our products or products supplied by others, from faulty installation or from any other cause, may result in customer dissatisfaction. Additionally, we are continually marketing several new products. The risk of errors in these new products, as in any new product, may be greater than the risk of errors in established products. The warranties for our products permit customers to return for repair or replacement, within a period ranging from 12 to 24 months of purchase, any defective products. Any failure of a system in which our products are deployed (whether or not our products are the cause), any product recall and any associated negative publicity could result in the loss of, or delay in, market acceptance of our products and could harm our business, financial condition and results of operations. Although we attempt to limit our liability for product defects to product replacements, we may not be successful, and customers may sue us or claim liability for defective products and for related claims arising therefrom. A successful product liability claim could result in substantial cost or divert management's attention and resources, which could have a negative impact on our financial condition and results of operations.

Our dependence on limited sources for key components of our products may lead to disruptions in the delivery and increased cost of our products, harming our business and results of operations.

We currently obtain key components for our products from a limited number of suppliers, and in some instances from a single supplier. In addition, some of the components that we purchase from single suppliers are custom-made. We cannot be sure that we will not experience increased costs or disruptions in the delivery of our product components. In addition, there is a global demand for some electrical components that are used in our systems and that are supplied by relatively few suppliers. Our dependence on these limited sources for key components for our products presents the following potential risks:

- delays in delivery or shortages of components, especially for custom-made components or components with long delivery lead times, could interrupt and delay manufacturing and result in cancellations of orders for our products;
- suppliers could increase component prices significantly and with immediate effect on the manufacturing costs of our products;
- due to the global financial recession, some of our suppliers may cease to exist or face financial difficulties which could affect the supply chain;
- we may not be able to develop alternative sources for product components;
- suppliers could discontinue the manufacture or supply of components used in our products which may require us to modify our products and which may cause delays in product shipments, increased manufacturing costs and increased product prices;
- we may be required to hold more inventory for longer periods of time than we otherwise might in order to avoid problems from shortages or discontinuance; and
- due to the political situation in the Middle East and the fact that our headquarters are located in Israel, we may not be able to import necessary components from different countries world-wide.

Our dependence on third party equipment embedded in our products and complementary systems may impact our business.

We rely on third party software and hardware embedded in our solution. If our licensors fail to support the software or hardware embedded in our solution we may suffer difficulties in supporting our customers and delivering our equipment. We are also dependent on complementary systems such as CPEs, and Access Service Networks Gate Ways, or ASN- GW, which are part of our solution. Failure by our vendors to deliver such products or discontinue production of such products may cause difficulties to, and may have adverse effect, on our business.

Changes within these vendors' environment can influence our business results. For example, the consolidation among chip vendors that has taken place in 2010 may influence price levels or change the partners' roadmap in a way that could harm our business.

In addition, in the past, we experienced delays and shortages in the supply of components on more than one occasion. We may experience such delays in the future, harming our business and results of operations.

We must be able to manage expenses and inventory risks associated with meeting the demands of our customers.

To ensure that we are able to meet customer demand for our products, we place orders with our subcontractors and suppliers based on our estimates of future sales. If actual sales differ materially from these estimates, our inventory levels may be too high, and inventory may become obsolete and/or over-stated on our balance sheet. This result would require us to write off inventory, which could adversely affect our results of operations. In 2008, 2009 and 2010, we wrote off inventory in the amounts of $3.5 million, $4.0 million and $4.8 million, respectively.

In addition, we are required to place manufacturing orders well in advance of the time we expect to sell products, and this may result in us ordering a larger or smaller number of these products than required. In the event that we order the manufacture of a greater or lesser amount of these products than necessary, we may be required to purchase the surplus products or to forego or delay the sale or delivery of the products that we did not order in advance. In either case, our business and results of operations may be adversely affected.

The limited manufacturing capacity of a number of subcontractors we depend on may prevent us from filling orders in the timeframe and with the quality specifications our customers demand, which may harm our business and results of operations.

We currently depend on a number of contract manufacturers with limited manufacturing capacity to manufacture our products. The assembly of certain of our finished products, and the manufacture of custom printed circuit boards utilized in electronic subassemblies and related services are also performed by these independent subcontractors. In addition, we rely on third-party "turn-key" manufacturers to manufacture certain sub-systems for our products. Reliance on third-party manufacturers exposes us to significant risks, including risks resulting from:

- potential lack of manufacturing capacity;
- limited control over delivery schedules;
- quality assurance and control;
- manufacturing yields and production costs;
- voluntary or involuntary termination of their relationship with us;
- difficulty in, and timeliness of, substituting any of our contract manufacturers, which could take as long as six months or more;
- the economic and political conditions in their environments; and
- their financial strength.

If the operations of our contract manufacturers are halted, even temporarily, or if our contract manufacturers are unable to operate at full capacity for an extended period of time, we may experience business interruption, increased costs, loss of goodwill and loss of customers.

Any of these risks could result in manufacturing delays or increases in manufacturing costs and expenses. If we experience manufacturing delays, we could lose orders for our products and, as a result, lose customers. There may be an adverse effect on our profitability and, consequently, on our results of operations, if we incur increased costs.

Regulation by governments or other public authorities may increase our costs of doing business, limit our potential markets or require changes to our products that may be difficult and costly.

Our business is premised on the availability of certain radio frequencies for two-way broadband communications. Radio frequencies are subject to extensive regulation under international treaties and local laws, which differ by country. Some of our products operate in license-free bands in the radio spectrum, while others operate in licensed bands. The regulatory environment in which we operate is subject to significant change, the results and timing of which are uncertain.

In some cases, the continued validity of licenses may be conditioned on the licensee complying with various conditions. Since WiMAX technologies evolve and enable new applications, such as mobile services, in some countries the regulators may not permit an operator to use the spectrum previously allocated according to its full technology potential and its latest technological evolution. The regulators in some countries may avoid granting WiMAX spectrum to protect owners of other spectrums previously allocated or they may wait until new technologies such as LTE become available before starting the frequency allocation process. In addition to regulation of available frequencies, our products must conform to a variety of national and international regulations that require compliance with administrative and technical requirements as a condition to the operation or marketing of devices that emit radio frequency energy.

The regulatory environment in which we sell our products subjects us to several risks, including the following:

- Our customers may not be able to obtain sufficient frequencies for their planned uses of our wireless broadband products;

- Failure by the regulatory authorities to allocate suitable and sufficient radio frequencies in a timely manner could deter potential customers from ordering our wireless broadband products. Also, frequency licenses and other regulations may include terms that affect the desirability of using our products;

- The process of establishing new regulations for wireless broadband frequencies and allocating these frequencies to operators is complex and lengthy, and delays in this process may postpone the commercial deployment of our products;

- If our products operate in the license-free bands, Federal Communications Commission (“FCC”) rules and similar rules in other countries require operators of radio frequency devices, such as our products, to cease operation of a device if its operation causes interference with authorized users of the spectrum and to accept interference caused by other users;

- If the use of our products interferes with authorized users, or if users of our products experience interference from other users, market acceptance of our products could be adversely affected;

- Regulatory changes, including changes in the allocation of frequency spectrum, may significantly impact our operations by rendering our current products obsolete or non-compliant, restricting the applications and markets served by our products, or requiring us to modify our products;

- Regulatory changes and restrictions imposed due to environmental concerns, such as restrictions imposed on the location of outdoor antennas;

- Spectrum technology neutrality or specific technology allocation may be changed by regulatory authorities towards other competing technologies or to fit specific competitive solutions. Spectrum allocation may specify a particular technology, such as 3G, LTE or WiMAX rather than enabling the spectrum owner to determine the technology; and

- Export control laws and regulations which are applicable to all of our products and technology may become more stringent in the future.

We are subject to certain European directives like the directive on Waste Electrical and Electronic Equipment and the directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment and may also be subject to other similar legislation in other parts of the world.

Our proprietary technology is difficult to protect, and its unauthorized use by third parties may impair our ability to compete effectively.

Our success and ability to compete depends and will continue to depend, to a large extent, on maintaining our proprietary rights and the rights that we currently license or will license in the future from third parties. We rely primarily on a combination of patents, trademarks, trade secrets and copyright law and on confidentiality, non-disclosure and assignment-of-inventions agreements to protect our proprietary technology. We have obtained several patents and have several patent applications pending that are associated with our products. We also have several trademark registrations associated with our name and some of our products.

These measures may not be sufficiently adequate to protect our technology from third-party infringement. Our competitors may independently develop technologies that are substantially equivalent or superior to our technology. Third-party patent applications filed earlier may block our patent applications or receive broader claim coverage. In addition, any patents issued to us, if issued at all, may not provide us with significant commercial protection. Third parties may also invalidate, circumvent, challenge or design around our patents or trade secrets, and our proprietary technology may otherwise become known, or similar technology may be independently developed by competitors. Additionally, our products may be sold in foreign countries that provide less protection to intellectual property than that provided under U.S. or Israeli laws. Failure to successfully protect our intellectual property from infringement may damage our ability to compete effectively and harm our results of operations.

We could become subject to litigation regarding intellectual property rights, which could seriously harm our business.

From time to time we receive letters alleging that we have infringed upon a patent, trademark or other proprietary right. As the Broadband Wireless Access market transitions toward standardization, we are more exposed to intellectual property litigation by third parties who claim to hold intellectual property rights related to such standards. In addition, based on the size and sophistication of our competitors and the history of rapid technological change in our industry, it is possible that several competitors may have intellectual property rights that could relate to our products. Therefore, we may need to litigate to defend against claims of infringement or to determine the validity or scope of the proprietary rights of others. Similarly, we may need to litigate to enforce or uphold the validity of our patent, trademarks and other intellectual property rights. Other actions may involve ownership disputes over our intellectual property or the misappropriation of our trade secrets or proprietary technology. As a result of these actions, we may have to seek licenses to third-parties' intellectual property rights, which may not be able to be successfully integrated into our products. These licenses may not be available to us on reasonable terms or at all. In addition, litigation could be expensive and time consuming and could result in court orders preventing us from selling our then-current products or from operating our business. Any infringement claim, even if not meritorious, could

result in the expenditure of significant financial and managerial resources and harm our business, financial condition and results of operations. We have no assurance that any such allegation will not have a material adverse effect on our business, financial condition or results of operations.

If we are unable to maintain licenses to use certain technologies, we may not be able to develop and sell our products.

We receive licenses from third party companies for certain technologies we use in connection with some of our technologies. The loss of these licenses could impair our ability to develop and market our products. If we are unable to obtain or maintain the licenses that we need, we may be unable to develop and market our products or processes, or we may need to obtain substitute technologies of lower quality or performance characteristics or at greater cost. We cannot assure you that we can maintain these licenses or obtain additional licenses, if we need them in the future, on commercially reasonable terms or at all. Also, some of our products utilize open source technologies. These technologies are licensed to us on varying license structures. These licenses and others like them pose a potential risk to products should they be inappropriately used.

We depend on key personnel and several members of our senior management have been recently appointed.

Our future success depends, in part, on the continued service of key personnel. Most members of our senior management team are new to their positions. They may need time to acquire the requisite knowledge of our company and the specific skills necessary to successfully carry out the tasks required of them, which could adversely affect our results of operations.

Five of the eight members of our senior management, including our chief executive officer and the presidents of our two largest divisions, were only appointed to their present positions in 2009 and another was only appointed in October 2010, while the chief financial officer was appointed on January 1, 2011. Some of these individuals had little or no previous experience of working for Alvarion. Our chief executive officer joined Alvarion in December 2009 and our chief financial officer joined Alvarion in September 2008 as the vice president of our financial division, and became chief financial officer on January 1, 2011. Two other members have previously served in other positions at Alvarion with more limited responsibilities. Should any members of senior management fail to perform as expected, or should they or other new key managerial appointees fail to acquire the requisite knowledge and skills in a timely manner, our operations may be disrupted and this might adversely affect our results of our operations.

Further, if certain of our key technical, sales or senior management personnel terminate their employment and we are unable to retain qualified replacements, our business and results of operations could be harmed.

We may be classified as a passive foreign investment company.

As a result of the combination of our substantial holdings of cash, cash equivalents and securities and the decline in the market price of our ordinary shares from its historical highs, there is a risk that we could be classified as a passive foreign investment company ("PFIC") for United States federal income tax purposes. However, based upon our market capitalization during 2010, we do not believe that we were a PFIC for 2010. In addition, based upon our valuation of our assets as of the end of each quarter of 2002 and 2003 and an independent valuation of our assets as of the end of each quarter of 2001, we do not believe that we were a PFIC for 2001, 2002 or 2003, despite the relatively low market price of our ordinary shares during some of those years. We cannot assure you, however, that the United States Internal Revenue Service or the courts would agree with our conclusion if they were to consider our situation. There is no assurance that we will not become a PFIC in 2011 or in subsequent taxable years. If we were classified as a PFIC, U.S. taxpayers that own our ordinary shares would be subject to additional taxes upon certain distributions by us or upon gains recognized after a sale or disposition of our ordinary shares unless they appropriately elect to treat us as a "qualified electing fund" or to make a "mark to market election" under the U.S. Internal Revenue Code. Our classification as a PFIC could also adversely affect the market price of our ordinary shares. For more information, see "Item 10—Additional Information—Taxation—United States Federal Income Tax Considerations with Respect to the Acquisition, Ownership and Disposition of our Ordinary Shares—Passive Foreign Investment Company Status".

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The price of our ordinary shares is subject to volatility.

The price of our ordinary shares has experienced significant volatility in the past and may continue to do so in the future. Since our initial public offering in March 2000, the price of our ordinary shares on the NASDAQ Global Select Market has ranged from a high of $53.12 to a low of $1.55. On December 31, 2010 and March 31, 2011, the closing price of our ordinary shares on the NASDAQ Global Select Market was $2.42 and $1.90, respectively. We may continue to experience significant volatility in the future, based on the following factors, among others:

- general economic conditions;
- our prospects;
- actual or anticipated fluctuations in our sales and results of operations;
- variations between our actual or anticipated results of operations and the published expectations of analysts;
- general conditions in the wireless broadband products industry and general conditions in the telecommunications equipment industry;
- announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures and capital commitments;
- introduction of technologies or product enhancements or new industry substitute standards that reduce the need for our products;
- the effect of general political conditions on our operations and results; and
- departures of key personnel.

We may be named as a defendant in securities class action lawsuits, or in other time consuming and expensive litigation that requires extensive management attention and resources and which may be expensive, lengthy and disruptive.

In the future, we may be named as a defendant in securities class action lawsuits or in other time consuming and expensive litigation. Legal proceedings can be expensive, lengthy and disruptive to normal business operations, and can require extensive management attention and resources, regardless of their merit. Moreover, we cannot predict the results of such legal proceedings, and an unfavorable outcome of a lawsuit or proceeding could materially and adversely affect our business, results of operations and financial condition.

Operating in international markets exposes us to risks, which could cause our sales to decline and our operations to suffer and could expose us to various legal, business, political and economic risks.

While we are headquartered in Israel, approximately 99% of our sales in recent years were generated globally, outside of Israel. Our products are marketed internationally and we are, therefore, subject to certain risks associated with international sales, including the following:

- trade restrictions, tariffs, and technology import and export license requirements, which may restrict our ability to export our products or may make our products less price-competitive;
- effects of economic conditions and credit availability;
- adverse tax consequences;
- greater difficulty in safeguarding intellectual property;
- difficulties in managing our overseas subsidiaries and staffing multiple offices and multiple research and development centers, and the increased travel, infrastructure and legal compliance costs associated with multiple international locations;
- difficulties in enforcing contracts and implementing our accounts receivable function, which introduces revenue recognition, translation, proximity and cultural challenges;
- political and economic instability, particularly in emerging markets;
- reduced protection for intellectual property rights in some countries where we may seek to expand our sales in the future;
- laws and business practices favoring local companies;
- differing labor standards;
- costs of localizing our products for foreign countries and the lack of acceptance of localized products in foreign countries; and
- fluctuations in currency exchange rates and the implications on our financial statements.

We may encounter significant difficulties with the sale of our products in international markets as a result of one or more of these factors. As we expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these risks. Our failure to manage any of these risks successfully could harm our international operations and reduce our international sales, adversely affecting our business, operating results and financial condition.

There may be health and safety risks related to wireless products.

In recent years, there has been publicity regarding the potentially negative direct and indirect health and safety effects of electromagnetic emissions from cellular telephones and other wireless equipment sources, including allegations that these emissions may cause cancer. Our wireless communications products emit electromagnetic radiation. Health and safety issues related to our products may arise that could lead to litigation or other actions against us, or to additional

regulation of our products. We may be required to modify our technology and may not be able to do so. We may also be required to pay damages that may reduce our profitability and adversely affect our financial condition. Even if these concerns prove to be baseless, the resulting negative publicity could affect our ability to market our products and, in turn, could harm our business and results of operations.

Risks Related to Our Location in Israel

Conducting business in Israel entails special risks.

We are incorporated under Israeli law and our principal offices and the majority of our manufacturing and research and development facilities are located in the State of Israel. Political, economic and military conditions in Israel and in the Middle East directly affect our operations. We could be harmed by any major hostilities involving Israel, the interruption or curtailment of trade between Israel and its trading partners or a significant downturn in the economic or financial condition of Israel. In the event of war, we and our Israeli subcontractors and suppliers may cease operations which may cause delays in the development, manufacturing or shipment of our products. In recent years, there has been an escalation in violence among Israel, Hamas, the Palestinian Authority and other groups, as well as extensive and continued hostilities along Israel's border with the Gaza Strip, which resulted in missiles being fired from the Gaza Strip into southern Israel since December 2008 and throughout 2010. There have been extensive hostilities along Israel’s border with the Gaza Strip since June 2007 when Hamas effectively took control of the Gaza Strip. Following seizing control over the Gaza Strip, Hamas has launched hundreds of missiles from the Gaza Strip against Israeli population centers, disrupting day-to-day civilian life in southern Israel. This led to an armed conflict between Israel and Hamas during December 2008 and January 2009, and at the beginning of 2011, a party identified with the Hezbollah took control over the Lebanese government. In addition, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. Furthermore, since the beginning of 2011 Egypt has witnessed an increased instability of its government and deterioration of its control over Egypt's internal affairs. This and further deterioration could have an adverse effect on the relations between Israel and Egypt, which have been parties to a peace treaty since the late 1970s. Ongoing violence between Israel and the Palestinians, as well as tension between Israel and terror organizations and other countries in the Middle East, combined with political instability which we evidence in the Middle East such as in Egypt, Libya, Syria, and Lebanon, may have a material adverse effect on our business, financial condition and results of operations.

Furthermore, several countries, principally some of those in the Middle East, still restrict business with Israel and Israeli companies. These restrictive laws and policies may seriously limit our ability to offer our services to customers in these countries.

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

Many of our officers and employees in Israel are obligated to perform annual military service duty until they reach age 45 and, in the event of a military conflict could be called to active duty. Our operations could be disrupted by the absence of a significant number of our employees due to military service or the absence for extended periods of one or more of our key employees due to military service. A disruption could materially and adversely affect our business, operating results and financial condition.

We currently benefit from local government programs as well as international programs and local tax benefits that may be discontinued or reduced.

We have received grants from the Government of Israel through the Office of the Chief Scientist of the Ministry of Industry, Trade and Labor (“OCS”) for the financing of a portion of our research and development expenditures in Israel, pursuant to the provisions of The Encouragement of Industrial Research and Development Law, 1984, referred to as the “Research and Development Law”. Pursuant to our current arrangement with the OCS, the OCS finances up to 20% of our research and development expenses by reimbursing us for up to 66% of the approved expenses related to our generic research and development projects. In addition, we obtain other grants from the OCS to partially fund certain other research and development projects. These programs currently restrict our ability to manufacture

particular products or transfer particular technology outside of Israel. The Research and Development Law and related regulations permit the OCS to approve the transfer of manufacturing rights outside Israel subject to an approval of the research committee and in exchange for payment of higher royalties, for royalty-bearing programs. Under these programs we need to comply with certain conditions. If we fail to comply with these conditions, the benefits received could be canceled and we could be required to refund any payments previously received under these programs or pay additional amounts with respect to the grants received under these 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.

In addition, we have been granted “Approved Enterprise” status under the Law for the Encouragement of Capital Investments, 1959 (the “Investment Law”) for our production facilities in Israel. Such status enables us to obtain certain tax relief for a definitive period upon compliance with the Investment Law regulations. On April 1, 2005, an amendment to the Investment Law came into effect which significantly changed the provisions of the Investment Law. 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. However, the amendment provides that terms and benefits included in any certificate of approval granted prior to December 31, 2004 will remain subject to the provisions of the law as they were on the date of such approval. We believe that we are currently in compliance with these requirements. However, if we fail to comply with these conditions in the future, the tax benefits received could be canceled and we could be required to pay increased taxes in the future.

We also received grants from the European Union, Romania and Spain for the financing of a portion of our research and development expenditures in those countries through various European programs. Under these programs we need to comply with certain conditions. If we fail to comply with these conditions, the benefits received could be canceled and we could be required to refund any payments previously received under these programs or pay additional amounts with respect to the grants received under these programs. If the European Union, and/or the Government of Spain and/or the Government of Romania discontinues or modifies these programs and potential tax benefits, our business, financial condition and results of operations could be materially and adversely affected.

We are adversely affected by the devaluation of the U.S. dollar against the New Israeli Shekel and could be adversely affected by the rate of inflation in Israel.

Substantially all of our revenues are generated in U.S. dollars. A significant portion of our expenses, primarily salaries, building leases and related personnel expenses is currently incurred in NIS, and we anticipate that a significant portion of our expenses will continue to be denominated in NIS.

As a result, inflation in Israel and/or the devaluation of the U.S. dollar in relation to the NIS has and may continue to have the effect of increasing the cost in U.S. dollars of these expenses; hence, our dollar-measured results of operations are and may continue to be adversely affected. In order to manage the risks imposed by foreign currency exchange rate fluctuations, from time to time we enter into currency forward contracts and put and call options to hedge some of our foreign currency exposure. We can provide no assurance that our hedging arrangements will be effective. In addition, if we wish to maintain the dollar-denominated value of our products in non-U.S. markets, devaluation in the local currencies of our customers relative to the U.S. dollar may cause our customers to cancel or decrease orders or default on payment.

Provisions of Israeli law and our Articles of Association may delay, prevent or make difficult a merger or an acquisition of us, which could prevent a change of control and therefore depress the market price of our ordinary shares.

Our Articles of Association contain certain provisions that may delay or prevent a change of control, including a classified board of directors. In addition, the Israeli Companies Law regulates acquisitions of shares through tender offers and mergers, requires special approvals for transactions involving directors, officers or significant shareholders, and regulates other matters that may be relevant to these types of transactions. These provisions of Israeli law could have the effect of delaying or preventing a change of control of us, may make it more difficult for a third party to acquire us, even if doing so would be beneficial to our shareholders, and may limit the price that investors may be willing to pay in the future for our ordinary shares. Furthermore, Israeli tax considerations may make potential acquisition transactions unappealing to us or to some of our shareholders.

It may be difficult to effect service of process and enforce U.S. judgments against our directors and officers in Israel or to assert U.S. securities laws claims in Israel.

We are incorporated in Israel. Our executive officers and a majority of our directors are not residents of the United States, and a substantial portion of our assets and the assets of these persons are located outside the United States. Therefore, it may be difficult to obtain a judgment in the United Stated or collect or get an Israeli court to enforce a judgment obtained in the United States against us or any of those persons. Furthermore, it may be difficult to assert U.S. securities laws claims in original actions instituted in Israel.

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.

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 Marketplace Rules.

