

CERAGON NETWORKS LTD  
Form 20-F/A  
June 10, 2014

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 20-F/A

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

OR

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from \_\_\_\_ to \_\_\_\_

OR

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

Date of event requiring this shell company report: Not applicable

Commission file number 0-30862

CERAGON NETWORKS LTD.  
(Exact name of Registrant as specified in its charter)

(Translation of Registrant's name into English)

ISRAEL  
(Jurisdiction of incorporation or organization)

24 Raoul Wallenberg Street  
Tel Aviv 69719, Israel  
(Address of principal executive offices)

Nisan Ben-Hamo

Tel No. (+972) 3-543-1200

Fax No. (+972) 3-543-1600

24 Raoul Wallenberg Street, Tel Aviv 69719, Israel

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

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

Ordinary Shares, Par Value NIS 0.01  
Title of class

Nasdaq Global Select Market  
Name of exchange on which registered

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, 2013, there were 52,457,168 outstanding of the Registrant's ordinary shares, NIS 0.01 par value per share.

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

Yes  No

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

Yes  No

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during this preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definitions of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  
(Do not check if a smaller  
reporting company)

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

- U.S. GAAP
- International Financial Reporting Standards as issued by the International Accounting Standards Board
- Other

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

- Item 17
- Item 18

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

Yes  No

### EXPLANATORY NOTE

This Amendment No. 1 on Form 20-F/A (the “Amendment”) amends the Annual Report on Form 20-F for the fiscal year ended December 31, 2013 (the “Form 20-F”) of Ceragon Networks Ltd. (the “Company”), as filed with the Securities and Exchange Commission on April 30, 2014, and is being filed to amend and restate “Item 7. Major Shareholders and Related Party Transactions” of Part I of Form 20-F. In the Form 20-F, the absolute number of shares held by Migdal Insurance & Financial Holdings Ltd (“Migdal”) was erroneously presented as 3,033,257, rather than 3,048,217. Additionally, the Form 20-F omitted the inclusion of shareholder Diker GP, LLC, who currently holds 2,664,811 ordinary shares, with a percentage of 5.12% of all outstanding ordinary shares.

This Amendment is also filed to amend the Report of Independent Registered Public Accounting Firm regarding the audit of the consolidated balance sheets of the Company and its subsidiaries (the “Audit Report”) and the Report of Independent Registered Public Accounting Firm regarding the Company’s internal control over financial reporting (the “Internal Control Report”), contained in Item 18 of the Form 20-F, to correct the following typographical errors in (i) the Audit Report: (1) in the third paragraph, the date is changed from “December 31, 2012” to “December 31, 2013”; (2) in the fourth paragraph, the date is changed from “April xx, 2014” to “April 30, 2014”; and (3) the date of the Audit Report is changed from “\_\_\_, 2014” to “April 30, 2014”; and (ii) the Internal Control Report: (1) the first paragraph adds a reference to the 1992 framework; (2) the date in the second paragraph is changed from “April xx, 2014” to “April 30, 2014”; and (3) the date of the Internal Control Report is changed from “\_\_\_, 2014” to “April 30, 2014”.

Pursuant to Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, we have included the entire text of Item 7 and Item 18 of the Form 20-F in this Amendment. However, there have been no changes to the text of such items other than the changes stated in the immediately preceding paragraphs. Furthermore, there have been no changes to the XBRL data filed in Exhibit 101 of the Form 20-F.

Except as expressly set forth above, this Amendment does not, and does not purport to, amend, update or restate the information in any other item of the Form 20-F or reflect any events that have occurred after the filing of the original Form 20-F.

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## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

## Major Shareholders

The following table sets forth stock ownership information as of March 31, 2014 (unless otherwise noted below) with respect to each person who is known by us to be the beneficial owner of more than 5% of our outstanding ordinary shares, based on information provided to us by the holders or disclosed in public filings with the SEC.

Except where otherwise indicated, and except pursuant to community property laws, we believe, based on information furnished by such owners, that the beneficial owners of the ordinary shares listed below have sole investment and voting power with respect to such shares. The shareholders listed below do not have any different voting rights from any of our other shareholders. We know of no arrangements which would, at a subsequent date, result in a change of control of our company.

Total shares beneficially owned in the table below include shares that may be acquired upon the exercise of options that are exercisable within 60 days. The shares that may be issued under these options are treated as outstanding only for purposes of determining the percent owned by the person or group holding the options but not for the purpose of determining the percentage ownership of any other person or group. Each of our directors and officers who is also a director or officer of an entity listed in the table below disclaims ownership of our ordinary shares owned by such entity.

Name	Number of Ordinary Shares	Percentage of Outstanding Ordinary Shares(1)
Zohar Zisapel (2)	6,960,399	13.3%
Yehuda and Nava Zisapel (2)(3)	3,081,717	5.9%
Migdal Insurance & Financial Holdings Ltd (4)	3,048,217	5.8%
Diker GP, LLC (5)	2,664,811	5.12%

- (1) Based on 52,457,168 ordinary shares issued and outstanding as of March 31, 2014.
- (2) Yehuda Zisapel and Zohar Zisapel are brothers and Yehuda and Nava Zisapel are husband and wife. Each shareholder's address is 24 Raoul Wallenberg St., Tel Aviv 69719, Israel. The ordinary shares held by each of Yehuda and Nava Zisapel and Zohar Zisapel includes 10,717 shares held by RAD Data Communications Ltd., of which all Zisapels are principal shareholders and Zohar Zisapel serves as the chairman of its board.
- (3) Of the ordinary shares beneficially owned by Yehuda Zisapel and his wife Nava Zisapel, 1,119,000 are held directly by Nava Zisapel. Yehuda and Nava Zisapel have an agreement which provides for certain coordination in respect of sales of shares of Ceragon as well as for tag along rights with respect to off-market sales of Ceragon.
- (4) Based on information provided in a Statement on Schedule 13G filed with the SEC on February 13, 2014 by Migdal Insurance & Financial Holdings Ltd ("Migdal"). Migdal is an Israeli public company with a principal office at 4 Efal Street, P.O. Box 3063, Petach Tikva 49512, Israel. Of the 3,048,217 ordinary shares beneficially owned by Migdal (i) 3,008,525 ordinary shares are held for members of the public through, among others, provident funds,

mutual funds, pension funds and insurance policies, which are managed by subsidiaries of Migdal, according to the following segmentation: 1,859,107 ordinary shares are held by profit participating life assurance accounts and 1,149,418 ordinary shares are held by provident funds and companies that manage provident funds, each of which subsidiaries operates under independent management and makes independent voting and investment decisions, and (ii) 39,692 are beneficially held for Migdal's Nostro account<sup>1</sup>.

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<sup>1</sup> Changes made to conform to Migdal's 13G.

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- (5) Based on information provided in a Statement on Schedule 13G filed with the SEC on February 12, 2014 by Diker GP, LLC ("Diker GP"). Diker GP is a Delaware limited liability company and the sole general partner of the "Diker Funds", as defined in that Statement. Pursuant to investment advisory agreements, Diker Management, LLC ("Diker Management"), serves as the investment manager of the Diker Funds and may be deemed the beneficial owner of 3,081,365 ordinary shares held by the Diker Funds. Charles M. Diker and Mark N. Diker are the managing members of each of Diker GP and Diker Management, and therefore may be beneficial owners of shares beneficially owned by Diker GP and Diker Management.

As of March 31, 2014, approximately 95.1% of our ordinary shares were held in the United States and there were 30 record holders with addresses in the United States. These numbers are not representative of the number of beneficial holders of our shares nor are they representative of where such beneficial holders reside since many of these ordinary shares were held of record by brokers or other nominees (including one U.S. nominee company, CEDE & Co., which held approximately 95.08% of our outstanding ordinary shares as of said date).

