ALVARION LTD
Form 20-F
May 15, 2013

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 THESECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012

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)

Assaf Katan
Acting Chief Executive Officer and President
Alvarion Ltd.
21A HaBarzel Street, Tel Aviv 69710, Israel
Tel: +972-3-645-6262
Fax: +972-3-645-6222

(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. 10 par value per share	NASDAQ Capital 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, 2012, there were 6,316,882 Ordinary Shares, NIS 0. 10 par value per share, outstanding (giving effect to the one for ten reverse split of the registrant's ordinary shares effected on April 2, 2013).

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).

x 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 o Non-Accelerated Filer x

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.

¨ 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. (NASDAQ: ALVR), provides optimized wireless broadband solutions addressing the connectivity, coverage and capacity challenges of telecom operators, smart cities (a vertical segment which uses technology to enhance sustainability, citizen well-being and economic development through applications such as traffic monitoring, Internet access in public venues, utility metering etc.), security (such as police and other safety agencies), enterprise customers, and carrier grade outdoor Wi-Fi solutions, offering a variety of different products for Wi-Fi access and 3rd Generation cellular technologies ("3G") off-load applications. Our innovative solutions are based on multiple technologies across various unlicensed spectrums.

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, BreezeACCESS, BreezeNET, Wavion and Wavion & Device 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.

TABLE OF CONTENTS

		Page
PART I		1
ITEM 1.	IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS	1
ITEM 2.	OFFER STATISTICS AND EXPECTED TIMETABLE	1
ITEM 3.	KEY INFORMATION	1
A.	SELECTED FINANCIAL DATA	1
B.	CAPITALIZATION AND INDEBTEDNESS	2
C.	REASONS FOR THE OFFER AND USE OF PROCEEDS	2
D.	RISK FACTORS	2
ITEM 4.	INFORMATION ON THE COMPANY	21
A.	HISTORY AND DEVELOPMENT OF THE COMPANY	21
B.	BUSINESS OVERVIEW	22
C.	ORGANIZATIONAL STRUCTURE	41
D.	PROPERTY, PLANTS AND EQUIPMENT	41
ITEM 4A.	UNRESOLVED STAFF COMMENTS	42
ITEM 5.	OPERATING AND FINANCIAL REVIEW AND PROSPECTS	42
A.	OPERATING RESULTS	42
B.	LIQUIDITY AND CAPITAL RESOURCES	57
C.	RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES	64
D.	TREND INFORMATION	64
E.	OFF-BALANCE SHEET ARRANGEMENTS	64
F.	TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS	64
ITEM 6.	DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	65
A.	DIRECTORS AND SENIOR MANAGEMENT	65

B.	COMPENSATION	68
C.	BOARD PRACTICES	69
D.	EMPLOYEES	79
E.	SHARE OWNERSHIP	80
ITEM 7.	MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	81
A.	MAJOR SHAREHOLDERS	81
B.	RELATED PARTY TRANSACTIONS	81
C.	INTERESTS OF EXPERTS AND COUNSEL	81
ITEM 8.	FINANCIAL INFORMATION	82
A.	CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION	82
B.	SIGNIFICANT CHANGES	83
ITEM 9.	THE OFFER AND LISTING	83
A.	OFFER AND LISTING DETAILS	83
B.	PLAN OF DISTRIBUTION	84
C.	MARKETS	84
D.	SELLING SHAREHOLDERS	84
E.	DILUTION	84
F.	EXPENSES OF THE ISSUE	84
ITEM 10.	ADDITIONAL INFORMATION	85
A.	SHARE CAPITAL	85
B.	MEMORANDUM AND ARTICLES OF ASSOCIATION	85
C.	MATERIAL CONTRACTS	87
D.	EXCHANGE CONTROLS	88
E.	TAXATION	89
F.	DIVIDENDS AND PAYING AGENTS	101

G.	STATEMENT BY EXPERTS	101

H. DOCUMENTS ON DISPLAY 101

I. SUBSIDIARY INFORMATION 102

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK 103

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES 103

PART II 104

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES 104

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS 104

ITEM 15. CONTROLS AND PROCEDURES 104

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT 105

ITEM 16B. CODE OF ETHICS 105

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES 105

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES 106

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS 106

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT 107

ITEM 16G. CORPORATE GOVERNANCE 107

ITEM 16H. MINE SAFETY DISCLOSURE 108

PART III 108

ITEM 17. FINANCIAL STATEMENTS 108

ITEM 18. FINANCIAL STATEMENTS 108

ITEM 19. EXHIBITS 109

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, 2008, 2009, 2010, 2011 and 2012. The selected consolidated statement of operations data for the years ended December 31, 2010, 2011 and 2012, and the selected consolidated balance sheet data at December 31, 2011 and 2012, 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, 2008 and 2009 and the selected consolidated balance sheet data at December 31, 2008, 2009 and 2010, have been derived from our previously published audited consolidated financial statements, as adjusted retrospectively for reclassification of certain operations as discontinued operations, 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,				
	2008(*) (***)	2009(*) (***)	2010(*)(**)(***)	2011(*)(**)	2012(*)(**)
	(in thousands except per share data)				
Statement of Operations Data:					
Sales	$102,519	$89,383	$75,014	$72,273	$49,949
Cost of sales	42,513	37,840	37,096	37,493	27,326
Inventory write-off	1,018	1,176	2,093	1,433	6,385
Gross profit	58,988	50,367	35,825	33,347	16,238
Operating costs and expenses:					
Research and development, gross	14,574	11,391	8,440	12,552	14,825
Less grants and participations	2,140	809	536	1,844	2,161
Research and development, net	12,434	10,582	7,904	10,708	12,664
Selling and marketing	19,587	16,836	13,801	18,304	13,177
General and administrative	4,425	3,549	4,364	5,170	7,182
Amortization of intangible assets	-	-	-	186	2,235
Restructuring and other related expenses	1,457	1,394	1,787	6,020	-
Acquisition related expenses	-	-	-	2,622	1,102
Total operating costs and expenses	37,903	32,361	27,856	43,010	36,360

Operating income (loss)	21,085	18,006	7,969	(9,663)	(20,122)
Financial income (expenses), net	4,297	1,668	(99)	(1,015)	(2,895)
Income (loss) before tax	25,382	19,674	7,870	(10,678)	(23,017)
Taxes on Income	-	-	894	-	-
Income (loss) from continuing operations	25,382	19,674	6,976	(10,678)	(23,017)
Loss from discontinued operations, net	(30,841)	(26,862)	(105.455)	(23,144)	(32,892)
Net loss	$(5,459)	$(7,188)	$(98,479)	$(33,822)	$(55,909)
Net earnings (loss) per share:					
Basic:					
Continuing operations	$4.03	$3.17	$1.12	$(1.71)	$(3.68)
Discontinued operations	(4.90)	(4.33)	(16.95)	(3.72)	$(5.25)
Total	$(0.87)	$(1.16)	$(15.83)	$(5.43)	$(8.93)
Weighted average number of shares used in computing basic net earnings (loss) per share	6,292	6,202	6,220	6,230	6,260
Diluted:					
Continuing operations	$4.03	$3.17	$1.12	$(1.71)	$(3.68)
Discontinued operations	(4.90)	(4.33)	(16.95)	(3.72)	$(5.25)
Total	$(0.87)	$(1.16)	$(15.83)	$(5.43)	$(8.93)
Weighted average number of shares used in computing diluted net earnings (loss) per share	6,292	6,202	6,220	6,230	6,260

(*) Includes charges for stock-based compensation of approximately $4 million, $2.2 million, $ 1.8 million, $1.7 million and $ 0.9 million based on ASC 718 Compensation – "Stock Compensation" for the years ended December 31, 2008, 2009, 2010, 2011 and 2012, respectively.
(**) For more details of sales please see the financial statements for the year ended December 31, 2012 appearing elsewhere in this Annual Report.
(***) The historical financial results of our BWA Division, which we recently sold, have been reclassified as discontinued operations for all periods presented and the other financial information presented herein has been retrospectively adjusted in accordance with such reclassification.

	As of December 31,				
	2008	2009	2010	2011	2012
			(in thousands)		
Working capital	$ 115,817	$ 132,813	$ 109,978	$ 62,079	$ 8,397
Total assets	$ 338,110	$ 301,544	$ 214,764	$ 206,838	$ 96,159
Shareholders' equity	$ 215,906	$ 216,644	$ 122,087	$ 86,154	$ 35,531
Capital Stock	$ 423,468	$ 428,086	$ 431,534	$ 434,696	$ 436,469

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, and the report of our independent registered public accounting firm relating to our financial statements includes an explanatory paragraph describing matters that raise substantial doubt as to our ability to continue as a going concern. While we recently sold certain of our patents and one of our divisions and are continuing to take other actions in an effort to streamline our business, we will need to obtain additional funding and to generate working capital to sustain our business. If we are unable to successfully streamline our business and obtain additional funding, we may have to further curtail our operations or cease our operations entirely.

In the years ended December 31, 2011 and 2012, our operating loss was $9.6 million and $20.1 million, respectively and in the years ended December 31, 2010, 2011 and 2012, our net loss was $98.5 million, $33.8 million and $55.9 million, respectively.

During the early 2000s, we focused our business on the development of WiMAX (Worldwide Interoperability for Microwave Access) technology. WiMAX technology, which was launched a number of years before Long Term Evolution (“LTE”) technology, was faced with fierce competition from LTE as a growing number of cellular operators adopted LTE for their 4th Generation Cellular Technology. By 2009, WiMAX was no longer the prevailing technology for the 4G mobile mass market. We continued to manufacture, market and sell WiMAX products for the 4G mobile mass market through 2012, and while this business generated revenues, it was not profitable.

As part of our strategy to focus on complementary wireless applications, in November 2011, we completed the acquisition of Wavion Ltd., a provider of carrier-grade Wi-Fi solutions (“Wavion”). For the purpose of financing the acquisition of Wavion in November 2011, we obtained a $ 30 million secured credit facility from Silicon Valley Bank (“SVB”). We decided to finance the acquisition rather than use our cash on hand in order to retain available cash to meet the substantial working capital needs of our WiMAX business while growing our new Wi-Fi business.

During 2011, we implemented a restructuring plan including the layoff of approximately 194 employees as well as the vacating of certain leased premises. Nonetheless, we continued to incur substantial losses. In addition, our sales of our Wi-Fi products decreased significantly in the second half of 2012 as the world was migrating to the new 802.11n standard and our WBSn product that had been developed based on that standard was not market ready.

During 2012, in particular in light of the significant cash requirements to fund the WiMAX business and the limited availability of credit both in the market generally and to Alvarion in particular, we were actively evaluating various alternatives to exit the WiMAX business. We ultimately decided to seek to sell the business and if we could not reach agreement with a buyer in a reasonable time, we would wind down the business. During 2012, we received several offers and negotiated with a number of potential buyers for the BWA Division, but we did not reach an agreement. As part of this process, we separated all of our licensed WiMAX business (the "BWA Division") from our unlicensed business. While we continued to operate this business to maintain the customers, products and remain in the market, it it continued to generate significant losses and had a negative effect on working capital.

As a result of the difficulty we experienced with the launch and marketing of our WBSn product and our lack of success in disposing of the BWA Division, with respect to which we were required to continue to provide services to our customers and meet contractual commitments, we continued to suffer substantial losses during 2012. Our cash position was further negatively affected by our required principal and interest payments on the SVB Loan, as well as the closure of previously available credit lines with various Israeli banks.

Our working capital was approximately $8.4 million as of December 31, 2012 compared to $62.0 million as of December 31, 2011 and $109.9 million as of December 31, 2010. During 2012 and through May 12, 2013, due to the limited availability of credit and our lower cash balances resulting from our prior losses, we have not had the level of working capital and amounts available for product development, launch and support which we believe would be necessary to grow our business and make it profitable. In addition, our limited working capital has resulted, and may continue to result, in delays of shipments of our products, which has and may continue to have a material adverse effect on our revenues and our profitability.

We also have incurred accumulated losses of $388.9 million as of December 31, 2012 and $48 million in negative cash flow for the year ended December 31, 2012. We had $3.5 million in negative cash flow for the year ended December 31, 2011. As of December 31, 2012, we had $9.8 million in cash and cash equivalents and an $11 million outstanding revolving short term credit line.

The report of our independent registered public accounting firm with respect to our financial statements for the years ended December 31, 2012 and 2011 includes an explanatory paragraph that states that our declining sales, recurring losses, negative cash flows from operations, and our excess of credit line drawn over cash and cash equivalents as well as uncertainty in meeting credit line covenants raise substantial doubt about our ability to continue as a going concern. In order to continue as a going concern we will need to obtain funding in order to finance our working capital and sustain our ongoing operations and additional capital to enable product development and market growth. While we are currently actively seeking more funding, we cannot ensure that we will be able to obtain funding on terms that will be acceptable to us or at all. Additional funding raised through the issuance of equity interests may significantly dilute the equity interests of our current shareholders. Furthermore, if we raise additional funds through debt financing arrangements, if available, we may be required to pledge certain assets or enter into covenants that would restrict our business activities or our ability to incur further indebtedness, and such debt financing may be at interest rates and contain other terms that are not favorable to us. Our inability to obtain additional financing for working capital, product development, launch and support or for our other capital requirements on terms acceptable to us would result in our having to curtail our business operations further or cease our operations entirely.

In an effort to streamline our business, we recently sold part of our patent portfolio to Wi-Lan Inc. (“Wi-Lan”) and our BWA Division to Telrad Networks Ltd. (“Telrad”) and we are currently focused on our vertical markets businesses. In addition, we are continuing to seek to lower our expenses, including through reductions in the number of our employees across our company, a reduction in employee salaries and moving to new smaller and less expensive facilities. Such actions may not be effective and may not result in the anticipated cost savings and increase in working capital. Even if we are successful in reducing costs, the effects of such reductions on our business operations may ultimately have a material adverse effect on our financial condition and results of operations and our share price may decline.

We experienced a decline in orders for our products during 2012 compared to 2011. If customer order activity does not increase, our revenue and profitability will likely be materially adversely affected and we may be required to implement certain measures to preserve or enhance our operating results and cash position.

We experienced a significant decline in orders for our products in 2012 compared to 2011. We believe the decrease in orders for our products was attributable to delays in introductions of certain new products. While we would not expect a similar decline in 2013, if our order activity does not increase, our revenue and profitability would likely be materially adversely affected and would contribute to a determination as to whether implement further cost reduction measures and other initiatives to preserve and enhance our cash position. Any such measures may limit or hinder our ability to execute our strategy and achieve our objectives thereby adversely affecting our business.

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 which began in 2008 and 2009 and which has continued at varying levels of intensity since then, led to a global economic slowdown, with economies throughout the world experiencing periods of weakness. This has contributed to the downturn in our business. While the economies in some of the countries in which we operate have improved, if the economies in those countries weaken or if the economies in other countries in which we operate do not improve or weaken further, telecom carriers, service providers and our partners as well as other customers in such countries may further significantly reduce or postpone their technology spending as well as require aggressive vendor financing. This could result in further decreases in our revenues because of reductions in sales, 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 would be further 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’ continued tightened spending as well as the limited licenses and substantial capital requirements which limit growth into new markets, our revenues further declined in 2011 and 2012 and may continue to decline and our losses may increase in the future. 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 these conditions, the markets in which we operate may not grow as we expect or may decrease. 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. These adverse conditions in the telecommunications industry contributed to the decline in our revenues in 2011 and 2012 and our revenues may continue to decline and our losses may continue to increase.

4

Markets implementing broadband wireless technologies 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 our current markets, our revenues may continue to decrease.

In order to maintain or increase our market share in the markets in which we operate, we must, among other things:

- obtain third party funding for working capital;
- retain and attract personnel with the relevant knowledge and experience;
- continue to innovate and differentiate our technology position by designing, developing and manufacturing broadband wireless access products;
- develop and cultivate additional sales channels in addition to our direct sales from which we currently generate our main revenues, 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, customers in education, oil and gas, and other vertical markets, other private network operators 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; 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 has had and may continue to have an adverse effect on our sales and profitability.