We do not comply with the NASDAQ requirement that we obtain shareholder approval for certain dilutive events, such as for the establishment or amendment of certain equity-based compensation plans. Instead, we follow Israeli law and practice in accordance with which the establishment or amendment of certain equity-based compensation plans is approved by our board of directors.

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, executive officer compensation, director nomination, composition of the board of directors and quorum at shareholders' meetings. In addition, we may follow our home country law, instead of the NASDAQ Marketplace Rules, which require that we obtain shareholder approval for 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. 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 in September 1992 under the laws of the State of Israel. Since our inception, we have devoted substantially all of our resources to the design, development, manufacturing and marketing of wireless products.

On August 1, 2001, Floware merged with and into us. As a result of the merger, we emerged as the surviving company and Floware's separate existence ceased. Upon the closing of the merger, we changed our name from BreezeCOM Ltd. to Alvarion Ltd. On April 1, 2003, we completed an acquisition of most of the assets and the assumption of related liabilities of InnoWave. In December 2004, we completed the amalgamation of interWAVE , and the interWAVE operations became our CMU. In November 2006, we completed the sale of our CMU to LGC Wireless, Inc. ("LGC"), a privately-held supplier of wireless networking solutions in exchange for promissory and convertible notes of LGC. In September 2007, LGC converted our convertible notes into LGC shares and thus we became a shareholder of LGC. In November 2007, ADC acquired LGC and we sold our LGC shares to ADC for approximately $7.3 million.

Our principal executive offices are located at 21A HaBarzel Street, Tel Aviv 69710, Israel, and our telephone number is 972-3-645-6262. In 1995, we established a wholly-owned subsidiary in the United States, Alvarion, Inc., a Delaware corporation. Alvarion, Inc. is located at 6701 Democracy Blvd. Suite 300, Bethesda, Maryland. We also have an additional office in Sunnyvale, California located at N. Mathilda Avenue, Suite 210, Sunnyvale, California 94043, and its telephone number is 408-773-7200. Alvarion, Inc. serves as our agent for service of process.

We also have several wholly owned subsidiaries worldwide that handle local support, promotion, sales and developing activities. For a discussion of our capital expenditures and divestitures, see "Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources."

B. BUSINESS OVERVIEW

General

We concentrate our resources on the broad industry of wireless broadband. As a wireless broadband pioneer, we have been driving and delivering innovation for more than 15 years, from developing core technology to creating and promoting industry standards. Through leveraging our key roles in the Institute of Electrical and Electronic Engineers ("IEEE") and HiperMAN standards committees and having experience in extensive development and deployment of OFDM technology -based systems, we have been at the forefront of the WiMAX Forum™ in its focus on increasing the widespread adoption of standards-based products in the wireless broadband market and in leading the industry to adopt mobile WiMAX networks. The WiMAX standard is the outcome of the standardization work done by the WiMAX Forum™, widely based on the IEEE 802.16 standard working group.

Our primary business is to provide solutions based on the wireless broadband infrastructure solutions for two main categories of customers, operating a wide variety of applications:

Carriers:

Solutions for Carriers include the fourth generation ("4G") wireless networks for fixed, nomadic and mobile subscribers, providing subscribers with home, office and personal broadband connectivity for internet access, social networking, gaming, VoIP, video and other broadband applications. Our solutions enable operators in both developed and emerging markets, to offer broadband services to subscribers anytime, anywhere where the WiMAX network is

deployed, through the use of a variety of devices, such as laptops, PDAs and smart handsets which have undergone interoperability testing with our WiMAX system. In the Carriers category, we continue to offer standard products, which are growing in sales.

Enterprise:

Solutions for our Enterprise category include broadband wireless applications for a variety of vertical markets, providing owners and operators of public networks, private networks, utility companies and municipalities, with broadband connectivity and applications that fulfill each organization's own communication needs. Examples of such applications include government and municipal office connectivity, security and surveillance services, campus-to-campus broadband connectivity, oil & gas and mining company applications, emerging Smart Power Grid and Public Mobile Radio ("PMR") applications. In this market, we sell both WiMAX and non-WiMAX solutions, primarily in the license-exempt frequency bands.

Restructuring and new strategic initiatives position the company to achieve profitability in the future

At the beginning of 2011, we executed an organizational restructuring in order to improve our business results while re- sizing the organization to a level appropriate to the carrier and enterprise opportunities. As a result of the restructuring, we expect to decrease our expenses, including through headcount reductions, by approximately 30%, over the entire year of 2011.

INDUSTRY DYNAMICS

WiMAX Technology, Applications and Industry Advantages

Mobile WiMAX is a technology based on the IEEE 802.16e air interface standard and the ETSI HiperMAN wireless metropolitan area network (“MAN”) standard. WiMAX is the worldwide standard for wireless broadband access and personal mobile broadband applications. Solutions based on WiMAX technology enable fixed-line, cable, and mobile operators and challengers to compete with each other in the anticipated market for higher Average Revenue Per User (“ARPU”) services. WiMAX technology has the capacity to deliver sufficient bandwidth to enable value-added broadband applications, including live video broadcasting, high-speed data, toll-quality voice and multimedia content. Most importantly, the WiMAX (IEEE 802.16) standards were developed based on the concept of an "all-IP Network". A complete set of IP-based functions and interfaces allows for high quality service delivery, while keeping end-to-end Quality of Service (“QoS”) and minimizes investment and operating costs for operators with its distributed architecture and efficient, packet-based air interface.

WiMAX offers two technological advantages to the operators relative to the existing commercial technologies: (i) a superior radio access technology; and (ii) an open IP-based access network infrastructure.

Superior radio access technology: WiMAX benefits from advanced Non-Line-of-Sight (“NLOS”) radio and antenna technologies, such as MIMO, Beam Forming, and Spatial Division Multiple Access (“SDMA”). These new technologies can be used in fixed, portable and mobile WiMAX networks and facilitate high spectral efficiency and obstacle penetration (e.g., walls) resulting in best network coverage, capacity, low latency and improved user experience. As a result, WiMAX offers lower infrastructure costs and reduced cost per subscriber for the operator, compared to any other wireless technology.

Utilizing its built-in strong QoS mechanisms, WiMAX technology has the capacity to deliver maximum service quality under the subscriber’s Service Level Agreement ("SLA") to enable rich value-added applications, including high-speed data and Internet, live video multicasting, toll-quality voice and multimedia content in both download and streaming formats. These capabilities enable toll-quality delivery of differentiating services, coupled with an enhanced subscriber quality of experience (“QoE”).

Open IP-based access network infrastructure: The WiMAX (IEEE 802.16) standard was developed based on the concept of an open “all-IP Network,” which allows WiMAX to leverage the vast IP-based telecom and enterprise industries. WiMAX, as an IP-based connectivity standard, is able to easily and smoothly interface with any IP-based equipment, device or network. This approach, following the success of the World-Wide-Web Internet adoption, (a) minimizes investment in introducing new applications, thereby creating new interfaces and interoperability connections, (b) enjoys the low prices and abundance of information and know-how of the IP-based equipment world and (c) may significantly reduce the operator’s capital and operational expenditures when deploying such service networks. Therefore, the advantage of WiMAX over other mobile networks is in offering a complete OPEN IP architecture. The formation of an industry based on OPEN IP architecture can leverage on best-of-breed IP network equipment and IP-based consumer electronics devices, thus creating an open Internet model of wireline data over the new wireless WiMAX network.

The WiMAX standards are defined by the WiMAX Forum™. The WiMAX Forum™ is a non-profit organization focused on increasing the widespread adoption of standards-based products in the wireless broadband market and leading the industry to mobile WiMAX solutions. The WiMAX Forum™ members work to promote the interoperability of multiple vendors’ products in the wireless broadband market. Since its establishment, the WiMAX Forum™ members, working together with the IEEE, have established the first standards on which wireless broadband systems operate, namely the IEEE 802.16d-2004 standard and IEEE 802.16e-2005 standard. These standards fully support fixed and nomadic broadband wireless applications.

The WiMAX Forum™ defines the following types of access to a wireless network:

- fixed access, at a single stationary location for the duration of the network subscription;
- nomadic access, at multiple stationary locations, allowing the user to change locations between sessions;
- portability, at multiple locations at walking speed, within a limited network coverage area, with hard handoffs between cells;
- simple mobility, at multiple locations at low vehicular speed, within a network coverage area, with hard handoffs between cells, enabling non-real time applications; and
- mobility, at multiple locations at high vehicular speed, within network coverage area, with guaranteed handoffs between cells, enabling service continuity for all applications.

The Evolution of Wireless Broadband

The wireless broadband market has grown over the last decade due to the acceptance of wireless equipment as a high performance, cost-efficient alternative to wireline infrastructure for broadband connectivity.

In developed countries, government financial support encourages operators to complete broadband coverage in rural and suburban areas with low-density populations, where the business model for wired infrastructure is less cost-effective. In developing countries, government financial support is provided to encourage operators to offer basic

telephony services and Internet access based on wireless broadband infrastructure in order to meet the demand, mainly in urban and suburban areas.

The worldwide success of broadband connectivity and services creates demand for additional broadband networks mainly in regions where broadband was not widely available. The accelerated proliferation of broadband services and networks around the world as well as commoditization of broadband devices and services has generated more demand for broadband in developing regions, often referred to as the world's emerging markets. In these regions, wireline infrastructure is often non-existent, resulting in an accelerated widespread adoption of wireless broadband networks.

Government Deregulation Creates Demand

Global telecom deregulation is opening up the telecommunications industry to competition from new players. Wireless technologies require the use of frequencies contained within a given spectrum to transfer voice, multimedia and other data services. Usually, governments allocate a specific range of that spectrum, either licensed or license-exempt ("unlicensed") bands, to carriers, operators, ISPs and other service providers, enabling them to launch a variety of broadband initiatives based exclusively on wireless networking solutions. During 2010, additional licensed and unlicensed spectrums were allocated around the world and we expect this trend to continue in the future. Increased availability of licensed and unlicensed spectrums enables operators to address increasing demand for wireless broadband.

Additional Factors in the Widespread Adoption of Wireless Broadband

Over the last few years, wireless broadband networks have increasingly grown in popularity, due in part to the inability of wired infrastructure to meet demand, but also because of the following factors:

- competition among various types of telecommunications players to offer multiple services using a single network;
- growing trend of public access providers to build infrastructures owned by municipalities;
- rapid progression of standardization by international authorities, such as the WiMAX Forum™, combined with the wide adoption of these standards by equipment vendors and carriers;
- attractiveness of the business model offered to operators that use high performance standardized and interoperable products;
- convergence of fixed and mobile services;
- increasing availability of 4G ecosystem products, leading to reduction in the capital expenditures (CAPEX) and operating expenses (OPEX) of network deployment and the promotion of 4G operators' competitiveness; and
- proliferation of user-friendly, Internet-centric end user devices which encourage the use of bandwidth thirsty applications.

4G for Mobile Broadband Services and Applications

Mobile broadband promotes convergence of the fixed and mobile spheres, offering subscribers a combination of high-speed broadband and mobile services that are available anywhere, anytime, using any device. Mobile broadband offers always-on, high-speed and all- IP-based connectivity, providing direct access to the mobile Internet and creating a dynamic market for various services and applications.

Mobile broadband capabilities are already embedded in a wide range of computing, telephony and consumer electronics devices that aim to optimize personal lifestyle and professional productivity. These new mobile broadband

capabilities would enhance traditional service provider business models and create opportunities for new entrants to penetrate the market with alternative business models.

However, for mobile broadband services to be adopted widely by consumers and businesses, vendors must offer interoperable diverse and innovative applications with the right devices to utilize the applications.

We believe that WiMAX as well as LTE are currently the technologies that are the most advanced and well-suited to cost-effectively meet the requirements of personal broadband.

COMPANY STRENGTHS

For more than 15 years, our primary business activity has been focused on fulfilling the growing demand for IP wireless broadband in the telecom industry by providing solutions and services to build wireless broadband networks. In addition, we have deployed through our customers fixed wireless broadband solutions for applications, such as toll quality telephony service, mobile base station feeding, hotspot coverage extension, municipal and community interconnection, utility company metering and monitoring applications, as well as public safety communications. Our key strengths include:

Market Leadership and Brand Recognition: We believe that we are a worldwide leading 4G (based on WiMAX technology) vendor with a single business focus in broadband wireless access equipment and networks, and we enjoy a strong brand identity.

Customer Base: We have a broad customer base, with over 280 WiMAX commercial deployments.

Technology: We have over 15 years of experience in end-to-end broadband wireless IP and we believe we have been a leader in the broadband wireless access market for more than a decade. In addition, we have continued our leadership in the relevant standardization organizations (IEEE 802.16, WiMAX Forum™).

Execution Capabilities:

We have the ability to deliver and deploy a complete solution in terms of product, technology, and full end-to-end network deployments and to build long-term customer satisfaction.

We believe that we have the ability to compete with any other player in this industry, while keeping our flexibility and technology differentiators according to customer demands and needs.

Strategic Relationships: We are actively partnering with industry and market leaders to create go-to-market strategic relationships and best-of-breed wireless broadband networks.

Experience in Wireless Broadband

Our experience in wireless broadband enabled us to identify the potential of WiMAX in early 2002, ahead of most equipment vendors. As a result of early strategic decisions, in 2007 we led the market in the number of deployed WiMAX–based networks. We have been at the forefront of developments with WiMAX technology since its inception, at a company and industry level. Examples of our active involvement include major roles in the standardization process through our work in the WiMAX Forum™ as a charter board member. In addition, our employees are active in other related technology organizations, such as Wireless Communications Association, IEEE 802.16, ETSI BRAN-HiperMAN and ITU standards.

GROWTH STRATEGY

Our growth strategy is focused on providing complete integrated 4G networks (based on WiMAX technology) and broadband wireless solutions, maintaining our current leadership position and growing along with market demand for converged applications. We have accomplished significant milestones in terms of product development, agreements with third parties to integrate their products into our complete solution, enhancement of know-how and execution of turn-key projects in order to offer a complete WiMAX network to telecommunication operators. We intend to leverage these investments in both of our lines of business, the Carrier and the Enterprise. We further plan to place specific focus on our enterprise line of business with additional investment in product development, channel recruitments and go-to-market activities in new vertical/domains.

Additionally, we aim to leverage our extensive know-how and expertise in broadband wireless access technology to aid mobile operators as they deal with the capacity crunch they now face. As a broadband wireless pioneer, we believe Alvarion is well positioned to help mobile operators achieve the levels of broadband coverage they need in order to provide a satisfactory QoE.

Opportunities for Providing Solutions Based on an Open Architecture

The inherent, open architecture characteristics of WiMAX offer many opportunities for our company as a major global WiMAX end-to-end network provider. We continually strive to be at the forefront of exploring and maximizing the benefits of WiMAX in order to create a new operator-centric model based on best-of-breed solutions from a variety of OPEN WiMAX ecosystem partners.

The WiMAX Transformation to Open Architecture

The dynamics of WiMAX create an all-IP open architecture, removing barriers to entry and facilitating rapid innovation. Designed from the start as an open standardized interoperable technology, OPEN WiMAX is a network strategy that enables a complete ecosystem, including radio access network equipment, core network equipment, consumer electronics, service offerings and applications. This strategy enables communication service providers to choose the combination of vendors and partners that best fit their specific requirements.

OPEN WiMAX is designed to enable multiple telecom vendors to build a best-of-breed telecom access network in an open standard architecture. It creates a telecom operator-centric offering, concept or culture as opposed to a vendor-centric approach, historically used in large telecom projects.

OPEN WiMAX is highly scalable and suitable for large, medium or small deployments, assisting operators to optimize their WiMAX network deployment costs and to fit the expenditures to the desired services-centric network – both in terms of capital expenditures and operating expenses during the operation of the network. This “mix and match” multi-vendor approach helps promote competition, which drives prices down and enhances the product offering. Innovative products, services and applications for WiMAX, such as mobile TV and mobile gaming for personal use and virtual private network and file transfer for business use, enable vendors to distinguish themselves from the competition.

Open networks in general, and OPEN WiMAX in particular, promote the long-term success of service providers in the highly competitive markets of broadband services, by offering the following:

- Superior performance combination (i.e., “best-of-breed”) of network equipment to meet service providers’ requirements;
- Wide variety of subscriber service and openness to enable future services and applications;

- Increased purchasing power to promote service providers' business models; and
- Improved risk management, including sustainability against possible changes in vendors' strategy, products and services, as a service provider is not limited to a single or only a few vendors.

WiMAX is based on open IP networks; therefore, the OPEN WiMAX strategy is a direct implementation of one of the strong WiMAX innovation fundamentals. We believe that adopting our OPEN WiMAX strategy differentiates us from our competitors and provides us with a competitive advantage over large telecom vendors, as we offer a best-of-breed one stop-shop, rather than a single offering from a single vendor.

PRODUCTS

BreezeMAX Platforms - WiMAX Solutions for converged applications

Our WiMAX-based BreezeMAX Frequency Division Duplex ("FDD") and Time Division Duplex ("TDD") (“BreezeMAX”) platforms are designed from the ground-up according to the IEEE 802.16 standard. BreezeMAX platforms feature advanced OFDM and OFDMA technologies to support non-line-of-sight ("NLOS") operation, adaptive modulation up to QAM64 and the highest spectral efficiency available. Currently commercially available and operating in the 2.3, 2.3WCS, 2.5, 3.3, 3.5, 3.6 and 5.2 GHz licensed frequency bands, BreezeMAX meets the immediate customer demand for cost-effective, next generation broadband wireless systems with a platform designed around the implementation of the IEEE 802.16 and HiperMAN standards by the WiMAX Forum™. The BreezeMAX carrier-class design supports broadband speeds and QoS to enable carriers to offer quadruple play (meaning broadband data, voice, mobility and multi-media) services to thousands of subscribers in a single-base station.

BreezeMAX has quickly become a popular solution for operators offering fixed high-bandwidth, VoIP and data services to evolve their networks to industry-standard solutions with improved outdoor and indoor customer premises equipment ("CPE") economics. This platform includes an enhanced offering of primary voice services and allows an operator to leverage legacy voice infrastructure. The system’s features and cost-effective, versatile subscriber units make BreezeMAX a preferred broadband wireless solution for service providers that are interested in improving their business model.

In 2007, the BreezeMAX indoor Si CPE opened the door for personal broadband and primary broadband WiMAX standard-based solutions and enabled nomadic services via quick deployments based on a plug-and-play installation. In addition, the BreezeMAX indoor Si CPE enabled centrally provisioned, portable connectivity for subscribers to use the CPE in various points within the network coverage and reconnect to the service after moving from one location to another. The BreezeMAX’s FDD platform was designed according to the IEEE 802.16-2004 standard, and was partially certified by the WiMAX Forum™ during 2006 for fixed and nomadic networks, for both Base Stations and CPEs. In early 2007, we introduced our TDD pre-certified IEEE 802.16-2005 platform that was designed for fixed and nomadic networks. Our BreezeMAX platform, which is part of our 4Motion solution, provides support for fixed, nomadic and mobile WiMAX, and has been designed according to the IEEE 802.16e-2005 standard for portable and mobile networks.

BreezeMAX Macro Outdoor is a Carrier-class, all outdoor, broadband wireless access platform. Based on the BreezeMAX Macro Indoor base station, BreezeMAX Macro Outdoor is a modular, scalable and reliable all outdoor base station which features flexible installation capabilities. The Outdoor Access Unit ("ODU") is a high power remote radio unit that connects to an external antenna, and provides high system gain and interference robustness by utilizing high transmit power and low noise figure. Supporting up to 20 MHz bandwidth, the ODU is scalable for future options such as increased capacity through carrier multiplexing or wider frequency bandwidths. The BreezeMAX Macro Outdoor base station offers a range of ODUs featuring diverse configurations and streamlining 2nd and 4th order diversity.

BreezeMAX Extreme 5000 is the first wireless broadband solution to bring WiMAX 16e technology to the 5 GHz license-exempt market. A highly integrated, all outdoor base station, BreezeMAX Extreme 5000 is designed for ease-of deployment and reduced total cost of ownership. Built with the customer in mind this solution offers easy configuration and a self sustained ecosystem, ideally suited for Wireless Internet Service Providers (WISPs), municipalities, utilities, enterprises and public safety networks.

BreezeMAX Extreme 3650 is an all outdoor zero footprint WiMAX 16e wireless broadband solution for rural America.

IEEE 802.16e-2005 compliant technology enables portable and mobile networks to be IP-based, with a focus on open standards, end users and consumer devices. Portable access is defined according to the WiMAX Forum™ to apply to handsets, PDA, laptop Personal Computer Memory Card International Association ("PCMCIA") or mini cards at multiple locations, at least at walking speed, and enables a hard handoff of devices, in which the subscriber terminal is disconnected from one base station before connecting to the next base station. Mobile access ranges in scope from low to high vehicular speeds but adds PDAs and smart-phone devices, multiple locations and enables a soft handoff, in which the subscriber maintains a simultaneous connection with two or more base stations for a seamless handoff to the base station with the highest quality connection. Both consumer and business users have driven the demand for this technology that has resulted from the convergence of fixed broadband networks and mobile voice networks towards mobile broadband communications.

4Motion™ Solution

Our mobile WiMAX solution, 4Motion™, was introduced to the market during the second half of 2006 and was commercially deployed in the market in mid 2008. 4Motion™ is an end-to-end mobile WiMAX solution designed to comply with the IEEE 802.16e-2005 standard. The solution is a software defined radio base and as such allows migration to other OFDMA technologies. The solution portfolio was developed in conjunction with leading providers of core network and IP technology, devices and integration services and its evolution is under continuous development. 4Motion™ offers an open, end-to-end, carrier-class, scalable and cost-effective mobile broadband data solution that delivers personal broadband services of several Mbps per subscriber or more. Offering the benefits of the OPEN WiMAX approach to network strategy, our 4Motion™ solution provides operators with the flexibility to choose best-of-breed multi-vendor partners to add third-party IP services, while controlling costs.

The 4Motion™ solution includes Radio Access Network ("RAN") and includes both Alvarion’s and third parties’ core network, radio and IP networking elements, end-user devices and subscriber applications. The 4Motion™ as a whole is optimized to provide full mobility in line with the IEEE 802.16e-2005 standard.

Our Wireless Broadband Access Solutions (Non-WiMAX)

Although our primary focus is to provide solutions based on the WiMAX standard, we also continue to sell our non-WiMAX products to a variety of markets. We provide a broad range of integrated wireless broadband solutions, addressing different markets and frequency bands, designed for the various business models of carriers, service providers and private network owners such as municipalities, businesses, utilities and more. Our products address point-to-point and point-to-multipoint architectures for a wide scope of end-user profiles, including residential, small office/home office (“SOHO”), small/medium enterprises (“SME”), multi-tenant/multi-dwelling units (MTU/MDU) and large enterprises (corporate). Our products operate in licensed and license-free bands, ranging from 900 MHz to 28 GHz and comply with various industry standards. Our core technologies include spread spectrum radio, linear radio, digital signal processing, modems, media access control, IP-based mobile switches, networking protocols and very large systems integration (“VLSI”).

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Most of our non-WiMAX wireless broadband solutions are based on OFDM technology with NLOS capabilities, creating more possibilities to cover a wireless access network.

Many applications can be deployed over wireless broadband systems. Data, voice and video applications can be utilized by telecom operators, service providers and regional carriers based on the needs of their regions of operation.

In addition to data and voice, applications such as video surveillance are deployed over our networks in municipalities and other markets such as mining, oil & gas, campus deployments and more.