#### Related Party Transactions

##### The RAD-BYNET Group of Companies

Yehuda Zisapel is a principal shareholder who, together with Nava Zisapel, as of March 31, 2014, beneficially owns 5.9% of our ordinary shares. Zohar Zisapel, the Chairman of our board of directors and a principal shareholder of our company, beneficially owns 13.3% of our ordinary shares as of March 31, 2014. Zohar and Yehuda Zisapel are brothers who do not vote as a group and do not have a voting agreement. Individually or together, and with Nava Zisapel, they are also founders, directors or principal shareholders of several other companies which, together with us and the other affiliates, are known as the RAD-BYNET group. These corporations include the following, as well as several other real estate, holding, biotech and pharmaceutical companies:

AB-NET Communications Ltd.	Internet Binat Ltd.	RADWIN Ltd.
BYNET Data Communications Ltd.	Packetlight Networks Ltd.	SecurityDam Ltd.
BYNET Electronics Ltd.	RAD-Bynet Properties and Services	RADBITE Computers, Inc.
	(1981) Ltd.	
BYNET SEMECH (Outsourcing) Ltd.	RADCOM Ltd.	SILICOM Ltd.
BYNET Software Systems Ltd.	RAD Data Communications Ltd. and	RADiflow Ltd.
	its subsidiaries	
BYNET Systems Applications Ltd.	RADWARE Ltd.	

The above list does not constitute a complete list of the investments of Yehuda, Nava and Zohar Zisapel.

Ms. Langer, one of our directors, acts as general counsel for several companies in the RAD- BYNET group and serves as a director of RADWARE Ltd.

In addition to engaging in other businesses, members of the RAD-BYNET group are actively engaged in designing, manufacturing, marketing and supporting data communications products, none of which currently compete with our products. Some of the products of members of the RAD-BYNET group are complementary to, and may be used in connection with, our products.

Members of the RAD-BYNET group provide us on an as-needed basis with management information systems, marketing, and administrative services, and we reimburse each company for its costs in providing these services.



Members of the RAD-BYNET provide us and other RAD-BYNET companies with logistics services such as transportation and cafeteria facilities. The aggregate amount of these expenses was approximately \$1.1 million in 2013.

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The Company purchases certain property and equipment from members of the RAD-BYNET group, the aggregate purchase price of these assets was approximately \$0.3 million in 2013.

We generally ascertain the market prices for goods and services that can be obtained at arms' length from unaffiliated third parties before entering into any transaction with a member of the RAD-BYNET group for those goods and services. In addition, all of our transactions to date with members of the RAD-BYNET group were approved by our audit committee and then our board of directors. As a result, we believe that the terms of the transactions in which we have engaged and are currently engaged with other members of the RAD-BYNET group are beneficial to us and no less favorable to us than terms which might be available to us from unaffiliated third parties. Any future transaction and arrangement with entities, including other members of the RAD-BYNET group, in which our office holders have a personal interest will require approval by our audit committee, our board of directors and, if applicable, our shareholders.

#### Lease Arrangements

We lease most of our office space for our current headquarters and principal administrative, finance, marketing and sales operations from real estate holding companies controlled by Yehuda and Zohar Zisapel. The leased facility, located in Tel Aviv, Israel is approximately 83,646 square feet in size. The leases for the majority of this facility expired December 2017, with an option to terminate early after three years. Additionally, we lease space in Paramus New Jersey, U.S. from a real estate holding company controlled by Yehuda Zisapel and Zohar Zisapel. This facility is approximately 5,800 square feet in size. The lease for this facility is valid until January 2015. The aggregate amount of rent and maintenance expenses related to these properties was approximately \$2.4 million in 2013.

#### Supply Arrangement

We purchase components and products from RAD Data Communications Ltd., RADWIN Ltd. and other members of the RAD-BYNET group which we integrate into our products or product offerings. The aggregate purchase price of these components was approximately \$4.8 million for the year ended December 31, 2013.

#### Registration Rights

In connection with the private placement of preferred shares before our initial public offering in August 2000, several of our shareholders were granted registration rights with respect to ordinary shares which resulted following conversion of their preferred shares immediately prior to the completion of our initial public offering. The agreement grants registration rights to each of:

- the holders of the ordinary shares resulting from the conversion of such preferred shares;  
and
- Yehuda Zisapel and Zohar Zisapel.

Under the agreement, each of these shareholders has the right to have its ordinary shares included in certain of our registration statements.



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Israel

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
To the Board of Directors and Shareholders of  
Ceragon Networks Ltd.

We have audited Ceragon Networks Ltd.'s (the "Company") internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the "COSO criteria"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying management's report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2012 and 2013, and the related consolidated statements of operations, statements of comprehensive income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2013 and our report dated April

30, 2014 expressed an unqualified opinion thereon.

Tel-Aviv, Israel  
April 30, 2014

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A Member of Ernst & Young Global

F - 2

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## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	Note	December 31,	
		2012	2013
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents		\$47,099	\$42,407
Short-term bank deposits		422	446
Marketable securities	3	-	5,499
Trade receivables (net of allowance for doubtful accounts of \$ 5,435 and \$ 6,519 at December 31, 2012 and 2013, respectively)		149,120	131,166
Other accounts receivable and prepaid expenses	4	38,743	34,205
Deferred tax assets, net		8,589	7,198
Inventories	5	65,554	64,239
<b>Total current assets</b>		<b>309,527</b>	<b>285,160</b>
<b>NON-CURRENT ASSETS:</b>			
Marketable securities	3	4,068	3,985
Deferred tax assets, net		9,140	6,542
Severance pay and pension fund		7,163	7,065
Other non-current assets		4,964	5,826
<b>PROPERTY AND EQUIPMENT, NET</b>	<b>6</b>	<b>33,642</b>	<b>35,245</b>
<b>INTANGIBLE ASSETS, NET</b>	<b>7</b>	<b>9,809</b>	<b>7,213</b>
<b>GOODWILL</b>	<b>8</b>	<b>15,283</b>	<b>14,935</b>
<b>Total long-term assets</b>		<b>84,069</b>	<b>80,811</b>
<b>Total assets</b>		<b>\$393,596</b>	<b>\$365,971</b>

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

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

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

	Note	December 31,	
		2012	2013
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Current maturities of long-term loan	10	\$8,232	\$8,232
Short-term loans	10	17,000	38,690
Trade payables		102,079	77,979
Deferred revenues		16,719	7,968
Other accounts payable and accrued expenses	9	36,090	45,526
<b>Total current liabilities</b>		<b>180,120</b>	<b>178,395</b>
<b>LONG-TERM LIABILITIES:</b>			
Long-term loan, net of current maturities	10	18,536	10,304
Accrued severance pay and pensions	12	12,311	13,635
Other long-term liabilities	13e,15j	38,920	28,559
<b>Total long-term liabilities</b>		<b>69,767</b>	<b>52,498</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>	13		
<b>SHAREHOLDERS' EQUITY:</b>	14		
Share capital -			
Ordinary shares of NIS 0.01 par value -			
Authorized: 60,000,000 shares at December 31, 2012 and 2013; Issued:			
40,046,691 and 55,938,691 shares at			
December 31, 2012 and 2013, respectively; Outstanding: 36,565,168 and			
52,457,168 shares at December 31, 2012			
and 2013, respectively		98	141
Additional paid-in capital		318,106	357,989
Treasury shares at cost – 3,481,523 Ordinary shares as of December 31,		(20,091 )	(20,091 )
2012 and 2013.			
Accumulated other comprehensive loss, net of taxes		(490 )	(1,569 )
Accumulated deficit		(153,914 )	(201,392 )
<b>Total shareholders' equity</b>		<b>143,709</b>	<b>135,078</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$393,596</b>	<b>\$365,971</b>

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

F - 4

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## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Note	Year ended December 31,		
		2011	2012	2013
Revenues	16b	\$ 445,269	\$ 446,651	\$ 361,772
Cost of revenues		323,191	308,354	249,543
Gross profit		122,078	138,297	112,229
Operating expenses:				
Research and development, net	2n	50,456	47,487	42,962
Selling and marketing		81,716	77,326	67,743
General and administrative		26,524	27,519	26,757
Restructuring costs	2x	7,834	4,608	9,345
Acquisition related costs	1b	4,919	-	-
Other income	13e	-	-	(7,657)
Total operating expenses		171,449	156,940	139,150
Operating loss		49,371	18,643	26,921
Financial expenses, net	17	2,024	3,547	14,018
Loss before taxes on income		51,395	22,190	40,939
Taxes on income	15e	2,259	1,201	6,539
Net loss		\$ 53,654	\$ 23,391	\$ 47,478
Net loss per share:				
Basic and diluted net loss per share		\$ 1.49	\$ 0.64	\$ 1.23
Weighted average number of ordinary shares used in computing basic and diluted net loss per share		35,975,434	36,457,989	38,519,606