Multiple companies with a range of diverse products and solutions compete with us in the markets in which we sell our products. These competitors may have a vertical-focus or a multi-vertical focus. Some of these competitors also have a more complete networking solution than ours which may make their products more desirable to our potential customers. Many of these vendors have been able to grow their market share in the past few years in the territories in which we are active. We expect that competition from these vendors will continue to increase, both 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 Wi-Fi 802.11n technology, competition becomes increasingly challenging and makes room for entry level, low cost offerings by our competitors. We expect our competitors to continue improving the performance of their current products and to introduce new products or new technologies and such products or technologies may have better performance than our products or supplant our products entirely. In addition, our current lack of additional new technologies and resulting products may hurt our competitive positioning in the market place and our ability to develop new technologies and products has been and may continue to be adversely affected by our limited working capital.

We also face new competition from larger players in the telecom market and/or indoor wireless vendors, such as Cisco, Ericsson, Nokia Siemens and Rockus, as well as from start-up companies. Our license-exempt and vertical market business may be affected by the dynamics of spectrum allocations. The allocation of alternative spectrum such as TV white space spectrum, 24GHz unlicensed band, and 60GHz unlicensed band may become a relevant alternative to the current spectrum upon which our product portfolio is based. Additional license based spectrum, such as the 700MHz public safety band, 6GHz, 70GHz, or LMDS spectrum may become a relevant alternative for our vertical market customers and as such could adversely affect our license-exempt and vertical market business.

Most of our existing and potential competitors, including large competitors arising from the continued consolidation in the telecommunications equipment market, 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.

We have had limited success in our recent efforts, and we may not be able in the future, 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, particularly in light of the lack of available credit to both Alvarion and its customers specifically and in the markets generally. In addition, we may not be able to offer our products as part of integrated systems or solutions or provide 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.

Technological changes have had and may continue to have an adverse effect on the market acceptance of our current products and any products we develop in the future 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.

Market changes have and could in the future 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. 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. For example, in the past, we focused our efforts on products using the WiMAX standard, however, cellular carriers adopted other standards introduced after WiMAX and our business was adversely affected.

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

- market acceptance of new and innovative technologies employed by us;
- market acceptance of standards for wireless broadband products employed by us;;
- network capacity to handle growing demands for faster transmission of increasing amounts of data and voice;

- cost-effectiveness and performance of our technology compared to other broadband wireless technologies;
- reliability and security of our technology;
- suitability of our technology for a sufficient number of geographic regions; and
- safety and environmental concerns regarding wireless broadband transmissions.

We have experienced and may continue to experience difficulties or delays in the introduction of new or enhanced products, which has resulted and could continue to result in reduced sales or unexpected expenses.

The development of new or enhanced products in vertical markets is a complex and uncertain process. For example, product development is multi-disciplinary, involving hardware design and development, software, integration, and intensive and complicated system design, and resulting in a long development cycle. We are engaged and will continue to be engaged in the development of various types of product lines, if we have sufficient capital to fund such development. We have experienced and may continue to experience design, development, manufacturing, marketing and other difficulties due to delays in our development or delays by third party vendors, and these delays have caused and could continue to cause difficulties or prevent our development, introduction or marketing of new products or product enhancements and subject us to intensified competition. For example, we were unable to successfully introduce our WBSn product when we had expected to do so in early 2012 as a result of product instability and were only able to reintroduce this product in the first quarter of 2013. In addition, our limited financial resources have constrained our ability to invest in research and development of new or enhanced products. Such difficulties have resulted and could continue to 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. The launch and availability of certain of our new products, in particular our WBSn product, has also been delayed, which has harmed and may continue to harm our competitiveness and our ability to penetrate, and market these products in, vertical markets in an efficient and timely manner.

Businesses we acquired or may acquire in the future may not be successfully integrated with our operations and our technologies, which may harm our business and results of operations.

During the fourth quarter of 2011, we acquired Wavion in order to create new growth engines and penetrate into new market segments. Wavion is a provider of carrier grade outdoor Wi-Fi solutions, offering a variety of different products for Wi-Fi access and mobile cellular technologies (“3G/4G”) off-load applications. While we have generally been able to integrate Wavion into our business, this required significant resources and management attention. We cannot assure you that we will be able to successfully expand into new markets, such as the Wi-Fi market, as a result of any acquisition. We also cannot assure that the Wi-Fi market will grow as we expect or that our market share of the Wi-Fi market will grow as expected.

Further, once integrated, acquisitions may not achieve comparable levels of revenues, profitability or productivity as our existing business or otherwise perform as expected and may increase our costs of operations, which may be higher than expected. We also cannot assure you that we will succeed in retaining our employees or those of any acquired companies following any acquisition, including key employees in managerial positions. In particular, a number of key employees of Wavion have resigned from their positions since our acquisition of Wavion. The continued occurrence of any of these events could harm our business, financial condition or results of operations and as a result may decrease our share price in the future.

7

We obtained a loan facility from Silicon Valley Bank ("SVB") which has been amended and modified a number of times in order for us to remain in compliance. If we fail to comply with the terms of the loan agreement with SVB, our available cash and our business operations will be significantly harmed.

For the purpose of financing the acquisition of Wavion in November 2011, we obtained a $30 million credit facility from SVB (the “SVB Loan”). As part of the transaction, we pledged all of our assets under a floating charge, and created a fixed charge on our IP rights and receivables. The loan and security agreement with SVB contains various provisions related to compliance with financial covenants, restrictive covenants, including negative pledges, and other customary commitments, contained in facility agreements of this type. In April 2012, we breached certain financial covenants under the SVB Loan, however, we and SVB agreed on modifications to the terms of the SVB loan and on SVB’s waiver of the breach of covenant. We and SVB have modified the terms of the SVB Loan a number of other times, most recently in May 2013. As a result of our breach of the financial covenants under the SVB Loan, as well as various amendments to the SVB Loan, we repaid a total of $19 million during 2012 and $5.6 million during 2013 through May 12, 2013.

As of May 12, 2013 and following the completion of the sale of the BWA Division to Telrad, the outstanding balance of the SVB Loan is approximately $5.4 million. The terms of the SVB Loan were further amended in connection with the sale to Telrad and include financial covenants relating to our net tangible assets and our net losses or profits. In addition, the outstanding amount under the SVB Loan must be lower than the amount available thereunder at any time pursuant to the borrowing base provided for under the SVB Loan. There is no assurance that we will not breach the terms of the SVB Loan in the future or that we will remain in compliance with the amended terms. In addition, should we fail to comply with our obligations under the SVB Loan, SVB may require immediate repayment of the SVB Loan and realize on its security, which can significantly harm our available cash and our operations and may result in cessation of our operations in their entirety.

For more information please see "Item 10 C – Material Contracts" below.

We have experienced in the past, and may experience in the future, quarterly and annual fluctuations in our results of operations which have caused, and 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 the timing of new product introductions, intense competition, the continuing effects of the global economic 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 introduction of our new products or enhancements or those of our competitors or of providers of complementary products;
- purchasing patterns of our customers, including 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;

8

- 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; and
- general economic conditions, including the unfavorable global economic conditions; and

Our customers ordinarily require the delivery of products promptly after their orders are accepted. Historically, our business typically 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. The effects of deferrals of orders may be more significant in light of our limited working capital, which has resulted and may continue to result in a backlog of orders if we are unable to pay our suppliers and third party manufacturers on a timely basis. Our revenue recognition is 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.

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

The sales cycle for a portion of our large service providers 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 customer to receipt of a purchase order, and in certain instances may not even result in the receipt of an order. This time frame may be extended due to, among other reasons, a customer's desire to ensure that the systems work for a long period with increased number of subscribers’ coverage and capacity, a customer's need to obtain financing or other means of collateral to purchase systems incorporating our products, the regulatory authorization of competition in local 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 have been adversely affected by a significant customer, or a significant potential customer, reducing, delaying or canceling orders during the sales cycle or choosing not to deploy networks incorporating our products and our revenues may be adversely affected if this occurs in the future. Such fluctuation in revenue or cancellation of orders has had and may in the future have an adverse effect on our business and may affect the market price of our ordinary shares.

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

Our revenues are derived from sales to our independent partners, such as distributors, system integrators and service providers. 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, system integrators and other partners 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. In addition, while we expect that most of our distributors will continue to distribute our products, certain distributors who primarily distributed the products which were part of our BWA Division may cease to distribute our products entirely and certain distributors may seek other suppliers for their customers due to concerns regarding our level of working capital. All of the foregoing 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. Generally, 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 (“DSOs”) increase, our cash position may be negatively affected and result in a greater cash shortfall.

Our DSOs decreased to 75 days in 2012 from 96 days in 2011. We expect that over time our DSOs may increase and we expect our DSOs will range between 100 to 120 days during 2013, 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 ability 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 further decrease in our gross margin levels in the future, which may adversely affect our financial results.

We have been experiencing declines in gross margin. Our gross margin was 32.5% in 2012 compared to 46.1% in 2011. While the decline was mainly a result of a write off of excess inventory during 2012, this decline was also driven by our operations in a number of our markets, mainly due to (a) the delay in new project launches, (b) lower sales, (c) increased competition and (d) the economic concerns in these markets, all of which resulted in a low level of revenue and the sequential decline in gross margin. This decline in gross margin may 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 full deployment.

Some of our products are highly complex and are designed to be deployed in complex settings. 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 of 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.

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 typically permit customers to return for repair or replacement, within a period ranging from 16 to 21 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:

- as a result of our financial situation, in some cases, we have not been able and in the future we may not be able to obtain credit from our suppliers and we have not and may not have funds to pay for such components as needed to manufacture our products on a timely basis;

- 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;
- 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, which has led to, and could in the future lead to, write offs of inventory; 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 Gateways, which are part of our solution. Failure by our vendors to deliver such products or their discontinuing production of such products may cause difficulties to, and may have an adverse effect, on our business.

Changes within any of these vendors' environments can influence our business results. For example, the recent announcement by one of our major component suppliers that it would not continue supporting the existing chip set as it is moving to a new chip generation 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 seek to place orders with our subcontractors and suppliers based on our estimates of future sales, to the extent we have available working capital to make such purchases. 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 2010, 2011 and 2012, we wrote off inventory related to our unlicensed business in the amounts of $2.1 million, $1.4 million, and $6.4 million, respectively.

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. If we lack working capital, then we may choose to order a smaller number of products. 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;
- concerns of our subcontractors regarding our company;
- 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
- the financial strength of our third party manufacturers.

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. Most 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. 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:

- If our products operate in the license-free bands, United States 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 and restrictions imposed due to environmental concerns, such as restrictions imposed on the location of outdoor antennas; 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 allegations that we have infringed upon a patent, trademark or other proprietary right. 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 that we will be able to 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. Our Chief Executive Officer assumed his position as of April 22, 2013 after serving as Corporate Vice President, Strategy & Business Development since 2011. Our CFO assumed his position as of January 1, 2013 after serving as vice president in our financial division since September 2009. They may need time to acquire the specific skills necessary to successfully carry out the tasks required of them, which could adversely affect our results of operations.

Eight of nine members of our senior management, were only appointed to their present positions in 2012 and another was only appointed in 2011. Some of these individuals had little or no previous experience working for Alvarion. Should any members of senior management, including our new Chief Executive Officer and Chief Financial Officer, 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, or should they decide to leave the Company on their own initiative, our operations may be disrupted and this might materially adversely affect the results of our operations.

The reductions in force the Company underwent in the past few years, and may carry out in the future, may result in our not having adequate personnel resources for our operations. Such reductions in force may also have adverse effects on the morale of our employees, which may induce employees to leave the Company. 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 2012, we do not believe that we were a PFIC for 2012. 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 2013 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".

15

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. On April 2, 2013, in order to increase our per share trading price to satisfy the $1.00 minimum bid price requirement for the continued listing on the NASDAQ Capital Market , we completed a reverse split of our ordinary shares, upon which our shareholders received one ordinary share of Alvarion for every 10 ordinary shares held by them. For the two year period ended December 31, 2012, the price of our ordinary shares on the NASDAQ Global Select Market and since October 19, 2012, the NASDAQ Capital Market has ranged from a high of $26.20 to a low of $3.20 (adjusted for the reverse split). On December 31, 2012 and April 30, 2013, the closing price of our ordinary shares on the NASDAQ Global Select Market was $3.70 (adjusted for the reverse split) and $2.96 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 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 must meet the Nasdaq Capital Market continued listing requirements or we risk delisting. If our ordinary shares are delisted, our share price may decline and it will likely make it more difficult for us to sell securities in a financing and for our shareholders to trade our shares.

Our ordinary shares began trading on the Nasdaq Capital Market on October 19, 2012. Prior to October 19, 2012, our ordinary shares were traded on the Nasdaq Global Select Market. On April 26, 2012, we received a notification letter from the Nasdaq Listing Qualifications staff of the Nasdaq Stock Market advising us that, based on the closing bid price of our common stock for the 30 consecutive business days prior to April 26, 2012, we no longer satisfied the requirement that our common stock maintain a minimum bid price of $1.00 per share as required by Nasdaq Listing Rule 5450(a)(1). Nasdaq stated in its letter that in accordance with Nasdaq Listing Rule 5810(c)(3)(A), we had been provided 180 calendar days, or until October 23, 2012, to regain compliance with the minimum bid price requirement. On October 24, 2012, since we met the continued listing requirement for market value of publicly held shares and all other applicable NASDAQ listing requirements, except the bid price requirement, we received an extension until April 22, 2012 to regain compliance with the minimum bid price requirement. Subsequently our ordinary shares were transferred to the Nasdaq Capital Market as of October 19, 2012. On April 1, 2013, we completed a one for ten reverse split of our ordinary shares and subsequently we regained compliance with the minimum bid price requirement.

16

We cannot ensure you that we will meet the minimum bid requirement or the other continued listing requirements of the Nasdaq Capital Market. If our ordinary shares are delisted from Nasdaq, we may be eligible to trade on the Over-The-Counter Bulletin Board, which may be a less liquid market, or on the pink sheets. In such case, our shareholders' ability to trade, or obtain quotations of the market value of, shares of our ordinary shares would be severely limited because of lower trading volumes and transaction delays. These factors could contribute to lower prices and larger spreads in the bid and ask prices for our securities. There can be no assurance that our ordinary shares, if delisted from the Nasdaq Capital Market, will be listed on a national securities exchange, a national quotation service, the Over-The-Counter Bulletin Board or the pink sheets. Delisting from Nasdaq, or even the issuance of a notice of potential delisting, would also result in negative publicity, make it more difficult for us to raise additional capital, adversely affect the market liquidity of our ordinary shares, reduce security analysts' coverage of us and diminish investor, supplier and employee confidence.
Future sales or the potential for future sales of our securities may cause the trading price of our ordinary shares to decline and could impair our ability to raise capital through subsequent equity offerings.

Sales of a substantial number of our ordinary shares or other securities in the public markets, or the perception that these sales may occur, could cause the market price of our common shares or other securities to decline and could materially impair our ability to raise capital through the sale of additional securities.

Holders of our ordinary shares may be adversely affected through dilution.

We may need to issue equity in order to fund working capital, capital expenditures and product development requirements or to make acquisitions and other investments. If we choose to raise funds through the issuance of ordinary shares, the issuance will dilute the ownership interest of our current shareholders.

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 97% of our sales in 2012 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.

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 and other groups, as well as extensive and continued hostilities along Israel's border with the Gaza Strip. In addition, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons which could attract preemptive actions by Israel and/or Western countries. Furthermore, since the beginning of 2011 there has been instability in the bordering countries such as Egypt and Syria. We have witnessed increased instability in the region, in particular related to the governmental changes in Egypt and the deterioration of the internal government and control of Syria's President Assad, over Syria's internal affairs. This and further deterioration could have an adverse effect on the stability of our region. Ongoing violence involving Israel, as well as tension between Israel and terror organizations and other countries in the Middle East, combined with political instability in the Middle East such as in Egypt, Libya, Syria, Iran 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 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 approval of the research committee and in exchange for the payment of higher royalties, for royalty-bearing programs. 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.