Wireless broadband solutions are implemented in a modular infrastructure, enabling swift, cost-effective roll-out as needed. Sectorized base stations are deployed to provide radio coverage to the targeted area, and frequency channels are reused in non-adjacent base station sectors, making the most efficient use of the available spectrum. Base stations are connected to the operator's central office, or point-of-presence, using wired or wireless point-to-point solutions. End users are provided with CPE, typically consisting of an outdoor unit with a radio and an antenna connected to an indoor unit or indoor self-installed unit, which present voice and data interfaces to the customer network.

BreezeACCESS Products (BreezeACCESS 4900, 900,VL,OFDM, Wi2)

BreezeACCESS enables fixed high-speed data and voice, point-to-multipoint wireless broadband applications. BreezeACCESS products operate in several frequency bands to meet the needs of our customers worldwide. The BreezeACCESS product family consists of base stations, including access units, controllers and subscriber units. The latter operates optimally when connected to computers or computer networks utilizing the Internet Protocol. The subscriber units include subscriber units for data applications and subscriber units for data and telephony applications. BreezeACCESS is modular in design, allowing for a low initial investment, and is scalable to enable future growth.

BreezeACCESS OFDM products support an extended coverage range in the 4.9, 5 GHz frequencies and the license-exempt 900 MHz frequency bands and features embedded security mechanisms with hardware-based encryption to ensure consistently secure wireless links that do not degrade performance

BreezeACCESS 4900 is a critical communications tool for the United States public safety sector. Deployable in point-to-point and point-to-multipoint configurations, the solution provides secure and reliable wireless connectivity in any terrain, environment and climate. The 50 MHz licensed spectrum in the 4.940 GHz-4.990 GHz, reserved for public safety and homeland security use, assists local municipal groups to provide license-protected, secure access for public safety, medical, emergency, government security and surveillance applications with superior capacity, range and scalability.

Operating in the license-exempt 902-928 MHz band, BreezeACCESS 900 is a cost-effective Broadband Wireless Access solution that enables service providers to deliver high-speed, wireless data and voice services for fixed and mobile applications. BreezeACCESS 900 enables the reliable delivery of services in NLOS, foliage-dense environments.

BreezeACCESS VL is an OFDM based carrier-class, point-to-multipoint solution for wireless broadband outdoor connectivity and the delivery of high-quality data, voice and video services in urban and rural environments. BreezeACCESS VL lets WISPs, municipalities, governments, enterprises and utilities providers deliver an array of broadband wireless applications in urban and rural deployments. It provides enhanced QoS capabilities to enable the allocation of the necessary bandwidth and priority in line with application and user needs. BreezeACCESS VL supports an extended coverage range in the 4.9, 5 GHz frequencies and the license-exempt 900 MHz frequency bands, and features embedded security mechanisms with hardware-based encryption to ensure consistently secure wireless links that do not degrade performance. BreezeACCESS VL is a field-proven, flexible platform that enables diverse product configurations and power feeding options to match varying deployment needs. The solution adheres to Alvarion's "pay-as-you-grow" business model to ensure maximum scalability and supports a wide range of subscriber units to offer an affordable, optimized solution for top performance.

BreezeACCESS Wi2 combines the advantages of Wi-Fi access with the capabilities of BreezeACCESS VL systems to provide cost-effective solutions for personal broadband services today. BreezeACCESS Wi2 solutions can be deployed almost anywhere to provide personal broadband to standard IEEE 802.11 b/g end user devices such as laptops, PDAs, smart-phones and portable gaming devices. BreezeACCESS Wi2 solutions are ideal for operators, municipalities and communities looking to build metropolitan broadband networks or to integrate Wi-Fi hot zone capabilities into their existing broadband wireless access networks. These solutions provide personal broadband services ranging from public Internet access to public safety and Intranet applications.

OFDM technology, on which BreezeACCESS and BreezeACCESS VL are based, enables higher data rates of up to 12 Mbps and up to 54 Mbps, respectively, by utilizing the available radio spectrum in an efficient manner. In addition, OFDM technology enables NLOS operation with robust resistance to interference. OFDM-based products enable carriers to use the technology in applications where a high data rate is required, including serving medium to large enterprises and high-speed backbone applications.

BreezeNET B Products

Our BreezeNET B products are designed to provide highly reliable, backhaul, building-to-building bridging solutions, support mobile connectivity and provide individuals or small groups of users with wireless access to a LAN.

BreezeNET B products function as a wireless bridge system that provides high-capacity and high-speed point-to-point connectivity.

The BreezeNET B system operates in the unlicensed 2.4, 4.9-5.8 GHz bands and has flexible rate options: B10, B14, B28, B100, B300 delivering up to 250 Mbps with symmetric or fully symmetric, fixed or dynamically adjusted allocation reaching up to 60 km.

BreezeNET B operates in NLOS environments, such as buildings, foliage or ridgelines. The system also features adaptive modulation for automatic selection of modulation schemes to maximize data rate and improve spectral efficiency. BreezeNET B supports security sensitive applications through optional use of authentication and data encryption. The system supports Virtual Local Networks (“VLANs”), which enable secure operation, and VPN services, which allow workers in remote locations or remote offices to conveniently access their enterprise network.

WALKair Products

The WALKair system is a wireless broadband system that enables carriers to provide high-speed Internet access, other data services and voice services primarily to SMEs. WALKair's high spectral efficiency, dynamic bandwidth allocation, effective frequency reuse plan and high coverage capacity enable carriers to connect last-mile business subscribers to their network in an efficient and cost-effective manner.

Our WALKair products consist of WALKair 1000 that operates in the 3.5, 10.5 and 26 GHz licensed bands, and WALKair 3000 that operates in the 3.5, 10.5, 26 and 28 GHz bands.

WALKair products are based on time division multiplexing technology. WALKair systems support a complement of value-added classes of services including VPN, VLAN and QoS, based on per-user allocation of committed data rate and maximum data rate.

WALKair 3000 accommodates carriers' requirements for broader bandwidth, primarily driven by the growing use of data-intensive Internet applications. It also enables carriers to efficiently connect multiple subscribers in multi-tenant buildings by a single terminal station. WALKair 3000 supports significantly broader bandwidth for each customer and increased capacity for each cell, increasing the peak speed of transmission of each terminal station to up to 36 Mbps. WALKair 3000 integrates smoothly with WALKair 1000, which enables carriers to deploy both systems on the same base station, serving a variety of subscribers with different needs for communication services, within the same cell.

Network Management Solutions

We provide advanced management applications for our wireless solutions. Our network management applications are equipped with graphical user interfaces and provide a set of tools for configuring, monitoring and effectively managing our wireless broadband networks. The Star Management Suite, our flagship carrier-class Network Management System, is fully compliant with Telecommunications Management Network (TMN) standards and simplifies network deployment and maintenance for networks of every scale. The Star Management Suite is designed specifically for WiMAX deployments and helps service providers to cost-effectively manage WiMAX deployments, roll out new services and maintain high service levels. The Star Management Suite is made up of specific management tools that cover the entire WiMAX service life-cycle - from initial installation to full service provision, and all monitoring, reporting and troubleshooting tasks required for efficient network operation. The Star Management Suite can be deployed gradually, module by module, in accordance with network needs. The Star Management Suite is made up of four modules:

AlvariStar is a carrier-class, field-proven Network Management System ("NMS") for managing Alvarion's WiMAX base stations in mobile and fixed deployments.

StarACS automatic configuration server is a scalable solution for unified management of various WiMAX CPEs including; residential gateways ("RGWs") and devices with WiFi, Data and VoIP capabilities as well as any fixed or nomadic TR-069-supported devices.

StarQuality is a network performance and traffic monitoring system that helps operators optimize WiMAX network usage, maximize traffic capacity, maintain high level, quality services and comply with maintenance service license agreements.

StarReport provides a quick and efficient way to generate network inventory reports for a full, accurate and easy to understand status of the entire network.

Accessories Offered by Alvarion

In order to support our products and provide comprehensive solutions to our customers, we provide a family of accessories designed to extend the range of our BreezeMAX, 4Motion, BreezeACCESS, WALKair and BreezeNET solutions. These accessories include antennas, cables, surge arrestors, amplifiers and other components.

Our Geographic Markets

Our network installations can typically be found in developing regions in developed countries and in emerging markets. In addition we are in the process of penetrating metropolitan centers of developed countries.

Within developed countries there are rural or suburban regions with low-density populations, often extending over vast distances that have limited telecommunications infrastructures. WiMAX and wireless broadband have made inroads in these areas due to the business opportunities, robust equipment, extensive coverage and non line-of-sight capabilities. In addition, government assistance in “closing the digital divide” in these countries has served as an incentive for alternative operators to consider WiMAX systems for providing broadband services. Examples of these markets are found in various parts of the world, including in North America, Western and Eastern Europe, Asia Pacific and South America. Alvarion currently serves all of these markets.

We believe that wireless broadband service providers in emerging markets have found that deploying wireless broadband and new WiMAX solutions where there is a lack of telecommunication coverage due to poor infrastructure is an affordable means to provide broadband and telephony services. Emerging markets are countries where basic voice services combined with broadband data remain scarce. Examples of these locations are in Africa, Eastern Europe, Latin America, Central America and Asia Pacific. Alvarion is serving all of these markets.

Geographic Breakdown of Our Revenue

	2008		2009		2010	
	In thousands					
North America	$ 42,683	15.2 %	$ 23,242	9.5 %	$ 47,517	23.1 %
Latin America	53,183	18.9 %	45,369	18.5 %	26,875	13.1 %
Europe, Middle East and Africa	156,201	55.5 %	148,738	60.7 %	109,909	53.3 %
Asia Pacific	29,214	10.4 %	27,890	11.3 %	21,514	10.5 %
	$ 281, 281	100.0 %	$ 245,239	100.0 %	$ 205,815	100.0 %

General – Industry Market Segments and Players

The operators in the wireless broadband market fall within the following categories, as determined by the industry:

Communications Service Providers: Tier One and Tier Two Operators

Tier One and Tier Two operators form the largest and most established group of telecom operators, with nationwide or global presence, serving tens of million of users. These operators are a primary focus for our WiMAX equipment since they have a strong, strategic interest in deploying WiMAX in their networks. Tier One and Tier Two carriers are looking for technology that will enable them to maintain their position at the front line of communications business within their home countries, as well as to quickly expand their business by providing telecommunications services in neighboring countries. Examples of Tier One and Tier Two carriers that have publicly indicated their strategy include: Telkom South Africa Ltd., France Telecom, Bharti and Telefonos de Mexico S.A. de C.V, Orange and Safaricom.

Broadband Service Providers

Broadband service providers build their business model primarily on converged WiMAX solutions, while providing in many cases improved services compared to legacy telecommunication operators. Broadband service providers are expected to constitute a greater portion of the WiMAX market in the future. Examples of service providers in to this category include Bolloré Telecom (France), Digital-Bridge Communications (USA), Open Range (USA), Enforta (Russia), Free (France), Iberbanda in Spain (a subsidiary of Telefonica de Espana), and Ertach (Argentina).

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CLECs & Regional Carriers

Competitive Local Exchange Carriers ("CLECs") seek to compete effectively with the Incumbent Local Exchange Carriers ("ILECs"). Wireless broadband is an attractive and cost-effective last-mile alternative to wired access solutions. CLECs are deploying our products to provide voice and broadband services in rural and suburban areas where wire line infrastructure does not exist or does not support the demand. In addition, in the areas of landline infrastructure in developed countries, wireless broadband systems offer carriers the ability to reach otherwise inaccessible customers, while providing increased bandwidth flexibility and service differentiation, surpassing the inherent limitations in wire line infrastructure.

CLECs have constituted an important part of our focus in our fixed wireless access product line and have increasingly exhibited an interest in our technology. The reduced installation costs, rapid roll-out potential and modular architecture, coupled with high network capacity and coverage and enhanced service options, present an appealing alternative to service providers and regional carriers seeking to supply their customers with reliable comprehensive data and voice solutions. Examples of these operators include VMAX (Taiwan), Wisper (USA), Elro (Denmark), Linkem (Italy), Czech on line,), KDN (Kenya), Millicom, and Barret Xplore Inc. (Canada).

Government, Municipalities, Communities and Private Network Operators

Private and government sectors that operate private networks for business management and operations are in constant need of deploying technologies to support their operational requirements. Examples of such requirements are enterprises that require leased line replacement for cost-effective connectivity to provide VoIP and data services; metropolitan area networks for broadband connectivity; metering and monitoring applications used by utility companies to collect information and supervise operations; and cost-effective access within communities, municipalities and educational institutions. Another area that has leveraged broadband wireless very effectively has been surveillance, public safety and municipal applications. Government authorities and private organizations with government sponsored funds have begun to deploy broadband wireless systems to support remote video surveillance, traffic flow management, back-up for disaster recovery, leased line replacement, various forms of backhaul and other public safety uses. Examples may be found in various U.S. communities such as Houston, Texas, Richardson, Texas and many others.

2010 Partial Customer List for WiMAX and Other Fixed Wireless Broadband Systems

Telecom carriers and service providers using our products include, among others:

ACCESS KENYA

ADAM INTERNET, AUSTRALIA

ARIA, ITALY

BARRET XPLORE INC, CANADA

BHARTI TELE-VENTURES LIMITED (AIRTEL ENTERPRISE SERVICES), INDIA

CIELUX, DRC

CLEARWIRE, SPAIN

DIGICEL, CARIBBEAN

DIGITAL BRIDGE COMMUNICATIONS, USA

EASPNET, TAIWAN

ELRO, DENMARK

ERTACH SA (FORMERLY MILLICOM), ARGENTINA

HAFSLUND, NORWAY

IBERBANDA, S.A, SPAIN

ICE COSTA RICA

KDN, KENYA

LINKEM, ITALY

MTN UGANDA, UGANDA

NETIA SA, POLAND

NGI, ITALY

OPEN RANGE, USA

ORANGE BOTSWANA

RACSA, COSTA RICA

SAFARICOM, KENYA

TELECOM NAMIBIA, NAMIBIA

TELKOM SOUTH AFRICA LTD., SOUTH AFRICA

VMAX, TAIWAN

TECHNOLOGIES UNDERLYING OUR PRODUCTS

We use internally developed core technologies and continue to invest heavily in augmenting our expertise in networking, radio, digital signal processing (“DSP”) modem technologies, Media Access Control ("MAC") technologies and Radio Resource Management ("RRM") technologies. We also participate as active members in international standards committees.

Networking Technology

To support the OPEN WiMAX concept and our 4Motion™ solution as well as the BreezeMAX platform and other products, we have developed or otherwise acquired, and continue to invest in, networking expertise in the areas of IP Access and Mobile IP that is particularly adapted for mobile WiMAX networks, Access Service Networks Gate Ways (“ASN-GW”), Point-to-Point Protocol Over Ethernet (“PPPoE”) tunneling, VPN and VoIP, based on industry standards, such as H.323, SIP and MGCP, and other Internet standards and protocols. To support the SentieM™ technologies embedded in our 4Motion™ solution as well as in the BreezeMAX platform and other products, we have developed or otherwise acquired, and continue to invest in, distributed radio architecture and hierarchical ASN-GW network architecture. We have also developed, and are continuing to develop, know-how to satisfy market requirements with respect to quality of service, classes of services, committed information rate, maximum information rate, virtual LAN management and prioritization. We are developing access technology based on the IEEE 802.16-2004 and the IEEE 802.16e-2005 standards, as well as the WiMAX Forum™ technical specifications for both radio access and networking to further support the needs of customers using WiMAX. We have also developed a network management system that provides network surveillance, monitoring and configuration capabilities for all our products.

Radio Technology

We have in-house radio development capabilities to address the diverse frequency bands and modulation methods of our products. The frequency bands include, among others, 900 MHz, 2.4 GHz, 2.3, 2.5-2.7 GHz, or MMDS, 3.3-3.8 GHz, 4.9-6 GHz, 10.5 GHz and 26 and 28 GHz. The modulation methods include Frequency Hopping Spread Spectrum (FHSS), Gaussian Frequency Shift Keying (GFSK), Direct Sequence Spread Spectrum (DSSS), Single Carrier QAM and OFDM and OFDMA. Our products include both TDD and FDD radios.

Our radio teams specialize in low cost, mass-production oriented radio design. The system level capability is software-assisted radio auto-calibration, which allows for reduced manufacturing costs and compensates for components’ parameter spread and instability, temperature-related changes and aging of components.

Our internal radio expertise enables us to attract customers by addressing promptly new needs, such as new frequency bands.

We have developed or otherwise acquired, and continue to invest in, radio technology expertise, specifically high efficiency, high power radios and new interfaces between the modem and the remote radio heads.

Digital Signal Processing ("DSP") Modem Technology

We maintain strong expertise in DSP and in modem design. Our capabilities include a hardware oriented design, as well as programmable DSP oriented design. Our modem design hinges on the Software Defined Radio paradigm. The extensive configurability of our base station modems, through Field Programmable Gate-Array (FPGA) and DSP reprogramming, allows us to readily introduce advanced features to our products and to follow amendments to emerging standards, including capability to upgrade deployed networks by downloading only software. Similarly, our CPE designs allow for upgradeability through over the air software download, simplifying our customers' operations.

We have developed the BreezeMAX base station platform, which is designed to support the WiMAX (IEEE 802.16 and HIPERMAN) air interface specification. The platform supports the multiple antenna elements per sector to exploit the smart-antenna signal processing techniques for improved coverage and network capacity. The programmable DSP-based architecture of the BreezeMAX platform enables us to support the IEEE 802.16d-2004 standard, as well as the IEEE 802.16e-2005 standard for mobile broadband communications, while enjoying the benefits of OFDMA and smart-antenna processing. The base station architecture and capabilities are closely aligned and synchronized with the CPE application-specific integrated circuit ("ASIC") and reference design developed by Intel resulting from our collaboration, which began in 2003, to ensure optimum performance in future WiMAX deployments. We are working closely with additional mobile WiMAX user terminal system on a chip (SoC) silicon providers to ensure proper interoperation of our base station equipment with their devices.

To support the SentieM™ technologies embedded in our 4MotionTM solution, as well as the BreezeMAX platform and other products, we have developed or otherwise acquired, and continue to invest in MIMO, Beam Forming and SDMA technologies.

We have also developed mixed signal ASICs containing DSP cores. Inclusion on-chip of analog-digital converters is instrumental to both cost reduction and power consumption reduction. First generation ASIC supports our IEEE 802.11-based FH-GFSK products, with the above-standard capability of delivering 3 Mbps, with automatic fall back to 2 Mbps and 1 Mbps as necessary. Our second generation ASIC is optimized for OFDM modulation, as used by the IEEE 802.11a/g standards and the recently approved IEEE 802.16a standard. This ASIC is based on proprietary programmable "very long instruction word" DSP architecture. The programmable architecture allows us to implement numerous beyond-standard capabilities, such as OFDMA extensions to the baseline OFDM mode. This system-on-a-chip ASIC has been used as a key component of our BreezeACCESS-OFDM products. An additional ASIC developed in-house supports our WALKair products, with a full duplex point-to-multipoint single carrier trellis-coded 64QAM modem. MAC and RRM Technologies

We have developed or otherwise acquired, and continue to invest in, MAC and RRM technology expertise that support channel aware rate adaptation and power control technology (part of the SentieM™ suite) technologies as well as advanced packet data scheduling and OFDMA frame building technologies embedded in the BreezeMAX platform and 4Motion™ solution. Additional features developed or otherwise acquired are MAC and RRM support for MIMO transmissions in the downlink, collaborative MIMO reception in the uplink and beam-forming in the downlink.

IOT Labs and Activities

To support our OPEN WiMAX strategy and enable a strong ecosystem habited by top industry vendors we have created our IOT lab which we continue to develop and maintain, and which tests a variety of products for interoperability on an ongoing basis, with the goal of ensuring that customer specific configurations, including CPE's and frequencies, are fully supported. The IOT Center is tasked with testing both various forms of CPE's, including dongles, PCCards, USB's, notebooks, laptops and standalones, and testing a range of core products, including ASN-GW's, AAA's and Home Agents. All of the products tested in our IOT labs are from a variety of vendors, and are tested in an Alvarion network environment using Alvarion Base-Stations and may also use an Alvarion ASN-GW, depending on the customer configuration. In addition, the IOT lab also performs scheduled maintenance for product versions which have already undergone IOT. Our IOT center can additionally engage in provisioning activities which enable end-to-end integration of a full solution per customer requirements.

Participation in International Standards Committees

As part of our strategy to become a technology leader and influence the industry in specific areas, we have, since our inception, been active members in standardization committees.

We are a principal founder of the WiMAX Forum™, a non-profit organization whose members work to promote adoption of the IEEE 802.16 OFDM/OFDMA standard and to certify interoperability of compliant equipment. Our representative on the board of directors of the WiMAX Forum™ is Dr. Mohammad Shakouri, Corporate Vice President of Marketing at Alvarion, who holds the position of Vice President of the WiMAX Forum™.

The scope of the IEEE 802.16-based standard is the Wireless MAN, supporting larger range fixed/nomadic/mobile broadband access networks with more performance and dedicated high-end services. Our engineers actively participate in the technical group for defining inter-operability profiles and tests. Our representative, Dr. Vladimir Yanover, holds the position of Vice Chair of WiMAX Forum™'s Technical Working Group (TWG), which is responsible for defining the interoperability profiles and the interoperability and conformance tests for the IEEE802.16e-2005 standard.

We actively participate in the IEEE 802.16's Broadband Wireless Access work group. Similarly, we are part of the WiMAX Forum™'s groups that define and improve the OFDM/OFDMA mode for both fixed and mobile broadband applications and that improve the ability of the IEEE 802.16 standard to increase its market footprint in license-exempt applications.

Mariana Goldhamer, Director for Strategic Technologies at Alvarion, chaired the IEEE 802.16h, which targets Improved Coexistence in License-Exempt deployment. She also was ETSI BRAN (Broadband Radio Access Networks) Vice-Chair and HiperMAN Chair. ETSI HiperMAN has adopted the IEEE 802.16 OFDM mode and has recently embraced the OFDMA mode.

Ms. Goldhamer has led ETSI HiperMAN to harmonize the IEEE and ETSI standards to create a worldwide broadband standard for converged fixed-mobile applications.

We have participated in the IEEE 802.11 wireless LAN work group, which is the driving force behind increasing the data rate of the frequency hopping modem. Naftali Chayat, Alvarion's Chief Scientist, chaired the IEEE 802.11a task group, which is the first OFDM based high-data rate wireless LAN standard.

We are also very active in the international regulatory arena, including ITU-R, which aims to promote WiMAX in the regulatory domain and to secure the spectrum for broadband fixed/mobile deployment.

SALES, MARKETING AND SUPPORT OF OUR PRODUCTS

Alvarion's Carrier products are mostly marketed directly to carriers. In the Enterprise (vertical) market, we market our products primarily through an extensive network of more than 200 active partners. These include global and local system integration and service fulfillment partners in various geographic regions, solution partners, national and local distribution partners, and resellers. Our distribution partners in turn sell to resellers, including value-added resellers and systems integrators, as well as to end users

We currently sell and distribute our products in more than 150 countries worldwide. The use of different types of marketing channels through our partnership network enables us to market our products to many different markets and to meet the differing needs of our customers.

We are seeking additional strategic relationships with international partners, strong local partners and other key companies to increase our exposure and establish ourselves as a supplier to service providers, telecom markets and end-user markets that are not reached by our present distribution channels.

We have strong relationships with leading telecom operators to whom we sell our solutions directly. Our relationships are primarily based on the following common activities: (i) we are building together the industry and leadership position; (ii) we have a common strategy and participate in world-wide standards authorities and consortia; and (iii) we have a positive commercial relationship and share a common vision and joint marketing activities.

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We operate in various regions. Our subsidiaries and representative offices, located throughout North America, South America, Europe, Africa and Asia, support our international marketing network.