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

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

	Twelve months ended December		
	2011	2012	2013
Net loss	\$53,654	\$23,391	\$47,478
Other comprehensive loss:			
Change in foreign currency translation adjustment	244	803	1,311
Available-for-sale investments:			
Change in net unrealized (gains) losses	(234 )	(13 )	(223 )
Reclassification adjustment for net gains included in net income	-	57	97
Net change	(234 )	44	(126 )
Cash flow hedges:			
Change in net unrealized (gains) losses	759	(772 )	(1,295 )
Reclassification adjustment for net gains (losses) included in net income	(267 )	72	1,189
Net change (net of tax effect of \$185, \$261, and \$17)	492	(700 )	(106 )
Other comprehensive loss, net	502	147	1,079
Total of comprehensive loss	\$54,156	\$23,538	\$48,557

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

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Ordinary shares	Share capital	Additional paid-in capital	Treasury shares at cost	Accumulated other comprehensive income (loss)	Accumulated shareholders' deficit	Total shareholders' equity
Balance as of January 1, 2011	35,267,875	\$ 95	\$ 300,875	\$ (20,091)	\$ 159	\$ (76,869 )	\$ 204,169
Exercise of options	1,057,122	2	4,472	-	-	-	4,474
Share-based compensation expense	-	-	6,564	-	-	-	6,564
Other comprehensive loss, net	-	-	-	-	(502 )	-	(502 )
Net loss	-	-	-	-	-	(53,654 )	(53,654 )
Balance as of December 31, 2011	36,324,997	97	311,911	(20,091)	(343 )	(130,523)	161,051
Exercise of options	240,171	1	735	-	-	-	736
Share-based compensation expense	-	-	5,460	-	-	-	5,460
Other comprehensive loss, net	-	-	-	-	(147 )	-	(147 )
Net loss	-	-	-	-	-	(23,391 )	(23,391 )
Balance as of December 31, 2012	36,565,168	98	318,106	(20,091)	(490 )	(153,914)	143,709
Exercise of options and RSU's	292,000	-	1,145	-	-	-	1,145
Issuance of shares, net of \$361 issuance expenses	15,600,000	43	34,916	-	-	-	34,959
Share-based compensation expense	-	-	3,822	-	-	-	3,822
Other comprehensive loss, net	-	-	-	-	(1,079 )	-	(1,079 )
Net loss	-	-	-	-	-	(47,478 )	(47,478 )
Balance as of December 31, 2013	52,457,168	141	357,989	(20,091)	(1,569 )	(201,392)	135,078

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

F - 7

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## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Year ended December 31,		
	2011	2012	2013
<b>Cash flows from operating activities:</b>			
Net loss	\$(53,654 )	\$(23,391 )	\$(47,478 )
Adjustments required to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	14,393	15,030	15,645
Share-based compensation expense	6,564	5,460	3,822
Impairment of long-lived assets related to restructuring plan	-	-	2,559
Impairment of marketable securities			2,108
Accrued severance pay and pensions, net	(1,125 )	(488 )	1,422
Decrease (increase) in accrued interest and exchange rate on bank deposits	(271 )	84	-
Accrued interest and amortization of premium on marketable securities	647	(323 )	(40 )
Decrease (increase) in trade receivables, net	(3,342 )	(9,459 )	15,505
Decrease (increase) in other accounts receivable and prepaid expenses	6,782	(2,294 )	2,767
Decrease in inventories, net of write-offs	40,643	27,210	401
Increase (decrease) in trade payables	(3,753 )	24,986	(24,067 )
Decrease in deferred revenues	(11,925 )	(21,589 )	(8,751 )
Decrease (increase) in deferred tax asset, net	(1,237 )	(743 )	3,572
Increase (decrease) in other accounts payable and accrued expenses (including other long term liabilities)	(13,847 )	(7,274 )	3,023
<b>Net cash provided by (used in) operating activities</b>	<b>(20,125 )</b>	<b>7,209</b>	<b>(29,512 )</b>
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	(14,447 )	(14,530 )	(16,423 )
Payment of business acquired, net of cash (Schedule A)	(42,405 )	-	-
Investment in short and long-term bank deposits	(7,304 )	(1,266 )	(679 )
Proceeds from maturities of short and long-term bank deposits	25,664	7,920	635
Investment in marketable securities	-	(64 )	(7,867 )
Proceeds from maturities of marketable securities	4,258	-	-
Proceeds from sale of marketable securities	6,201	9,781	513
<b>Net cash provided by (used in) investing activities</b>	<b>(28,033 )</b>	<b>1,841</b>	<b>(23,821 )</b>

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

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Year ended December 31,		
	2011	2012	2013
<b>Cash flows from financing activities:</b>			
Proceeds from financial institutions	35,000	27,000	23,690
Repayment of bank loan	-	(18,232 )	(10,234 )
Proceeds from issuance of shares, net	-	-	34,959
Proceeds from exercise of options	4,474	736	1,145
<b>Net cash provided by financing activities</b>	<b>39,474</b>	<b>9,504</b>	<b>49,560</b>
Effect of exchange rate changes on cash	(50 )	(446 )	(919 )
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(8,734 )</b>	<b>18,108</b>	<b>(4,692 )</b>
Cash and cash equivalents at the beginning of the year	37,725	28,991	47,099
Cash and cash equivalents at the end of the year	\$28,991	\$47,099	\$42,407
<b>Supplemental disclosures of non cash financing and investing activities:</b>			
Purchase of property and equipment	\$617	\$140	\$946
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid during the year for income taxes	\$3,849	\$2,326	\$1,778
Cash paid during the year for interest	\$1,029	\$2,113	\$2,597
<b>Schedule A:</b>			
Acquisitions of subsidiaries and business operations (see Note 1b).			
Estimated net fair value of assets acquired and liabilities assumed at the date of acquisition was as follows:			
Working capital, net (excluding cash and cash equivalents)	\$ 44,551		
Property, plant and equipment	9,500		
Other long-term assets	8,581		
Goodwill and other intangible assets	31,358		
Deferred income taxes, net	3,550		
Long-term liabilities	(55,135 )		
	\$ 42,405		

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

F - 9

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CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL

a. Ceragon Networks Ltd. ("the Company") is a high-capacity wireless hauling specialist. It provides wireless hauling solutions that enable cellular operators and other wireless service providers to deliver voice and data services, enabling smart-phone applications such as Internet browsing, social networking applications, image sharing, music and video applications. Its wireless backhaul solutions use microwave technology to transfer large amounts of telecommunication traffic between base stations and small-cells and the core of the service provider's network. The Company also provides fronthaul solutions that use microwave technology for ultra-high speed, ultra-low latency communication between LTE/LTE-Advanced base stations and remote radio heads.

The Company's solutions support all wireless access technologies, including LTE-Advanced, LTE, HSPA, EV-DO, CDMA, W-CDMA and GSM. The Company's systems also serve evolving network architectures including all-IP long haul networks.

The Company sells its products through a direct sales force, systems integrators, distributors and original equipment manufacturers.

The Company has forty one wholly-owned subsidiaries worldwide. The subsidiaries provide research and development, marketing, manufacturing, distribution, sales and technical support to the Company's customers worldwide.

As to principal markets and major customers, see Note 16.

b. Acquisitions:

On January 19, 2011 ("acquisition date"), the Company completed the purchase of all the share capital of Nera Networks AS (now called Ceragon Networks AS) and its subsidiaries (the "Nera") from Eltek ASA, pursuant to a Share Purchase Agreement dated January 19, 2011 (the "SPA"). At the time of the acquisition, Nera was a privately-owned Norwegian company, headquartered in Bergen, Norway, a leading manufacturer of microwave radio systems and a leading expert in long distance microwave links. The acquisition of Nera expanded the Company's position as part of its overall strategy to become a premier microwave backhaul specialist at a crucial juncture for the industry. The consideration for all of the shares of Nera was \$ 57,175, which was funded through a combination of cash on hand and \$ 35,000 of bank debt (for more information see note 10). An amount of \$ 10,000 out of the consideration was deposited in escrow for 18 months from the date of the sale of Nera's shares. January 19, 2011 was considered to be the acquisition date, as control was obtained, assets were received and liabilities assumed. Eltek ASA undertook not to compete with the Company for a period of five years. In April 2014 the Company signed a settlement agreement with Eltek ASA (for more information see note 20a.).



## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 1:- GENERAL (Cont.)

In connection with the SPA and on the same day, Nera entered into: (i) a Trademark Purchase Agreement with Nera Telecommunications Ltd. ("Neratel"), a subsidiary of Eltek ASA, under which it sold to NeraTel certain trade names and domain names of Nera, while retaining a right to use the name "Nera" for the first two years, and Neratel undertook a three year period non-compete; and (ii) a non-exclusive OEM Agreement with a subsidiary of Neratel, under which such subsidiary shall purchase products from Nera for their resale under its private label, in the region of the Middle East, North Africa and Asia-Pacific and provide certain sub-contract services to customers of Nera in the Middle East.

The acquisition was accounted for by the acquisition method and accordingly, the purchase price has been allocated according to the estimated fair value of the assets acquired and liabilities assumed of Nera. The excess of the purchase price over the net tangible and identifiable intangible assets was assigned to goodwill. The results of the Nera operations have been included in the consolidated financial statements since January 19, 2011.

The following table summarizes the fair values of the assets acquired and liabilities assumed:

Current assets *)	\$ 172,334
Property, plant and equipment, net	9,500
Non-current assets	8,581
Deferred tax assets, net	3,550
Intangible assets	17,700
Goodwill **)	13,658
Total assets acquired	225,323
Current liabilities	(113,013 )
Long-term liabilities	(55,135 )
Total liabilities assumed	(168,148 )
Net assets acquired	\$ 57,175

\*)Current assets include step-up related to inventory and deferred revenue in total aggregate amount of \$ 4,185 and \$ 16,226, respectively.

\*\*)

See also Note 8.

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 1:- GENERAL (Cont.)

## Intangible assets:

In performing the purchase price allocation, the Company management considered, among other factors, analyses of historical financial performance, highest and best use of the acquired assets and estimates of future performance of Nera's products. The fair value of intangible assets was determined based on an appraisal performed by management with the assistance of independent appraisers, and was based on an income approach.

The following table sets forth the components of intangible assets associated with the Nera Acquisition:

	Fair value	Useful life *)	Amortization method
Customer relationships	\$ 8,300	7 years	Acceleration
Technology	8,600	7 years	Straight-line
Trade names	800	2 years	Straight-line
<b>Total intangible assets</b>	<b>\$ 17,700</b>		

\*) Weighted average amortization period of 6.8 years.

Customer relationships represent relationships with customer through whom Nera generates its revenue, capable of being separated or divided from the entity and sold, or transferred.

Technology includes Nera's internally developed proprietary technologies, features, platforms, and offerings, capable of being separated or divided from the entity and sold, transferred, or licensed.

Trade names value consists of the right to use for two years Nera's trade names, trademarks, logos and URLs, capable of being separated or divided from the entity and sold, transferred, or licensed.

## Unaudited pro forma condensed results of operations:

The following represents the unaudited consolidated pro forma revenue and net loss for the year ended December 31, 2011 assuming that the acquisitions of Nera occurred on January 1, 2010. The pro forma information is not necessarily indicative of the results of operations, which actually would have occurred had the acquisitions been consummated on those dates, nor does it purport to represent the results of operations for future periods. The Pro forma revenues were \$ 449,094 and the net loss was \$ 44,796 for the year ended on December 31, 2011.

CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (Cont.)

Acquisition costs include investment banking fees, legal and accounting fees and other external costs directly related to the acquisition for the year ended December 31, 2011 amounted to \$ 4,919, and was included in operating expenses, as acquisition related cost.

During the first quarter of 2012, the Company approved a plan to restructure certain operations of the Company to eliminate redundant costs resulting from the acquisition and improve efficiencies in operations. The restructuring charges recorded were based on restructuring plan that have been committed to by the Company management. The total estimated restructuring costs in 2011 associated with exiting activities of the Company were \$ 7,834, consisting primarily from employee severance and recorded in operating expenses, as a restructuring cost. As of December 31, 2013, there was no remaining liability for the restructuring plan.

c. During the fourth quarter of 2012, and in order to meet the profitability plan in 2013 the Company initiated a restructuring plan to improve its operating efficiency. The restructuring expenses include mainly severance and other compensation related expenses associated with the termination of employment under a restructuring plan. The total restructuring costs in 2012 associated with exiting activities of the Company were \$ 4,608, recorded in operating expenses, as restructuring costs. As of December 31, 2013, the total liability balance for the restructuring plan was \$ 206.

During the fourth quarter of 2013, the Company initiated a restructuring plan to reduce its operating cost and improve its efficiency, mainly by realigning teams on enhancing the newly released IP-20 platform, consolidating or relocating certain offices and reducing staff functions and some operations positions, as well as other measures. The restructuring expenses include mainly severance and other compensation related expenses associated with the termination of employment under a restructuring plan and facilities related expenses for office closing and consolidations. The total restructuring costs in 2013 associated with exiting activities of the Company were \$ 9,345, recorded in operating expenses, as restructuring costs. As of December 31, 2013, the total liability balance for the restructuring plan was \$ 5,375.

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:-

GENERAL (Cont.)

d. Liquidity and Capital Resources

In March 2013, the Company entered into a syndicated credit agreement (the "Credit Facility") with four financial institutions. Such agreement provides the Company with revolving credit facilities in the form of loans and bank guarantees, under which an aggregate sum of up to \$ 73,500 of credit loans and up to \$ 40,200 of bank guarantees shall be available. The Credit Facilities shall terminate, and all borrowings shall be repaid, upon March 14, 2016. Repayment may be accelerated by the financial institutions in certain events of default including in insolvency events, failure to comply with financial covenants or an event in which a current or future shareholder acquires control (as defined under the Israel Securities Law) of the Company. The financial covenants are mainly based on financial ratios that are related to the Company's total shareholders' equity, financial debt, trade receivables balance and working capital (For further information, see note 10). As of December 31, 2013 the Company utilized \$ 57,226 out of \$ 73,500 of available credit lines from several banks.

During the year ended December 31, 2013, the Company incurred operating losses and negative cash flows from operating activities amounting to \$26,921 and \$29,512 respectively. As of December 31, 2013, the Company had \$52,337 in cash and cash equivalents, short term bank deposits and short and long-term marketable securities, out of which \$6,397 is located in Venezuela. This country is regulated for foreign currency exchange which impairs the availability of that cash outside of the country.

During the fourth quarter of 2013, the Company announced that it will realign its operations, reduce head count and undertake other cost reduction measures in order to improve profitability. Furthermore, the Company has amended its Credit Facility arrangements to adjust the financial covenants and applicable interest rates to better reflect new operational results of the Company.

Subsequent to the balance sheet date, the Company has further amended its Credit Facility arrangements to adjust the financial covenants and applicable interest rates and fees. The new amendment shall be applied until October 1, 2014, except for certain financial covenants which shall be applied until March 31, 2015. Subsequently, the original covenants will be restored. According to the new amendment, the available loan facilities shall be reduced by \$ 5,000 on January 1, 2015 and by additional \$ 5,000 on April 1, 2015. Additionally, in case where the Company will not comply with a certain covenant in the third quarter of 2014, the available loan facilities will be reduced by \$ 5,000 starting October 1, 2014 instead of April, 2015. As of the date of the financial statements the Company meets the covenants in the Credit Facility, and expects to continue to meet them based on the agreed amendments.

In November 2013, the Company completed a public offering of its shares on NASDAQ. Total net proceeds from the issuance amounted to approximately \$34,959 (see also note 14b.). We believe that current cash and cash equivalent balances, short-term bank deposits and short-term marketable securities will be sufficient for our requirements through at least the next 12 months.