We have 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, 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.

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. On January 1, 2011, another significant amendment to the Investment Law came into effect. Such amendment introduced new benefits to replace those granted in accordance with the provisions of the Investment Law in effect prior to such amendment. However, companies entitled to benefits under the Investment Law as in effect prior to January 1, 2011 were entitled to choose to continue to enjoy such benefits, provided that certain conditions are met, or elect instead irrevocably to forego such benefits and have the benefits of the new amendment apply. We have reviewed and evaluated the implications and effect of the benefits under the new amendment, and, while potentially eligible for such benefits, we have not yet chosen to be subject to the tax benefits introduced by such amendment. We believe that we are currently in compliance with the requirements of the Investment Law which are applicable to our enterprises. 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 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, though, the inflation in Israel has been moderate in recent years. 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. Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to such types of transactions. For example, a merger may not be consummated unless at least 50 days have passed from the date on which a merger proposal is filed by each merging company with the Israel Registrar of Companies and at least 30 days have passed from the date on which the shareholders of both merging companies have approved the merger. In addition, a majority of each class of securities of the target company must approve a merger. Moreover, a tender offer for all of a company’s issued and outstanding shares can only be completed if the acquirer receives positive responses from the holders of at least 95% of the issued share capital. Completion of the tender offer also requires approval of a majority of the offerees (in head count) that do not have a personal interest in the tender offer, unless, following consummation of the tender offer, the acquirer would hold at least 98% of the company’s outstanding shares. Furthermore, the shareholders, including those who indicated their acceptance of the tender offer, may, at any time within six months following the completion of the tender offer, petition an Israeli court to alter the consideration for the acquisition, unless the acquirer stipulated in its tender offer that a shareholder that accepts the offer may not seek such appraisal rights. 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 States 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 Capital 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 Capital Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of the NASDAQ Listing 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 Capital 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 Listing 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 –

Our legal and commercial name is Alvarion Ltd. 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 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 cellular mobile unit. In November 2006, we completed the sale of our cellular mobile unit 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 Telecommunications Inc. ("ADC") acquired LGC and we sold our LGC shares to ADC. In the beginning of 2011 we acquired the intellectual property of Clariton Networks (“Clariton”) for a contingent consideration of up to $8.5 million of which none has been paid through April 30, 2013 as we have determined not to develop a product based on this technology. On November 23, 2011, we completed the acquisition of Wavion Inc. for an aggregate consideration of up to $28.4 million all of which was paid through December 31, 2012. On September 28, 2012, we entered into an agreement for the sale of a portion of our patent portfolio to Wi-Lan related to our BWA Division for consideration of up to $ 19.0 million. Upon execution of the agreement we received $16.8 million as the first payment under the agreement and on May 13, 2013 we received a second payment in the amount of $1.5 million (with the second payment having been reduced based on changes to the portfolio of patents transferred to Wi-Lan). On April 2, 2013, we effected a one for ten reverse split of our ordinary shares. On May 10, 2013 we completed the sale to Telrad of our BWA Division. The consideration in the transaction was $ 4 million, payable in installments, and provides for additional performance –based milestone payments of up to $7.7 million. Alvarion and Telrad also entered into mutual reseller agreements pursuant to which Alvarion will continue to provide carrier licensed solutions to its partners and distributors and Telrad will provide Alvarion’s unlicensed solutions to its carrier customers after the transaction is completed. The parties also entered into a transition services agreement governing various services relating to the BWA Division which will be provided by us to Telrad for a transition period and the consideration to be paid therefor by Telrad.

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. 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 and carrier Wi-Fi. 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 our acquisition of Wavion, we have entered into the carrier grade Wi-Fi market, which is one of our primary businesses.

Our primary business is currently focused on two main markets, offering a wide variety of applications, which are mainly the following:

Vertical Markets (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 specific communication needs. Examples of such applications include government and municipal office connectivity, security and surveillance services, campus-to-campus broadband connectivity, oil and gas and mining company applications, emerging Smart Power Grids and Public Mobile Radio ("PMR") applications. In this market, we sell both WiMAX and Wi-Fi solutions, primarily in the license-exempt frequency bands with various applications, including point-to-point and point-to-multipoint.

Service Providers (Mobile, Fixed and Cable):

Solutions for Service Providers address these customers' challenges in providing ubiquitous coverage and sufficient capacity in an era of ever growing demand for data services and applications. These solutions include Wi-Fi networks for off-loading of mobile data traffic from 3G/4G networks In the Service Providers category, we are offering our acquired carrier- grade Wi-Fi products and solutions as well as Wi-Max Products, based on Alvarion’s core technology.

Our growth strategy is focused on providing optimized broadband wireless solutions to address connectivity, capacity and coverage challenges of public and private networks, enabling us to maintain our current position and grow along with the market demand for multi-technologies solutions and applications.

Recent Developments

During the early 2000s, we were at the forefront of the development of WiMAX (Worldwide Interoperability for Microwave Access) technology, which provides for a full range of frequency bands with both fixed and mobile solutions, enabling the delivery of business and residential broadband access, corporate VPNs (Virtual Private Network), toll quality telephony, mobile base station feeding, hotspot coverage extension, community interconnection, public safety communications, and mobile voice and data. Products based on the WiMAX technology compete with other wireless media technologies, including (i) HSPDA, HSUPA, EVDO and (ii) 3rd and 4th generation cellular technologies ("4G"), such as UMB LTE. In particular, WiMAX technology, which was launched a number of years before LTE, was faced with fierce competition from LTE as a growing number of cellular operators adopted LTE for their 4th Generation Cellular Technology. By 2009, LTE became the prevailing technology for the 4G mobile mass market. While there remained a market for WiMAX due to certain technological advantages it has over LTE, particularly in rural and suburban areas with low-density populations, we determined that, along with continuing to manufacture and sell WiMAX based products, we needed to find other new long term growth engines.

In 2010, we began to evaluate potential new directions and ruled out competing in the LTE technology market due to the fierce competition in that market, with participants such as Huawei, Ericsson and NSN as well as the substantial investment necessary for the development of this technology. At the conclusion of this strategic evaluation process, we determined that we should focus on complementary solutions for mobile operators and to consider alternatives for our WiMAX business which was generating significant but declining revenues. We began implementing this strategy with our acquisition of Clariton for only contingent consideration in early 2011, although we ultimately determined not to pursue the Clariton technology. As the next step in this strategy, in November 2011, we completed the acquisition of Wavion, a provider of carrier-grade Wi-Fi solutions. Wavion’s products use widely-accepted Wi-Fi technology and we believed that the Wi-Fi market was poised for continuing growth. In addition, we believed that the acquisition would be beneficial to Alvarion since this market segment was not dominated by the world’s largest vendors and these products would generate higher gross margins than Alvarion’s current WiMAX products. Finally, we recognized potential synergies based on internal know-how relating to Wi-Fi technology used in our BreezeACCESS VL and BreezeNET B products. Throughout this period, we continued to manufacture and sell our WiMAX based products and continued to enter into contracts with new and existing customers and make necessary commitments to purchase raw materials to manufacture the WiMAX products, though we increased our focus generally on the unlicensed market.

For the purpose of financing the acquisition of Wavion in November 2011, we obtained a $ 30 million secured credit facility from SVB. We decided to finance the acquisition rather than use our cash on hand in order to retain available cash to meet the substantial working capital needs of our WiMAX business while growing our new Wi-Fi business.

During 2011, we implemented a restructuring plan including the layoff of approximately 200 employees as well as the vacating of certain leased premises. Nonetheless, we continued to incur substantial losses, which were primarily the result of decline in revenues, increased competition which led to a decline in our profitability, and our inability to adapt our cost structure quickly enough to meet the reduction in revenues.

Prior to the acquisition, Wavion was marketing Wi-Fi products based on the 802.11b/g standard (“WBS”) and was developing its product based on the 802.11n standard (“WBSn”). Following the launch of the WBSn product, we noted certain problems with the stability and capacity of the product. We subsequently undertook intense efforts to improve the stability of the WBSn product and relaunched the product in the first quarter of 2013. While we continued sales of the WBS product, our sales of the WBS product decreased significantly in the second half of 2012 as the market was quickly migrating to the new 802.11n standard.

During 2012, in particular in light of the significant cash requirements to fund the WiMAX business and the limited availability of credit both in the market generally and to Alvarion in particular, we were also evaluating various alternatives to exit the WiMAX business. As part of this process, we separated the BWA Division, which included all of Alvarion’s licensed WiMAX business, from our unlicensed business. We ultimately decided to seek to sell the business and if we could not reach agreement with a buyer in a reasonable time, we would wind down the business. During 2012, we received several offers and negotiated with a number of potential buyers for the BWA Division, but we did not reach an agreement. The two primary challenges in disposing of the BWA Division were the long term commitments to our customers to provide product, service and support and the monetary obligations to our WiMAX suppliers, based on contractual commitments to purchase unused raw materials from such suppliers if we decide to exit the WiMAX business. . While we continued to operate this business to maintain the customers, products and remain in the market, it continued to generate significant losses for Alvarion and had a negative impact on our working capital.

Our other Vertical Products, primarily the BreezeMAX Extreme and BreezeACCESS VL continued to generate revenues during 2012, however, as these products had been on the market for a number of years, their sales declined in comparison to previous years. Due to our financial difficulty we were only capable of devoting relatively limited resources to developing replacements for these legacy products. We are beginning to replace these legacy products with our BreezeULTRA product, but we will need adequate working capital to market and sell this product.

As a result of the difficulty we experienced with the launch and marketing of our WBSn product and our lack of success in disposing of the BWA Division, with respect to which we were required to continue to provide services to our customers and meet contractual commitments, we continued to suffer substantial losses during 2012. Our cash position was further negatively affected by our required principal and interest payments on the SVB Loan, as well as the closure of previously available credit lines with various Israeli banks. The foregoing led to our monetizing various assets that we had available such as the sale of a portion of our patent portfolio in September and November 2012 to Wi-LAN for $16.8 million (and received an additional $1.5 million in May 2013) and a debt of Nortel Network Corporation to us (“Nortel Debt”) in October 2012 for $5.2 million. We believe that while these monetization activities improved our cash position, they did not hurt our long term growth as the patents we sold related primarily to our WiMAX technology as well as other technologies which were not supported by our current and future products. In addition, we received a license back to all patents we sold to Wi-LAN.

As noted above, the need to service the SVB Loan was negatively affecting our cash position and, as a result of our performance, we breached various financial covenants under the SVB Loan. As a result, we entered into a number of modifications and amendments to the terms and conditions of the SVB Loan. As part of those modifications and amendments and since our patent portfolio and the Nortel Debt that we sold were pledged in favor of SVB as security for the SVB Loan, we were required, through May 12, 2013, to repay an aggregate amount of approximately $25 million in principal amount of the SVB Loan, which further harmed our cash position.

24

In January 2013, we signed a term sheet for the sale of the BWA Division and, on February 21, 2013, we signed a definitive agreement with Telrad. Under this agreement, Telrad assumed a majority of the rights and obligations of the BWA Division as of February 21, 2013 including the obligation to provide products, service and support to our customers as well as a substantial portion of our obligations to our BWA Division suppliers. The closing of this transaction on May 10, 2013 generated some additional cash which marginally improved our financial situation and allows us to focus on our remaining businesses.

As a result of the foregoing, our working capital deteriorated during 2012 and this deterioration has continued into 2013. Our limited working capital has resulted and may continue to result in delays of shipments of our products, which has and may continue to have a material adverse effect on our revenues and profitability. The report of our independent registered public accounting firm with respect to our financial statements for the years ended December 31, 2012 and 2011 includes an explanatory paragraph that states that our declining sales, recurring losses, negative cash flows from operations, and our excess of credit line drawn over cash and cash equivalents as well as uncertainty in meeting credit line covenants, raise substantial doubt about our ability to continue as a going concern. We are currently seeking to raise additional capital and are continuing to seek to reduce costs and increase sales, particularly of our new products, in order to improve our working capital position and continue to operate as a going concern. We cannot ensure that we will be able to obtain funding on terms that will be acceptable to us or at all. If we are unable to obtain additional financing for working capital, product development, launch and support or for our other capital requirements, we would be required to curtail our business operations further or cease our operations entirely.

INDUSTRY DYNAMICS –

Carrier Grade Wi-Fi Technology

Driven by strong uptake among end-users, Wi-Fi has become a "game changer" for the mobile industry as well as fixed and other wireless market segments. With its high quality of service, low cost, high End-Users acceptance and ubiquitous availability, a growing number of users consume more traffic over Wi-Fi than on any other access technology. With this trend and with rapidly growing data requirements, operators have begun adopting Wi-Fi technology as a strategy for their future business. A growing number of operators, including AT&T, China Mobile, KDDI, DoCoMo, KT, PLDT, and Smart, are deploying or planning to deploy metro Wi-Fi networks for access and for cellular data offloading. With this trend the Company believes that the market for carrier-grade Wi-Fi equipment is poised to grow rapidly.

Carrier grade Wi-Fi is defined as a Wi-Fi infrastructure solution that enables operators to deliver the high quality service end-users expect with easy access, fast broadband speed, security, and ubiquitous indoor and outdoor coverage. From the operators' perspective, carrier-grade Wi-Fi solutions must address the coverage and capacity needs of a large deployment and therefore should be scalable to millions of users, come with robust interference immunity technology (critical for operating in the unlicensed spectrum in which Wi-Fi is used) and enable rapid deployment.

Major carrier-grade Wi-Fi market trends:

We believe that Wi-Fi offloading is growing worldwide and that the number of Wi-Fi hotspots will increase substantially over the next several years. The expansion of Wi-Fi availability into large metro "hot-zones" such as San Francisco, London, Singapore, Seoul and Tokyo, will create opportunities for new applications and services such as indoor location-based navigation and location-based advertisements and there is already a growing interest in this space from small startups to large vendors such as Google, Microsoft and Nokia.

Alvarion WBSn – a family of carrier-grade Wi-Fi base stations:

WBSn is a family of advanced carrier-grade Wi-Fi base-stations operating in the 2.4 and 5 GHz bands. WBSn base-stations use powerful two-way beamforming 802.11n and unique interference immunity technology to deliver good range, capacity and indoor penetration. WBSn is a service-aware platform, addressing the growing demand for faster connectivity and video applications and is optimized for scalable large networks, and applications related to Wi-Fi hotspots, mobile data offloading, capacity wholesale, smart cities, indoor/outdoor large venues, and large corporate networks. WBSn base stations enable operators to rapidly deploy large scale Wi-Fi networks with the quality of service end-users expect.

The Evolution of Wireless Broadband –

During the last decade the desire to be connected regardless of time and place has grown extensively due to the introduction of new handsets allowing connectivity and easy-to-use applications (such as iPhones and iPads). Furthermore, the cultural effect of social networks (such as Facebook, Twitter, and LinkedIn) has changed the way people communicate on a daily basis.

Along with the increased demand for on-line connectivity, the wireless broadband market has grown 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 provide 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 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 yet widely available. The accelerated proliferation of broadband services and networks around the world as well as the 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 Spectrum Allocation Enables Network Deployments

Global telecom spectrum allocation 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. We believe that during the coming years additional frequency bands for unlicensed spectrum will be released. Increased availability of unlicensed spectrum enables operators to address increasing demand for wireless broadband. New and developing technologies combine the use of licensed and license-exempt bands, allowing new cost-effective network deployment strategies and availability of coverage and capacity in very low density areas.