We derive our revenues from different geographical regions. For a more detailed discussion regarding the geographic allocation of our revenues based on the location of our customers, see "Item 5—Operating and Financial Review and Prospects—Operating Results."

We conduct a wide range of marketing activities aimed at positioning and generating recognition and awareness of our brands throughout the telecommunications industry, as well as identifying leads for distributors and other resellers. These activities include public relations, participation in trade shows and exhibitions, advertising programs, public speaking at industry forums and website maintenance.

We maintain a highly trained global technical support team that participates in providing customer support to customers who have purchased our products. This includes both direct support rendered by us when we perform turn-key projects, and local support by distributors' and system integrators' personnel trained by our support team, support through help desks and the provision of detailed technical information on our website, expert technical support for resolution of more difficult problems, as well as participation in pre-sales and post-sales activities conducted by our distribution channels with large customer accounts and key end users.

We organize technical seminars covering general technologies, as well as specific products and applications. We also have qualification programs to advance the technical knowledge of our distributors and their ability to sell and support our products. These seminars are held in various countries and in different languages as needed.

MANUFACTURING OPERATIONS AND SUPPLIERS

We currently subcontract most of the manufacturing of our products. We have a pre-qualification process for our contract manufacturers, which includes the examination of the technological skills, production capacity and quality assurance ability of each contract manufacturer. Our manufacturing capacity planning is based on rolling forecasts done on a monthly basis. The forecasts provided to the subcontractors are based on internal company forecasts, and are up to six months. We purchase our raw materials from several suppliers.

Our products are currently manufactured primarily by several contract manufacturers located in Israel, the Philippines and Taiwan. Final assembly and testing are performed by our contract manufacturers and are monitored and controlled by our quality assurance. The testing criteria are validated by the automatic fail safe mechanisms in order to ensure that all activities pass successfully the testing criteria. We have processes in place for the ongoing performance of quality assurance at our own facilities and at our subcontractors' facilities. The automating testing equipment which is developed and owned by us and testing procedures at our subcontractors are part of our Approved Enterprise programs.

We monitor quality with respect to each major stage of the production process, including the selection of components and subassembly suppliers, warehouse procedures, assembly of goods, final testing and packaging and shipping.

We are ISO 9001, ISO 14000 and ISO 18000 certified. Our contractors are ISO 9002 certified.

All our manufacturing locations in Israel and in the Philippines comply with RoHS and WEEE regulations.

PROPRIETARY RIGHTS

In order to protect our proprietary rights in our products and technologies, we rely primarily upon a combination of patents, trademarks, trade secrets, and copyrights, as well as confidentiality, non-disclosure and assignment of inventions agreements. We have been granted 80 patents and 110 pending patent applications worldwide. The proprietary rights described above are material to our business and profitability. Because our proprietary rights are diversified and independent of each other, we believe that we are not dependent on any one patent.

We have trademark registrations in Israel, the United States, the European Union and many other countries. In addition, we have typically entered into nondisclosure, confidentiality and assignment of inventions agreements with our employees, our consultants and with some of our suppliers and customers who have access to sensitive information. We cannot assure you that the steps taken by us to protect our proprietary rights will be sufficiently adequate to prevent misappropriation of our technology or independent development or the sale by others of products with features based upon, or otherwise similar to, those of our products.

Given the rapid pace of technological development in the communications industry, we also cannot assure you that our products may not be adjudicated as infringing on existing or future proprietary rights of others. Although we believe that our technology has been independently developed and that none of our products infringe upon the rights of others, from time to time, we receive letters alleging that we have infringed upon a patent, trademark, license or other proprietary right. We have no assurance that any such allegation will not have a material adverse affect on our business, financial condition or results of operations.

We receive licenses to certain technologies from others for use in connection with some of our technologies. The loss of these licenses could impair our ability to develop and market our products. If we are unable to obtain or maintain the licenses that we need, we may be unable to develop and market our products or processes, or we may need to obtain substitute technologies of lower quality or performance characteristics or at greater cost.

As part of our efforts to support an ecosystem focused on broader choice, competitive equipment and service costs for WiMAX technology, devices and applications globally, we have joined the Open Patent Alliance ("OPA") as a board member. One of the key objectives of the OPA is to form a WiMAX patent pool to aggregate patent rights, which are needed to implement the WiMAX standard.

Currently, we participate in the formation of two patent pools discussions administrated by VIA licensing, WiMAX patent pool and LTE patent pool. As a result, we expect that patents pertaining to WiMAX and LTE and their associated royalty rates will be more predictable and transparent and have a lower cost. The patent pools may act as a “one stop shop” where companies building WiMAX and LTE solutions can obtain use of the patents more simply and cost effectively using a more competitive royalty structure that charges only for the features required to develop WiMAX and LTE products.

THE COMPETITIVE ENVIRONMENT IN WHICH WE OPERATE

The markets for our products are very competitive, and we expect that competition will increase in the future as WiMAX technology is further adopted by major network equipment providers and when the personal broadband WiMAX market matures, both with respect to products that we are currently offering and with respect to products that we are developing. We believe that the principal competitive factors in the markets for our products include:

- price and price/performance ratio;

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- flexibility;
- superior technology;
- innovation;
- service and spectrum regulation and product certifications;
- end-to-end network integration;
- eco system terminal and modem variety;
- vendor financing;
- ability to support new industry standards;
- product time to market;
- brand strength, go-to market capabilities and sales channels;
- systems integration; and
- quality of service.

Companies that are engaged in the manufacture and sale or the development of products that compete with our wireless broadband products include Airspan Inc., Nokia-Siemens, Huawei Technologies, Samsung, and ZTE. Other vendor members of the WiMAX Forum™ may become our competitors in the future.

Our products use wireless media, which also competes with alternative telecommunications transmission media, including leased lines, copper wire, fiber-optic cable, cable modems, satellite technologies and television modems. Our products compete with other wireless media technologies, including (i) 3rd Generation cellular technologies ("3G"), HSPDA, HSUPA, EVDO and (ii) 4th generation cellular technologies ("4G"), such as UMB and Long Term Evolution ("LTE"). Although LTE and mobile WiMAX are based on the same fundamental technologies, they originate from different eco -systems. However, over the last few years, LTE's 4G has been adopted rapidly by cellular operators and their traditional eco-systems throughout the world, and we expect increased competition between WiMAX and LTE over the course of 2011 and 2012. It is expected that LTE will become the technology of choice for cellular operators and WiMAX will continue to be the dominant technology for the Broadband Wireless Access deployment.

During the last decade, the rise of Chinese telecom equipment vendors, such as Huawei and ZTE, has put pressure on Western telecom equipment vendors. In order to compete with Chinese vendors' cost and financing advantages, Western vendors, such as Alcatel - Lucent, Nokia with Siemens and with Motorola, have consolidated in order to create advantages of scale. Still, Chinese vendors are gaining market share and competition in the telecom infrastructure is intense.

Some of our existing and potential competitors, have substantially greater resources including financial, technological, manufacturing, marketing and distribution capabilities, and enjoy greater recognition than we do.

Increased competition in our market results in price reductions, new business alliances, shorter product life cycles, reduced gross margins, longer sales cycles and loss of market shares, which could harm the results of our operations. We have designed and engineered our products to minimize costs, maximize margins and improve competitiveness. However, we cannot assure you that we will be able to compete successfully against current or future competitors.

For more information regarding our competitive strengths, please see "Item 4—Information on the Company—Business Overview—Company Strengths".

GOVERNMENT REGULATION

Our business is premised on the availability of certain radio frequencies for two-way broadband communications. Radio frequencies are subject to extensive regulation under the laws of each country and international treaties. Each country has different regulation and regulatory processes for wireless communications equipment and uses of radio frequencies. In the United States, our products are subject to FCC rules and regulations. In other countries, our products are subject to national or regional radio authority rules and regulations. Current FCC regulations permit license-free operation in FCC-certified bands in the radio spectrum in the United States. Outside of the United States the use of spectrum license, if any, and the purposes of such use, vary from country to country. Some of our products operate in license-exempt bands, while others operate in licensed bands. The regulatory environment in which we operate is subject to significant changes, the results and timing of which are uncertain.

In many countries, the unavailability of radio frequencies for two-way broadband communications has inhibited the growth of these networks. The process of establishing new regulations for wireless broadband frequencies and allocating these frequencies to operators is complex and lengthy. The regulation of frequency licensing began during 1999 in many countries in Europe and South America and continues in many countries in these and other regions. Licensed blocks in 2.3, 2.5, 3.3, 3.5 and 3.6 GHz were released in some countries. In Europe, the European Civil Code (the “ECC”) assigned the spectrum in 3.4-3.8GHz to broadband applications, in a flexible and technology-neutral mode. However, the implementation of the ECC decisions in individual countries may suffer delays or may be limited to a relatively small range of spectrum. In addition to the above, in some countries, particular frequency bands were allocated for licensing. Our current customers that commercially deploy our licensed band products have already been granted appropriate frequency licenses for their network operation. In some cases, the continued validity of these licenses may be conditional on the licensee complying with various conditions. In October 2007, the Radio-communication Sector of the International Telecommunication Union (ITU-R) made a decision that effectively includes WiMAX technology in the IMT-2000 set of standards. This inclusion of WiMAX in IMT-2000 may be viewed as placing WiMAX on equal footing with the legacy-based technologies ITU-R already endorses. However, establishing new regulations in individual countries for wireless broadband frequencies and allocating frequencies to operators is complex and lengthy. The European Commission started a process to revise the 2.5-2.69GHz regime to provide more flexibility in the spectrum usage and a more balanced protection of the TDD operation. A change in the European regulation may imply a need for revised type approval norms; such revisions may involve a lengthy process.

There is a trend to release more license-exempt bands. For example, in the United States, FCC rules were modified to include an additional 255MHz of spectrum, though actual use of this allocation is not permitted until a technical issue is resolved between the NTIA (which manages government-used spectrum) and the FCC (which manages commercial and public spectrum). In Europe, the process is slower. We see potential for new markets in rural areas and developing countries, created by the availability of licensed-exempt spectrum in the 5GHz band. The FCC enforced the 3.65-3.7GHz spectrum to be used in a shared mode; the upper 25MHz require a special coexistence protocol. Such a protocol is defined for the WiMAX systems in 802.16 and this process might be lengthy.

An additional trend affecting our business involves allowing TDD operation in frequency bands allocated in the past for FDD operation. Generally, TDD operation allows for lower cost equipment and is currently the preferred mode of operations, according to the adopted WiMAX Forum’s profiles. However, the operation of TDD networks in proximity to FDD networks creates a mutual interference hazard that may postpone customer decisions, impede network deployment or require higher cost solutions to address such issues.

In addition to regulation of available frequencies, our products must conform to a variety of national and international regulations that require compliance with administrative and technical requirements as a condition to marketing

devices that emit radio frequency energy. These requirements were established, among other things, to avoid interference among users of radio frequencies and to permit the interconnection of equipment.

We are subject to export control laws and regulations with respect to all of our products and technology. In addition, Israeli law requires us to obtain a government license to engage in research and development, and export, of the encryption technology incorporated in some of our products. We currently have the required licenses to utilize the encryption technology in our products.

C. ORGANIZATIONAL STRUCTURE

The following is a list of our subsidiaries, each of which is wholly-owned:

- Alvarion, Inc., incorporated under the laws of Delaware, United States;
- Alvarion Mobile, Inc.**, incorporated under the laws of Delaware, United States;
- Alvarion UK Ltd., incorporated under the laws of England;
- Alvarion SARL*, incorporated under the laws of France;
- Alvarion SRL, incorporated under the laws of Romania;
- Alvarion Asia Pacific Ltd., incorporated under the laws of Hong Kong;
- Alvarion do Brasil LTDA, incorporated under the laws of Brazil;
- Alvarion Uruguay SA, incorporated under the laws of Uruguay;
- Alvarion Japan KK, incorporated under the laws of Japan;
- Alvarion Israel (2003) Ltd., incorporated under the laws the State of Israel;
- Alvarion Spain, S.L, incorporated under the laws of Spain;
- Tadipol-ECI Sp.z o.o., incorporated under the laws of Poland;
- Alvarion Telsiz Sistemleri Ticaret A.Ş, incorporated under the laws of Turkey;
- Alvarion de Mexico S.A de C.V, incorporated under the laws of Mexico;
- Interwave Communications International SA.****, incorporated under the laws of France;
- Alvarion Philippines**** incorporated under the laws of Philippines;
- Kermadec Telecom B.V. incorporated under the laws of Holland;
- Alvarion South Africa (Pty) Ltd., incorporated under the laws of South Africa;
- Alvarion Italy SRL incorporated under the laws of Italy;
- Alvarion GmbH* incorporated under the laws of Germany;
- Alvarion Singapore PTE Ltd., incorporated under the laws of Singapore.
- India 4Motion Broadband Wireless Network Private Limited, incorporated under the laws of India;
- Alvarion Singapore PTE Ltd., Taiwan Branch Preparatory Office*** incorporated under the laws of Taiwan.

- Alvarion del Ecuador S.A, incorporated under the laws of Ecuador;
- Alvarion Chile LIMITADA, incorporated under the laws of Chile;
- Alvarion S.A., incorporated under the laws of Argentina;
- Alvarion Costa Rica S.A, incorporated under the laws of Costa Rica;
- Alvarion Canada Ltd, incorporated under the laws of Canada; and
- PT. Alvaritech Indonesia**, incorporated under the laws of Indonesia.

*Alvarion SARL and Alvarion GmbH are wholly-owned subsidiaries of Alvarion UK Ltd.
** Alvarion Mobile Inc. and PT. Alvaritech Indonesia are wholly-owned subsidiaries of Alvarion, Inc.
*** Alvarion Singapore PTE Ltd., Taiwan Branch Preparatory Office is a wholly-owned branch of Alvarion Singapore PTE Ltd.
**** Interwave Communications International SA and Alvarion Philippines are wholly-owned subsidiaries of Alvarion Mobile Inc.

In addition, we have representative offices in China, Italy and Russia.

D. PROPERTY, PLANTS AND EQUIPMENT

We do not own any real estate. As of December 31, 2010, we leased an aggregate of approximately 231,423 square feet in Israel for annual lease payments (including management fees) of approximately $4.2 million and incurred annual parking expenses in connection with these leases of approximately $0.5 million. These premises consist mainly of our corporate headquarters in Tel-Aviv, Israel, and two separate warehouses located in Israel. We have been occupying our main premises since April 2001. These premises serve as our corporate headquarters, as well as the site at which we conduct our main research and development activities and some quality assurance, final assembly and testing operations. During 2010 we renewed the Lease Agreement until 2013 for annual lease payments (including management fees) of approximately $3.5 million as well as annual parking expenses in connection with these leases of approximately $0.4 million. We also lease approximately 12,647 square feet of office facilities located at 555 N. Mathilda Avenue, Suite 210, Sunnyvale, CA 94085-3503, at an annual rent of approximately $0.2 million and approximately 15,589 square feet of office facilities located at 6430 Fiddler's Green Circle, Suite 175 Greenwood Village, CO 80111, at an annual rent of approximately $0.1 million. We also have an additional office in Maryland located at 6701 Democracy Blvd., Suite 300, Bethesda, MD, at an annual rent of approximately $0.1 million. Our Maryland office serves as the corporate headquarters of our U.S. subsidiary, Alvarion Inc., and as our principal sales and marketing office in North America. We also lease approximately 30,171 square feet of office facilities in Romania, at an annual rent of approximately $0.7 million. These premises serve as the corporate headquarters of our Romanian subsidiary, Alvarion SRL, and as our principal research and development and technical support office in Romania. In addition, we lease office space for the operation of our facilities in Argentina, France, Romania, China, Uruguay, Taiwan, Mexico, Philippines, Poland, Russia, Singapore, Italy, South-Africa, India, Indonesia and Spain. Some of the office space was evacuated as part of the Company’s restructuring process. We believe that the facilities we currently lease are adequate for our current requirements.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations should be read together with our consolidated financial statements and the related notes included elsewhere in this Annual Report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth in “Item 3—Key Information—Risk Factors.”

A. OPERATING RESULTS

Overview We concentrate our resources on the broad industry of wireless broadband. As a wireless broadband pioneer, we have been driving and delivering innovation for more than 15 years, from developing core technology to creating and promoting industry standards. Leveraging our key roles in the IEEE and HiperMAN standards committees and having experience in extensive development and deployment of OFDM technology -based systems, we have been at the forefront of the WiMAX Forum™ in its focus on increasing the widespread adoption of standards-based products in the wireless broadband market and in leading the industry to adopt our technology. The WiMAX standard is the outcome of the standardization work done by the WiMAX Forum™, widely based on the IEEE 802.16 standard working group.

We believe we will experience demand in the consumer and business and government segments for access to bandwidth-intensive applications (video, data and voice) in the portable and anticipated mobile environment. Our vision is to deliver personal broadband networks, which will combine broadband and mobility, to subscribers by being at the forefront of exploiting the benefits of architecture characteristics of WiMAX.

We believe that one of our key challenges is to become a major player in the 4G wireless networks market through our WiMAX technology, and win support for our OPEN WiMAX strategy, which enables communication service providers to choose the combination of vendors and partners that best fit their specific requirements. As a wireless broadband pioneer, we have been driving and delivering innovations for more than 15 years from core technology development to creating and promoting industry standards. Leveraging our key roles in the IEEE and HiperMAN standards committees and experience in deploying OFDM-based systems, we have been in the forefront of the WiMAX Forum™ in its focus on increasing the widespread adoption of standards-based products in the wireless broadband market and leading the entire industry to 4G solutions (based on our WiMAX technology).

Our solutions are usually used in a point-to-multipoint architecture and address a wide scope of end-user profiles, from the consumers, residential and SOHO markets, through SMEs and multi-tenant units/multi-dwelling units as well as applications in various vertical markets.

Our products operate in licensed and license-exempt bands, ranging from 450 MHz to 28 GHz and comply with various industry standards. Our core technologies include spread spectrum radio, linear radio, digital signal processing, modems, MAC, IP-based mobile switches, compact mobile networks, networking protocols and VLSI. We have intellectual property in these technologies.

2010 Highlights

2010 was a difficult year for us in light of the aggressive competition with other 4G vendors. In 2010, our revenues decreased by 16.0% to approximately $205.8 million from approximately $245.2 million in 2009, primarily due to the aggressive competition which we face especially from Chinese vendors, the postponement of some WiMAX projects as a result of the limited availability of funds related to the global credit crisis, the global economic slowdown and delays in allocating spectrum in several countries.

Despite these difficulties and challenges, in 2010, we won several turnkey projects, providing complete turnkey solutions from design and planning to implementation, by our self and together with partners. We believe a few of the turnkey projects we won in 2010 have the potential to generate revenues in the future. In addition, we formed numerous strategic relationships, adding technology, integration and channel partners. In order to ensure the timely introduction of a host of mobile WiMAX devices, we successfully completed interoperability testing with major chips and device manufacturers.

We believe that there is a strong demand for broadband access, and governments around the world, including in Europe, Australia and the United States, are creating programs to extend broadband coverage as a matter of national competitiveness.

In addition, a host of new mobile data opportunities in public safety, border control, utilities and other vertical markets are emerging.

During 2010 our gross margins decreased to approximately 35.2% of our revenues, compared to approximately 46.0% of revenues in 2009. This decrease in gross margin is mainly due to the fact that our revenue mix contained a higher proportion of third party equipment, combined with the global economic slowdown, the limited availability of credit in the global capital markets, the aggressive competition which we face (especially from Chinese vendors) and the

continued delay in new project launches. Each of the above reasons led to a low level of revenue with a particularly unfavorable mix of our products and third party products, which resulted in a large sequential decline in gross margin. During 2010, due to the reasons mentioned hereinabove, we implemented a restructuring plan, which included the layoff of approximately 160 employees and the vacating of certain leased premises. As a result, we recorded a restructuring charge of approximately $3.6 million in 2010.

Our net loss amounted to approximately $(98.5) million compared to net loss of approximately $(7.2) million in 2009. This increase in net loss was primarily a result of the impairment of goodwill in an amount of $57.1 million that we recognized in 2010, impairment of short term investment in an amount of $7.0 million and the decrease in revenues to approximately $205.8 million in 2010 compared to approximately $245.2 million in 2009, the decrease in gross margins from 46.0% in 2009 to 35% in 2010, together with a decrease in our financial income to approximately expenses of $0.1 million due to the lower investment balances and interest rates that we obtained on our deposits and marketable securities. Our operating expenses increased to $162.8 million in 2010 compared to $122.3 million in 2009 due to the $57.1 million impairment of goodwill that we recognized offset by cost reduction measurements which the Company implemented, as mentioned above.

Critical Accounting Principles

Our financial statements are prepared in accordance with United States generally accepted accounting principles, and audited in accordance with standards of the Public Company Accounting Oversight Board (United States). A discussion of the significant accounting policies that we follow in preparing our financial statements is set forth in Note 2 to our consolidated financial statements included in Part III of this Annual Report. In preparing our financial statements, we must make estimates and assumptions as to certain matters, including, for example, the amount of new materials and components that we will require to satisfy the demand for our products based on our sales estimates and the period of time that will elapse before our products become obsolete. While we endeavor diligently to assure that our estimates and assumptions have a reasonable basis and reflect our best assessment as to the future circumstances in which we anticipate, actual results may differ from the results estimated or assumed and the differences may be substantial as to require subsequent write-offs, write-downs or other adjustments to past results or current valuations.

The following is a summary of certain critical principles, which have a substantial impact upon our financial statements and which we believe are most important to keep in mind in assessing our financial condition and operating result:

Revenue Recognition. We generate revenues from selling our products indirectly through distributors as well as selling them directly to end users.

Revenues are recognized in accordance with ASC 605-10-S99-1 (SEC Staff Accounting Bulletin No. 104, “Revenue Recognition in Financial Statements”) and ASC 605-25 “Multiple-Element Arrangements” when the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the seller’s price to the buyer is fixed or determinable, no further obligation exists and collectability is probable.

We generally do not grant a right of return on our products. However, we have granted to certain distributors limited rights of return on unsold products. Product revenues on shipments to these distributors are recognized based on their history of actual returns provided that all other revenue recognition criteria are met.

In arrangements which include multiple elements, we consider the sale of equipment and related services to be separate units of accounting in the arrangement in accordance with ASC 605-25 since the equipment has value to the customer on a standalone basis, and fair value of the services exists. In such arrangements, since the services are not essential to the functionality of the equipment, revenues from the sale of equipment are recognized upon delivery, if all other revenue recognition criteria are met. We defer the fair value of the services (but not less than the amount of the services in the arrangements) to the period in which such services occurs.

In transactions, where a customer's contractual terms include a provision for customer acceptance, revenues are recognized either when such acceptance has been obtained or the acceptance provision has lapsed.

Accounts Receivable. We are required to assess the collectability of our accounts receivable balances. Generally, we do not require collateral; however, under certain circumstances we require letters of credit, additional guarantees or advance payments. A considerable amount of judgment is required in assessing the ultimate realization of these receivables including, but not limited to, the current credit-worthiness of each customer. We regularly review the amounts due and related allowance by considering factors, such as historical experience, credit quality, age of the accounts receivable balances and current economic conditions that may affect a customer's ability to pay. For certain accounts receivable balances, we are also covered by foreign trade risk insurance. Should we consider it necessary to increase the level of provision for doubtful accounts, required for a particular customer, then additional charges will be recorded when they become probable.

Allowance for doubtful accounts amounted to $ 1.1 million and $ 5.1 million as of December 31, 2009 and 2010, respectively. The Company charges off receivables when they are deemed uncollectible. Actual collection experience may not meet expectations and there may be an effect in the Company's ability to collect customers' debts in a timely manner or at all and this may result in increased bad debt expense.