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation:

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

b. Use of estimates:

The preparation of the financial statements and related disclosures in conformity with U.S. GAAP requires the Company to make judgments, assumptions, and estimates that affect the amounts reported in the Consolidated Financial Statements and the accompanying notes. The Company bases its estimates and assumptions on current facts, historical experience, and various other factors that it believes are reasonable under the circumstances, to determine the carrying values of assets and liabilities that are not readily apparent from other sources. To the extent there are material differences between the Company's estimates and the actual results, the Company's future consolidated results of operation may be affected.

c. Financial statements in U.S. dollars:

A majority of the revenues of the Company and certain of its subsidiaries are generated in U.S. dollars ("dollars"). In addition, a substantial portion of the Company's and certain of its subsidiaries' costs is incurred in dollars. Since management believes that the dollar is the currency of the primary economic environment in which the Company and its subsidiaries operate and considers the non-U.S. subsidiaries to be a direct, integral extension of the parent company's operations, the dollar is its functional and reporting currency. Accordingly, amounts in currencies other than U.S. dollars have been remeasured in accordance with ASC topic 830, "Foreign Currency Matters" ("ASC 830") as follows:

Monetary balances - at the exchange rate in effect on the balance sheet date.

Statement of income items - average exchange rates prevailing during the year.

All exchange gains and losses from the re-measurement mentioned above are reflected in the statement of Income (Loss) in financial income, net.

The financial statements of the Company's Brazilian subsidiaries whose functional currency is not the dollar, have been re-measured and translated into dollars. All amounts on the balance sheets have been translated into the dollar using the exchange rates in effect on the relevant balance sheet dates. All amounts in the statements of operations have been translated into the dollar using the average exchange rate for the relevant periods. The resulting translation adjustments are reported as a component of accumulated other comprehensive income in shareholders' equity.

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

## d. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries ("the Group"). Intercompany balances and transactions including profits from intercompany sales not yet realized outside the Group, have been eliminated upon consolidation.

## e. Cash equivalents:

Cash equivalents include short-term, highly liquid investments that are readily convertible to cash with original maturities of three months or less.

## f. Short-term bank deposits:

Short-term bank deposits are deposits with maturities of more than three months and up to one year. The short-term bank deposits are in EURO, Norwegian Kroner ("NOK") and U.S. dollars and bear interest at an average rate of 2.29% and 0.3% as of December 31, 2012 and 2013, respectively. The short-term bank deposits are presented at their cost, including accrued interest.

As of December 31, 2013, the short-term bank deposits in the amount of up to \$ 424 are restricted for a period of up to 6 months against bank guarantees provided to customers (see also Note 13b.)

## g. Marketable securities:

The Company accounts for investments in marketable securities in accordance with ASC topic 320, "Debt and Equity Securities", ("ASC 320").

Management determines the appropriate classification of its investments in marketable securities at the time of purchase and reevaluates such determinations at each balance sheet date.

Available for sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in "accumulated other comprehensive income (loss)" in shareholders' equity and in "total of comprehensive income (loss)" in consolidated statements of comprehensive income (loss). Realized gains and losses on sale of investments are included in "financial income, net" and are derived using the specific identification method for determining the cost of securities. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization together with interest and dividends on securities are included in "financial income (expenses), net".

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company periodically reviews its marketable securities for impairment. If the Company concludes that any of these investments are impaired, the Company determines whether such impairment is "other-than-temporary" as defined under ASC 320-10-35. The Company accounts for investments in marketable securities in accordance with, ASC 320-10-65-1, "Recognition and Presentation of Other-Than-Temporary Impairments", that changed the impairment and presentation model for debt securities. Under the amended impairment model, other-than-temporary impairment loss is recognized in earnings if the entity has the intent to sell the debt security, or if it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. However, if an entity does not expect to sell a debt security, it still needs to evaluate expected cash flows to be received and determines if a credit loss exists. In the event of a credit loss, only the amount of impairment associated with the credit loss is recognized currently in earnings. During 2011 and 2012 no other-than-temporary impairments were recorded. During 2013 the Company recorded other-than-temporary impairment in the amount of \$2,108. For more information, see note 3.

## h. Inventories:

Inventories are stated at the lower of cost or market value. Inventory write-downs are provided to cover risks arising from slow-moving items, technological obsolescence, excess inventories, discontinued products, and for market prices lower than cost, if any. The Company periodically evaluates the quantities on hand relative to historical and projected sales volume (which is determined based on an assumption of future demand and market conditions) and the age of the inventory. At the point of the loss recognition, a new lower cost basis for that inventory is established. In addition, if required the Company records a liability for firm non-cancelable and unconditional purchase commitments with contract manufacturers for quantities in excess of the Company's future demands forecast consistent with its valuation of excess and obsolete inventory.

Inventory includes costs of products delivered to customers and not recognized as cost of sales, as a result of revenue in the related arrangements not yet being recognized.

Cost is determined for all types of inventory using the moving average cost method plus indirect costs.



## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

## i. Property and equipment:

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

	%
Computers, manufacturing and peripheral equipment	6 - 33
Enterprise Resource Planning systems ("ERP")	10
Office furniture and equipment	Mainly 15
Leasehold improvements	Over the shorter of the term of the lease or useful life of the asset

In 2012, the company began an implementation of new Enterprise Resource Planning systems ("ERP"). The company capitalizes costs incurred related to the system according to of FASB ASC 350-40, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. As of December 31, 2013 the Company capitalized a total of \$ 8,224. Amortization in 2013 was \$ 394, and started on July 1, 2013 when the ERP was ready for intended use.

## j. Impairment of long-lived assets:

The Company's and its subsidiaries' long-lived assets are reviewed for impairment in accordance with ASC topic 360, "Property Plant and Equipment", ("ASC 360"), whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. During 2011 and 2012, no impairment losses have been recognized. During 2013 the Company recognized impairment in the amount of \$ 2,559.

## k. Income taxes:

The Company and its subsidiaries account for income taxes in accordance with ASC topic 740, "Income Taxes", ("ASC 740"). This Statement prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and tax bases of assets and liabilities and for carry forward losses deferred taxes are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value if it is more likely than not that some portion or all of the deferred tax asset will not be realized. For more information see note 15f.



## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company adopted ASC topic 740-10, "Income Taxes", ("ASC 740-10"). ASC 740-10 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with ASC 740. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company elected to classify interest expenses and penalties recognized in the financial statements as income taxes. For more information see note 15j.

## 1. Goodwill and other intangible assets:

Goodwill and certain other purchased intangible assets have been recorded in the Company's financial statements as a result of acquisitions. Goodwill represents excess of the costs over the net tangible and intangible assets acquired of businesses acquired Under ASC topic 350, "Intangible - Goodwill and Other", ("ASC 350") according to which goodwill is not amortized. In addition, the costs of intangible assets that were purchased from others for use in research and development activities were recorded as assets to the extent that they have alternative future use.

ASC 350 requires goodwill to be tested for impairment at least annually or between annual tests in certain circumstances, and written down when impaired. The Company operates as one reporting unit. Therefore, goodwill is tested for impairment by comparing the fair value of the reporting unit with its carrying value. The Company elects to perform an annual impairment test of goodwill as of October 1 of each year, or more frequently if impairment indicators are present.

Intangible assets that are considered to have definite useful life are amortized using the straight-line basis over their estimated useful lives, which range from 2 to 7 years. The carrying amount of these assets is reviewed whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. As of December 31, 2012 and 2013, no impairment losses have been recognized.

CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Revenue recognition:

The Company and its subsidiaries generate revenues from selling products to end users, distributors, system integrators and original equipment manufacturers ("OEM").

Revenues from product sales are recognized in accordance with ASC topic 605-10, "Revenue recognition" and with ASC 605-25 "Multiple-Element Arrangements", ("ASC 605"), when delivery has occurred, persuasive evidence of an arrangement exists, the vendor's fee is fixed or determinable, no future obligation exists and collectability is probable.

When required, the Company complies with ASU 605-25, "Multiple-Deliverable Revenue Arrangements". This standard changes the requirements for establishing separate units of accounting in a multiple element arrangement by elimination of the residual method and requires the allocation of arrangement consideration to each deliverable to be based on using the relative selling price method.