Additional Factors in the Widespread Adoption of Wireless Broadband

Over the last few years, wireless broadband networks have increasingly grown in popularity and we believe they will continue to do so, due in part to the inability of wired infrastructure to meet demand, but also because of the following factors:

- the low cost of Wi-Fi components made the insertion thereof to electronic devices very cost effective and common;
- our belief that Wi-Fi as well as LTE, which we do not provide, are currently the technologies that are the most advanced and well-suited to cost-effectively meet the requirements of personal broadband (fixed and mobile) and that Wi-Fi complements the LTE technology which is used by many mobile operators, especially in high traffic areas; allowing these operators to offer additional data services in unlicensed frequency bands based on the users' existing mobile devices.
- 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 802.11, 3GPP 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; and
- proliferation of user-friendly, Internet-centric end user devices which encourage the use of bandwidth thirsty applications.

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 Coverage and Brand Recognition: We are a worldwide wireless vendor with a business focus in unlicensed solutions, with carrier grade products for mobile operators and broadband wireless access networks, and we believe that we enjoy a strong brand purpose and brand identity.

Customer Base: We have a broad customer base, with extensive world-wide fixed, nomadic and mobile 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 the Wi-Fi market, on which we are currently focused, we market our two-way beamforming 802.11n 3x3:3 base station with a unique Interference

Immunity suite.

Execution Capabilities: We have the ability to deliver and deploy a complete end-to-end solution in terms of product, technology, and full end-to-end network deployments, radio planning and network services resulting in the ability to build long-term customer relationships (excluding civil work type of activities). We believe that we are able to provide flexibility and technology differentiators according to customer demands and needs.

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. We were at the forefront of developments with WiMAX technology since its inception, at a company and industry level until we substantially exited this business in 2013. We further leveraged our experience in wireless broadband and WiMAX as we entered into carrier grade Wi-Fi, including through the acquisition of Wavion during the fourth quarter of 2011, through which we gained personnel with valuable experience and technical expertise in the field of carrier grade Outdoor Wi-Fi. We have thereby enhanced our experience in several key technologies such as beamforming, real time radio management, advanced antenna design and smart location management.

STRATEGY

Our growth strategy contains two primary elements. The first element is providing segments of wireless broadband networks for select enterprise vertical markets (including safe city, mining, education, municipalities, utilities, among others in licensed and license-exempt environments. We offer our customers optimized access, CPE's and backhaul solutions. We plan to make additional investment in product development, channel recruitment and go-to-market activities in new vertical markets/domains. The second element of our strategy is to offer indoor coverage and capacity solutions and carrier-grade Wi-Fi offload systems to mobile carriers. This is a growing market looking for solutions to offload data from 3G/4G networks, creating a large demand for Wi-Fi solutions.

PRODUCTS –

Our BreezeMAX Wireless Broadband Access Solution Platforms (WiMAX technology in licensed exempt frequency bands)

BreezeMAX has 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 widely accepted broadband wireless solution for service providers that are interested in improving their business model. The BreezeMAX platform for licensed frequency bands was part of the discontinued operation sold to Telrad. The BreezeMAX Extreme described below, operates in license exempt frequency bands and is part of the Alvarion product portfolio.

BreezeMAX Extreme 5000 and 3600 are the first wireless broadband solutions to bring WiMAX 16e technology to the 5 GHz license-exempt market. A highly integrated, all outdoor base station, BreezeMAX Extreme 5000 and 3600 are designed for ease-of deployment and reduced total cost of ownership. Built with the customer in mind these solutions offer easy configuration and a self-sustained ecosystem, ideally suited for Wireless Internet Service Providers ("WISP"s), municipalities, utilities, enterprises and public safety networks.

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

Our Wireless Broadband Access Solutions (Non-WiMAX)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 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").

Most of our non-Wi-Fi, non-WiMAX wireless broadband solutions are based on OFDM technology with NLOS (non-line of sight) 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 and 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.

BreezeULTRA Products

Our BreezeULTRA P6000 is a family of wireless broadband products that operate in the 5.1 – 5.9 GHz unlicensed frequency band, leveraging 802.11n protocol. BreezeULTRA optimizes the performance of applications such as data, voice, or video using quality of service (QoS), to guarantee high-quality voice and support time-critical applications in parallel to broadband applications such as high-definition video streaming. To help meet the challenges of today's hyper-dynamic world our BreezeULTRA products offer a combination of multiplicity, performance, organic growth and simplicity. BreezeULTRA P6000 supports non-line-of-sight coverage and mitigate interference with OFDM, MIMO (multiple-input and multiple-output), Diversity Techniques and DFS, to precisely meet bandwidth needs. BreezeULTRA P6000 is optimized for a variety of vertical markets and applications such as smart cities, public safety, Oil & Gas industry, education and backhauling.

BreezeACCESS Products

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 in our market throughout the world. 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 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 (enabling customers to start small and scale up) to ensure maximum scalability and supports a wide range of subscriber units to offer an affordable, optimized solution for what we believe is top performance.

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 primarily for backhaul in the WISP market and building-to-building bridging solutions in the vertical market.

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.

Carrier Grade Wi-Fi – WBS Products

WBS-2400 is a carrier-grade range of base stations for advanced wireless broadband, and is a solution for urban and rural outdoor Wi-Fi deployments. Based on Alvarion’s spatially adaptive beamforming technology, and operating with any off-the-shelf 802.11b/g standard-based devices, the WBS-2400 provides significant performance gains in terms of range, throughput, indoor penetration and interference mitigation, enabling service providers to offer cost effective Wi-Fi service without compromising quality.

The beamforming technology maintains high quality signals under NLOS conditions, enabling uniform coverage of the entire area, and creating a larger addressable market per base station. The superior link gain provides higher throughput and network capacity, with the SDMA technology doubling the downlink capacity per base station. The inherent spatial filtering of the beamforming technology and the unique dynamic interference handling capabilities help ensure good operation even in noisy environments. WBS-2400 is cost-effective, and by increasing the addressable market per base station, and by the standards based approach, provides the lowest cost per line.

WBS-2400 is a robust and weatherproof IP-67 platform, and is designed to withstand extreme weather conditions. The WBS-2400 range of base stations have been optimized for a wide range of applications including business connectivity, municipal networks, metro zone networks for outdoor access and cellular data offload, public safety (video surveillance over wireless), VoIP / rural connectivity, education campuses, residential access, building coverage and the hospitality industry.

With an array of six antennas and six radios, the WBS-2400 Omni leverages our beamforming technology to provide superior connectivity, extended range and increased capacity, and succeeds in significantly increasing the coverage provided in comparison to conventional access points. Furthermore, our advanced SDMA technology increases the base station’s downlink capacity. These characteristics enable service providers, municipalities, and enterprises to deliver high quality Wi-Fi service with significantly fewer base stations compared to competing solutions at a much lower cost.

The WBS-2400 Sector base station is a solution for Wi-Fi deployments that require sector coverage. Based on an array of three antennas covering a 120° degree sector and three radios, the WBS-2400 sector leverages our beamforming technology to provide extended range and connectivity under both LOS and NLOS conditions. Furthermore, our advanced SDMA technology increases the base station's downlink capacity. These characteristics enable service providers, municipalities, and enterprises to deliver high quality, Wi-Fi service with significantly fewer base stations compared to competing solutions at a much lower cost.

Carrier-Grade Wi-Fi -- WBSn Products

WBSn base stations, the Alvarion solution for carrier-grade Wi-Fi, is a family of advanced outdoor Wi-Fi base stations suitable for a broad range of applications. Operating in the license-exempt 2.4 and 5 GHz bands, and leveraging spatially adaptive beamforming together with 3x3:3 MIMO technology, the WBSn family delivers range and capacity, and addresses the growing needs of operators to deliver new content-rich services, while maintaining quality of service. WBSn base stations are carrier grade IP-68 certified, with a rich set of security, QoS and management tools, and with a built-in access controller, helping reduce cost and increase availability. Our spatially adaptive beamforming technology is based on an array of multiple radios and multiple antennas, leveraging the multiple signals received and transmitted. The multiple signals are properly adjusted by the beamforming technology to maximize the transmission signal at the client modem and the receiving signal at the base station modem. With Alvarion's approach to beamforming, up to six powerful radios are in the base station and are used together with high gain antennas to form efficient dynamic beamforming per packet. The WBSn family is environmentally friendly with low power consumption, for off-grid powering, and complies with green standards.

Alvarion's technology combines Tx and Rx spatially adaptive beamforming and 802.11n 3x3:3 MIMO for excellent coverage and capacity for delivering up to Gigabit per second capacity and 450 Mbps data speeds. The beamforming technology leverages a unique High Gain Diversely Polarized (HGDP) antenna array for enhanced performance, and significantly increases the link gain and interference immunity. Simultaneous 2.4 and 5 GHz band support for access services addresses the growing usage of 5 GHz in handheld devices and laptops, and the built-in integrated backhaul in 2.4 and 5 GHz, with self-forming and self-healing properties, provide strong performance under both LOS and NLOS conditions, by leveraging Alvarion's beamforming and 3x3:3 MIMO technologies. WBSn base stations are complemented by Alvarion service provisioning, management tools, and a span of generic CPE devices, enabling numerous urban and rural applications at a low cost per bit. The WBSn base stations are IP-68 outdoor rated, are designed for high reliability, quality of service and security and come with a complete set of FCAPS management and service provisioning tools.

Alvarion's base stations enable carriers, internet service providers, governments and private networks to deploy outdoor Wi-Fi networks in metropolitan and rural areas, for a variety of applications, including seamless cellular offload, hot-zone and hot-spots, residential and business access, rural communities, government and private networks, education (schools and universities), municipal networks and safe cities, the health and hospitality industries, oil and gas, industrial and construction sites, mining, terminal hubs, malls and other large venues, smart power grid and automatic meter reading and telemetry.

WBSn Carrier-Grade Wi-Fi Form Factors

The WBSn family includes base stations in four form factors, all IP-68 compliant, designed to withstand harsh outdoor environments, with flexible pole/wall installation and various field-of-view antennas. The WBSn-2400-S Sector base station operates in the 2.4 GHz band, and theWBSn-2450-S Sector base station, operates in the 2.4 and 5 GHz bands simultaneously. The sector form factor base stations are suited for building or street coverage, offering a range of direction that can be adjusted according to the coverage needs of the customer. The WBSn-2400-O Omni base station operates in the 2.4 GHz band, and the WBSn-2450-O Omni base station operates in the 2.4 and 5 GHz bands simultaneously. The Omni form factor base station offers 360 degree coverage, making it an excellent choice for providing effective Metro Wi-Fi, and consequently enabling carriers to comprehensively cover larger areas and address more customers per base station. Operating in the unlicensed band requires strong interference immunity algorithms and tools to cope with existing and future interferences. The built-in Interference Immunity Suite combines the inherent beamforming ability to suppress interference, comprising the Dynamic Interference Handling (DIH) algorithm that continuously optimizes receiver’s parameters according to noise level, the Automatic Channel Selection (ACS) algorithm for best operating channel online selection, the Wavion Rate Adaptation (WARA) for optimal rate selection in environments with high interference, and the capabilities of both Down Tilted Antennas (DTA) and sector antennas to reject noise out of their field-of-view.

Network Management Solutions. We provide advanced network 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 networks.

WavioNet is an advanced Simple Network Management Protocol based Network Management System (NMS) application for Alvarion's carrier Wi-Fi solutions and products - Base Stations and CPEs. WavioNet offers a rich toolbox of network management and monitoring features. It offers flexible viewing options, advanced and customizable fault management, performance monitoring as well as configuration and user management.

Star Management Suite is being used to manage the other products in Alvarion's portfolio - the BreezeMAX Extreme, BreezeULTRA and BreezeAccess VL. It 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 made up of specific management tools that cover the entire 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.

Our Geographic Markets

The following presents total revenue by geographic region:

	2010		2011		2012	
			In thousands			
North America	$ 14,679	19 %	$ 16,822	23 %	$ 8,720	17 %
Latin America	10,072	14 %	10,724	15 %	6,788	14 %
Europe, Middle East and Africa	38,875	52 %	31,304	43 %	16,169	32 %
Asia Pacific	11,388	15 %	13,423	19 %	18,272	37 %
Total	$ 75,014	100 %	$ 72,273	100 %	$ 49,949	100 %

32

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 millions of users. These operators are a primary focus for our Wi-Fi offering.

In numerous cases, these operators have a broadband wireless services unit. These operations are well addressed by Wi-Fi networks which can provide robust services at high QoS levels to large scales of users and enable these operators to maintain their position at the front line of communications services business. An example of a Tier One carrier that is using our Wi-Fi offerings for such deployments is PLDT (Philippines)

With the proliferation of smartphones and tablet devices, many of the mobile Tier One and Tier Two operators are experiencing congestion and deteriorating QoS in their data networks. Wi-Fi equipment enables these operators to offload some of this traffic from their networks, resulting in improved QoS and user experience. Many of the world's leading mobile operators have publicly indicated their intent to use this technology approach, including AT&T, Verizon, Vodafone, Orange, NTT and KDDI.

Broadband Service Providers

Broadband service providers build their business model primarily on Point to Multi-Point solutions. Alvarion WiMAX products are one of the options these operators have. Broadband service providers are expected to constitute a greater portion of the Point to Multi-Point market in the future. Examples of service providers in this category include OMG Fast (United Sates), NGI S.p.A (Italy) and Adam Internet (Australia).

Vertical Markets

Private and government sectors that operate private networks for business management and operations are in constant need of 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. Additional areas that have leveraged broadband wireless effectively include 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.

2012 Partial Customer List

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

Beijing Huasun Unicreate Co.
Winncom Technologies, Inc
PCS Technologies, Inc.
NGI Spa
NEC
Wireless Connections
Nodes Network Com
Avances Tecnologicos
OMGFAST
Connect Data
Mirait Technologies Corp.
Arya Communications & Electronic Services
Sysnet Integrators Inc
Anixter (All Subsidiaries)
ITM Gmbh
Adam Internet
RLAN
Veracomp Sa
Systemas Y Servicios De Comu
ABSA Comunicaciones S.A.
Hutton Communications
Scansource Latin America
Equipements Scientifiques
Wireless Tech (Australia) Lt
Elmat S.P.A
Rikei Corporation
Photonix Communications Pty
Upgrade Communication As
Net Iletisim Ltd

TECHNOLOGIES UNDERLYING OUR PRODUCTS

We use internally developed core technologies and continue to invest 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 unlicensed WiMAX platforms 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, 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. 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 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 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 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 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.

DAS

Alvarion introduced a distributed antenna system offering in 2011. The system uses proprietary RF technology based on intellectual property acquired from Clariton. By manipulating cellular RF signals the system can transport these signals across cable TV infrastructure to provide coverage and capacity within large buildings. The technology is termed TrueActive and provides amplification at the end points called Remote Units where the cellular signal is being emitted towards mobile handsets and where the signal is being received from transmitting mobile handsets.

This structure provides uplink gain and minimal noise level required for high capacity cellular data networks. The technology is protected by various patent filings.

Alvarion Carrier Grade Wi-Fi Technology

Beamforming 802.11n

Alvarion's technology combines Tx and Rx spatially adaptive beamforming and 802.11n 3x3:3 MIMO for effective coverage and capacity.

The true spatially adaptive beamforming technology leverages a High Gain Diversity Polarized (HGDP) antenna array for maximum performance. The beamforming significantly increases the link gain and interference immunity. Moreover, it exploits multipath to its advantage by coherently combining signals traveling in different propagation paths, providing LOS and NLOS coverage, and indoor penetration.

With 3x3 MIMO and three spatial data streams, Alvarion's base stations set up a new market milestone delivering up to gigabit capacity and 450 Mbps data speeds.

Interference Immunity Suite

Alvarion's interference immunity combines the beamforming inherent ability to suppress interference, the Dynamic Interference Handling ("DIH") algorithm for continuous receiver parameter optimization according to the noise level, the Automatic Channel Selection ("ACS") algorithm for optimal selection of the best operating channel, the Alvarion Rate Adaptation ("WARA") for optimal rate selection for any environment, and the Down Tilted Antennas ("DTA") and sector antennas capability to reject interference out of their field-of-view. Alvarion's interference immunity suite leverages over a decade of outdoor Wi-Fi experience.

Multi-band Access

Alvarion's multi-band access provides simultaneous 2.4 and 5 GHz band support for access services, addressing the growing usage of 5 GHz in handheld devices and laptops.