Total doubtful debts expenses during 2008, 2009 and 2010 amounted to $ 0.7 million, $ 0.9 million and $ 4.6 million, respectively. Total write offs amounted $ 1.0 million, $ 0 and $ 0.7 million in 2008, 2009 and 2010, respectively.

Inventory Valuation. Our policy for valuation of inventory and commitments to purchase inventory, including the determination of obsolete or excess inventory, requires us to perform a detailed assessment of inventory at each balance sheet date which includes a review of, among other factors, an estimate of future demand for products within specific time frames, valuation of existing inventory, as well as product lifecycle and product development plans. The business environment in which we operate the wide range of products that we offer and the sales-cycles we experience all contribute to the exercise of judgment relating to maintaining, utilizing and writing-off inventory. The estimates of future demand that we use in the valuation of inventory are the basis for our revenue forecast, which is also consistent with our short-term manufacturing plan. Inventory reserves are also provided to cover risks arising from non-moving or slow-moving items. We write-down our inventory for estimated obsolescence or excess inventory equal to the difference between the cost of inventory and the estimated market value which is based on assumptions about future demand and market conditions. We may be required to record additional inventory write-downs if actual market conditions are less favorable than those projected by our management.

Note 2g to our financial statements describes the write-offs and provisions that we made and recorded in 2008, 2009 and 2010 to reflect the decline in our expectations about the value of inventory, which had become excessive, unmarketable or otherwise obsolete or the inventory of new materials and components that we had purchased or committed to purchase in anticipation of forecasted sales which we did not consummate. In addition, changes in demand, which result in increased demand for our products, may lead to utilization of our previously written-off products. Note 2g to our financial statements describes the effect of the utilization of the related products of our prior years' written-off components, which are reflected in our revenues without additional cost in the cost of sales in the period the inventory was utilized.

If there were to be a sudden and significant decrease in demand for our products, or if there were a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements, we could be required to increase our inventory allowances and our gross margin could be adversely affected. In addition, if the demand for our products increases beyond our expectations following a write-off of inventory, we may need to further utilize our previously written-down inventory. Such utilization may contribute to our gross margin in future periods. Inventory management remains an area of management focus as we balance the need to maintain strategic inventory levels to ensure competitive lead times against the risk of inventory obsolescence because of rapidly changing technology and customer requirements.

Goodwill and long-lived asset impairment. We review goodwill for impairment annually and whenever events or changes in circumstances indicate its carrying value may not be recoverable in accordance with ASC 350 “Intangibles – Goodwill and Others”.

Goodwill impairment testing is a two-step process. The first step involves comparing the fair value of a company's reporting units to their carrying amount. If the fair value of the reporting unit is determined to be greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount is determined to be greater than the fair value, the second step must be completed to measure the amount of impairment, if any. Step two calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit as determined in step one. The implied fair value of the goodwill in this step is compared to the carrying value of goodwill. If the implied fair value of the goodwill is less than the carrying value of the goodwill, an impairment loss equivalent to the difference is recorded.

For purposes of testing goodwill, in accordance with ASC 350, we operate in one operating segment, and this segment comprises our only reporting unit. In calculating the fair value of the reporting unit, we used the Discount Cash Flow (DCF) model based on the assumption that we are a going concern. During 2010, as a result of the global economic downturn that had negatively affected our business results and a significant reduction in the Company's market capitalization, we determined that there would be no implied value attributable to our reporting unit goodwill. As a result of the goodwill impairment, as of December 31, 2010, we no longer had a goodwill balance on our balance sheet. Judgments and assumptions related to revenue, operating income, future short-term and long-term growth rates, weighted average cost of capital, interest, capital expenditures, cash flows, and market conditions are inherent in developing the discounted cash flow model. The material assumptions used for the DCF model under the income approach for 2010 were five years of projected net cash flows. We considered historical rates and current market conditions when determining the discount and growth rates to use in our analyses. We corroborate the fair values using the Market Approach. We evaluate the reasonableness of the estimated fair value of our reporting unit by reconciling to our market capitalization. This reconciliation allows us to consider market expectations in corroborating the reasonableness of the fair value of our reporting unit. As a result, goodwill in the amount of $57.1 million was written-off.

In accordance with ASC 360 “Property, Plant and Equipment” and ASC 205 “Presentation of Financial Statements”, we perform tests for impairment of long-lived assets whenever events or circumstances suggest that other long-lived assets may not be recoverable. This analysis differs from our goodwill analysis in that impairment is only deemed to have occurred if the sum of the forecasted undiscounted future cash flows related to the assets are less than the carrying value of the asset we are testing for impairment. If the forecasted cash flows are less than the carrying value, then we are required to write down the carrying value to its estimated fair value based primarily upon forecasted discounted cash flows. Based on the impairment test performed as of December 31, 2010, no impairment was identified.

These forecasted discounted cash flows include estimates and assumptions related to revenue growth rates and operating margins, future economic and market conditions and determination of appropriate market comparables. Our estimates of market segment growth and our market segment share and costs are based on historical data, various internal estimates and certain external sources, and are based on assumptions that are consistent with the plans and estimates we are using to manage the underlying business. Our business consists of both established and emerging technologies, and our forecasts for emerging technologies are based upon internal estimates and external sources rather than historical information. If future forecasts are revised, they may indicate or require future impairment charges. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. We also performed a sensitivity analysis for the two key assumptions used in our annual goodwill impairment test and determined the weighted average cost of capital and our permanent growth.

The overall result in our analysis is that the estimated fair value of our reporting unit is below its carrying value and as a result we determined that there would be no implied value attributable to our reporting unit goodwill.

Warranties. We provide for the estimated cost of product warranties at the time the product is shipped. Our products sold are covered by a warranty for periods ranging from one year to two years. We accrue a warranty reserve for estimated costs to provide warranty services. Our estimate of costs to service the warranty obligations is based on historical experience and expectation of future conditions. We accrue for warranty costs as part of our cost of sales based on associated material costs and technical support labor costs. Material cost is primarily estimated based upon historical trends in the volume of product returns within the warranty period and the cost to repair or replace the equipment. Technical support labor cost is primarily estimated based upon historical trends in the rate of customer calls and the cost to support the customer calls within the warranty period. To the extent we experience increased warranty claim activity or increased costs associated with servicing those claims, our warranty accrual will increase, resulting in decreased gross profit.

Stock-Based Compensation Expense. We account for equity-based compensation in accordance with ASC 718 “Compensation - Stock Compensation”. 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. Stock-based compensation expense recognized under ASC 718 for 2008, and 2010 was $7.6 million, $4.2 million and $3.3 million, respectively. 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 forfeitures differ from our estimates, equity-based compensation expense and our results of operations would be impacted. Our stock based compensation expense decreased in 2010 as a result of updating several parameters in our stock-based compensation calculation due to the cost reduction that we implemented during the year and a decrease in the number of our principal granted options.

We estimate the fair value of employee stock options using a Black-Scholes-Merton valuation model and for restricted stock units and options granted with par value exercise price, the fair value is calculated by multiplying the share price at the date of grant with the number of options granted. The fair value of an award is affected by our stock price on the date of grant as well as other assumptions, including the estimated volatility of our stock price over the expected term of the awards, and the estimated period of time that we expect employees to hold their stock options. The risk-free interest rate assumption is based upon United States bonds treasury interest rates appropriate for the expected life of the awards. We use the historical volatility of our publicly traded stock in order to estimate future stock price trends. In order to determine the estimated period of time that we expect employees to hold their stock options, we use historical behavioral patterns rates of employee groups by job classification. In 2010, the expected term of options granted is estimated based on historical experience and represents the period of time that options granted are expected to be outstanding. Our expected dividend rate is zero since we do not currently pay cash dividends on our ordinary shares and do not anticipate doing so in the foreseeable future.

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Deferred Taxes. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. In addition, we are subject to the continuous examination of our tax returns by the local tax authorities in each country that we have established corporations. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for taxes.

ASC 740-10-55 requires income tax positions to meet a more-likely-than-not recognition threshold to be recognized in the financial statements. ASC 740-10-55 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with FASB ASC 740 “Income Taxes”. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. As a multinational corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. If we ultimately determine that the payment of these liabilities will be unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine the liability no longer applies. Conversely, we record additional tax charges in a period in which we determine that a recorded tax liability is less than we expect the ultimate assessment to be. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from our estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities.

Contingencies. We are involved in legal proceedings and other claims from time to time. We are required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for any contingencies are made after careful analysis of each individual claim. The required reserves may change due to future developments in each matter or changes in approach, such as a change in the settlement strategy in dealing with any contingencies, which may result in higher net loss. If actual results are not consistent with our assumptions and judgments, we may be exposed to gains or losses that could be material. See “Item 8A Financial Information Finance – Consolidated Statements and Other Financial Information – Legal Proceedings.”

Results of Operations

The following tables present our total revenues attributed to the geographical regions based on the location of our customers for the years ended December 31, 2008, 2009 and 2010:

	2008			2009			2010		
	Total Revenues In thousands	Percentage Of sales		Total Revenues In thousands	Percentage Of sales		Total Revenues In thousands	Percentage Of sales	
Israel	$1,254	0.4	%	$697	0.3	%	$718	0.3	%
North America (including the United States and Canada)	42,683	15.2	%	23,242	9.5	%	47,517	23.1	%
Europe (excluding France, Italy, Spain and Denmark)(1)	61,799	22.0	%	24,398	9.9	%	20, 415	9.9	%
France	12,047	4.3	%	17,252	7.0	%	11,049	5.4	%
Italy	11,873	4.2	%	19,281	7.9	%	17,333	8.4	%
Spain	11,301	4.0	%	9,734	4.0	%	14,186	6.9	%
Denmark	19,378	6.9	%	35,483	14.5	%	7,115	3.5	%
Africa (excluding Nigeria)(1)	37,034	13.2	%	41,726	17.0	%	26,191	12.7	%
Nigeria	1,515	0.5	%	167	0.1	%	12,902	6.3	%
Asia	29,214	10.4	%	27,890	11.4	%	21,514	10.5	%
Latin America (excluding Argentina) (1)	47,098	16.7	%	29,313	12.0	%	21,980	10.7	%
Argentina	6,085	2.2	%	16,056	6.4	%	4,895	2.3	%
	$281,281	100	%	$245,239	100	%	$205,815	100	%

(1) We have listed Italy, Spain, Denmark, France, Nigeria and Argentina separately within this table because each of these countries generated at least 5% of our total revenues during at least one of the last 3 years.

The following tables set forth, for the periods indicated, selected items from our consolidated statement of operations in U.S. dollars in thousands and as a percentage of total sales:

	Year Ended December 31,		
	2008	2009	2010
	(In thousands)		
Sales	$281,281	$245,239	$205,815
Cost of sales	144,326	128,461	128,578
Write-off of excess inventory and provision for inventory purchase commitments	3,457	3,993	4,897
Gross profit	133,498	112,785	72,340
Operating costs and expenses:			
Research and development, gross	69,952	54,674	41,744
Less – grants and participations	10,273	3,884	3,027
Research and development, net	59,679	50,790	38,717
Selling and marketing	60,521	52,022	43,376
General and administrative	18,813	15,087	19,920

Amortization of intangible assets	1,327	132	130
Impairment of investment	-	1,554	-
Impairment of goodwill and intangible assets	-	-	57,110
Restructuring and other related expenses	2,914	2,787	3,573
Total operating expenses	143,254	122,372	162,826
Operating loss	(9,756)	(9,587)	(90,486)
Other (loss) income	-	731	(7,000)
Financial income (expenses), net	4,297	1,668	(99)
Loss before tax	(5,459)	(7,188)	(97,585)
Taxes on income	-	-	894
Net income (loss)	$(5,459)	$(7,188)	$(98,479)

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	Year Ended December 31,		
	2008	2009	2010
	(As a percentage of sales)		
Statement of Operations Data:			
Sales	100.0 %	100.0 %	100.0 %
Cost of sales	51.3	52.4	62.5
Write-off of excess inventory and provision for inventory purchase commitments	1.2	1.6	2.3
Gross margin	47.5	46.0	35.2
Operating costs and expenses:			
Research and development, gross	24.9	22.3	20.3
Less – grants and participations	3.7	1.6	1.5
Research and development, net	21.2	20.7	18.8
Selling and marketing	21.5	21.2	21.1
General and administrative	6.7	6.2	9.7
Amortization of intangible assets	0.5	0.1	0.1
Impairment of investment	-	0.6	-
Impairment of goodwill and intangible assets	-	-	27.7
Restructuring and other related expenses	1.0	1.1	1.7
Total operating expenses	50.9	49.9	79.1
Operating loss	(3.4)	(3.9)	(43.9)
Other (loss) income	-	0.3	(3.4)
Financial income (expenses), net	1.5	0.7	0.1))
Loss before tax	(1.9)	(2.9)	(47.4)
Taxes on Income	-	-	0.4
Net income (loss)	(1.9)%	(2.9)%	(47.8)%

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Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Sales. Sales in 2010 were approximately $205.8 million, a decrease of approximately 16.1% compared to sales of approximately $245.2 million in 2009. In 2010, BreezeMAX revenues totaled approximately $147.5 million or 71.9% of total revenue, compared to approximately $179.0 million or 73.0% of total revenue in 2009, a decrease of approximately 17.6% compared to the 2009 BreezeMAX revenues. The decrease of our total sales in 2010 resulted primarily due to the postponement of some WiMAX projects as a result of the unfavorable general economic conditions, which influenced some of our clients, and delays in allocating spectrum in several countries as well as the intense competition which we faced, in particular by Chinese vendors. Our revenues in 2010 from non-WiMAX broadband wireless products decreased approximately 12.7% compared to the previous year.

Sales in Europe, the Middle East and Africa reached approximately 53.4% of our sales in 2010 and totaled approximately $109.9 million, which represents a decrease of approximately 26.2% compared to our 2009 sales in this region which were approximately $148.7.million or 60.7% of our sales. Sales in Central and Latin America accounted for 13.1% of our sales in 2010 compared to 18.5% of our sales in 2009. Sales in North America accounted for approximately 23.1% of our sales in 2010, compared to 9.5 % in 2009. The main reason for the increase in our sales in North America was due a deployment to a large customer which we performed in 2010. Sales in Asia Pacific accounted for approximately 10.5% of our sales in 2010 compared to approximately 11.4% in 2009 in this region.

In 2010, no customer accounted for more than 10% of our revenues, compared to 2009, when one customer accounted for more than 15% of revenues. Because of the nature of our agreements and the associated large initial payments due, the identity of major customers generally varies from quarter to quarter and we do not believe that we are materially dependent on any one specific customer or any specific small number of customers.

Cost of sales. Cost of sales consists primarily of cost of components, product manufacturing and assembly, labor, overhead and other costs associated with production. Cost of sales was approximately $128.6 million in 2010, compared to cost of sales of approximately $128.5 million in 2009. Cost of sales as a percentage of sales increased to approximately 62.5% in 2010 from approximately 52.4% in 2009. This increase is primarily attributable to the change in the mix of the products that comprised our revenues in 2010. As the market continues to move towards standardization and more players enter into this market making it more competitive for us, and as we shift the mix of products that comprise our revenues, such as an increase in the volume of lower-margin third party products and turnkey projects, our cost of sales as a percentage of sales increased.

Write-off of excess inventory and provision for inventory purchase commitments. We periodically assess our inventories valuation in accordance with obsolete and slow-moving items based on revenue forecasts and technological obsolescence. If inventories on-hand exceed our estimates or become obsolete, for example, due to the transition in demand from non-WiMAX to WiMAX products, the inventory is written down or written off. This would result in a charge to our statement of operations and a corresponding reduction in our inventory and shareholders' equity. Changes in demand for our products and in our estimates for demand create changes in provisions for obsolete inventory. As part of our ordinary course of business we evaluate, on a quarterly basis, our actual inventory needs versus our sales projections and write-off excess inventory and un-cancelable purchase commitments from our suppliers and subcontractors. As a result, we record charges related to the write-off of excess inventory and accrued a provision for inventory purchase commitments of new materials and components that we had purchased or committed to purchase in anticipation of forecasted sales that we did not consummate. Primarily as a result of the decrease of our sales, our write-off of excess inventory and our accrual of a provision for inventory purchase commitments increased and amounted in the aggregate to approximately $4.9 million for the year ended December 31, 2010 compared to approximately $4.0 million for the year ended December 31, 2009.

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Inventory utilization. We perform periodically an inventory evaluation model in order to align our inventory levels to the market conditions and anticipated customer demand. In 2010 and 2009, approximately $0.4 million and $0.6 million, respectively, of inventory previously written-off consistent with our inventory evaluation model was used as components in our regular production course and was sold as finished goods to end users. The sales of these related manufactured products were reflected in our revenues without increasing the cost of sales in the period the inventory was utilized. This inventory utilization increased our gross margin by 0.2% in 2010 and by 0.2% in 2009.

If the demand for our products suddenly and significantly decreased, or if there were a higher incidence of inventory obsolescence because of rapidly changing technology, standardization and customer requirements, we could be required to increase our write-off of excess inventory, and our gross margin could be adversely affected. Inventory management remains an area of focus as we balance the need to maintain strategic inventory levels to ensure competitive lead times compared to the risk of inventory obsolescence. However, if the demand for our products increases beyond our expectations following write-down of inventory, we may further utilize our written down inventory. Such utilization may contribute to our gross margin in future periods. We cannot predict the likelihood of utilizing previously written-off inventory in future operations.

Research and development expenses, net. Gross research and development expenses consist primarily of employee salaries, development-related raw materials and subcontractors, and other related costs partially offset by research and development funding. Gross research and development expenses were approximately $41.7 million in 2010, a decrease of approximately 23.8% compared to gross research and development expenses of approximately $54.7 million in 2009. This decrease is primarily attributable to the restructuring plans that the Company implemented during 2010 and 2009. Gross research and development, as a percentage of sales was 20.3% in 2010, compared to 22.3% in 2009. Grants and other participations for funding approved research and development projects totaled approximately $3.0 million in 2010 and $3.9 million in 2009. Research and development expenses, net, were approximately $38.7 million in 2010, compared to approximately $50.8 million in 2009.

Selling and marketing expenses. Selling and marketing expenses consist primarily of costs relating to compensation attributable to employees engaged in selling and marketing activities, promotion, advertising, trade shows and exhibitions, travel and related expenses. Selling and marketing expenses were approximately $43.4 million in 2010, a decrease of approximately 17% compared to selling and marketing expenses of approximately $52.0 million in 2009. This decrease is primarily attributable to the cost reduction plan that the company implemented during 2010. Selling and marketing expenses as a percentage of sales was 21.1% in 2010 compare to 21.2% in 2009.

General and administrative expenses. General and administrative expenses consist primarily of compensation costs for administration, finance and general management personnel, office maintenance, insurance costs, professional fees and other administrative costs. General and administrative expenses were approximately $19.9 million in 2010, an increase of approximately 32% compared to general and administrative expenses of approximately $15.1 million in 2009. This increase is related primarily to the $3.6 million addition to the company's provision for doubtful accounts. General and administrative expenses as a percentage of sales increased to 9.7% in 2010 from 6.2% in 2009.

Amortization of intangibles assets. As a result of our mergers and acquisitions activity in prior years, we had annual amortization charges of approximately $0.1 million recorded in 2010 and 2009.

Impairment of investment. During 2010 the company did not book any impairment of investment compared to$1.6 million in 2009.

Impairment of goodwill. During 2010, the company incurred impairment of goodwill in amount of $57.1 million. For further information regarding these charges, see Item 5.– “A Critical Accounting Principles —Goodwill”.

Restructuring costs. During 2010 and 2009, we implemented separate restructuring plans including the layoff of approximately 160 employees in 2010 and approximately 90 employees in 2009 as well as the vacating of certain leased premises.

As a result, we recorded a restructuring charge of approximately $3.6 million in 2010 and approximately $2.8 million in 2009, which primarily consists of employees' termination benefits, lease abandonment and repayment of grants.

Financial income, net. Financial expense, net, was $0.1 million in 2010, a decrease of approximately 105.9% compared to financial income, net, of approximately $1.7 million in 2009. The decrease in financial income is attributed mainly to decreased yields on investments compared to the previous year due to the decrease in our investment balances and the global interest rates.

Other loss. During 2010, the Company incurred impairment of short term investment in an amount of $7.0 million, resulting from purchasing from one of our customers subordinated convertible promissory notes (See note 6 to our consolidated financial statements), compared to a net income in 2009 of $0.7 million, which was received as additional proceeds in connection with the LGC transaction.

Net income (loss). In 2010, net loss was approximately $(98.5) million, compared to a net loss of approximately $(7.2) million in 2009.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Sales. Sales in 2009 were approximately $245.2 million, a decrease of approximately 13% compared to sales of approximately $281.3 million in 2008. In 2009, BreezeMAX revenues totaled approximately $179 million or 73% of total revenue, compared to approximately $171 million or 61% of total revenue in 2008. The decrease of our total sales in 2009 resulted primarily due to the postponement of some WiMAX projects, as a result of the unfavorable general economic conditions and delays in allocating spectrum in several countries. Our revenues from non-WiMAX broadband wireless products decreased approximately 40% compared to the previous year, reflecting a shift toward the WiMAX platform and the ongoing decline in legacy products.

Sales in Europe, the Middle East and Africa reached approximately 60.7% of our sales in 2009 and totaled approximately $149 million, which represents a decrease of approximately 4.5% compared to our 2008 sales in this region which were approximately $156.million. Sales in Central and Latin America accounted for 18.5% of our sales in 2009 compared to 18.9% of our sales in 2008. Sales in North America accounted for approximately 9.5% of our sales in 2009, compared to 15.2% in 2008. Sales in Asia Pacific accounted for approximately 11.4% of our sales in 2009 compared to approximately 10.4% in 2008 in this region.

In 2009, one customer accounted for 15% of revenues, compared to no customers that accounted more than 10% of revenues in 2008 and 2007.

Cost of sales. Cost of sales was approximately $128.5 million in 2009, a decrease of approximately 11% compared to cost of sales of approximately $144.3 million in 2008. Cost of sales as a percentage of sales increased to approximately 52.4% in 2009 from approximately 51.3% in 2008. This increase is primarily attributable to the change in the mix of products that comprise our revenues. As the market continues to move towards standardization and more players enter into this market making it more competitive for us, and as we shift the mix of products that comprise our revenues, such as an increase in the volume of lower-margin third party products, our cost of sales as a percentage of sales increased.

Write-off of excess inventory and provision for inventory purchase commitments. Primarily as a result of the decrease of our sales, our write-off of excess inventory and our accrual of a provision for inventory purchase commitments increased and amounted in the aggregate to approximately $4.0 million for the year ended December 31, 2009 compared to approximately $3.5 million for the year ended December 31, 2008.

Inventory utilization. In 2009 and 2008, approximately $0.6 million and $2.5 million, respectively, of inventory previously written-off consistent with our inventory evaluation model was used as components in our regular production course and was sold as finished goods to end users. The sales of these related manufactured products were reflected in our revenues without increasing the cost of sales in the period the inventory was utilized. This inventory utilization increased our gross margin by 0.2% in 2009 and by 0.9% in 2008.

Research and development expenses, net. Gross research and development expenses were approximately $54.7 million in 2009, a decrease of approximately 21.8% compared to gross research and development expenses of approximately $70 million in 2008. This decrease is primarily attributable to the different restructuring plans that the Company implemented during 2009 and 2008. Gross research and development, as a percentage of sales was 22.3% in 2009, compared to 24.9% in 2008. Grants and other participations for funding approved research and development projects totaled approximately $3.9 million in 2009 and $10.3 million in 2008. Research and development expenses, net, were approximately $50.8 million in 2009, compared to approximately $59.7 million in 2008.