Pursuant to the guidance of ASU 605-25, when a sales arrangement contains multiple elements, such as equipment and services, the Company allocates revenues 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. In multiple element arrangements, revenues are allocated to each separate unit of accounting for each of the deliverables based on the aforementioned selling price hierarchy.

The Company considers the sale of equipment and its installation to be two separate units of accounting in the arrangement in which the installation is not essential to the functionality of the equipment, the equipment has value to the customer on a standalone basis and whenever the arrangement does not include a general right of return relative to the delivered item or delivery or performance of the undelivered item is considered probable and substantially in the control of the Company. In such arrangement, revenues from the sale of equipment are recognized upon delivery, if all other revenue recognition criteria are met and the installation revenues are deferred to the period in which such installation occurs (but not less than the amount contingent upon completion of installation, if any) using relative selling prices of each of the deliverables based on the aforementioned selling price hierarchy.

The Company determines the selling price in its multiple-element arrangements by reviewing historical transactions, and considering internal factors including, but not limited to, pricing practices including discounting, margin objectives, and competition. The determination of estimated selling price ("ESP") is made through consultation with management, taking into consideration the pricing model and strategy.

CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

When sale arrangements include a customer acceptance provision, revenue is recognized when the Company has demonstrated that the criteria specified in the acceptance provision have been satisfied or as the acceptance provision has lapsed and deemed to be attained.

To assess the probability of collection for revenue recognition purposes, the Company analyzes historical collection experience, current economic trends and the financial position of its customers. On the basis of these criterions, the Company concludes whether revenue recognition should be deferred and recognized on a cash basis.

When applicable, the Company records a provision for estimated sale returns and stock rotation granted to customers on products in the same period the related revenues are recorded in accordance with ASC 605. These estimates are based on historical sales returns, stock rotations and other known factors. Such provisions are immaterial as of December 31, 2012 and 2013, respectively.

Deferred revenue includes unearned amounts received in its arrangements, and amounts received from customers but not recognized as revenues due to the fact that these transactions did not meet the revenue recognition criteria.

n. Research and development expenses, net:

Research and development expenses, net are charged to the statement of Operations as incurred. Grants received from the Government of Israel through the Office of the Chief Scientist are recognized at the time the Company is entitled to such grants, on the basis of the research and development costs incurred. Such grants are included as a deduction of research and development costs. In 2013 the Company received a new approval for a grant in the amount of \$660. The grant requires the Company to comply with the requirements of the Israeli Research and Development Law.

o. Warranty costs:

The Company generally offers a standard limited warranty, including parts and labor for an average period of 24 months for its products. The Company estimates the costs that may be incurred under its basic limited warranty and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect the Company's warranty liability include the number of installed units, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary. The Company recorded income from decrease of warranty provision for the years ended December 31, 2011, 2012 and 2013 in the amount of \$ 666, \$ 1,753 and \$ 1,816, respectively. As of December 31, 2012 and 2013, the warranty provision was \$ 4,801 and \$ 2,984, respectively.

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

## p. Derivative instruments:

The Company has instituted a foreign currency cash flow hedging program using foreign currency forward contracts ("derivative instruments") in order to hedge the exposure to variability in expected future cash flows resulting from changes in related foreign currency exchange rates. These transactions are designated as cash flow hedges, as defined under ASC topic 815, "Derivatives and Hedging".

ASC 815 requires companies to recognize all of their derivative instruments as either assets or liabilities in the financial statements at fair value. The Company measured the fair value of the contracts in accordance with ASC topic 820, "Fair value Measurement and Disclosures" at level 2 (see also Note 2W). The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship.

For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss), net of taxes and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The non-effective portion of the derivative's change in fair value is recognized in earnings.

The Company's cash flow hedging program is to hedge against the risk of overall changes in cash flows resulting from forecasted foreign currency salary payments during the year. The Company hedges portions of its forecasted expenses denominated in NIS and NOK with forward exchange contracts. These forward exchange contracts are designated as cash flow hedges, as defined by ASC 815 and Derivative Implementation Group No. G20, "Cash Flow Hedges: Assessing and Measuring the Effectiveness of a Purchased option Used in a Cash Flow Hedge" ("DIG 20") and are all effective.

## q. Concentrations of credit risk:

Financial instruments that potentially subject the Company and its subsidiaries to concentrations of credit risk consist principally of cash and cash equivalents, short-term bank deposits, marketable securities, trade receivables and trade payables.

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The majority of the Company's cash and cash equivalents and short-term bank deposits are invested in U.S. dollar instruments with major banks worldwide. Such cash and cash equivalents and deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. Generally, these cash and cash equivalents and deposits may be redeemed upon demand and, therefore, bear minimal risk. Management believes that the financial institutions that hold the Company's and its subsidiaries' investments are institutions with high credit standing, and accordingly, minimal credit risk exists with respect to these investments.

The Company's marketable securities consist of securities issued by debentures of Argentinean and Venezuelan government. As of December 31, 2013, all of the Company's marketable securities portfolio was invested in debt securities of governmental institutions. From geographic prospective, 42% of the Company's marketable securities portfolio was invested in debt securities of Venezuelan issuers and 58% was invested in debt securities of Argentinian issuers. Subsequent to the Balance sheet date, the Company sold its debt securities in Argentina. The Company's investment policy limits the amount the Company may invest in any one type of investment or issuer, thereby reducing credit risk concentrations.

The Company's trade receivables are geographically diversified and derived from sales to customers mainly in the Europe, Latin America and Asia. The Company and its subsidiaries generally do not require collateral; however, in certain circumstances, the

Company and its subsidiaries may require letters of credit, additional guarantees or advance payments. The Company and its subsidiaries perform ongoing credit evaluations of their customers and insure certain trade receivables under credit insurance policies.

## r. Allowance for doubtful debt:

An allowance for doubtful accounts is determined with respect to specific receivables, of which the collection may be doubtful. The Company charges off receivables when they are deemed uncollectible.

Allowance for doubtful accounts amounted to \$ 5,435 and \$ 6,519 as of December 31, 2012 and 2013, respectively.

Total expenses for doubtful debt during 2011, 2012 and 2013 amounted to \$ 212, \$ 1,727 and \$ 1,255, respectively. Total write offs were immaterial in 2011, 2012 and 2013.

## s. Transfers of financial assets:

ASC 860 "Transfers and Servicing", ("ASC 860"), establishes a standard for determining when a transfer of financial assets should be accounted for as a sale. The Company's arrangements are such that the underlying conditions are met for the transfer of financial assets to qualify for accounting as a sale. The transfers of financial assets are typically performed by the factoring of receivables to three Israeli financial institutions.





## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As of December 31, 2012 and 2013, the Company sold trade receivables to several different financial institutions in a total amount of \$ 15,126 and \$ 19,730, respectively. Control and risk of those trade receivables were fully transferred in accordance with ASC 860.

The agreements, pursuant to which the Company sells its trade receivables, are structured such that the Company (i) transfers the proprietary rights in the receivable from the Company to the financial institution; (ii) legally isolates the receivable from the Company's other assets, and presumptively puts the receivable beyond the lawful reach of the Company and its creditors, even in bankruptcy or other receivership; (iii) confers on the financial institution the right to pledge or exchange the receivable; and (iv) eliminates the Company's effective control over the receivable, in the sense that the Company is not entitled and shall not be obligated to repurchase the receivable other than in case of failure by the Company to fulfill its commercial obligation.

## t. Severance pay:

The Company's severance pay liability for its Israeli employees is calculated pursuant to Israel's Severance Pay Law based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date. Employees are entitled to one month's salary for each year of employment or a portion thereof. The Company's liability for all of its employees in Israel is fully covered by monthly deposits with pension funds, insurance policies and an accrual. The value of the funds deposited into pension funds and insurance policies is recorded as an asset - severance pay fund - in the Company's balance sheet.

The severance pay fund includes the deposited funds and accumulated adjustments to the Israeli Consumer Price Index up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israel's Severance Pay Law or labor agreements. The value of the deposited funds in insurance policies, is based on the cash surrendered value of these policies, and includes profits / losses.

Starting April 2009, the Company's agreements with new employees in Israel are under section 14 of the Severance Pay Law -1963. The Company's contributions for severance pay shall replace its severance obligation, no additional calculations shall be conducted between the parties regarding the matter of severance pay and no additional payments shall be made by the Company to the employee. Further, the related obligation and amounts deposited on behalf of such obligation are not stated on the balance sheet, as the Company is legally released from obligation to employees once the deposit amounts have been paid.