Integrated Backhaul

Alvarion's integrated backhaul provides support in 2.4 and 5 GHz, with self-forming and self-healing, providing performance in both LOS and NLOS by leveraging Alvarion's beamforming and 3x3:3 MIMO technologies.

Carrier Grade

Alvarion's base stations are IP-67 outdoor rated and are designed for high reliability, quality of service and security. Alvarion base stations come with a complete set of FCAPS management and service provisioning tools.

36

WBSn Access Control embedded and WCC

The WBSn built-in Access Controller ("AC") includes a powerful embedded AC function which enables access control and policy enforcement at the at the network edge. As a result of this, only policed traffic is backhauled, reducing backhauling capacity requirements and charges. Furthermore, the network is truly scalable with no single point of failure as the need for a powerful, data crunching centralized Access Controller is waived.

Wi-Fi Cloud Controller ("WCC")

With large scale Wi-Fi networks the WCC acts as a mediation gateway to an operator's core such as needed for Wi-Fi-3G/LTE mobility in trusted and untrusted non-3GPP network topologies.

IOT Labs and Activities

To support our OPEN Wi-Fi strategy and enable a strong ecosystem of Network Controllers, Clients, (such as Smart Phones), CPEs and devices by top industry vendors we have created our Inter-operability testing (IOT) capability which tests a variety of products for interoperability on an ongoing basis, with the goal of ensuring that customer specific configurations are fully supported. We test products from a variety of vendors in an Alvarion network environment using Alvarion BaseStations and, on occasion, an Alvarion Access Controller, depending on the customer configuration.

SALES, MARKETING AND SUPPORT OF OUR PRODUCTS –

We sell 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 120 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 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, with additional manufacturing also taking place in the Philippines and Taiwan. Final assembly and testing are performed by our contract manufacturers and are monitored and controlled by our quality assurance personnel. The testing criteria are validated by the automatic fail safe mechanisms in order to ensure that all activities successfully pass 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 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. See Item 3.D – Risk Factors – "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 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 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. 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 sufficient 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 effect 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.

THE COMPETITIVE ENVIRONMENT IN WHICH WE OPERATE –

The markets for our products are very competitive. Competition comes both from large network equipment vendors who have advantageous cost structure, scale advantage and can offer financing and turnkey solutions; and from smaller competitors providing lower end, lower cost solutions. We believe that the principal competitive factors in the markets for our products include:

- price and price/performance ratio;
- 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;
- product stability;
- financial stability of the vendor;
- quality of service; and
- value proposition - coverage and capacity capabilities.

Companies that compete with our products in the vertical markets include mainly Radwin, Redline, Proxim, and Ruckus Wireless. Companies that are engaged in the manufacture and sale or development of products that compete with our carrier-grade outdoor Wi-Fi products include Ruckus Wireless, Cisco, Altai, Aruba, GoNet, and BelAir (acquired by Ericsson). Other vendors in the 4G and Wi-Fi markets 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 and satellite technologies. Our products compete with other wireless media technologies, including (i) 3G, HSPDA, HSUPA, EVDO and (ii) 4G, such LTE.

Many 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 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. In Europe, our products are subject to European Telecommunications Standards Institute (ETSI) rules and regulations. In other countries, the use of spectrum license, if any, and the purposes of such use, vary from country to country. Most of our products are intended for the 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 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 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;
- Alvarion Tadipol* 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;
- Alvarion Philippines incorporated under the laws of Philippines;
- Alvarion South Africa (Pty) Ltd., incorporated under the laws of South Africa;
- Alvarion Italy SRL incorporated under the laws of Italy;
- 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;
- Interwave Communication Inc*, incorporated under the laws of Delaware, United States;
- PT. Alvaritech Indonesia, incorporated under the laws of Indonesia;
- Wavion, Inc., incorporated under the laws of Delaware, United States; and
- Wavion Ltd , incorporated under the laws of Israel.

* Indirectly owned.

D. PROPERTY, PLANTS AND EQUIPMENT

We do not own any real estate. As of December 31, 2012, we leased an aggregate of approximately 157,135 square feet in Tel-Aviv, Israel for annual lease payments (including management fees) of approximately $3 million and incurred annual parking expenses in connection with these leases of approximately $0.4 million (21% of these expenses are attributed to our continuing operations). 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. The lease agreement for our main premises is effective until 2013. We also lease approximately 18,320 square feet of office facilities located at 5 Hamada Street, Yokneam Illit, Israel, at an annual rent of approximately $0.27 million. These premises serve as the corporate headquarters of our subsidiary in Israel, Wavion Ltd. We also leased approximately 12,647 square feet of office facilities located at 555 N. Mathilda Avenue, Suite 210, Sunnyvale, CA 94085, at an annual rent of approximately $0.2 million (which was terminated in April 2012). We also had an additional office in Maryland located at 6701 Democracy Blvd., Suite 300, Bethesda, MD, at an annual rent of approximately $0.1 million (which was terminated in May 2012). We also lease approximately 30,171 square feet of office facilities in Romania, at an annual rent of approximately $0.7 million (22% of these expenses are attributed to our continuing operations). 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 Miami, France, China, Poland, Italy, South Africa, India and Spain. Some of the office space was vacated as part of our restructuring process (84,852 square feet of our headquarters in Tel – Aviv, Israel and 21,528 square feet of our offices in Romania) and we continue to assess our needs and are continually vacating additional portions our of our lease property in an effort to decrease our expenses. 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.

Our vision is focused on providing optimized broadband wireless solutions to address connectivity, capacity and coverage challenges of public and private networks, enabling us to maintain our current position and grow along with the market demand for multi-technologies solutions and applications.

Our solutions are usually used in a point-to-multipoint, point-to-point and public Wi-Fi 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 primarily in the license-exempt bands 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 rights in these technologies.

In 2010, we began to evaluate potential new directions in addition to our core WiMAX products. At the conclusion of this strategic evaluation process, our board of directors determined that we should focus on complementary solutions for mobile operators.

On November 23, 2011, we completed the acquisition of Wavion, a provider of outdoor Wi-Fi applications for metro and rural areas with deployments in more than 75 countries. Featuring Wavion Base Stations with 802.11n in 2.4 GHz and 5 GHz unlicensed bands and in the 700 MHz licensed band, Wavion offers end-to-end solutions including access, backhaul, CPEs, management and service provisioning tools. The acquisition was for total consideration of approximately $28.4 million in cash (including a $2.7 million performance earn-out which was paid).

Throughout 2011 and 2012, we continued to manufacture and sell our WiMAX based products and continued to enter into contracts with new and existing customers and make necessary commitments to purchase raw materials to manufacture the WiMAX products.

For the purpose of financing the acquisition of Wavion in November 2011, we obtained a $ 30 million secured credit facility from SVB. We determined to finance the acquisition rather than use our cash on hand in order to retain available cash to meet the substantial working capital needs of our WiMAX business while growing our new Wi-Fi business.

During 2011, we implemented a restructuring plan including the layoff of approximately 194 employees as well as the vacating of certain leased premises. Nonetheless, we continued to incur substantial losses, which were primarily the result of decline in revenues, increased competition which led to a decline in our profitability, and our inability to adapt our cost structure quickly enough to meet the reduction in revenues. Following the launch of Wavion's WBSn product, we noted certain problems with the stability of the product. We subsequently undertook intensive efforts to improve the stability of the WBSn product and relaunched the product in the first quarter of 2013. While we continued sales of the WBS product, our sales decreased significantly in the second half of 2012 as the market was quickly migrating to the new 802.11n standard.

During 2012, in particular in light of the significant cash requirements to fund the WiMAX business and the limited availability of credit both in the market generally and to Alvarion in particular, we were also evaluating various alternatives to exit the WiMAX business. As part of this process, we established the BWA Division, which included all of Alvarion's licensed WiMAX business on a stand-alone basis. During 2012, we negotiated with a number of potential buyers for the BWA Division, but we could not reach an agreement. In the meantime, this business continued to general significant losses for Alvarion and had a negative impact on working capital.

Alvarion's other Vertical Products, primarily the BreezeMAX Extreme and BreezeACCESS VL performed relatively well during 2012, however as these products have been on the market for a number of years, their sales did not grow in comparison to previous years. Due to our financial difficulty we were only capable of devoting relatively limited resources to developing replacements for these legacy products.

As a result of the difficulty we experienced with the launch and marketing of our WBSn product and our lack of success in disposing of the BWA Division, with respect to which we were required to continue to provide services to our customers and meet contractual commitments, we continued to suffer substantial losses during 2012. Our cash position was further negatively affected by our required principal and interest payments on the SVB Loan, as well as the closure of previously available credit lines with various Israeli banks. The foregoing led to our monetizing various assets that we had available such as the sale of a portion of our patent portfolio in September and November 2012 to Wi-LAN for $16.8 million (with respect to which we received an additional $1.5 million in May 2013) and the Nortel Debt in October 2012 for $5.2 million.

As noted above, the need to service the SVB Loan was negatively affecting our cash position and, as a result of our performance, we breached various financial covenants under the SVB Loan. As a result, we entered into a number of modifications and amendments to the terms and conditions of the SVB Loan. As part of those modifications and amendments and since our patent portfolio and the Nortel Debt that we sold were pledged in favor of SVB as security for the SVB Loan, we were required, through May 12, 2013, to repay an aggregate amount of approximately $25 million in principal amount of the SVB Loan, which further harmed our cash position.

On February 21, 2013, we entered into a definitive agreement with Telrad, pursuant to which Telrad acquired the BWA Division. The transaction was completed on May 10, 2013, and pursuant to the finally agreed terms, the consideration in the transaction is $4.0 million, with the first payment of $1.3 million payable at closing. We may also receive certain performance –based milestone payments of up to $7.7 million. As further described below, except as otherwise stated, our financial results present only our continuing business and reflect the BWA Division as discontinued operations for all periods covered thereby.

On December 10, 2012 we announced our intention to effect a reverse share split of our Ordinary Shares in a ratio of 1:10. Following execution of the reverse share split, our shareholders received one ordinary share of Alvarion for every 10 ordinary shares held by them, with fractional shares rounded up. The reverse share split was intended to increase our per share trading price to satisfy the $1.00 minimum bid price requirement for the continued listing on the NASDAQ Capital Market. The reverse share split became effective on April 2, 2013.

In 2012, our revenues decreased by 30.8% to approximately $49.9 million from approximately $72.2 million in 2011, primarily due to decreased sales of our BreezeACCESS VL and BreezeNET B products for which we have not developed sufficient replacements, delays in introduction of new products, aggressive competition, and the continued effects of the global economic slowdown.

During 2012 our gross margins decreased to approximately 32.5% of our revenues, compared to approximately 46.1% of revenues in 2011. This decrease in gross margin is mainly due to the write-off of excess and obsolete inventory in 2012 as a result of demand for our products (primarily WiMAX) being lower than the estimated amounts on which we based the quantity of our products that we manufactured and due to cancelations of projects during the year. In addition, the aggressive competition which we faced, the continued effects from the global economic slowdown and the limited availability of credit in the global capital markets contributed to the decline in gross margin.

During 2012, our net loss from continued and discontinued operations amounted to approximately $(55.9) million compared to a net loss of approximately $(33.8) million in 2011. This increase in net loss was primarily a result of the impairment of the fair value of the BWA Division based on its December 31, 2012 selling price.

Our operating expenses decreased to $ 36.4 million in 2012 compared to $ 43 million in 2011 mainly due to the $6 million of restructuring costs included in operating expenses for 2011 and the decrease in 2012 of the operating expenses resulting from the cost reductions.

As a result of the foregoing, our working capital deteriorated during 2012 and this deterioration has continued into 2013. Our limited working capital has resulted and may continue to result in delays of shipments of our products, which has and may continue to have a material adverse effect on our revenues and profitability. The report of our independent registered public accounting firm with respect to our financial statements for the years ended December 31, 2012 and 2011 includes an explanatory paragraph that states that our declining sales, recurring losses and negative cash flows from operations, and our excess of credit line over cash and cash equivalents as well as uncertainty in meeting credit line covenants raise substantial doubt about our ability to continue as a going concern. We are currently seeking to raise additional capital and continuing to seek to reduce costs and increase sales, particularly of our new products, in order to improve our working capital position and continue to operate as a going concern. We cannot ensure that we will be able to obtain funding on terms that will be acceptable to us or at all. If we are unable to obtain additional financing for working capital, product development, launch and support or for our other capital requirements, we would be required to curtail our business operations further or cease our operations entirely.

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.

45

The Company's revenue recognition policies provide that, when a sales arrangement contains multiple elements, the Company allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence ("VSOE"), if available, third party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available. The Company establishes VSOE of selling price using the price charged for a deliverable when sold separately when they have not yet sold the deliverable separately, using the price established by management having the relevant authority. When VSOE cannot be established, the Company establishes the selling price of each element based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately. The best estimate of selling price is established considering several external and internal factors including, but not limited to, historical sales, pricing practices and geographies in which the Company offers its products. The determination of ESP is judgmental.

For arrangements which include multiple elements, the Company considers the sale of equipment, professional services and maintenance to be three separate units of accounting in the arrangement in accordance with ASC 605-25, since all three elements have value to the customer on a standalone basis.

Equipment includes the software as the software is deemed incidental to the product as a whole. The Equipment element price was attained by using management best estimate based on the historical prices sold by the Company. The historical prices have been allocated based on product and region, due to variances between the regions in which the products have been sold.

Professional Services prices were based on TPE for which the Company has accumulated the prices from its suppliers throughout the year.

Maintenance price has been established using VSOE of fair value of maintenance services, based on the price charged when sold separately at renewal.

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.

Advances from customers include advances and payments received from customers, for which revenue has not yet been recognized.

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 $0.3 million and $4.1 million as of December 31, 2011 and 2012, respectively. The balance as of December 31, 2012, includes a doubtful debts provision from the Wavion acquisition of $0.3 million. 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 2010, 2011 and 2012 amounted to $1.0 million, $0.9 million and $3.9 million, respectively. Total write-offs amounted $ 0 million, $0.6 and $0.1 million in 2010, 2011 and 2012, 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 2h to our financial statements describes the write-offs and provisions that we made and recorded in 2010, 2011 and 2012 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 2h 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. For example, in 2012, we were required to write-down a significant amount of inventory due to demand for our products that was lower than we had anticipated. 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.

The acquisition of Wavion in November 2011 has been incorporated into the single reportable segment of the Company. Nevertheless, Wavion was considered its own reporting unit in 2011 and 2012. As part of the Wavion acquisition, the Company recorded goodwill in an amount of $13.1 million. No impairment has been recorded in 2012 based on the impairment analysis performed by the Company. As a result of the discontinued operation of BWA division for the year ended December 31, 2012 the Company operated in one operating segment comprised of a single reporting unit.

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 16 to 21 months. 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 2010, 2011 and 2012 was $1.8 million, $1.7 million and $0.9 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 2012 as a result of 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 2012, 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.

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. A full valuation allowance was provided for the period ending December 31, 2012.

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.”

Business Combination. We apply the provisions of ASC 805 "Business Combination", accordingly we are required to allocate the purchase price of acquired companies to the tangible and intangible assets acquired, liabilities assumed based on their estimated fair values. In allocating the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed, we developed the required assumptions underlying the valuation work. Critical estimates in valuing certain of the intangible assets include but are not limited to: future expected cash flows from customer contracts, customer lists, distribution agreements, the acquired company’s brand awareness and market position, as well as assumptions about the period of time the brand will continue to be used in the combined company’s product portfolio and discount rates.Management’s estimates of fair value are based upon assumptions believed to be reasonable, utilizing a market participant approach, but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur.

Discontinued Operations.   As of December 31, 2012, our management determined to sell our BWA Division and the sale of the BWA Division was completed on May 10, 2013. Under the final terms agreed, we will receive a consideration of $4.0 million, paid in installments over four quarters, with the first payment of $1.;35 million payable at closing. In addition, we may receive certain performance based milestone payments of up to $7.7 million.