Selling and marketing expenses. Selling and marketing expenses were approximately $52.0 million in 2009, a decrease of approximately 14% compared to selling and marketing expenses of approximately $60.5 million in 2008. This decrease is primarily attributable to the cost reduction plan that the company implemented during 2009 and 2008. Selling and marketing expenses as a percentage of sales decreased to 21.2% in 2009 from 21.5% in 2008.

General and administrative expenses. General and administrative expenses were approximately $15.1 million in 2009,a decrease of approximately 20% compared to general and administrative expenses of approximately $18.8 million in 2008. This decrease is also related primarily to the cost reduction plan that the company implemented during 2009 and 2008. General and administrative expenses as a percentage of sales decreased to 6.2% in 2009 from 6.7% in 2008.

Amortization of intangibles assets. As a result of our mergers and acquisitions activity in prior years, we had annual amortization charges of approximately $0.1 million recorded in 2009, compared to $1.3 million in 2008. The decrease is a result of the completion of amortization of intangible assets with useful lives of 3.75 years in 2008.

Impairment of investment. During 2009, the company recorded impairment of the investment in affiliate in the amount of $1.6 million.

Restructuring costs. During 2009 and 2008, we implemented cost reduction plans including the layoff of approximately 90 employees in 2009 and approximately 100 employees in 2008. We recorded a restructuring charge of approximately $2.8 million in 2009 and approximately $2.9 million in 2008, which primarily consists of employees' termination benefits, lease abandonment and repayment of grants.

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Financial income, net. Financial income, net, was $1.7 million in 2009, a decrease of approximately 61% compared to financial income, net, of approximately $4.3 million in 2008. The decrease in financial income is attributed mainly to decreased yields on investments compared to the previous year due to the decrease in the global interest rates and increase in our bank expenses.

Net income (loss). In 2009, net loss was approximately $(7.2) million, compared to a net loss of approximately $(5.5) million in 2008.

Impact of Inflation and Currency Fluctuations

A devaluation of the U.S. dollar against the NIS has a direct influence on the U.S. dollar cost of our operations. The majority of our sales, and part of our expenses, are denominated in dollars. However, a significant portion of our expenses, primarily labor expenses, is denominated in NIS unlinked to the U.S. dollar. Inflation in Israel and/or the devaluation of the dollar in relation to the NIS has the effect of increasing the cost in dollars of these expenses and has a negative effect on our profitability.

Because exchange rates between the NIS and the U.S. dollar fluctuate continuously, exchange rate fluctuations as recently experienced in Israel and especially larger periodic devaluations or revaluations, will have an impact on our profitability and period-to-period comparisons of our results of operations. The effects of foreign currency re-measurements are reported in our consolidated financial statements in the statement of operations.

To protect against exchange rate fluctuations, we have instituted several foreign currency hedging programs. These hedging activities consist of cash flow hedges of anticipated NIS payroll and forward exchange contracts to hedge certain trade payables in NIS. In 2010, the majority of the cash flow hedges were effective. For more information, see "Item 11—Qualitative and Qualitative Disclosures About Market Risk".

The following table presents information about the rate of inflation in Israel, the rate of devaluation or appreciation of the NIS against the U.S. dollar, and the rate of inflation of Israel adjusted for the devaluation:

Year ended December 31,	Israeli inflation rate %	Israeli devaluation (appreciation) rate %	Israeli inflation adjusted for devaluation %
2006	(0.1)	(8.2)	8.1
2007	3.4	(9.0)	12.4
2008	3.8	(1.1)	4.9
2009	3.9	(0.7)	4.6
2010	2.7	(6.0)	8.7

We cannot assure you that we will not be materially and adversely affected in the future if the appreciation of the NIS against the U.S. dollar continues or, that in the event the dollar appreciates against the NIS, the inflation in Israel exceeds the devaluation of the NIS against the dollar or if the timing of the devaluation lags behind inflation in Israel.

For a discussion of certain policies or factors relating to our being an Israeli company and our location in Israel, see "Item 3—Key Information—Risk Factors—Risks Related to Our Location in Israel".

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B. LIQUIDITY AND CAPITAL RESOURCES

The following sections discuss the effects of changes in our balance sheets, cash flows and commitments on our liquidity and capital resources.

Balance Sheet and Cash Flows

Total cash, cash equivalents, short-term and long-term marketable securities and deposits were $83.3 million as of December 31, 2010, a decrease of approximately $35.2 million or 29.7% from $118.5 million at December 31, 2009. Total cash, cash equivalents, short-term and long-term marketable securities and deposits as of December 31, 2009 reflect a decrease of approximately $22.1 million or 15.7% from $140.6 million at December 31, 2008.

Total cash and cash equivalents as of December 31, 2010 were $61.3 million, a decrease of $7.8 million or 11.3% from $69.1 million at December 31, 2009. The decrease resulted mainly from decrease in our revenue and a high level of operating expenses in proportion to our revenue. Total cash and cash equivalents as of December 31, 2009 were $69.1 million, an increase of $5.4 million or 8.5% from $63.7 million at December 31, 2008.

Our operating activities used cash of approximately $22.4 million and $15.5 million in 2010 and 2009, respectively, and provided cash of approximately $9.0 million in 2008. The cash flows used in operating activities for 2010 consisted primarily of adjusted net loss, (net loss was adjusted for non-cash activities, including impairment of goodwill and short term investment, stock-based compensation expenses, depreciation of fixed assets) plus an increase in inventories, an increase in other accounts receivable and prepaid expenses and a decrease in other accounts payable and accrued expenses, offset by an increase in trade payables and a decrease in trade receivables. The cash flows used in operating activities for 2009 consisted primarily of net loss adjusted for non-cash activities, including stock-based compensation expenses, depreciation of fixed assets and impairment of investments in affiliates plus a decrease in other accounts receivable and prepaid expenses and a decrease in inventories, fully offset by an increase in trade receivables, a decrease in trade payables and a decrease in other accounts payable and accrued expenses. The positive cash flow from operating activities for 2008 consisted primarily of adjusted net loss. (net loss was adjusted for non-cash activities, including stock-based compensation expenses, depreciation of fixed assets and amortization of intangible assets) plus an increase of trade payables and other accounts payables and accrued expenses, partially offset by an increase in trade receivables, inventories and other accounts receivables

Our investing activities provided cash of approximately$14.5 million, $20.5 million and $6.9 million in 2010, 2009 and 2008, respectively. Our investing activities consist mainly of investments in bank deposits, marketable securities and fixed assets. In 2010, our investing activities provided proceeds from the maturity of marketable securities, proceeds from maturity of bank deposits, which were partially offset by investments in bank deposits, marketable securities and fixed assets and investment in convertible promissory notes of one of our customers. In 2009, our investing activities provided proceeds from the maturity of marketable securities, proceeds from maturity of bank deposits, as well as the remaining proceeds from the LGC transaction (under which we sold our CMU to LGC Wireless, Inc during November 2006) which were partially offset by investments in bank deposits, marketable securities and fixed assets. In 2008, our investing activities provided proceeds from maturity of marketable securities as well as proceeds from LGC transaction which were partially offset by investments in bank deposits, marketable securities and fixed assets.

Capital expenditures were approximately $5.0 million, $7.2 million and $10.8 million in 2010, 2009 and 2008, respectively. These expenditures principally financed the purchase of research and development equipment and manufacturing equipment.

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Our financing activities provided cash of approximately $0.1 million in 2010, $0.4 million in 2009, and used cash of approximately $4.3 million in 2008. In 2010 and 2009, the amount of cash provided was attributable to proceeds from the issuance of shares in connection with the exercise of employees’ options in the amount of approximately $0.1 million and$0.4 million, respectively. In 2008, the amount of cash used was attributable primarily to the repurchase of our shares in the amount of $5 million, partially offset by the proceeds from the issuance of shares in connection with the exercise of employees' options, in the amount of approximately $0.7 million.

We expect that cash provided or used by operations may fluctuate in future periods as a result of a number of factors, including fluctuations in our operating results, shipment timing, accounts receivable collections, inventory management, and the timing of other payments and investments.

Accounts Receivable, Net. Accounts receivable, net was $49.9 million and $65.5 million as of December 31, 2010 and 2009, respectively. DSOs as of December 31, 2010, December 31, 2009 and December 31, 2008 were 89 days, 97 days and 78 days, respectively. The decrease in the accounts receivable balance in 2010 is mainly a result of the decrease in DSOs combined with the global economic slowdown, aggressive competition and the crunch in the global capital markets. Our DSOs in 2010 ranged between 80 and 120 days.

Inventories. Inventories were $56.1 million as of December 31, 2010 compared to $36.0 million as of December 31, 2009. This increase of inventory was mainly due to large procurements that the company made in order to cover itself for large projects which were planned to be implemented during 2010. Inventories consist of raw materials; work in process and finished goods and inventories at customer sites that are not recognized as revenues yet. Inventory management remains an area of focus as we balance the need to maintain strategic inventory levels to ensure competitive lead times against the risk of inventory obsolescence because of rapidly changing technology and customer requirements. We are focusing our operational efforts to increase inventory turns in order to enhance our responsiveness to future customers’ needs and market changes. Our inventory turns were approximately 2.3 times in 2010 and approximately 3.6 times in 2009.

WORKING CAPITAL

Our working capital from continuing operations was approximately $110.0 million as of December 31, 2010 compared to $132.8 million as of December 31, 2009 and $115.8 million as of December 31, 2008.

Commitments

Leases. We lease office space in several worldwide locations. Rent expense totaled $6.4 million, $6.8 million and $7.3 million in 2010, 2009 and 2008, respectively. We lease certain computers under operating lease agreements which expire in 2013. Computer leasing expenses totaled $0.5 million, $0.5 million and $0.6 million in 2010, 2009 and 2008, respectively. We also lease various motor vehicles under operating lease agreements, which expire in 2013. Motor vehicles leasing expenses were $3.0 million, $3.6 million and $3.4 million in 2010, 2009 and 2008, respectively. The vast majority of the motor vehicle leasing expenses are charged back to our employees.

Future annual minimum lease payments under all non-cancelable operating leases as of December 31, 2010 were as follows (in thousands):

	Rental of premises	Lease of computers	Lease of motor vehicles
2011	$ 5,582	$ 257	$ 1,461
2012	4,654	154	660
2013	1,690	37	78
2014	135	-	-
2015	45	-	-
	$ 12,106	$ 448	$ 2,199

The following table of our material contractual obligations as of December 31, 2010 summarizes the aggregate effect that these obligations are expected to have on our cash flows in the periods indicated (in thousands)

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Rental Lease	$12,106	$5,582	$6,344	$180	$-
Motor Vehicle Lease	2,199	1,461	738	-	-
Computers Lease	448	257	191	-	-
Severance pay and long term employee liabilities	2,712	-	2,712	-	-
Other long-term liabilities	2,346	-	2,346	-	-
Total	$19,811	$7,300	$12,331	$180	$

Royalties. We participated in programs sponsored by the OCS of the Israeli Government for the support of research and development activities. We are obligated to pay royalties to the OCS amounting to 3%-5% of the sales of the products and other related revenues generated from certain research and development projects, up to 100% of the amount granted by the OCS. The obligation to pay these royalties is contingent upon actual sales of the products, and in the absence of such sales, no payment is required. We did not receive grants-bearing royalties from the OCS during the years 2006 until 2010.

During 2010, we paid or accrued royalties to the OCS in the amount of $0.3 million. As of December 31, 2010, the aggregate contingent liability to the OCS amounted to $8.7 million.

Treasury stock. As of December 31, 2010, we repurchased an aggregate of 5,246,772 ordinary shares, which appear on our balance sheet as treasury stock, pursuant to our two repurchase programs, the 2002 repurchase program and the 2008 repurchase program, as stipulated below. In October 2008, following the approval of our board of directors and the receipt of a court approval, we were authorized to use up to $30 million of our available cash to repurchase our shares. Through December 31, 2010 we repurchased under this second repurchase program 1,449,999 ordinary shares at a weighted average price of approximately $3.44 per share for an aggregate of $5.0 million. We have not repurchased any shares in 2009 and 2010. See Item 16E "Purchases of Equity Securities by the Issuer and Affiliated Purchasers" for additional information.

Under the company's first repurchase program in 2002, our board of directors authorized a share repurchase of up to $9 million of our ordinary shares. Under this 2002 repurchase plan, we had repurchased until December 31, 2003 3,796,773 ordinary shares at a weighted average price per share of approximately $2.07 for an aggregate of $7.9 million. Since then we had not utilized the remainder of this re-purchase program.

FUTURE NEEDS

We believe our cash balances and investments and governmental research and development grants will be sufficient to satisfy our working capital needs, capital expenditures, investment requirements, stock repurchases, commitments, future customer financings, and other liquidity requirements associated with our existing operations through at least the next twelve months. We believe that the most strategic uses of our cash resources include working capital, strategic investments to gain access to new technologies, acquisitions and financing activities. There are no transactions, arrangements and other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of our requirements for capital resources. However, if our operations do not generate cash to the extent currently anticipated by us, or if we grow more rapidly than currently anticipated, it is possible that we will require more funds than anticipated. We expect that these sources will continue to finance our operations in the long term, and will be complemented, if required, by private or public financing.

Effective Corporate Tax Rate

Income derived by Alvarion Ltd. is generally subject to the regular Israeli corporate tax rate.

Until December 31, 2003, the regular tax rate applicable to income of Israeli companies (which are not entitled to benefits due to “Approved Enterprise,” as described below) was 36%. In June 2004 and in July 2005, the “Knesset” (Israeli parliament) passed amendments to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004 and (No. 147), 2005, respectively, which determined, among other things, that the corporate tax rate is to be gradually reduced to the following tax rates: 2006 - 31%, 2007 - 29%, 2008 - 27%, 2009 - 26% and 2010 - 25%.

In July 2009, the Knesset passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among others, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax starting 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

As described below, several of our manufacturing facilities have been granted “Approved Enterprise” status under the Law for the Encouragement of Capital Investments, 1959, as amended, or the Investment Law, and, consequently, are eligible, subject to compliance with specified requirements, for tax benefits beginning when such facilities first generate taxable income.

According to the provision of the law, we have elected the “alternative benefits” track provisions of the Investment Law, pursuant to which we have waived our right to grants and instead receive a tax benefit on undistributed income derived from the “Approved Enterprise” program. The tax benefits under the Investment Law may not be available with respect to income derived from products developed and manufactured outside of Israel or developed manufactured in Israel but outside of the Approved Enterprises mentioned above and may be affected by the current location of our facilities in Israel. The relative portion of taxable income that should be allocated to each Approved Enterprise and expansion is subject to the fulfillment of covenants with the tax authorities.

Several of our facilities have been granted Approved Enterprise status:

(i) Nazareth Facilities: On December 31, 1997, our production facilities in Nazareth were granted Approved Enterprise status. Subject to compliance with applicable requirements, the income derived from the Nazareth Approved Enterprise is tax exempt for a period of 10 years.

The periods of tax benefits with respect to Nazareth Approved Enterprises will commence with the first year in which we earn our taxable income and exhaust our accumulated tax loss carry forwards. The period of tax benefits for the Approved Enterprises are subject to limits of the earlier of 12 years from the commencement of production or 14 years from receiving the approval (these limits do not apply to the exemption period). The period of benefits for Nazareth plan has not yet commenced and have expired in 2009.

(ii) Status Expansion of Nazareth and Migdal Ha-emek: In 2000, we received approval of our application for an expansion of our Approved Enterprise status with respect to our Nazareth facility. This expansion included, among other things, our Carmiel facility, which during 2004 was relocated to Migdal Ha-emek. The income derived from this Approved Enterprise is tax-exempt for a period of 10 years. The relative portion of taxable income that should be exempt for a 10-year period is subject to final covenants with the tax authorities. The 10-year period of benefits will commence with the first year in which we earn taxable income. The period of benefits for this expansion plan has not yet commenced and will expire in 2012.

(iii) Or Yehuda / Tel Aviv Facilities: In 1997, Floware submitted a request for Approved Enterprise status of its production facility in Or Yehuda. This request was approved. After the merger, Floware's enterprise was relocated into our facilities in Tel Aviv. The income derived from this Approved Enterprise is tax exempt for a period of two years and thereafter will be subject to a reduced tax rate between 10% and 25% for an additional period of five to eight years. The actual number of years and tax rate depends upon the percentage of the non-Israeli holders of our share capital. The period of benefits will commence with the first year that we earn taxable income. The period of benefits for this plan has not yet commenced and will expire in 2011.

In order to maintain eligibility for the above programs and benefits, we must meet specified conditions stipulated by the Investment Law, regulations published there-under and the letters of approval for the specific investments in "Approved Enterprises." In the event of failure to comply with these conditions, any benefits that were previously granted may be canceled, and we may be required to refund the amount of the benefits, in whole or in part, including interest.

If these retained tax-exempt profits are distributed they would be taxed at the corporate tax rate applicable to such profits as if we had not elected the alternative system of benefits, currently between 10% - 25% for an "Approved Enterprise." As of December 31, 2010, our accumulated deficit does not include tax-exempt profits earned by our "Approved Enterprise."

On April 1, 2005, tax benefits under the amendment to the Investment Law came into effect (the "Amendment") and has significantly changed the provisions of the Investment Law. The Amendment limits the scope of enterprises that may be approved by the Investment Center. The Investment Center is a statutory body in Israel responsible for providing certain grants and/or tax benefits subject to certain criteria and limitations. These criteria set for the approval of a facility as a "Privileged Enterprise," include a generally required provision that at least 25% of the Privileged Enterprise's income must be derived from export. Additionally, the Amendment enacted major changes concerning the manner in which tax benefits are awarded under the Investment Law so that companies no longer require the Investment Center's approval in order to qualify for tax benefits. However, the Amendment provides that terms and benefits that were included in any certificate of approval which was already granted will remain subject to the provisions of the law as they were on the date of such approval.

In December 2010, the "Knesset" (Israeli Parliament) passed the Law for Economic Policy for 2011 and 2012 (Amended Legislation), 2011, which prescribes, among others, amendments in the Law for the Encouragement of Capital Investments, 1959 ("the Law"). The amendment became effective as of January 1, 2011. According to the amendment, the benefit tracks in the Law were modified and a flat tax rate applies to the Company's entire preferred income. The Company will be able to elect to apply (the waiver is irrevocable) the amendment and from then on it will be subject to the amended tax rates that are: 2011 and 2012 - 15% (in development area A - 10%), 2013 and 2014 - 12.5% (in development area A - 7%) and in 2015 and thereafter - 12% (in development area A - 6%).

Status Expansion of our Production Facilities: Under the Amendment, in 2005 and 2007, we submitted an expansion request for additional “Privileged Enterprise” approval regarding our production facilities. A portion of the income derived from this “Privileged Enterprise” will be tax-exempt for a period of 10 years and the rest will be taxed at a reduced rate of 10% to 25% (depending on the percentage of foreign investment in the Company). The 10-year period of benefits will commence with the first year in which we earn taxable income.

Our Israeli company had no taxable income since inception nor any profit under our Approved or Privileged Enterprise plans.

As of December 31, 2010, Alvarion Ltd. had an available tax loss carry forward amounting to approximately$181 million, which may be carried forward, in order to offset taxable income in the future, for an indefinite period.

As of December 31, 2010, the Company had approximately $27.4 million in US federal net operating loss carry forward for income tax purposes, which can be carried forward and offset against taxable income for 20 years and expire between 2011 and 2027. The state tax losses carry forwards of the U.S. subsidiaries are approximately $8.2 million and this balance will expire between 2011 through 2017.

The state and federal tax loss carry forwards per income tax returns filed included uncertain tax positions that were taken in prior years. Due to the application of ASC 740-10, the filed net operating losses are greater than the net operating loss deferred tax asset which was recognized for financial statement purposes.

Utilization of U.S. net operating losses may be subject to substantial annual limitations due to the “change in ownership” provisions (“annual limitations”) of the Internal Revenue Code of 1986, as amended and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

Because we have more than one “Approved Enterprise", and/ or “Privileged Enterprise” our effective tax rate in Israel will be a weighted combination of the various applicable tax rates. We are likely to be unable to take advantage of all tax benefits in Israel for an Approved Enterprise, which would otherwise be available to us, because a portion of our operations may be considered by the Israeli tax authorities as generated in areas that are defined as non-Approved or non-Privileged Enterprise areas. In addition, because the tax authorities customarily review and reassess existing tax benefits granted to merging companies, and we have yet to finalize with the tax authorities the status of our tax benefits following the Floware merger and the InnoWave acquisition, we cannot assure you that the tax authorities will not modify the tax benefits that we enjoyed prior to these transactions.

Our effective corporate tax rate may substantially exceed the Israeli tax rate. Our France, Romania, Brazil, Hong-Kong, Singapore, Japan, Mexico, Poland, Israel, Uruguay, Spain, UK, South-Africa, Italy, Argentina, Ecuador, Costa Rica, India, Chile, Indonesia, Taiwan and Philippines subsidiaries will generally each be subject to applicable federal, state, local and foreign taxation, and we may also be subject to taxation in other jurisdictions where we own assets, have employees or conduct activities. Because of the complexity of these local tax provisions, it is not possible to anticipate the actual combined effective corporate tax rate that will apply to us.

Government Grants

Under an arrangement entered during 2003 with the OCS in Israel's Ministry of Industry and Trade we participate in new OCS programs under which we are eligible to receive grants for research and development projects without any royalty repayment obligations, excluding OCS programs grants resulting from InnoWave's former operations, which were not included in this arrangement.

In addition to these grants, we obtain grants from the OCS to fund certain other research and development projects as part of our participation in the MAGNET Consortium. These grants do not bear any royalty repayment obligations. The MAGNET Program in the OCS sponsors innovative generic industry-oriented technologies to strengthen the country's technological expertise and enhance competitiveness.

We also participate in certain governmental programs in Spain and in Romania, which finance certain local research and development projects.

In addition we participate in the BuNGEE (researching for high capacity density deployments targeting 1Gbs/km^2) and Flavia (Flexible Architecture for Virtualizable wireless future Internet access) projects, which are a consortium of commercial companies and academy institutes from Europe and Israel.

All of these programs provide grants without any royalty obligations. The programs are expected to last between two and three years. If we are unable to meet the terms of these programs we may be required to return the grants received.

Recently Issued Accounting Standards

1. Adoption of New Accounting Standards during the period

ASU 2010-06 - In January 2010, the FASB updated the "Fair Value Measurements Disclosures" codified in ASC 820. More specifically, this update requires (a) an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e. present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This update clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value, and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. As applicable to the Company, this update became effective as of the first quarter ended December 31, 2010, except for the gross presentation of the Level 3 roll forward information, which is required for annual reporting of December 31, 2011. The adoption of the new guidance did not have a material impact on its consolidated financial statements.

2. Recently issued accounting Standards

ASU 2009-13 and ASU 2009-14 - In October 2009, the FASB issued amendments to the accounting and disclosure for revenue recognition of multiple deliverable revenue arrangements codified in ASC 605-25. These amendments, modify the criteria for recognizing revenue in multiple element arrangements and require companies to develop a best estimate of the selling price to separate deliverables and allocate arrangement consideration using the relative selling price method. Additionally, the amendments eliminate the residual method for allocating arrangement consideration. These amendments establish a selling price hierarchy for determining the selling price of a deliverable, which is based on: a) vendor-specific objective evidence; b) third-party evidence; or c) estimates. In addition, this guidance significantly expands required disclosures related to a vendor's multiple-deliverable revenue arrangements. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and 2009-14 are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company has not early adopted the guidance and determined that the new guidance would not have a material impact on its consolidated financial statements.