Severance expense for the years ended December 31, 2011, 2012 and 2013, amounted to approximately \$ 1,637, \$ 1,489 and \$ 2,588, respectively.

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

## u. Pension accrual:

The Company accounts, for its obligations for pension and other postretirement benefits, in accordance with ASC 715, "Compensation - Retirement Benefits". For more information refer to Note 12.

## v. Accounting for stock-based compensation:

ASC topic 718, "Compensation - Stock Compensation", ("ASC 718"), requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statements of operations.

The Company estimates the fair value of stock options granted under ASC 718 using the binomial model with the following weighted-average assumptions for 2011, 2012 and 2013:

	2011	December 31, 2012	2013
Dividend yield	0%	0%	0%
Volatility	37%-60%	40%-64%	41%-56%
Risk free interest	0.1%-3.48%	0.1%-2.30%	0.1%-2.80%
Early exercise multiple	1.85-2.60	1.55-1.85	1.60-1.90

Risk-free interest rates are based on the yield from U.S. Treasury zero-coupon bonds with a term equivalent to the contractual life of the options; volatility of price of the Company's shares based upon actual historical stock price movements. The Early exercise factor is representing the value of the underlying stock as a multiple of the exercise price of the option which, if achieved, results in exercise of the option.

Early exercise multiple is based on actual historical exercise activity. The expected term of the options granted is derived from output of the option valuation model and represents the period of time that options granted are expected to be outstanding.

The Company recognizes compensation expense using the accelerated method for all awards ultimately expected to vest. Estimated forfeitures are based on historical pre-vesting forfeitures and on management's estimates. ASC topic 718 requires forfeitures to be estimated and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

w. Fair value of financial instruments:

The Company applies ASC 820, "Fair Value Measurements and Disclosures". Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the inputs as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from investment to investment and is affected by a wide variety of factors, including, for example, the type of investment, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment and the investments are categorized as Level 3. (See also note 18).

CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The following methods and assumptions were used by the Company and its subsidiaries in estimating their fair value disclosures for financial instruments:

The carrying amounts of cash and cash equivalents, short-term bank deposits, trade receivables, other accounts receivable, trade payables, and other accounts payable approximate their fair values due to the short-term maturities of such instruments.

The marketable securities fair value, based on quoted market prices, classified within Level 1 (see also note 3).

The derivative instruments are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

x. Restructuring costs:

The Company accounts for restructuring activities in accordance to ASC topic 420, "Exit or Disposal Cost Obligations" and ASC 712 "Compensation-Nonretirement Postemployment Benefits" ("ASC 712"), which requires that a liability for a cost associated with an exit or disposal activity be recognized and measured, initially at fair value, only when the liability is incurred and for contractual postemployment benefits under ASC 712 when it is probable that the employees will be entitled to the benefits, the amount is estimable.

y. Comprehensive income:

The Company accounts for comprehensive income in accordance with ASC topic 220, "Comprehensive Income". This statement establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income generally represents all changes in stockholders' equity during the period except those resulting from investments by, or distributions to, stockholders.

In February 2013, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2013-02, Topic 350 - Comprehensive Income ("ASU 2013-02"), which amends Topic 220 to improve the reporting of reclassifications out of accumulated other comprehensive income to the respective line items in net income.

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The components of AOCI, net of tax, were as follows:

	Unrealized Gains (Losses) on Available-for-Sale Investments	Unrealized Gains on Cash Flow Hedges	Foreign Currency Translation Adjustments	Total
Balance as of December 31, 2012	\$ 349	\$ 208	\$ (1,047 )	\$ (490 )
Other comprehensive income (loss) before reclassifications	223	1,295	(1,311 )	207
Amounts reclassified from AOCI	(97 )	(1,189 )	-	(1,286 )
Other comprehensive income (loss)	126	106	(1,311 )	(1,079 )
Balance as of December 31, 2013	\$ 475	\$ 314	\$ (2,358 )	\$ (1,569 )

The effects on net income of amounts reclassified from AOCI for the year ended December 31, 2013 were as follows

AOCI Components	Location	Gains (Losses) Reclassified from AOCI to the Consolidated Statement of Income
Unrealized gains on Available-for-Sale Investments	Financial expenses	\$ 97
Unrealized gains on Cash Flow Hedges	Operating expenses	\$ 1,189
Total amount reclassified, net of tax		\$ 1,286

z.

Treasury shares:

The Company repurchased its Ordinary shares on the open-market and holds such shares as Treasury shares. The Company presents the cost of repurchased treasury shares as a reduction of shareholders' equity.

CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

aa. Basic and diluted net earnings per share:

Basic net earnings per share are computed based on the weighted average number of Ordinary shares outstanding during each year. Diluted net earnings per share is computed based on the weighted average number of Ordinary shares outstanding during each year, plus dilutive potential Ordinary shares considered outstanding during the year, in accordance with ASC topic 260, "Earnings Per Share" ("ASC 260").

The total weighted average number of shares related to the outstanding options excluded from the calculations of diluted net earnings per share due to their anti-dilutive effect was 5,154,612, 5,743,458 and 5,996,622 for the years ended December 31, 2011, 2012 and 2013, respectively.

ab. Impact of recently issued Accounting Standards:

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11, Income Taxes (Topic 740)—Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force) ("ASU 2013-11") to provide explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. ASU 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company intends to adopt this standard prospectively in the first quarter of 2014 and the adoption will not result in a change to the tax provision. The Company does not expect a significant impact to its presentation of long-term taxes payable or its deferred tax assets.

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 3:- MARKETABLE SECURITIES

The following is a summary of marketable securities at December 31, 2012 and 2013:

	Amortized Cost	2012 Gross unrealized gains	Fair market value	2013 Amortized cost	Gross unrealized gains	Fair market value
Corporate debentures	\$ 204	\$ 99	\$ 303	\$ -	\$ -	\$ -
Government bonds	3,515	250	3,765	9,009	475	9,484
	\$ 3,719	\$ 349	\$ 4,068	\$ 9,009	\$ 475	\$ 9,484

Aggregate maturities of marketable securities for years subsequent to December 31, 2013 are:

	Amortized cost	Gross unrealized gain	Fair market value
1-3 years	\$ 7,345	\$ 475	\$ 7,820
3-5 years	1,664	-	1,664
	\$ 9,009	\$ 475	\$ 9,484

During 2013, the Company recorded net proceeds from sales of these securities in amount of \$ 513 and income from sale of marketable securities in an amount of \$ 6.

During 2013 the Company recorded other-than-temporary impairment in the amount of \$ 2,108 related to premium depreciation of certain marketable securities in Argentina, as a result of a market value adjustment. The purchase of those marketable securities was part of the Company's efforts to expatriate cash out of Argentina.

## NOTE 4:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2012	2013
Government authorities	\$ 14,150	\$ 11,238
Advances to suppliers	3,140	4,409
Prepaid expenses	16,636	10,950
Other	4,817	7,608
	\$ 38,743	\$ 34,205





## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 5:-

## INVENTORIES

	December 31,	
	2012	2013
Raw materials	\$ 14,268	\$ 12,328
Work in progress	2,633	360
Finished products	48,653	51,551
	\$ 65,554	\$ 64,239

Finished products include products shipped to customers for which revenues were not recognized as of December 31, 2013. Such products amounted to \$ 19,266 and \$ 20,851 at December 31, 2012 and 2013, respectively.

During the year ended December 31, 2011, 2012 and 2013, the Company recorded inventory write-offs for excess inventory and slow moving inventory in a total amount of \$ 3,483, \$ 904 and \$ 396, respectively that have been included in cost of revenues.

Inventory write-off provision as of December 31, 2012 and 2013 amounted of \$ 2,887 and \$ 3,252, respectively.