Under ASC 205, "Presentation of Financial Statements - Discontinued Operation" when a component of an entity, as defined in ASC 205, has been disposed of or is classified as held for sale, the results of its operations, including the gain or loss on its component are classified as discontinued operations and the assets and liabilities of such component are classified as assets and liabilities attributed to discontinued operations; that is, provided that the operations, assets and liabilities and cash flows of the component have been eliminated from our consolidated operations and we will have no significant continuing involvement in the operations of the component.

The BWA Division has been considered a "component of the entity" since it comprises of operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company's operations. Further, since no significant cash outflow or cash inflow are expected to be generated or paid by the Company in respect of the discontinued operation and we will have no significant continuing involvement in the operations of the component after the division is sold, the component meets the criteria to be considered as discontinued operation.

As a result, the assets and liabilities of the component were retroactively adjusted and classified as discontinued assets and liabilities as of December 31, 2011 and 2012 and the component's operation results and cash flows for the years ended December 31, 2010, 2011 and 2012 were retroactively adjusted and classified separately as net loss from discontinued operations.

Results of Operations –

As previously noted, except as otherwise stated, our results of operations represent only our continuing business and reflect the BWA Division as discontinued operations for all periods covered thereby.

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, 2010, 2011 and 2012:

	2010		2011		2012	
	Total revenues	Percentage	Total revenues	Percentage	revenues	Percentage
	In thousands	Of sales	In thousands	Of sales	In thousands	Of sales
North America (including the United States & Canada)	$ 14,679	20 %	$ 16,822	23 %	$ 8,720	17 %
Europe (without, Italy)	24,640	33 %	16,640	23 %	8,262	17 %
Italy	10,610	14 %	9,291	13 %	2,947	6 %
Asia (without China)	7,466	10 %	6,230	9 %	6,949	14 %
China	3,922	5 %	7,193	10 %	11,323	23 %
Others	13,697	18 %	16,097	22 %	11,748	23 %
	$ 75,014	100 %	$ 72,273	100 %	$ 49,949	100 %

(1) We have listed Italy and China separately within this table because each of these countries generated at least 10% 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, 2010(*) (In thousands)	2011(*)	2012
Sales			
Products	$ 72,090	$ 69,457	$ 48,278
Services	2,924	2,816	1,671
Total Sales	75,014	72,273	49,949
Cost of sales			
Products	35,616	33,582	24,972
Services	1,480	3,911	2,354
Write-off of excess inventory and provision for inventory purchase commitments	2,093	1,433	6,385
Gross profit	35,825	33,347	16,238
Operating costs and expenses:			
Research and development, gross	8,440	12,552	14,825
Less – grants and participations	536	1,844	2,161
Research and development, net	7,904	10,708	12,664
Selling and marketing	13,801	18,304	13,177
General and administrative	4,364	5,170	7,182
Amortization of intangible assets	-	186	2,235
Restructuring and other charges	1,787	6,020	-
Acquisition related expenses	-	2,622	1,102
Total operating costs and expenses	27,856	43,010	36,360
Operating income (loss)	7,969	(9,663)	(20,122)
Financial expenses, net	(99)	(1,015)	(2,895)
Income (loss) before tax	7,870	(10,678)	(23,017)
Taxes on income	894	-	-
Net income (loss) from continuing operations	6,976	(10,678)	(23,017)
Net loss from discontinued operations	(105,455)	(23,144)	(32,892)
Net loss	$ (98,479)	$ (33,822)	$ (55,909)
Other comprehensive income (loss)			
Unrealized gains (losses) on foreign currency cash flow hedges	474	(5,273)	3,513
Total comprehensive (loss)	$ (98,005)	$ (39,095)	$ (52,396)

(*) Adjusted for discontinued operations

51

	Year Ended December 31, 2010(*)	2011(*)	2012
	(As a percentage of sales)		
Statement of Operations Data:			
Sales			
Products	96.1	96.1	96.7
Services	3.9	3.9	3.3
Total Sales	100.0	100.0	100.0
Cost of sales			
Products	47.5	46.5	50.0
Services	2.0	5.4	4.7
Write-off of excess inventory and provision for inventory purchase commitments	2.8	2.0	12.8
Gross margin	47.7	46.1	32.5
Operating costs and expenses:			
Research and development, gross	11.2	17.4	29.7
Less – grants and participations	(0.7)	(2.6)	(4.4)
Research and development, net	10.5	14.8	25.3
Selling and marketing	18.4	25.3	26.4
General and administrative	5.8	7.2	14.4
Amortization of intangible assets	-	0.3	4.5
Restructuring and other charges	2.4	8.3	-
Acquisition related expenses	-	3.6	2.2
Total operating expenses	37.1	59.5	72.8
Operating income (loss)	10.6	(13.4)	(40.3)
Financial expenses, net	(0.1)	(1.4)	(5.8)
Income (loss) before tax	10.5	(14.8)	(46.1)
Taxes on Income	1.2	-	-
Net income (loss) from continuing operations	9.3	(14.8)	(46.1)
Net (loss) from discontinued operations	(140.6)	(32)	(65.8)
Net loss	(131.3)	(46.8)	(111.9)
Other comprehensive income (loss)			
Unrealized gains (losses) on foreign currency cash flow Hedges	0.6	(7.3)	7.0
Total comprehensive (loss)	(130.7)	(54.1)	(104.9)

(*) Adjusted for discontinued operations

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

Sales. Sales in 2012 were approximately $49.9 million, a decrease of approximately 30.9% compared to sales of approximately $72.3 million in 2011. This decrease was primarily due to a decrease in sales in 2012 of our legacy BreezeACCESS VL and BreezeNET B products for which we have not developed sufficient replacements compared to 2011, minimal sales of our WBSn product due to certain problems in its stability and capacity following its introduction in 2012, aggressive competition, and the continued effects of the global economic slowdown.

Sales in APAC accounted for approximately 36.6% of our sales in 2012 and totaled approximately $18.3 million, which represents an increase of approximately 36.6% compared to our 2011 sales in these regions which were approximately $13.4 million or 18.6% of our sales. This increase is primarily attributed to sales of the Company's Wi-Fi products to a major customer in China. Sales in Europe, the Middle East and Africa accounted for approximately 32.4% of our sales in 2012 and totaled approximately $16.2 million, which represents a decrease of approximately 48.2% compared to our 2011 sales in these regions which were approximately $31.3 million or 43.3% of our sales. This decrease resulted from the economic crisis in Europe , lack of suitable replacement to our BreezeACCESS VL, increased competition, and a decision of a major customer in Italy to reduce its purchases from us in 2012. Sales in Central and Latin America accounted for 13.6% of our sales in 2012 compared to 14.8% of our sales in 2011. Sales in North America accounted for approximately 17.5% of our sales in 2012, compared to 23.3 % in 2011.

In each of 2011 and 2012, a single customer (different customer in each year) accounted for more than 10% of our revenues. We believe that due to 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 for products and services consists primarily of cost of components, product manufacturing and assembly, labor, overhead and other costs associated with production. Cost of sales was approximately $ 27.3 million in 2012, a decrease of 27.2% compared to cost of sales of approximately $ 37.5 million in 2011 primarily due to lower revenues in 2012 compared to 2011. Cost of sales as a percentage of sales were approximately 54.7% and 51.9% for 2012 and 2011, respectively. The main reason for the decrease in our gross margins during 2012 was the inventory write-off that we booked based on lower than anticipated demand for our products (particularly unlicensed products, other than our Wi-Fi products) and cancellation of customer orders during the year.

Write-off of excess inventory and provision for inventory purchase commitments. We periodically assess our inventories valuation in relation to obsolete and slow-moving items based on revenue forecasts and technological obsolescence. If inventories on-hand exceed our estimates or become obsolete. 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.

Write-off of excess inventory and provision for inventory purchase commitments increased to approximately $6.4 million for the year ended December 31, 2012, compared to approximately $1.4 million for the year ended December 31, 2011. This increase was primarily due to our write-off of excess and obsolete inventory in 2012, which resulted from lower than anticipated demand for our products and cancellation of customer orders during the year and our accrual of a provision for inventory purchase commitments.

Research and development expenses, net. Gross research and development expenses consists 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 $ 14.8 million in 2012, an increase of approximately 18.4% compared to gross research and development expenses of approximately $12.5 million in 2011. This increase was primarily due to the inclusion of a full year in 2012 of research and development expenses relating to the business acquired from Wavion in November 2011 and the additional research and development expenses relating to the work that was required to stabilize the WBSn product during 2012. Gross research and development as a percentage of sales was 29.7% in 2012, compared to 17.4% in 2011. Grants and other participations for funding approved research and development projects totaled approximately $2.2 million in 2012 and $1.8 million in 2011. Research and development expenses, net, were approximately $12.7 million in 2012, compared to approximately $10.7 million in 2011.

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 $13.2 million in 2012, a decrease of approximately 27.9% compared to selling and marketing expenses of approximately $ 18.3 million in 2011. This decrease was primarily attributable to the impact in 2012 of our cost reduction initiatives that were approved in 2011. Selling and marketing expenses as a percentage of sales were 26.4% in 2012 compared to 25.3% in 2011.

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 $7.2 million in 2012, an increase of approximately 38.5% compared to general and administrative expenses of approximately $ 5.2 million in 2011. This increase resulted from the amounts we recorded in 2012 for doubtful accounts. General and administrative expenses as a percentage of sales increased to 14.4% in 2012 from 7.2% in 2011.

Amortization of intangible assets. Amortization of intangible assets was $2.2 million in 2012 compared to $0.2 million recorded in 2011, which reflected a full year of amortization of intangible assets recorded in connection with our acquisition of Wavion in November 2011.

Restructuring costs. During 2011, we implemented a restructuring plan including the layoff of approximately 194 employees in 2011 as well as the vacating of certain leased premises. As a result, we recorded a restructuring charge of approximately $6.0 million in 2011 which primarily consists of employees' termination benefits, lease abandonment and repayment of grants. There were no such costs in 2012.

Financial expenses, net. Financial expenses, net, were $2.9 million in 2012, compared to financial expenses, net, of approximately $1.0 million in 2011. The increase in financial expenses is attributed mainly to a full year of interest in 2012 on the SVB Loan.

Net loss. In 2012, net loss from continuing operations was approximately $(23.0) million, compared to a net loss of approximately $(10.7) million in 2011. In 2012, net loss from discontinued operations was approximately $(32.9) million which included a loss of approximately $(17.3) million from the fair value impairment to selling price of the BWA Division in addition to the operating loss from the discontinued operations, compared to a net loss of approximately $(23.1) million in 2011, which included the restructuring charge of $(6) million related to the BWA Division.

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

Sales in 2011 were approximately $72.3 million, a decrease of approximately 3.6% compared to sales of approximately $75 million in 2010.

Sales in APAC reached approximately 18.6% of our sales in 2011 and totaled approximately $13.4 million, which represents an increase of approximately 17.5% compared to our 2010 sales in these regions which were approximately $11.4 million or 15.2% of our sales. Sales in Europe, the Middle East and Africa reached approximately 43.3% of our sales in 2011 and totaled approximately $31.3 million, which represents a decrease of approximately 19.5% compared to our 2010 sales in these regions which were approximately $38.9 million or 51.8% of our sales.The decrease in our sales in sales in Europe, the Middle East and Africa resulted from the crisis in the European economy and intense completion. Sales in Central and Latin America accounted for 14.8% of our sales in 2011 compared to 13.4% of our sales in 2010. Sales in North America accounted for approximately 23.3% of our sales in 2011, compared to 19.5% in 2010.

In 2011, one customer accounted for more than 10% of our revenues. In 2010, no customer accounted for more than 10% of our revenues.

Cost of sales. Cost of sales for products and services consists primarily of cost of components, product manufacturing and assembly, labor, overhead and other costs associated with production. Cost of sales was approximately $37.5 million in 2011, compared to cost of sales of approximately $37.1 million in 2010. Cost of sales as a percentage of sales were approximately 51.9% and 49.5% in 2011 and 2010, respectively.

Write-off of excess inventory and provision for inventory purchase commitments. Write-off of excess inventory and provision for inventory purchase commitments was approximately $1.4 million for the year ended December 31, 2011 compared to approximately $2.1 million for the year ended December 31, 2010.

Research and development expenses, net. Gross research and development expenses were approximately $12.5 million in 2011 compared to gross research and development expenses of approximately $8.4 million in 2010. This increase was primarily due to greater investment in research and development in 2011 compared to 2010. Gross research and development, as a percentage of sales was 17.4% in 2011, compared to 11.2% in 2010. Grants and other participations for funding approved research and development projects totaled approximately $1.8 million in 2011 and $0.5 million in 2010. Research and development expenses, net, were approximately $10.7 million in 2011, compared to approximately $7.9 million in 2010.

Selling and marketing expenses. Selling and marketing expenses were approximately $18.3 million in 2011 compared to selling and marketing expenses of approximately $13.8 million in 2010. This increase was primarily due to greater sales and marketing activity in 2011 from the increased focus on the unlicensed market in 2011. Selling and marketing expenses as a percentage of sales were 25.3% in 2011 compared to 18.4% in 2010.

General and administrative expenses. General and administrative expenses were approximately $5.2 million in 2011 compared to general and administrative expenses of approximately $4.4 million in 2010. This increase is related primarily to our increased focus on the unlicensed market in 2011. General and administrative expenses as a percentage of sales increased to 7.2% in 2011 from 5.8% in 2010.

Amortization of intangibles assets. As a result of acquisition of Wavion in November 2011, we had annual amortization charges of approximately $0.2 million recorded in 2011.

Restructuring costs. During 2011 and 2010, we implemented separate restructuring plans including the layoff of approximately 194 employees in 2011 and approximately 160 employees in 2010 as well as the vacating of certain leased premises. As a result, we recorded a restructuring charge of approximately $6.0 million in 2011 and approximately $1.8 million in 2010, which primarily consists of employees' termination benefits, lease abandonment and repayment of grants.

Financial expenses, net. Financial expenses, net, were $1.0 million in 2011, compared to financial expenses, net, of approximately $0.1 million in 2010. The increase in financial expenses is attributed mainly to the inflation in the currency change between the Dollar and other currencies and interest on the SVB Loan which was obtained in November 2011.

Net income (loss). In 2011, net loss from continuing operations was approximately $(10.7) million, compared to a net income of approximately $7 million in 2010. In 2011, net loss from discontinued operations was approximately $(23.1) million, compared to a net loss of approximately $(105.4) million in 2010 which included impairment of goodwill and intangible assets in the sum of $ (57.1) million.

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 2011, 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 %
2008	3.8	(1.1)	4.9
2009	3.9	(0.7)	4.6
2010	2.7	(6.0)	8.7

2011	2.2	7.7	(5.5)
2012	1.6	(2.3)	3.9

56

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".

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.

Going Concern Uncertainty

The report of our independent registered public accounting firm with respect to our financial statements for the years ended December 31, 2012 and 2011 includes an explanatory paragraph that states that our declining sales, recurring losses and negative cash flows from operations and our excess of credit line over cash and cash equivalents as of December 31, 2013 as well as uncertainty in meeting credit line covenants raise substantial doubt about our ability to continue as a going concern. In order to continue as a going concern we will need to obtain funding in order to finance our working capital and sustain our ongoing operations and additional capital to enable product development and market growth. While we are currently actively seeking additional funding, we cannot ensure that we will be able to obtain funding on terms that will be acceptable to us or at all. If we are unable to obtain additional financing for working capital, product development, launch and support or our other capital requirements we would be required to curtail our business operations further or cease our operations entirely.

Balance Sheet and Cash Flows

Total cash, cash equivalents, short-term and long-term marketable securities and deposits were $14.4 million as of December 31, 2012, a decrease of approximately $50 million or 77.6% from $64.4 million at December 31, 2011. Total cash, cash equivalents, short-term and long-term marketable securities and deposits as of December 31, 2011 reflected a decrease of approximately $18.9 million or 22.7% from $83.3 million at December 31, 2010.