ASU 2010-20 – In July 2010, the FASB issued ASU 2010-20 Receivables (Topic 310), disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The update requires entities to provide extensive new disclosures in their financial statements about their financing receivables, including credit risk exposures and the allowance for credit losses. Entities with financing receivables will be required to disclose, among other things: i) A rollforward of the allowance for credit losses, ii) Credit quality information such as credit risk scores or external credit agency ratings, iii) Impaired loan information, iv) Modification information and v) Nonaccrual and past due information. Trade receivables with maturities of one year or less that arose from sales of goods or services are excluded from the scope of the new disclosures. This guidance is effective as of the end of a reporting period for interim and annual reporting periods ending on or after December 15, 2010, related to disclosures of financing receivables. The financing receivables disclosures related to activity that occurs during a reporting period (e.g., the rollforward of the allowance for credit losses and the modification disclosures) are required to be adopted by public entities for interim and annual reporting periods beginning on or after December 15, 2010. The Company is currently evaluating the impact on its consolidated results of operations and financial position related to disclosures of financing receivables under this guidance that is required to be adopted in its 2011 financial statements.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

Our product development plans are market driven and address the major, fast-moving trends that influence the wireless industry. We believe that our future success will depend upon our ability to maintain technological competitiveness, to enhance our existing products and to introduce on a timely basis new commercially viable products addressing the demands of the broadband wireless access market. Accordingly, we devote, and intend to continue to devote a significant portion of our personnel and financial resources to research and development. As part of the product development process, we seek to maintain close relationships with current and potential distributors, other resellers and end users, strategic partners and leaders in industry segments in which we operate to identify market needs and define appropriate product specifications.

As of December 31, 2010, our research and development staff consisted of 286 full time employees. Our research and development is conducted at our facilities in Israel, Romania and Spain. We occasionally use independent subcontractors for portions of our development projects.

Our gross research and development expenses were approximately $42 million or 20% of sales in 2010, $55 million or 22% of sales in 2009, and $70 million or 25% of sales in 2008. The Government of Israel and other jurisdictions for funding-approved research and development projects reimbursed us for approximately $10.3 million in 2008, $3.9 million in 2009 and $3.0 million in 2010.

D. TREND INFORMATION

See "—Operating Results—2010 Highlights" and "Item 3—Key Information—Risk Factors".

E. OFF-BALANCE SHEET ARRANGEMENTS

None.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

See "—Liquidity and Capital Resources—Working Capital—Commitments".

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

The following table lists the name, age and position of each of our directors and executive officers as of May 23, 2011:

Name	Age	Position
Anthony Maher	65	Chairman of the Board of Directors (1)(4)(5)
Benny Hanigal	61	Director (1)(5)
Professor Raphael Amit	63	Director(1)(2)(3)(4)
Robin Hacke	51	Director (1)(2)(3)(5)
Amnon Yacoby	60	Director (1)(3)(4)
Brian Protiva	46	Director (1)
Doron Inbar	61	Director (1)(3)
Ng Eng Ho	57	Director (1)
Eran Gorev	46	Chief Executive Officer and President
Lior Shemesh	40	Chief Financial Officer
Mohammad Shakouri	48	Corporate Vice President, Innovation and Marketing
Avi Mazaltov	48	President, Operations and Infrastructure Division
Gadi Bahat	47	President, Customers' Business Division
Ofer Karp	40	President, Wireless Business Division
Shai Ben-Tovim	34	Corporate Vice President, Strategy
Haim Srur	46	Corporate Vice President, Human Resources

(1) "Independent Director" under rules of the SEC, NASDAQ Marketplace Rules and the Israeli Companies Law (see explanation below).

(2) "External Director" within the meaning of the Israeli Companies Law (see explanation below).

(3) Member of our audit committee.

(4) Member of our compensation committee.

(5) Member of our nominating and corporate governance committee.

Mr. Anthony Maher has served as the chairman of our board of directors since March 2004. He was a member of Floware's board of directors from 1997 until its merger with us and has, since the merger, served as a member of our board of directors. Until January 2002, Mr. Maher was a Member of the Executive Management Board of the Information and Communication Networks Group of Siemens AG. Since 1978, Mr. Maher has held various engineering, marketing and managerial positions at Siemens. Prior to that, he was employed by Bell Telephone Laboratories in Naperville, Illinois, contributing to hardware and software design, as well as System engineering. Mr. Maher also serves as director of Adva Optical Networks, Inc., Broadlight, Verivue and Xtellus Inc. Mr. Maher holds

M.Sc. and B.Sc. degrees in Electrical Engineering and Physics from the University of Illinois.

Mr. Benny Hanigal has served as a member of our board of directors since our inception and served as chairman of our board of directors until February 1999. Since August 2001, Mr. Hanigal has been a partner in Sequoia Capital 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 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 manages one of the Star funds. Since December 2007, Mr. Hanigal has served as the Chairman of the board of directors of EZchip Semiconductor Ltd. Mr. Hanigal has a B.Sc. degree in Electrical Engineering from the Technion -Israel Institute for Technology.

Professor Raphael Amit has served as one of our external directors since September 2003. He serves on the audit and on the compensation committees. Prior to joining our board of directors, Professor Amit served as Chairman of the board of directors of Creo Products Inc (NASDAQ: CREO until May 2005). Professor Amit has been the Robert B. Goergen Professor of Entrepreneurship and a Professor of Management at the Wharton School of the University of Pennsylvania since July 1999. Professor Amit also serves as the Academic Director of Wharton's Goergen Entrepreneurial Management Programs. Prior thereto, Professor Amit was the Peter Wall Distinguished Professor at the Faculty of Commerce and Business Administration, University of British Columbia (UBC), where he was the founding director of the W. Maurice Young Entrepreneurship and Venture Capital Research Center. From 1983 to 1990, Professor Amit served on the faculty of the J.L. Kellogg Graduate School of Management at Northwestern University, where he received the J.L. Kellogg Research Professorship and the Richard M. Paget Research Chair in Business Policy. Professor Amit holds B.A. and M.A. degrees in Economics from the Hebrew University and a Ph.D. in Management from the Northwestern University's J.L. Kellogg Graduate School of Management. Professor Amit has served as a consultant to a broad range of organizations in North America and Europe on strategic, entrepreneurial management and new venture formation issues.

Ms. Robin Hacke was appointed as one of our external directors upon our merger with Floware in August 2001. Ms. Hacke served as a member of Floware's board of directors from its initial public offering in August 2000 and was appointed as an external director of Floware in December 2000. In September 2007, Ms. Hacke became Director of Capital Formation at Living Cities, a funding collaborative of foundations and financial institutions. Since August 2003, Ms. Hacke has been the Managing Director of Pentaport Venture Advisors Inc., a company that advises investment companies, including Portview Communications Partners LP. From 1990 to 2002, Ms. Hacke served as the Chief Executive Officer of HK Catalyst Strategy and Finance Ltd., a company that Ms. Hacke founded that provided advisory services to investment companies and high-tech enterprises. From 1986 to 1990, Ms. Hacke held various management positions at Aitech Ltd., an Israeli start-up company. Prior to that, Ms. Hacke was an investment banker at Shearson Lehman Brothers in New York. Ms. Hacke holds an A.B. magna cum laude degree from Harvard-Radcliffe College and an MBA degree from Harvard Business School.

Mr. Amnon Yacoby has served as a member of our board of directors since our merger with Floware in August 2001. Mr. Yacoby founded Floware and served as its Chief Executive Officer and as a member of its board of directors until its merger with us. Following our merger with Floware until the end of 2001, Mr. Yacoby served as our co-Chief Executive Officer. In 2004, Mr. Yacoby founded Aternity, Inc. and serves as its Chairman and CEO. In 1987, Mr. Yacoby founded RAD Network Devices Ltd., a developer of data networking devices, and served as its president and Chief Executive Officer until 1995. From 1972 to 1986, he served in the Israel Defense Forces' Electronic Research Department in various positions, most recently as head of the department. He twice received the Israel Security Award. Mr. Yacoby holds B.Sc. and M.Sc. degrees in Electrical Engineering from the Technion – Israel Institute of Technology.

Mr. Brian Protiva has served as a member of our board of directors since September 2010. Mr. Protiva is the Chief Executive Officer of ADVA Optical Networking ("ADVA"), a global provider of intelligent telecommunications infrastructure solutions, which he co-founded in 1994. Prior to Mr. Protiva's appointment as ADVA's CEO in 2001, he was one of ADVA's two managing directors, focused on creating ADVA's marketing, sales and growth strategy. Prior to co-founding ADVA, Mr. Protiva was managing director at AMS Technologies (now the EGORA Group), which he joined in 1987 and where he focused on co-managing its subsidiaries. Mr. Protiva holds a B.Sc. in electrical engineering from Stanford University, USA.

Mr. Doron Inbar has served as a member of our board of directors since September 2009. Mr. Inbar is a Venture Partner at Carmel Ventures, an Israeli-based venture capital fund. He serves as Chairman of C-nario Ltd. a digital signage company. As chairman of Enure networks Ltd. and an active chairman at Archimedes global Ltd., a private health provision and insurance company providing its services in the CIS countries .In addition Mr. Inbar serves as independent on Maccabi Dent Ltd., the largest chain of dental service clinics in Israel. Prior to joining Carmel Ventures in 2006, Mr. Inbar served as President and Chief Executive Officer of ECI Telecom Ltd., having served as President from November 1999 and Chief Executive Officer from February 2000. Mr. Inbar joined ECI Telecom in 1983 and during his first eleven years with ECI, he served in various positions at its wholly-owned U.S. subsidiary, ECI Telecom, Inc., including Executive Vice President and General Manager. In July 1994, Mr. Inbar returned to Israel to become Vice President, Corporate Budget, Control and Subsidiaries of ECI Telecom Ltd. In June 1996, Mr. Inbar was appointed Senior Vice President and Chief Financial Officer, and he became Executive Vice President in January 1999. Mr. Inbar holds a bachelors degree in economics and business administration from Bar-Ilan University, Israel.

Mr. Ng Eng Ho has served as a member of our board of directors since September 2009. Mr. Eng Ho is the Executive Director of Audelia Pte Ltd., an investment and management consultancy company he founded in November 2007. Prior to founding Audelia Pte Ltd. Mr. Eng Ho served as Executive Vice President (Operations) at ST Technologies Telemedia Pte Ltd., a subsidiary of Temasek Holdings, since December 2005, and as the Deputy President Director of ST Telemedia's Indonesian subsidiary, PT Indosat Tbk, from January 2003 through December 2005. Prior to that, Mr. Eng Ho was Managing Director of Keppel Telecommunications & Transportation Ltd, (Keppel T&T) from July 1998 to September 2002, after serving in various positions at Keppel T&T and its subsidiaries from September 1990 through June 1998. Prior to joining Keppel T&T, Mr. Eng Ho was a career officer in the Singapore Armed forces from 1973 through 1990. Mr. Eng Ho received his Bachelor of Science (Telecomm System Engineering) degree (Honors) from the Royal Military College of Science, UK.

Mr. Eran Gorev was appointed as our President and Chief Executive Officer in December 2009. Prior to his appointment, he served from 2005 until 2009 as President and CEO of NICE Systems Inc., the company’s operation in the Americas, and from 2008 until 2009 as NICE’s Chief Business Officer, responsible for driving the company’s global business. Prior to NICE Systems, Mr. Gorev worked for Amdocs from 1996 until 2004, where he was President of the North America Major Clients Division responsible for the company’s business with some of North America's leading communication service providers and media companies, and Corporate Vice President and Head of Worldwide Sales, responsible for leading global sales and business development activities. Mr. Gorev holds an LLB degree from Tel-Aviv University and a joint MBA degree from the Kellogg School of Management, at Northwestern University, and the Recanati School of Business Administration, at Tel-Aviv University.

Mr. Lior Shemesh became our Chief Financial Officer in January 2011, after serving for two years as our Vice President of Finance. Prior to this, he served as Vice President of Finance at Veraz Networks, a provider of softswitch, media gateway and digital compression solutions from May 2003 to October 2008. Before joining Veraz, Lior worked for ECI Telecom, a networking infrastructure provider, from April 2000 to May 2003 as the company Controller, and later as Associate Vice-President of Finance of the Broadband Division. Lior is a Certified Public Accountant in Israel and holds a B.A. in Accounting and Economics, and an M.B.A from Bar-Ilan University.

Dr. Mohammad Shakouri was appointed as our Corporate Vice President of Innovation and Marketing in March 2008 and assumed his new role as of April 1, 2008. Dr. Shakouri joined us in February 2001 and has extensive experience in wireless communication systems and fiber optic networks. Dr. Shakouri serves as a Vice President of WiMAX Forum, a member of WiMAX Forum board of directors, advisory board for the Wireless Communication Alliance and is an IEEE MTT-SVC 2004 chairman. Prior to joining Alvarion, Dr. Shakouri worked at Lucent Technologies where he was responsible for managing, building and developing network solutions for European and South American broadband wireless markets. Before joining Lucent, he spent fourteen years in technical and management positions

with Hewlett Packard developing microwave and fiber optic communication components and systems. He co-founded the wireless systems division, where he was responsible for the engineering team developing low-cost residential digital wireless systems for U.S. and Asian markets. Dr. Shakouri earned his doctorate in electrical engineering from Stanford University on Subpicosecond GaAs Wafer Probe Systems.

Mr. Avi Mazaltov was appointed as our President of the Operations and Infrastructure Division in January 2006. Mr. Mazaltov joined the Company as Vice President of Operations in June 2002. Prior to joining Alvarion, Mr. Mazaltov held several positions at Teva Pharmaceuticals, including Pharmaceuticals Plant Manager and Solid Dosage Global Operations Director. Before joining Teva Pharmaceuticals, Mr. Mazaltov held the position of Supply Chain Director at Time & Frequency LTD a subsidiary of Tadiran Ltd. Mr. Mazaltov holds a B.Sc. degree in Industrial Engineering and Management from Ben-Gurion University.

Mr. Gadi Bahat joined Alvarion as President of the Customer Business Division in October, 2010, with global responsibility for regional operations and activities. Mr. Bahat came to Alvarion after successfully leading Olista (a provider of customer experience analytics solutions that enable mobile and broadband operators to increase the success of their service offerings) for two years as CEO and board member, until the company was acquired in May 2010. Prior to joining Olista in September 2008, Mr. Bahat spent over a decade with Comverse, where he held a number of executive management positions including EMEA Group President, International Group President and World Group President. He was also a member of Comverse's Executive Management team, and was responsible for a P&L of more than $500 million. Before joining Comverse in August 1995, Mr. Bahat held a number of Product Management/Marketing positions at Scitex and RAD Data Communications. Mr. Bahat holds a B.Sc. in Electrical Engineering from the Technion Israel Institute of Technology, and an MBA from Tel-Aviv University.

Mr. Ofer Karp joined Alvarion at the beginning of 2007 as Vice President Marketing in the Broadband Mobility Unit, advancing in 2009 to become General Manager of the Carrier Line of Business and then President of the Wireless Business Division, in the beginning of 2011 when the R&D division was merged into the Wireless Business Division and he assumed the responsibility over the R&D as well. Prior to joining Alvarion, Mr. Karp served for 7 years in various managerial roles in research and development, sales and corporate marketing in Comverse Ltd. In his last position, Mr. Karp established and led the Email and Personal Information (EPI) Business Unit. Additionally, Mr. Karp completed a legal internship with one of Israel's leading law firms. Mr. Karp has a first degree in both Law (L.L.B.) and Accountancy (B.A.) completed as part of the honors program at the Hebrew University of Jerusalem, and an M.B.A. (cum laude) from the Interdisciplinary Center (IDC), Herzliya.

Mr. Shai Ben-Tovim was appointed as the company's Corporate VP, Strategy in February 2011. Mr. Ben-Tovim leads a team responsible for creating a long term strategic framework for Alvarion and identifying new, additional growth engines for the company, strengthen our industry thought leadership and validate that our execution is in line with our long term goals. Prior to this role, Mr. Ben-Tovim was President of Alvarion's R&D division from August 2009 to January 2011 , responsible for leading product and technology development focused on a broad range of innovative, market-leading products and infrastructure for the broadband wireless industry. Mr. Ben-Tovim held various management roles in the R&D department since he joined Alvarion at the beginning of 2006. Mr. Ben-Tovim has a B.A. in Computer Science which he graduated with honors as well as a Law degree (L.L.B) from Tel Aviv University.

Mr. Haim Srur was appointed Vice President of Human Resources following our merger with Floware in August 2001. Prior to Mr. Srur's present position, he served as Floware's Vice President Human Resources since December 2000. Prior to joining Floware, Mr. Srur held the position of Human Resources Director of the Research and Development and Operations Divisions at Teva Pharmaceutical Industries. Prior to joining Teva, he worked as an independent consultant in human resources and organizational management to start-up companies. Mr. Srur holds a Masters degree in Organizational Sociology from Bar-Ilan University, Israel.

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

B. COMPENSATION OF DIRECTORS AND OFFICERS

The aggregate direct labor costs associated with all of our directors and executive officers as a group (22 persons) for the year ended December 31, 2010 (including persons who served as executive officers and directors during 2010 and did not serve in such capacity as of December 31, 2010) was approximately $3,556,202, which included, with respect to the executive officers, payments made pursuant to their bonus plans and with respect to certain executive officers, payment made pursuant to their separation agreements. This amount also includes approximately $465,000 that was set aside or accrued to provide pension, retirement, social security or similar benefits. The amount does not include amounts expended by us for vehicles made available to our officers, expenses, including business travel, professional and business association dues and expenses; reimbursements to directors and officers; and other fringe benefits commonly reimbursed or paid by companies in Israel. Our directors received an aggregate of approximately $322,083 in cash compensation in 2010.

From time to time, we grant options and awards under our equity incentive plans (described below under Share Ownership) to our executive officers and directors.

Option grants to directors (including the chairman of our board of directors) who are not executive officers are made pursuant to an automatic option grant program. Non-employee directors who are elected or re-elected to our board of directors are granted upon each of their election or re-election, an option to purchase 30,000 ordinary shares for the term for which they are elected or re-elected. The options vest in equal quarterly installments over the term of election or re-election, commencing at the end of the third month following the date of election or re-election. All options to our non-employee directors pursuant to the automatic option grant program are granted at an exercise price equal to 100% of the closing price of the ordinary shares on the NASDAQ Global Select Market on the last trading day immediately preceding the date of the election or re-election.

During 2010, we granted all of our directors and executive officers as a group (22 persons) (including persons who served as directors and executive officers during 2010 and did not serve in such capacity as of December 31, 2010) options to purchase an aggregate of 1,205,000 of our ordinary shares at exercise prices ranging from $ 0.003 to $1.95, with expiration dates ranging from May 3, 2016 to September 7, 2020.

As of December 31, 2010, our directors and executive officers (including persons who served as executive officers and directors during 2010 and did not serve in such capacity as of December 31, 2010) held outstanding options to purchase an aggregate of 7,137,129 ordinary shares, at exercise prices ranging from $ 0.003 to $15.40 with expiration dates ranging from April 2, 2011 to September 7, 2020.

We currently pay each of our non-executive directors (other than the Chairman of our board of directors who provides executive services to Alvarion and is paid separately for those services) an annual fee of $25,000 for the services he or she provides to Alvarion, which annual fee includes payment for the board and committee meetings attended by such director during the year. In addition, each of the chairs of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee is paid an additional annual fee of $25,000.

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C. BOARD PRACTICES

Appointment of Directors and Terms of Office

Our board of directors currently consists of eight members. Under our articles of association, our board of directors is to consist of between 4 and 10 members. Our directors are elected by our shareholders at an annual general shareholders meeting. Our directors generally commence the terms of their office at the close of the annual general shareholders meeting at which they are elected and, other than our external directors, serve in office until the close of the third annual general shareholders' meeting following the meeting at which they are elected, and may be re-elected by the shareholders. Annual general shareholders meetings are required to be held at least once every calendar year, but not more than 15 months after the last preceding annual general shareholders meeting. In the intervals between the annual general meetings of the shareholders, our shareholders or our board of directors may appoint new directors to fill any vacancy created in our board of directors, except for vacancies of an external director.

The terms of office of the directors, including compensation, must be approved, under the Israeli Companies Law, by the audit committee, the board of directors and the general meeting of the shareholders.

Pursuant to a recent amendment to the Israeli Companies Law that will take effect in 2011, compensation arrangements for executive officers who are not directors require the approval of the audit committee and the board of directors. The approval of the audit committee may be substituted with the approval of the compensation committee, provided that the compensation committee complies with all the requirements prescribed by the Israeli Companies Law regarding composition of the audit committee. 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 audit committee is sufficient.

The term of office of Mr. Hanigal will expire at our 2011 annual general meeting of the shareholders; the term of office of Messrs. Maher, Inbar and Eng Ho will expire at our 2012 annual general meeting of the shareholders; and the term of office of Messrs. Yacoby and Protiva will expire at our 2013 annual general meeting of the shareholders. The terms of office of our external directors, Ms. Hacke and Professor Amit, expire in August 2013 and September 2012, respectively, as described below.

Service Contracts of Directors

None of our directors has the right to receive any benefit upon termination of his or her office or any service contract he or she may have with us.

External Directors

We are subject to the provisions of the Israeli Companies Law. Under the Israeli Companies Law, companies incorporated under the laws of Israel whose shares have been offered to the public in or outside of Israel are required to appoint at least two directors who qualify as external directors under the Israeli Companies Law. At least one of the external directors is required to have "financial and accounting expertise" (unless another member of the audit committee, who is an independent director under the NASDAQ Marketplace Rules, has "financial and accounting expertise") and any other external director must have "accounting and financial expertise" or "professional expertise," as such terms are defined by regulations promulgated under the Israeli Companies Law. Our board of directors has determined that Professor Amit has "financial and accounting expertise" and Ms. Hacke has "professional expertise".

A person may not serve as an external director if at the date of the person's election or within the prior two years the person is a relative of the company's controlling shareholder, or the person or his or her relatives, partners, employers, supervisors or entities under the person's control, have or had any affiliation with us or with a controlling shareholder or relatives of a controlling shareholder, and, in the case of a company without a controlling shareholder or a shareholder holding at least 25% of the voting rights, any affiliation, at the time of election, to the chairman of the board of directors, the chief executive officer, an interested party or the company's most senior finance officer. Under the Israeli Companies Law, the term affiliation includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; and
- service as an office holder.

In addition, a person may not serve as an external director:

- if the person or his or her relatives, partners, employers, supervisors or entities under the person's control, maintains a business or professional relationship, even if such relationship is not on a regular basis, other than a negligible business or professional relationship, or

- if the person received compensation as an outside director in excess of the amounts permitted by the Israeli Companies Law and regulations thereunder.

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" in Item 6.A. above is an office holder. A "relative" is defined as a spouse, sibling, parent, grandparent or descendent, or a spouse's descendant, sibling or parent or the spouse of any of the foregoing. An "interested party" is defined as a holder of 5% or more of our shares or voting rights, any person or entity that has the right to nominate or appoint at least one of our directors or our general manager, or any person who serves as one of our directors or as our general manager.

A person may not serve as an external director if that person’s position or other business creates, or may create, a conflict of interest with the person’s responsibilities as an external director or may otherwise interfere with such person’s ability to serve as a director. If at the time any external director is to be elected all members of the board of directors that are not controlling shareholders or their respective relatives are of the same gender, then the external director to be elected must be of the other gender. There is also a restriction on interlocking boards of directors: a director of a company may not be elected as an external director of another company if, at that time, a director of the other company is acting as an external director of the first company.

Under the Israeli Companies Law, each committee of a company’s board of directors is required to include at least one external director, except for the audit committee, which requires that all external directors be members of such committee, including one external director serving as the chair of the audit committee. The term of office of an external director is three years and may be extended for additional three year terms. However, Israeli companies listed on certain stock exchanges outside Israel, including the NASDAQ Global Select Market, such as our company, may appoint an external 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 external director for an additional term is in the best interest of the company. An external director can be removed from office only under very limited circumstances.

The external directors must be elected by the majority of the shareholders in a general meeting, provided that either (i) the shares voting in favor of the external director's election includes at least a majority of the shares of non-controlling shareholders or shareholders who have a personal interest in the election of the external directors (excluding a personal interest that is not related to a relationship with the controlling shareholders), or (ii) the total shares of non-controlling shareholders voted against the election does not represent more than two percent of the total voting rights in the company.

Until the lapse of two years from the termination of office, the company, a controlling shareholder and entities under the company's control may not grant the outside director or any of his or her relatives, directly or indirectly, any benefit, or engage the outside director or his or her relatives as an office holder of the company, of a controlling shareholders or of an entity under the company's control, and may not employ or receive services from the outside director or any of his or her relatives, either directly or indirectly, including through a corporation controlled by that person. The restriction on a relative that is not the spouse or child of the outside director is limited to one year from the termination of office instead of two years.

Ms. Robin Hacke and Professor Raphael Amit qualify as our external directors under the Israeli Companies Law. We have appointed the external directors to the committees of our board of directors as required by the Israeli Companies Law.

Independent Directors

NASDAQ Marketplace Rules require that the board of directors of a NASDAQ-listed company have a majority of independent directors, each of whom satisfies the "independence" requirements of NASDAQ, 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 SEC. Our board of directors has determined that each of Mr. Maher, Mr. Hanigal, Professor Amit, Ms. Hacke, Mr. Yacoby, Mr. Inbar, Mr. Ng Ho and Mr. Protiva qualifies as an independent director under the requirements of NASDAQ, and that each of Professor Amit, Ms. Hacke, Mr. Inbar and Mr. Yacoby (who serve on our audit committee) qualifies as an independent director under the requirements of the SEC and NASDAQ.

Under the Israeli Companies Law, 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 the 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. However, as described above, a majority of our board of directors and all the members of our audit committee consist of directors that comply with the independence criteria prescribed by the Israeli Companies Law.

Committees of the Board of Directors

Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee.

Audit Committee

Pursuant to the Israeli Companies Law and the NASDAQ Marketplace Rules, the board of directors of a public company must appoint an audit committee. The responsibilities of the audit committee include monitoring the management of the Company’s business and suggesting appropriate courses of action, as well as classifying and approving related party transactions and extraordinary transactions, reviewing the internal auditors audit plan, establishing and monitoring whistleblower procedures, reviewing and recommending on board members compensation and other matters as required by Israeli law and NASDAQ rules. The audit committee must be comprised of at least three directors, including all the external directors (including one external director serving as the chair of the audit committee). Our audit committee assists the board of directors in fulfilling its responsibilities to ensure the integrity of our financial reports, serves as an independent and objective monitor of our financial reporting process and internal controls systems, including the activities of our independent auditor and internal audit function, and provides an open avenue of communication between the board of directors and the independent auditors, internal auditor and financial and executive management.

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 votes if requested by the committee.

The members of our audit committee are Professor Amit, Ms. Hacke, Mr. Inbar and Mr. Yacoby, each of whom is an independent director under the requirements of the SEC, NASDAQ and the Israeli Companies Law. Professor Amit qualifies as a financial expert for purposes of the rules of the SEC. As stated above, Ms. Hacke and Professor Amit qualify as external directors under the Israeli Companies Law.

Compensation Committee

The compensation committee of our board of directors consists of Mr. Maher, Mr. Yacoby and Professor Amit. Our board of directors has adopted a compensation committee charter setting forth the responsibilities of the committee, which include:

- reviewing and recommending to the board of directors for its determination all compensation arrangements of our chief executive officer and chief financial officer;
- reviewing and determining all compensation arrangements of our other executive officers, including our corporate vice presidents and division presidents; and
- overseeing our equity incentive plans and cash incentives and deferred compensation plans.

Nominating and Corporate Governance Committee

The nominating and corporate governance committee of our board of directors consists of Mr. Maher, Ms. Hacke and Mr. Hanigal. Our board of directors has adopted a nominating and corporate governance committee charter setting forth the responsibilities of the committee, which include:

- seeking and recommending to the board of directors the nomination of qualified candidates for election to the board of directors;
- recommending to the board of directors the directors that shall serve on each committee of the board of directors;
- leading and monitoring a process to assess the effectiveness of the board of directors;
- developing and recommending to the board of directors a set of corporate governance guidelines, periodically reviewing such guidelines and recommending changes; and
- overseeing the evaluation of the board of directors.

Financial Statements Review Committee

In connection with a new requirement of the Israeli Companies Law, which became effective on May 14, 2011, we will be required to form a financial statements review committee to review the company's financial statements and make recommendations to our board of directors with respect to the approval of the financial statements and specified issues concerning the financial statements. The Company's independent accountants are to be invited to each meeting of the committee, and the internal auditor is to be notified in advance of each meeting and shall have the right to participate. Under the Israeli Companies Law and regulations, the composition and quorum requirements of the financial statements committee are generally the same as the composition and quorum requirements of the audit committee.

Internal Auditor

The Israeli Companies Law also requires the board of directors of a public company to appoint an internal auditor recommended by the audit committee. The role of the internal auditor is to examine, among other things, whether the company’s acts comply with applicable law and orderly business procedure. The internal auditor may be an employee of the company but may not be an interested party or office holder, a relative of an interested party or office holder, or a member of the company’s independent accounting firm or its representatives. Our current internal auditor, Mr. Eyal Weitzman, has served in this position since February 2006.

Fiduciary Duties and Approval of Related Party Transactions

Fiduciary Duties. The Israeli Companies Law codifies the fiduciary duties that office holders, which under the Israeli Companies Law includes 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.

The duty of care requires an office holder to act with the level of care that a reasonable office holder in the same position would apply 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 approval or performed by him by virtue of his position, and all other relevant information material to these actions.

The duty of loyalty requires an office holder to act in good faith and for the company's benefit, including to avoid any conflict of interest between the office holder's position in the company and any other position held by him or his personal affairs, and prohibits any competition with the company, or the exploitation of any business opportunity of the company in order to receive personal advantage for himself or others. This duty also requires disclosing to the company any information or documents relating to the company's affairs that the office holder has received as a result of his 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.

Disclosure of Personal Interest. 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 a person’s 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 or her 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”. The Israeli Companies Law defines an “extraordinary transaction” as a transaction that is not in the ordinary course of business, not on market terms or is likely to have a material impact on the company's profitability, assets or liabilities.

Approval of Compensation of Office Holders. Under the recent amendment to the Israeli Companies Law that will take effect in 2011, compensation arrangements for officers who are not directors require the approval of the audit committee and the board of directors. The approval of the audit committee may be substituted with the approval of the compensation committee, provided that the compensation committee complies with all the requirements prescribed by the Israeli Companies Law regarding composition of the audit committee. 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 audit committee is sufficient. Arrangements regarding the compensation of directors require the approval of the audit committee, the board and the shareholders, in that order.

Approval of Other Transactions with Office Holders. The Israeli Companies Law provides that a transaction with an office holder or a transaction in which an office holder has a personal interest requires board approval, unless the transaction is an extraordinary transaction or the articles of association provide otherwise. Our articles of association do not provide otherwise. The transaction may not be approved if it is adverse to our 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 our audit committee and board of directors are required, 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 audit committee is sufficient. Exculpation, indemnification, insurance or compensation of a director 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 is also required.

Controlling Shareholder – Disclosure and Approval

The Israeli Companies Law imposes on a controlling shareholder of a public company the same disclosure requirements described above as it imposes on an office holder. For this purpose, a "controlling shareholder" is any shareholder who has the ability to direct the activities of a company, including any 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.

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; and

- the terms of compensation or employment or engagement of a controlling shareholder or his or her relative, as our officer holder or employee or as a service provider to the company, including through a company controlled by a controlling shareholder.

Shareholder's 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, other than 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 has a duty to act in good faith and in a customary manner towards the company and other shareholders, and to refrain from abusing his or her power in the company, including when voting in a shareholders meeting or in a class meeting on matters such as the following:

- An amendment to the company’s articles of association;
- An increase in 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 knows that he or she possesses the power to determine the outcome of a shareholders meeting or a shareholders class meeting and any shareholder who has the power to prevent the appointment of an office holder, is under a duty to act with fairness towards the company. The Israeli Companies Law does not define the substance of this duty of fairness, except to state that the remedies generally available upon a breach of contract will also apply in the event of a breach of the duty to act with fairness, taking into account the position in the company of those who breached the duty of fairness.

Exculpation, Insurance and Indemnification of Directors and Officers

Indemnification of Office Holder

Our articles of association provide that, to the extent permitted by the Israeli Companies Law, we may indemnify our office holders for the following liabilities or expenses incurred by an office holder as a result of an act done by him or her in his or her capacity as an office holder:

- a financial liability imposed on him or her in favor of another person by a court judgment, including a settlement, judgment or an arbitrator's award approved by a court;

- reasonable costs of litigation, including attorney's fees, expended as a result of an investigation or proceeding instituted against the office holder by a competent authority, provided that such investigation or proceeding was concluded without the filing of an indictment against the office holder or the imposition of any financial liability in lieu of criminal proceedings, or was concluded without the filing of an indictment against the office holder and a financial liability was imposed on the office holder in lieu of criminal proceedings with respect to a criminal offense in which proof of criminal intent is not required; and

- reasonable litigation expenses, including attorneys' fees, expended by an office holder or charged to him or her by a court, in a proceeding filed against him or her by the company or on its behalf or by another person, or in a criminal charge from which he or she was acquitted, or in a criminal charge of which he or she was convicted of a crime which does not require a finding of criminal intent.

The Israeli Companies Law and our articles of association provide that, subject to certain limitations, we may undertake to indemnify an office holder of the company retrospectively, and may also undertake in advance to indemnify an office holder of the company, provided the undertaking is limited to events which the board of directors believes can be anticipated at the time of such undertaking, in light of the company's activities as conducted at such time and is in an amount or based on criteria that the board of directors determines is reasonable under the circumstances and, provided, further, that such undertaking lists the events which the board of directors believes can be anticipated in light of the company's activities as conducted at such time, and the amount or criteria that the board determines is reasonable under the circumstances.

Insurance of Office Holders

Our articles of association provide that, to the extent permitted by the Israeli Companies Law, we may obtain insurance to cover any liabilities imposed on an office holder as a result of an act done by him or her in his or her capacity as an office holder, in any of the following:

- a breach of his or her duty of care to us or to another person;
- a breach of his or her duty of loyalty to us, provided that he or she acted in good faith and had reasonable grounds to assume that his or her act would not prejudice us; and
- any financial liability imposed upon him or her in favor of another person.

Exculpation of Office Holders

In addition, our articles of association provide that, to the extent permitted by the Israeli Companies Law, we may exculpate an office holder in advance from liability, in whole or in part, for damages resulting from a breach of his or her duty of care to us.

Limitations on Exculpation, Indemnification and Insurance

These provisions are specifically limited in their scope by the Israeli Companies Law, which provides that 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.

We have obtained directors' and officers' liability insurance for the benefit of our office holders to the full extent permitted by the Israeli Companies Law.

We entered into indemnification agreements with each of our directors and office holders in the form approved by our audit committee, board of directors and shareholders. The indemnification agreements provide that we will indemnify an office holder for any expenses incurred by the office holder in connection with any claims (as these terms are defined in the agreement) that fall within one or more categories of indemnifiable events listed in the agreement, related to any act or omission of the office holder and director while serving as our office holder (or serving or having served, at our request, as an employee, consultant, office holder or agent of any of our subsidiaries, or any other corporation or partnership). In addition, under these agreements, we exempt and release our office holders from any and all liability to us related to any breach by them of their duty of care to us, to the maximum extent permitted by law.

D. EMPLOYEES

As described in "Item 4 - Information on the Company-Business Overview", in connection with the cost reduction methods applied by the company in February 2011, the number of our employees decreased to 608 employees as of March 1, 2011.

As of December 31, 2010, we had 715 employees, of which 286 were engaged in research and development, 84 in operations, 280 in sales and marketing, and 65 in administration and management. Of our full-time employees, as of

December 31, 2010, 429 were located in Israel, 43 in the United States and 243 at our other branch offices, which offices are listed in "Item 4—Information on the Company—Organizational Structure."

As of December 31, 2009, we had 877 employees, of which 394 were engaged in research and development, 110 in operations, 306 in sales and marketing, and 68 in administration and management. Of our full-time employees, as of December 31, 2009, 566 were located in Israel, 42 in the United States and 269 at our other branch offices.

As of December 31, 2008, we had 976 employees, of which 371 were engaged in research and development, 164 in operations, 394 in sales and marketing, and 92 in administration and management. Of our full-time employees, as of December 31, 2008, 676 were located in Israel, 44 in the United States and 256 at our other branch offices.

We consider our relations with our employees to be good and have never experienced any strikes or work stoppages. Substantially all of our employees have employment agreements, and none are represented by a labor union.

We are subject to labor laws and regulations in Israel and in other countries where our employees are located. Although our Israeli employees are not parties to any collective bargaining agreement, we are subject to certain provisions of collective bargaining agreements among the Government of Israel, the General Federation of Labor in Israel and the Coordinating Bureau of Economic Organizations, including the Industrialists' Association, that are applicable to our Israeli employees by virtue of expansion orders of the Israeli Ministry of Industry, Trade and Labor. Israeli labor laws are applicable to all of our employees in Israel. Those provisions and laws principally concern the length of the work day, minimum daily wages for workers, procedures for dismissing employees, determination of severance pay and other conditions of employment.

We contribute funds on behalf of our employees to an individual insurance policy known as Managers' Insurance. This policy provides a combination of savings plan, insurance and severance pay benefits to the insured employee. It provides for payments to the employee upon retirement or death and secures a substantial portion of the severance pay, if any, to which the employee is legally entitled upon termination of employment. Each participating employee contributes an amount equal to 5% of such employee's base salary, and we contribute between 13.83% and 15.83% of the employee's base salary. Employees are also entitled, instead of or combined with the Manager's Insurance above, to a pension fund to which the employee contributes an amount ranging from 5% to 5.5% of such employee's base salary, and we contribute an amount equal to 14.83% of the employee's base salary. We also provide our employees with an Education Fund, to which each participating employee contributes an amount equal to 2.5% of the employee's base salary, and we contribute an amount of up to 7.5% of the employee's base salary. Both of the above contributions are limited to maximum amounts promulgated under the Israeli tax regulations which are tax exempt. We also provide our employees with additional health insurance coverage for instances of severe illnesses. Outside of Israel, we offer alternative local plans of pension, health insurance, and social security as provided under the applicable laws in such jurisdictions.

As an Israeli employer, Israeli law requires us to provide salary increases as partial compensation for increases in the Israeli consumer price index or as set by local law. Employees and employers also are required to pay predetermined sums, which include a contribution to provide a range of social security benefits.

Management Employment Agreements

We maintain written employment agreements with substantially all of our key employees. These agreements provide, among other matters, for monthly salaries, our contributions to Managers' Insurance or Pension Fund and an Education Fund, and severance benefits. All of our agreements with our key employees are subject to termination by either party upon the delivery of notice of termination as provided therein.

E. SHARE OWNERSHIP

The following table sets forth certain information as of May 23, 2011 for (i) each of our executive officers and directors that beneficially owns more than 1% of our outstanding ordinary shares and (ii) our executive officers and directors as a group. The information in the table below is based on 62,300,615 ordinary shares outstanding as of May 23, 2011. Each of our outstanding ordinary shares has identical rights in all respects.

Name	Number of Ordinary Shares (1)	Percentage of Outstanding Ordinary Shares
Amnon Yacoby (2)	802,079	1.29%
All directors and executive officers as a group (18 persons)(3)	4,423,319	6.71%

(1) The number of ordinary shares beneficially owned includes the shares issuable pursuant to options that are exercisable within 60 days of May 23, 2011. Shares issuable pursuant to such options are deemed outstanding for computing the percentage of the person holding such options but are not outstanding for computing the holding percentage of any other person.

(2) Includes options to purchase 77,500 of our ordinary shares which are exercisable within 60 days of May 23, 2011.

(3) Includes options to purchase 3,595,174 of our ordinary shares which are exercisable within 60 days of May 23, 2011

Except as set forth in the table above, none of our other directors or executive officers listed above under “—Directors and Senior Management” held more than 1% of our outstanding shares as of May 23, 2011.

As of May 23, 2011, our directors and executive officers who are currently engaged with the Company as listed above under "—Directors and Senior Management", as a group, held options to purchase 5,530,228 of our ordinary shares at a weighted average exercise price of $5.18 with expiration dates ranging from April 30, 2012 until September 7, 2020. The voting rights of our directors and executive officers do not differ from the voting rights of other holders of our ordinary shares.

Equity Incentive Plans

As of December 31, 2010, a total of 34,886,495 ordinary shares have been reserved for issuance upon exercise of options granted to our employees, officers, directors and consultants pursuant to our share option plans. These ordinary shares have been reserved pursuant to our 2006 Global Share Based Incentive Plan (the “2006 Plan”), 2002 Global Share Option Plan (the “2002 Plan”), Key Employee Share Incentive Plan (1994), as amended, Key Employee Share Incentive Plan (1996), Key Employee Share Incentive Plan (1997), 1999 U.S. Stock Option Plan, interWAVE’s 1994 Stock Option Plan, interWAVE’s 1999 Stock Option Plan and Floware’s Key Employee Share Incentive Plan (1996).

Options granted under the share option plans usually vest over a period of four years.

As of December 31, 2010, options to purchase 11,178,511 of our ordinary shares were outstanding under the share option plans, including options issued pursuant to the terms of the Floware merger and interWAVE amalgamation, at a weighted average exercise price of $5.55 per share. Unless a shorter period is specified in the notice of grant or unless the applicable share option plan has an earlier termination date, each of the outstanding options to purchase 11,178,511 of our ordinary shares expire between six and ten years from the date of grant. As of December 31, 2010, options to purchase 7,465,721 of our ordinary shares were available for issuance under the share option plans.

As of December 28, 2005, 1,834,452 unvested out-of-the-money options with an exercise price higher than $10 per share and related to the vesting period from January 1, 2006 through January 1, 2007 had been accelerated. The options were accelerated to reduce the expense impact in 2006 and beyond of a new accounting standard for stock-based compensation. Because we accounted for stock-based compensation prior to January 1, 2006 using the intrinsic value method prescribed in Accounting Principles Board (APB) No. 25, and because these options were priced above current market, the acceleration of vesting of these options did not require accounting recognition in our financial statements. However, the impact of the vesting acceleration on pro forma stock-based compensation required to be disclosed in the financial statement footnotes under the provisions of ASC 718 (formerly SFAS No. 123), was an increase in compensation cost by approximately $5.2 million.

Pursuant to our 2006 Plan we may grant restricted share units, restricted shares, options and other equity awards to employees, directors, consultants, advisers and service providers of our Company and its subsidiaries. Initially, 1,500,000 ordinary shares were reserved for issuance upon the exercise of awards granted under the 2006 Plan. The number of ordinary shares available for issuance under the 2006 Plan is reset annually on April 1 of each year (commencing April 1, 2007) to equal 4% of our total outstanding shares as of the applicable reset date. As of December 31, 2010, options to purchase 6,962,316 of our ordinary shares were outstanding under the 2006 Plan.

The share option plans are administered by the board of directors which designates the optionees, dates of grant, vesting period and the exercise price of options. Each grantee is responsible for all personal tax consequences of the grant and the exercise of the options. Unless otherwise approved by our board of directors, employees usually may exercise vested options granted under the share option plans for a period of three months following the date of termination of their employment with us or any of our subsidiaries and options that have not vested on the date of termination expire. Under Israeli law, the issuance of options must be approved by our board of directors and issuance of options to directors must be approved by the shareholders.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

As of May 23, 2011, we are not aware of any person who beneficially owns 5% or more of our outstanding ordinary shares. Each of our outstanding ordinary shares has identical rights in all respects.

Based on a review of the information provided to us by our transfer agent, as of May 23, 2011, there were 61 holders of record of our ordinary shares, including 46 holders of record with a U.S. mailing address, including banks, brokers and nominees. As of May 23, 2011, these 46 holders of record with a U.S. mailing address held approximately 59, 770, 299 ordinary shares, representing approximately 96% of the aggregate 62,300,615 ordinary shares outstanding as of such date (excluding our treasury stock). Because these holders of record include banks, brokers and nominees (including one U.S. nominee company, CEDE & Co., which held approximately 96% of our outstanding ordinary shares as of such date), the beneficial owners of these ordinary shares may include persons who reside outside the United States.

To the best of our knowledge, we are not directly or indirectly owned or controlled by another corporation, by any foreign government or by any other natural or legal person or persons severally or jointly and currently there are no arrangements that may, at a subsequent date, result in a change in our control.

B. RELATED PARTY TRANSACTIONS

None.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION FINANCE

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

The Financial Statements required by this item can be found at the end of this Annual Report, beginning on page F-1.

Legal Proceedings

Initial Public Offering Securities Litigation.

On November 21, 2001, a purported Class Action lawsuit (the "Action") was filed against interWAVE, certain of its former officers and directors, and certain of the underwriters for interWAVE's initial public offering (the "IPO"). On April 19, 2002, the plaintiffs filed an amended complaint. The amended complaint alleged that the prospectus from interWAVE's IPO failed to disclose certain alleged improper actions by various underwriters for the offering, in violation of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Similar complaints have been filed concerning more than 300 other IPOs; all of these cases have been coordinated as In re Initial Public Offering Securities Litigation, 21 MC 92. On October 8, 2002, the Court entered an Order of Dismissal as to all of the individual defendants in the IPO litigation, without prejudice.

The parties have reached a global settlement of the coordinated litigation. Under the settlement, the insurers will pay the full amount of the settlement share allocated to the Company, and the Company will bear no financial liability. interWAVE and the other defendants will receive complete dismissals from the case. On October 5, 2009, the Court entered an order granting final approval of the settlement. Certain objectors have filed appeals. Briefing on the appeals is not yet complete and no hearing date has been set.

Except as otherwise disclosed in this Annual Report, we are not a party to any material litigation or arbitration, either in Israel or any other jurisdiction, and we are not aware of any pending or threatened litigation or arbitration that would have a material adverse effect on our business, financial condition or results of operations.

Export Sales

Export sales constitute a significant portion of our sales. In 2010, export sales were approximately $205 million, constituting approximately 99.7% of our total sales. For a more detailed discussion regarding the allocation of our revenues by geographic regions based on the location of our customers, see "Item 5—Operating and Financial Review and Prospects—Operating Results."

Dividend Policy

We have never declared or paid any cash dividend on our ordinary shares. We do not anticipate paying any cash dividend on our ordinary shares in the foreseeable future. We currently intend to retain all future earnings to finance operations and expand our business.

B. SIGNIFICANT CHANGES

Except as otherwise disclosed in this Annual Report, no significant change has occurred since December 31, 2010.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

The following table sets forth the high and low sales prices for our ordinary shares as reported by the NASDAQ Global Select Market, in U.S. dollars, and as reported by the Tel Aviv Stock Exchange, in NIS, for each of the last five years:

	NASDAQ Global Select Market		Tel Aviv Stock Exchange	
Year	High	Low	High	Low