Total cash and cash equivalents as of December 31, 2012 were $9.8 million, a decrease of $48 million or 83% from $57.8 million at December 31, 2011. The decrease primarily resulted from net losses incurred in 2012 which were driven by lower sales and higher ongoing expenses from our BWA Division which was sold to Telrad in May 2013, and by early prepayment of principal. Total cash and cash equivalents as of December 31, 2011 were $57.8 million, a decrease of $3.5 million or 5.8% from $61.3 million at December 31, 2010.

Our continuing operating activities used cash of approximately $23.3 million and $4.0 million in 2012 and 2011, respectively. Our continuing operating activities provided cash of approximately $14.3 million in 2010. Our discontinued operating activities used cash of approximately $2.9 million, $14.0 million and $36.7 million in 2012, 2011 and 2010, respectively. The cash flows used in operating activities for 2012 consisted primarily of adjusted net loss (net loss as adjusted for non-cash activities, including stock-based compensation expenses, depreciation of fixed assets and amortization of intangible assets) plus a decrease in trade payables, decrease in other accounts payable and accrued expenses partially offset by, a decrease in inventories, a decrease in accounts receivable, a decrease in other accounts receivable and prepaid expenses. The cash flows used in operating activities for 2011 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 a decrease in accounts payable and accrued expenses and a decrease in trade payables, partially offset by a decrease in inventories, a decrease in other accounts receivable and prepaid expenses and a decrease in trade receivables. The cash flows provide by the operating activities for 2010 consisted primarily of net income adjusted for non-cash activities, including stock-based compensation expenses and depreciation of fixed assets and an increase in trade payables decrease in trade receivables partially offset by a decrease in other accounts payable and accrued expenses, increase in other accounts receivable and prepaid expenses and an increase in inventories.

Our cash used in continuing investing activities was approximately $1.5 million and $ 10.8 million in 2012 and in 2011, respectively. Our cash provided by the continuing investing activities was approximately $24.0 million in 2010. Our cash used in discontinued investment activities was approximately $1.3 million, $1.7 million and $9.6 million in 2012, 2011 and 2010, respectively. In 2012, our investing activities provided proceeds from the maturity of marketable securities and proceeds from the maturity of bank deposits in the total sum of approximately $ 6.6 million, which were offset by investments in bank deposits, marketable securities, restricted cash, fixed assets and the final payment which was made in respect with the acquisition of Wavion of $2.7 million. In 2011, our investing activities consisted mainly of the acquisition of Wavion ($24.6 million), investments in bank deposits of $4.9 million, and investments in fixed assets, which were partially offset by proceeds from the maturity of marketable securities and proceeds from maturity of bank deposits. In 2010, our investing activities provided proceeds from the maturity of marketable securities and proceeds from the 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.

Capital expenditures were approximately $0.8 million, $1.7 million and $2.5 million in 2012, 2011 and 2010, respectively. These expenditures principally financed the purchase of research and development equipment and manufacturing equipment.

Our cash used in financing activities was $19.0 million in 2012. Our continuing financing activities provided cash of approximately $27 million in 2011 and $0.1 million in 2010. In 2012, our financing activities consisted mainly of the repayment of the SVB Loan in the sum of $19 million. In 2011, our financing activities consisted mainly of the amount attributable to receipt of the SVB Loan relating to the purchase of Wavion during the year, offset by a repayment by Wavion of a long term loan. In 2010, the amount of cash provided by financing activities 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.

Accounts Receivable, Net. Accounts receivable, net was $10.3 million and $18.9 million as of December 31, 2012 and 2011, respectively. The decrease in the accounts receivable balance as of December 31, 2012 was mainly a result of lower sales during 2012. DSOs as of December 31, 2012 and 2011 were 74 days and 94 days, respectively. We expect that our DSOs will increase to a range of between 100 to 120 days during 2013 as a result of our customers requesting more favorable payment terms as a result of increased competition.

Inventories. Inventories were $9.3 million as of December 31, 2012 compared to $10.4 million as of December 31, 2011. This decrease of inventory was mainly due to the usage of our inventory for sales during 2012 and due to an inventory write-off. Inventories consist of raw materials, work in process and finished goods and inventories at customer sites that are not yet recognized as revenues. 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 2.95 times in 2012 and approximately 3.6 times in 2011.

Credit Facility

On June 21, 2011, the Company entered into the SVB Loan with SVB, whereby SVB provided a $30 million loan for the financing of the Wavion acquisition. As part of the transaction, the Company pledged all of its assets under a floating charge, and created a fixed charge on its IP rights and receivables. The SVB Loan contains various provisions related to compliance with financial covenants, restrictive covenants, including negative pledges, and other customary commitments, contained in credit facility agreements of this type. The terms of the SVB Loan were amended to modify the structure of the loan, from a term loan to a revolving line of credit.

58

As of December 31, 2012, the loan was defined as a revolving line of credit. As such, the outstanding balance has been classified as revolving credit line.

In respect of the credit line provided, we are required to meet certain financial covenants which include non-GAAP adjusted profit/loss and quick asset ratio. As of December 31, 2012, we were in full compliance with the covenants as defined in the amended Agreement.

In connection with amendments to the SVB loan and the sales of certain of our assets and businesses, we repaid principal on the SVB Loan in the aggregate amount of $24.6 million. In addition, we are required to pay an additional $2.15 million of the proceeds of the sale of the BWA Division during the year following the closing of such sale.

On May 12, 2013, we entered into an amended and restated loan and security agreement with SVB governing the SVB Loan. The SVB Loan is currently structured as a revolving working capital line of credit with SVB, which permits borrowings of up to a principal amount equal to the lesser of (a) $6,000,000 or (b) 80% of the aggregate amount of our outstanding eligible accounts receivable, subject to customary limitations and exceptions and the outstanding amount under the SVB Loan may not exceed such borrowing base. The SVB Loan matures on February 1, 2015. The unpaid principal amount borrowed under the 2013 Credit Facility accrues interest at a floating rate per annum equal to 7.0% per annum. Interest on the principal amount outstanding under the SVB Loan is payable monthly on the last calendar day of each month with the outstanding principal amount of any borrowings under the SVB Loan, along with any accrued and unpaid interest thereon, payable on February 1, 2015. We are required to permanently pay down the principal amount of the SVB Loan with additional proceeds received from Telrad during the first year following execution of the amendment and restated Loan and Security Agreement.

The SVB Loan requires compliance with certain financial and other covenants and is secured by all of our assets and the assets of certain of our subsidiaries. The Loan and Security Agreement contains customary events of default, which, if triggered, would permit SVB to exercise customary remedies such as acceleration of all then-outstanding obligations arising under the Loan and Security Agreement. We are required under the terms of the SVB Loan to maintain an Adjusted Quick Ratio of at least 0.5 to 1.0 at all times through and including October 31, 2013 and thereafter 0.65 to 1.0, tested at the end of each quarter. The “Adjusted Quick Ratio is defined as the ratio of (a) unrestricted cash and gross accounts receivable minus allowances for doubtful debt and other obligations to Alvarion specifically excluded questionable indebtedness and factored receivables to (b) current liabilities minus the current portion of deferred revenue, each as defined in the SVB Loan and SecurityAgreement In addition, under the SVB Loan, our quarterly net losses shall not exceed $4.3 million, $2.1 million and $350,000 in the quarters ending March 31, 2013, June 30, 2013, and September 30, 2013, and we are required to have a net profit as of the quarter ending December 31, 2013, and as of the last day of each quarter thereafter. Net losses and net profit are determined based on EBITDA (as defined in the SVB Loan agreement) minus unfunded capital expenditures. Should we fail to comply with our obligations under the amended SVB Loan, SVB may require immediate repayment of the SVB Loan and realize on its security, which can significantly harm our available cash and our operations and may result in cessation of our operations in their entirety.

We are required to provide certain financial information and compliance certificates to SVB and comply with certain other customary affirmative and negative covenants.

As of May 12, 2013, $5.4 million in principal amount is outstanding under the SVB Loan.

WORKING CAPITAL

Our working capital was approximately $8.4 million as of December 31, 2012 compared to $62.1 million as of December 31, 2011 and $109.9 million as of December 31, 2010.

Commitments

Leases. We lease office space in several locations worldwide. Rent expense totaled $1.5 million, $2.7 million and $3.3 million in 2012, 2011 and 2010, respectively. We also lease certain computers under operating lease agreements which expire in 2014. Computer leasing expenses totaled $0.1 million, $0.1 million and $0.3 million in 2012, 2011 and 2010, respectively. We also lease various motor vehicles under operating lease agreements, which expire in 2015. Motor vehicles lease expenses were $0.7 million, $0.9 million and $1.5 million in 2012, 2011 and 2010, respectively. The vast majority of the motor vehicle leases expenses are charged back to our employees.

Future annual minimum lease payments under all non-cancelable operating leases as of December 31, 2012 were as follows (in thousands):

	Rental of premises	Lease of computers	Lease of motor vehicles
2013	$ 1,912	$ 21	$ 556
2014	205	11	273
2015	67	-	33
	$ 2,184	$ 32	$ 862

The following table of our material contractual obligations as of December 31, 2012 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	$ 2,184	$ 1,912	$ 272	$ -	$ -
Motor Vehicle Lease	862	556	306	-	-
Computers Lease	32	21	11	-	-
Severance pay and long term employee liabilities	252	-	252	-	-
Loan	10,999	10,999	-	-	-
Other long-term liabilities	7,149	-	7,149	-	-
Total	$ 21,478	$ 13,488	$ 7,990	$ -	$ -

Under our agreement pursuant to which we purchased Clariton, we have agreed to make payments of up to $8.5 million upon achievement of certain performance milestones. We do not anticipate that we will be required to make any payments thereunder.

Under our revolving loan, we are required to pay interest on a monthly basis on the outstanding balance at the end of the month. See “Credit Facility” above.

Royalties. We participated in programs (from InnoWave, Clariton Networks and Wavion) 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 2011. As a result of the 2011 acquisition of Wavion, we assumed Wavion's grant-bearing royalties from the OCS, and such royalties have been recognized as a liability associated with the acquisition.

As of December 31, 2012, the aggregate contingent liability to the OCS amounted to $27.7 million.

Treasury stock. As of December 31, 2012, 524,677 ordinary shares appear on our balance sheet as treasury stock. These shares were repurchased pursuant to our two repurchase programs, the 2002 repurchase program and the 2008 repurchase program, as described 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, 2011 we repurchased under this second repurchase program 145,000 ordinary shares at a weighted average price of approximately $34.4 per share for an aggregate of $5.0 million. 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. 379,677 ordinary shares at a weighted average price per share of approximately $20.7 for an aggregate of $7.9 million.

Effective Corporate Tax Rate

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

As of 2012, the corporate tax in Israel is 25%, which applies on regular income and real capital gain.

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 Program 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 or 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 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 expired in 2012.

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 the 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, 2012, our accumulated deficit does not include tax-exempt profits earned by our Approved Enterprise.

Status Expansion of our Production Facilities: We submitted an expansion request for a 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, 2012, Alvarion Ltd. and its Israeli subsidiaries had an available tax loss carry forward amounting to approximately$283 million, which may be carried forward, in order to offset taxable income in the future, for an indefinite period.

As of December 31, 2012, the U.S. subsidiaries had approximately $41 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 2013 and 2032. The state tax losses carry forwards of the U.S. subsidiaries are approximately $24 million and this balance will expire between 2013 through 2022.

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.

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, Clariton and Wavion 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.

63

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 –

In June 2011, the FASB issued ASU 2011-05 Presentation of Comprehensive Income, codified in ASC 220 "Comprehensive Income". The guidance requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance also eliminates the option to present the components of other comprehensive income as part of the statement of equity. In December 2011, the FASB issued ASU 2011-12, deferring the effective date for amendments outlined in ASU 2011-05, but the remainder of its provisions will become effective for the Company beginning January 1, 2012. The Company has applied to the new presentation of other comprehensive income in two separate but consecutive 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, 2012, our research and development staff consisted of 89 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 $14.8 million or 29.7% of sales in 2012, $12.6 million or 17.4% of sales in 2011 and $8.4 million or 11.2% of sales in 2010. The Government of Israel and other jurisdictions for funding-approved research and development projects reimbursed us for approximately $0.5 million in 2010, $1.8 million in 2011 and $2.2 million in 2012.

D. TREND INFORMATION -

See “—Operating Results—2012 Highlights,” “Item 3—Key Information—Risk Factors” and Item 4-Information on the Comp
Business Overview – Recent Developments”.

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 April 30, 2013:

Name	Age	Position
Amnon Yacoby	62	Chairman of the Board of Directors (1)
Professor Raphael Amit	65	Director(1)(2)(3)(4)
Tali Aben	49	Director (1)(3)(4)(5)
Doron Inbar	63	Director (1)(3)(4)(5)
Assaf Katan	42	Acting President and Chief Executive Officer
Avi Stern	40	Chief Financial Officer
Dr. Mati Wax	66	Chief Technology Officer
Zeev Farkash	46	Executive Vice President of Sales
Moshe Fourier	65	Executive Vice President R&D
Nir Golan	55	Executive Vice President
Leor Porat	38	Executive Vice President and General Counsel
Ziv Eizenberg	41	Executive Vice President of Human Resources

(1) "Independent Director" under rules of the SEC, NASDAQ Listing 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. Amnon Yacoby has served as a member of our board of directors since our merger with Floware in August 2001. In October 2011, he was appointed as the Chairman of the Board of Directors. 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.

Professor Raphael Amit has served as one of our external directors since September 2003. He serves on the audit and compensation committees. Prior to joining our board of directors, Professor Amit served as Chairman of the Board of Directors of Creo Products Inc. 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.

Mr. Doron Inbar has served as a member of our board of directors since September 2009. Mr. Inbar has been a Venture Partner at Carmel Ventures, an Israeli-based venture capital firm that invests primarily in early stage companies in the fields of software, communications, semiconductors, internet, media, and consumer electronics, since 2006. Previously, Mr. Inbar served as the President of ECI Telecom Ltd., a global telecom networking infrastructure provider, from November 1999 to December 2005 and its Chief Executive Officer from February 2000 to December 2005. Mr. Inbar joined ECI Telecom Ltd. in 1983 and during his first eleven years with the company served in various positions at its wholly-owned U.S. subsidiary, ECI Telecom, Inc., in the U.S., 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 of ECI Telecom Ltd., and he became Executive Vice President of ECI Telecom Ltd. in January 1999. Mr. Inbar serves on the board of directors of Comverse, Inc (NASDAQ: CNSI), a provider of software-based products, systems and related services with respect to billing and active customer management systems for wireless, wireline and cable network operators, on the board of directors of SolarEdge Technologies Inc., an innovative start up in the photovoltaic industry, as Chairman of the Board of Archimedes Global Ltd., a company which provides health insurance and health provision in East Europe, and on the board of directors of Maccabi Dent Ltd., the largest chain of dental service clinics in Israel. Previously, Mr. Inbar served as Chairman of the Board of C-nario Ltd., a global provider of digital signage software solutions, Chairman of the Board of Followap Inc., which was sold to Neustar, Inc. in November 2006, and Chairman of the Board of Enure Networks Ltd. Mr. Inbar holds a B.A. in Economics and Business Administration from Bar-Ilan University, Israel.

Ms. Tali Aben was appointed as a member of our board of directors in November 2011. Since 2008, she has been advising international investors on opportunities within the Israeli high-tech sector. Ms. Aben also serves as an external director of Attunity Ltd. (NASDAQ: ATTU) and Vizrt Ltd.(OTCBB: VZRTF) as well as several non-profit organizations. Previously, Ms. Aben was a General Partner with Gemini Israel Funds, a venture capital firm, which she joined in 1994. At Gemini, she funded and supported many successful companies, including Verisity, Jacada, Abirnet, Business Layers, Servicesoft, nLayers and others. Her focus has been primarily on software companies, expanding in 2007 to include cleantech companies. Ms. Aben holds a B.Sc. in Mathematics and Computer Science and an MBA, both from Tel Aviv University.

Assaf Katan was appointed as our Acting President and Chief Executive Officer in April 2013. Mr. Katan joined Alvarion in October 2010 as Vice President of Business Development and became a member of Alvarion's management team in January 2012. Prior to joining Alvarion, Mr. Katan spent two and a half years as VP Marketing and Business Development at Media Layers, a start-up in the Mobile Advertising space. He previously spent five years at Comverse in various corporate marketing and business development positions, where he initiated and led the company's entry into the mobile content domain, and a team leader at Shaldor, Israel's leading strategy consulting firm. Mr. Katan holds a B.A. in Psychology and Business Administration from the Tel Aviv University.

Mr. Avi Stern was appointed as our Chief Financial Officer in March 2013. Mr. Stern joined Alvarion in 2009 as Director of Finance and as of 2011 served as Vice President of Finance. Prior to joining Alvarion, Mr. Stern was Director of Finance at Finisar Corporation from 2007 to 2009. Preceding this position, from 2003 to 2007, Mr. Stern worked as a controller for Veraz Networks, a provider of softswitch, media gateway and digital compression solutions. From 2000 to 2003, Mr. Stern worked for ECI Telecom, a networking infrastructure provider, as Deputy Controller. Mr. Stern is a Certified Public Accountant in Israel and holds both Bachelors and Masters degrees in Business Administration from The College of Management in Rishon LeZion, Israel.

Dr. Mati Wax joined Alvarion in 2011 following the acquisition of Wavion and currently holds the position of CTO. Dr. Wax brings to Alvarion more than 35 years of expertise in wireless communications, with a particular focus on smart antenna technology. Before founding Wavion in 2000, Dr. Wax held a number of senior positions in the wireless industry. He held a twenty-year tenure at RAFAEL, where he headed the R&D in smart antenna systems for military applications. He also held the position of CTO at US Wireless where he was responsible for the development of the company's position location system. Dr. Wax received a BS and MS in Electrical Engineering from the Technion in Haifa, Israel and a PhD in Electrical Engineering from Stanford University.

Mr. Zeev Farkash joined Alvarion in 2011 as General Manager of Sales for APAC following the acquisition of Wavion Networks. Mr. Farkash currently holds the role of Executive Vice President of Sales. Prior to joining Alvarion, from December 2010 until our acquisition of Wavion, Mr. Farkash worked at Wavion as Executive Vice President of Sales. Before joining Wavion, from 2006 through September 2010, Mr. Farkash worked for Ioimage Ltd, a manufacturer of intelligent video devices for the HLS market, where he initially served as VP Sales and Customer Services initially as VP Sales and Customer Services and was later appointed to the position of CEO and during this period the company gained global leadership and achieved significant business growth. Prior to this position, Mr. Farkash held various managerial positions in global companies such as NICE and Applied Materials. Mr. Farkash holds a B.Sc. degree in Electrical Engineering from the Tel Aviv University.

Mr. Moshe Fourier joined Alvarion in 2012 as Vice President R&D and is responsible for leading the R&D department and the development and support of all products. Prior to joining Alvarion, Mr. Fourier spent two years as a consultant to start-up companies in the hi-tech arena. From 2000 to 2010 Mr. Fourier served as VP and CTO at Elron Electronic Industries, Ltd., a leading Israeli holding company dedicated to building technology companies, primarily in the field of communication equipment. During his tenure, Mr. Fourier was an active Board Member at: Wavion, Jordan Valley, Starling, Actisafe, 3DV, Atlantium. Prior to this, from 1993 to 2000 Mr. Fourier held the role of Vice President R&D and Chief Operations Officer at Telegate. He was also part of the team that founded the company. Mr. Fourier has held various high-level positions including Vice President of Engineering at RADA and VP Engineering at Astronautics where he spent close to two decades establishing the engineering group and dealing with military electronics. Mr. Fourier holds a Bachelor of Science in Electrical Engineering (BSEE) from the Technion Israel Institute of Technology in Haifa, Israel.

Mr. Nir Golan joined Alvarion as Executive Vice President for Sales and Services in May 2012 and upon the separation of the BWA Division from our other businesses, led and managed the BWA Division until its sale to Telrad. Prior to joining Alvarion, Mr. Golan worked for various companies in the telecom industry. Mr. Golan's most recent position was at Gilat Satellite Networks – GNS, where he served as Executive Vice President of Sales. Prior to this, Mr. Golan held the position of Vice President of Sales at Innowave Wireless Systems (ECI subsidiary), which was sold to Alvarion Ltd. Following the sale, Mr. Golan served as Vice President of Sales for the WB Division at Alvarion. Previous positions include; Vice President of Global sales at ECI Telecom and various sales and marketing positions at companies such as Telrad Ltd., and IBM. Mr. Golan has an MBA from the Hebrew University in Jerusalem and a Bachelor of Arts, Economics Major from the Tel Aviv University.

Mr. Leor Porat joined Alvarion in June 2012 as Vice President General Counsel. Prior to joining Alvarion, Mr. Porat served as General Counsel and head of the legal department at Syneron Medical Ltd. (NASDAQ: ELOS), a world leader in the field of aesthetic medical devices from 2007 until May 2012. Between 2004 to 2006, Mr. Porat was an associate at Meitar Liquornik Geva & Leshem Brandwein law firm where his practice focused on corporate law and M&A transactions. Mr. Porat holds a dual, a B.A. in Economics and L.L.B from the Hebrew University in Jerusalem.

Ms. Ziv Eizenberg joined Alvarion in 2008 as HR Director for the Sales & Customer Support Division, and was later promoted to the position of Executive Vice President of Human Resources. Prior to joining Alvarion, Ms. Eizenberg worked at Comverse as a Business Line Human Resources Manager. Before joining Comverse, Ms. Eizenberg worked as a consultant for “Lotem”- consultancy firm specializing in organizational development and training. Ms. Eizenberg has a BA in Social Sciences and Consultant Education and an MA Consultant Education from the University of Haifa, 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 (23 persons) for the year ended December 31, 2012 (including persons who served as executive officers and directors during 2012 and did not serve in such capacity as of December 31, 2012) was approximately $4.1 million, which included, with respect to the executive officers, payments made pursuant to bonus plans and with respect to certain executive officers, payments made pursuant to their separation agreements. This amount also includes approximately $367,000 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 $323,000 in cash compensation in 2012.

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 3,000 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 2012, we granted all of our directors and executive officers as a group (23 persons) (including persons who served as directors and executive officers during 2012 and did not serve in such capacity as of December 31, 2012) options to purchase an aggregate of 148,500 of our ordinary shares at exercise prices ranging from $ 3.8 to $12.4, with expiration dates ranging from January 2, 2018 to November 12, 2018.

As of December 31, 2012, our directors and executive officers (including persons who served as executive officers and directors during 2012 and did not serve in such capacity as of December 31, 2012) held outstanding options to purchase an aggregate of 295,170 ordinary shares, at exercise prices ranging from $ 0.03 to $136.5 with expiration dates ranging from March 23, 2013 to December 21, 2021.

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 $21,250 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 $21,250.

68

C. BOARD PRACTICES –

Appointment of Directors and Terms of Office

Our board of directors currently consists of four 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 compensation (including options and other grants) as well as other terms of service of the directors (similarly to those of the Chief Executive Officer), such as insurance and indemnification, must be approved, under the Israeli Companies Law, by the compensation committee, the board of directors and the general meeting of the shareholders.

The term of office of Mr. Yacoby will expire at our 2013 annual general meeting of shareholders. The term of office of each of Ms. Aben and Mr. Inbar will expire at our 2014 annual general meeting of shareholders. The term of office of our external director, Professor Amit, expires in September 2015, as described below.

Service Contracts of Directors

None of our directors has the right to receive any benefit upon termination of his office or any service contract he 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 "accounting and financial 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".

A person may not serve as an external director if the person is a relative of a company's controlling shareholder or if at the date of the person's election or within the prior two years, the person or his or her relative, partner, employer, direct or indirect supervisor or an entity under the person's control, have or had any affiliation with such company 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 outstanding shares or voting rights of such company, any affiliation, at the time of election, to the chairman of the board of directors, the chief executive officer, a shareholder holding at least 5% of the outstanding shares or voting rights or the company's most senior finance officer. Under the Israeli Companies Law, the term affiliation includes:

- an employment relationship;

69

- 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 relative, partner, employer, direct or indirect supervisor or an entity 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 with one of the parties with whom the external director may not have an affiliation, as described above, 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 a director, general manager, chief business manager, deputy general manager, vice general manager, other manager directly subordinate to the general manager or any other person assuming the responsibilities of any of these positions, regardless of that person’s title. 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 and the compensation committee, which require that all external directors be members of such committee, including one external director serving as the chair of the each such committee. Under the Israeli Companies Law, 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 Capital Market, such as our company, may appoint an external director for additional unlimited terms of three years each 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 external director or any of his or her relatives, directly or indirectly, any benefit, or engage the external director or his or her relatives as an office holder of the company, of a controlling shareholder or of an entity under the company's control, and may not employ or receive services from the external 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 external director is limited to one year from the termination of office instead of two years.

Professor Raphael Amit qualifies as our external director under the Israeli Companies Law. We have appointed the external director to the committees of our board of directors as required by the Israeli Companies Law. Under the Israeli Companies Law, as we currently have only one external director, we are required to convene a special general meeting as soon as practicable to elect an additional external director.

Independent Directors

NASDAQ Listing 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 and compensation 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, in the case of the audit committee, the SEC. Our board of directors has determined that each of Professor Amit, Mr. Yacoby and Mr. Inbar qualifies as an independent director under the requirements of NASDAQ, and that each of Professor Amit, Mr. Inbar and Mr. Yacoby (who serve on our audit committee) qualifies as an independent director under the requirements of NASDAQ and the SEC.

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 Listing 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 and other matters as required by Israeli law and NASDAQ rules. 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 and Mr. Inbar each of whom is an independent director under the requirements of the SEC, NASDAQ and the Israeli Companies Law. Professor Amit qualifies as an “audit committee financial expert" for purposes of the rules of the SEC. As stated above, qualify as external directors under the Israeli Companies Law.

Compensation Committee

Pursuant to the Israeli Companies Law and the NASDAQ Listing Rules, the board of directors of a public company must appoint a compensation committee. The compensation committee of our board of directors consists of Professor Amit, Ms. Aben and Mr. Inbar.

Under a recent amendment to the Israeli Companies Law, the compensation committee is responsible for (a) recommending the compensation policy (as described below under “Fiduciary Duties and Approval of Related Party Transactions – Approval of Compensation of Office Holders”) to our board of directors for its approval (and subsequent approval by our shareholders) and (b) duties related to the compensation policy and to the compensation of our office holders as well as functions previously fulfilled by our audit committee with respect to matters related to approval of the terms of engagement of office holders, including:

• recommending whether a compensation policy should continue in effect, if the then-current policy has a term of greater than three (3) years (approval of either a new compensation policy or the continuation of an existing compensation policy must in any case occur every three years);

• recommending to the board periodic updates to the compensation policy;

• assessing implementation of the compensation policy; and

• determining whether the compensation terms of the chief executive officer of the company need not be brought to approval of the shareholders (under special circumstances).

The compensation committee must consist of at least three (3) members, including all of our external directors. Each remaining compensation committee member must be a director whose compensation does not exceed an amount that may be paid to an external director. The compensation committee will be subject to the same Israeli Companies Law restrictions as the audit committee as to (a) committee membership and (b) who may not be present during committee deliberations (as described under Fiduciary Duties and Approval of Related Party Transactions” below). We intend to adopt a compensation committee charter consistent with the requirements of the Israeli Companies Law.

Nominating and Corporate Governance Committee

The nominating and corporate governance committee of our board of directors consists of Mr. Inbar and Ms. Aben. 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.

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 include 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 profit, assets or liabilities.

Approval of Compensation of Office Holders.

In December 2012, an amendment to the Israeli Companies Law, ("Amendment 20") became effective, requiring companies to appoint a compensation committee. Our existing compensation committee meets this requirement. See "Committees of the Board—Compensation Committee" below.

Under Amendment 20, we will be required to establish a policy regarding the terms of engagement of office holders, or a compensation policy. Such compensation policy will need to be set by our board, after considering the recommendations of our compensation committee, and will require shareholder approval.

The compensation policy must serve as the basis for decisions concerning the financial terms of employment or engagement of office holders, including exculpation, insurance, indemnification or any monetary payment or obligation of payment in respect of employment or engagement. The compensation policy must relate to certain factors, including advancement of the company's objectives, the company's business and its long-term strategy, and creation of appropriate incentives for executives. It must also consider, among other things, the company's risk management, size and the nature of its operations. The compensation policy must furthermore consider the following additional factors:

- the knowledge, skills, expertise and accomplishments of the relevant director or executive;
- the director's or executive's roles and responsibilities and prior compensation agreements with him or her;
- the relationship between the terms offered and the average compensation of the other employees of the company, including those employed through manpower companies;
- the impact of disparities in salary upon work relationships in the company;

- the possibility of reducing variable compensation at the discretion of the board of directors; and the possibility of setting a limit on the exercise value of non-cash variable compensation; and
- as to severance compensation, the period of service of the director or executive, the terms of his or her compensation during such service period, the company's performance during that period of service, the person's contribution towards the company's achievement of its goals and the maximization of its profits, and the circumstances under which the person is leaving the company.

The compensation policy must also include the following principles:

- the link between variable compensation and long-term performance and measurable criteria;
- the relationship between variable and fixed compensation, and the ceiling for the value of variable compensation;
- the conditions under which a director or executive would be required to repay compensation paid to him or her if it was later shown that the data upon which such compensation was based was inaccurate and was required to be restated in the company's financial statements; and
- the minimum holding or vesting period for variable, equity-based compensation.

The compensation policy must also consider appropriate incentives from a long-term perspective and maximum limits for severance compensation.

Pursuant to Amendment 20, compensation of, or an undertaking to indemnify or insure, an office holder, requires approval by the compensation committee, the board of directors and, in certain cases (for directors, the chief executive officer, and any executive officer whose compensation terms do not conform to the then-existing compensation policy) the shareholders, in that order. Compensation of an individual office holder, including the chief executive officer (but excluding a director), that does not conform to the company's compensation policy may be adopted under special circumstances despite failure to obtain shareholder approval if, following the relevant shareholder vote, the compensation committee followed by the board once again approves the compensation, based on renewed and specific analysis of relevant factors.

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, then the approvals of our audit committee and board of directors are required,

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. Approval of the compensation committee, the board of directors and our shareholders, in that order, is required for 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 two percent 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 or in connection with a financial sanction;

- 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; and

- a financial obligation imposed upon an office holder and reasonable litigation expenses, including attorney fees, expended by the office holder as a result of an administrative proceeding instituted against him. Without derogating from the generality of the foregoing, such obligation or expense will include a payment which the office holder is obligated to make to an injured party as set forth in Section 52(54)(a)(1)(a) of the Securities Law, and expenses that the office holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees.

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;
- any financial liability imposed upon him or her in favor of another person; and
- a payment which the office holder is obligated to make to an injured party as set forth in Section 52(54)(a)(1)(a) of the Securities Law and expenses that the Office Holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees.

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 have 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) subject to a per-claim limitation. 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 of December 31, 2012, we had 356 employees, of whom 149 were engaged in research and development, 88 in operations, 74 in sales and marketing, and 45 in administration and management.

Of our full-time employees (including employees of our BWA Division), as of December 31, 2012, 250 were located in Israel, 14 in the United States and 92 at our other branch offices, which offices are listed in "Item 4—Information on the Company—Organizational Structure."

As of December 31, 2011, we had 542 employees, of whom 225 were engaged in research and development, 46 in operations, 212 in sales and marketing, and 65 in administration and management. Of our full-time employees, as of December 31, 2011, 361 were located in Israel, 23 in the United States and 158 at our other branch offices, which offices are listed in "Item 4—Information on the Company—Organizational Structure."

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 o