## NOTE 6:-

## PROPERTY AND EQUIPMENT, NET

	December 31,	
	2012	2013
Cost:		
Computers, manufacturing, peripheral equipment	\$ 90,724	\$ 75,337
Office furniture and equipment	4,566	3,516
Leasehold improvements	2,388	1,435
	97,678	80,288
Accumulated depreciation:		
Computers, manufacturing, peripheral equipment	59,536	42,091
Office furniture and equipment	3,081	1,898
Leasehold improvements	1,419	1,054
	64,036	45,043
Depreciated cost	\$ 33,642	\$ 35,245

Depreciation expenses for the years ended December 31, 2011, 2012 and 2013 were \$ 10,231, \$ 11,493 and \$ 13,111, respectively.

During 2013 the Company wrote off property and equipment which was not in use anymore, and which was already mostly depreciated, in the total cost of \$ 34,445.

The net depreciated amount of the property and equipment written off was \$ 2,559, included in Restructuring costs.

F - 31

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## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 7:- INTANGIBLE ASSETS, NET

a.	Intangible assets:	
	December 31,	
	2012	2013
<b>Original amounts:</b>		
Technology	\$ 8,600	\$ 8,600
Trademarks	800	800
Customer relationships *)	8,107	8,045
	17,507	17,445
<b>Accumulated amortization:</b>		
Technology	2,397	3,625
Trademarks	780	800
Customer relationships	4,521	5,807
	7,698	10,232
<b>Intangible assets, net</b>	<b>\$ 9,809</b>	<b>\$ 7,213</b>

\*) Including functional currency translation adjustments related to Brazilian subsidiary.

b. Amortization expense for the years ended December 31, 2012 and 2013 amounted to \$ 3,537 and \$ 2,534, respectively.

c. The estimated future amortization expense of purchased intangible assets as of December 31, 2013 is as follows:

December 31,

2014	\$ 2,120
2015	1,852
2016	1,665
2017	1,534
2018 and thereafter	42
	<b>\$ 7,213</b>



## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 8:- GOODWILL

The changes in the carrying amount of goodwill for the years ended December 31, 2012 and 2013 are as follows:

	Year ended December 31,	
	2012	2013
January 1,	\$ 14,593	\$ 15,283
Functional currency translation adjustments and other adjustments (1) (2) (3)	690	(348 )
December 31,	\$ 15,283	\$ 14,935

(1) The allocation period of Nera's acquisition ended in July 2012.

(2) Adjustment of goodwill related to acquisition of Nera.

(3) Foreign currency translation differences resulting from goodwill allocated to subsidiaries, whose functional currency has been determined to be other than the U.S. dollar and adjustment related to provisions.

## NOTE 9:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2012	2013
Employees and payroll accruals	\$ 13,199	\$ 13,085
Provision for warranty costs	4,801	2,985
Government authorities	5,507	4,609
Accrued expenses	9,676	20,312
Other accounts payables	2,907	4,535
	\$ 36,090	\$ 45,526

## NOTE 10:- LOAN AND CREDIT LINES

In 2011 the Company entered into a loan agreement with Bank Hapoalim Ltd. (the "Loan Agreement") for a loan in the principal amount of \$ 35,000 (the "Loan").

The Loan Agreement provides that the principal amount of \$ 35,000 bear effective interest at a rate of Libor + 3.15%, which Libor is updated every three months. As of December 31, 2013 the accrued interest is \$ 68 and is recorded as part of the accrued expenses. The principal amount is to be repaid in 17 quarterly installments from February 19, 2012, through February 19, 2016 and the interest is to be paid in quarterly payments starting as of February 19, 2011.

The loan is secured by a floating charge over all Company assets as well as several customary fixed charges on specific assets and subject to certain financial covenants, as further described below.

F - 33

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## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 10:- LOAN AND CREDIT LINES (Cont.)

In March 2013, the Company was provided with a Credit Facility by four financial institutions. Such agreement provides the Company with revolving credit facilities, under which a sum of up to \$ 40,200 in the form of bank guarantees and \$ 73,500 in the form of loans shall be available. The new agreement replaced all of the Company's previously existing credit facilities, including the loan agreement (with respect to the Loan provides the same interest and repayment installments set forth in the Loan Agreement). Each portion of the Credit Facility will be operated by its furnishing financial institution.

Borrowings and repayments shall be made directly with the relevant financial institution. Any amounts repaid during the term of the Credit Facility may be re-borrowed up to the amount available under the loan segment of the Credit Facility. In the framework of the Credit Facility, the Company undertook certain financial and other covenants. The Credit Facility shall terminate, and all borrowings shall be repaid, upon March 14, 2016. Repayment may be accelerated by the financial institutions in certain events of default including in insolvency events, failure to comply with financial covenants or an event in which a current or future shareholder acquires control (as defined under the Israel Securities Law) of the Company. As of December 31, 2013, the Company is in compliance with the financial covenants.

As of December 31, 2013 the Company utilized \$ 57,226 out of \$ 73,500 of available credit lines from several banks. The credit lines carry interest rates of LIBOR+3.21% to LABOR+3.4%.

During the fourth quarter of 2013, the Company announced that it will realign its operations, reduce head count and undertake other cost reduction measures in order to improve profitability. As a result, the Company has amended its Credit Facility arrangements to adjust the financial covenants and applicable interest rates to better reflect new operational results of the Company following the cost reduction plan. The amendment shall be applied until October 1, 2014. Subsequently, the original covenants will be restored. In April 2014, the Company has further amended its credit facilities - see note 20b for additional information.

The maturities of the principal amount for periods after December 31, 2013 are as follows:

2014 - current maturities	8,232
2015	8,232
2016	2,072
	\$18,536

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 11:- DERIVATIVE INSTRUMENTS

As of December 31, 2013, the Company had outstanding forward exchange contracts designated as cash flow hedge for the acquisition of NIS 125,898 and NOK 49,065 in consideration for \$ 43,790 maturing in a period of up to one year. As of December 31, 2012 and 2013, the company recorded accumulated unrealized gain (loss) in other comprehensive income, net of taxes, in the amount of \$ 208 and \$ 314, respectively, from its forward contracts with respect to anticipated payroll payment expected in 2013.

Fair value hedging program - The Company enters into forward exchange contracts to hedge a portion of its certain monetary items in the balance sheet, such as trade receivables and trade payables denominated in foreign currencies for a period of up to one month. The purpose of the Company's foreign currency hedging activities is to protect the fair value of the monetary assets from foreign exchange rates fluctuations.

	Gain recognized in other comprehensive Income, net December 31, 2013	Statement of income item	2011	Gain (loss) recognized in statements of income, net Year ended December 31, 2012	2013
Derivatives designated as hedging instruments:					
Foreign exchange option and forward contract	\$ 314	Operating expenses	\$ (267 )	\$ 72	\$ 1,189
Derivatives not designated as hedging instruments:					
Foreign exchange forward contracts		Financial expenses	(287 )	1,424	(2,150 )
Total	\$ 314		\$ (554 )	\$ 1,496	\$ (961 )



## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 12:- PENSION LIABILITIES, NET

The Norwegian subsidiary Ceragon Networks AS (formerly "Nera Networks AS") has both defined benefit scheme (overfunded and underfunded) and defined contribution schemes.

Defined contribution - overfunded - Under the defined contributions scheme Ceragon Networks AS makes a payment to the insurance company who administer the fund on behalf of the employee. Ceragon Networks AS has no liabilities relating to such schemes after the payment to the insurance company. As of December 31, 2013 almost all active employees are in this scheme. The contribution and the corresponding social security taxes are recognized as payroll expenses in the period to which the employee's services are rendered. The defined pension contribution schemes meet the requirements of the law on compulsory occupational pension.

Defined benefit scheme - overfunded - Defined benefit scheme was stopped for admission from December 1, 2007, and persons that were employed after that date were automatically entered into the defined contribution scheme. The schemes give right to defined future benefits. These are mainly dependent on the number of qualifying employment years, salary level at pension age, and the amount of benefits from the national insurance scheme. The commitment related to the pension scheme is covered through an insurance company. As of December 31, 2013 the pension scheme has 142 members out of which 136 are retired. The fair value of plan assets exceeds the defined benefit obligation.

Defined benefit scheme - underfunded - The underfunded defined benefit scheme mainly consists of a pension agreement for former executives and of early retirement pensions (the "AFP"). The Pension scheme for former executives is stopped for admission. The scheme gives right to defined future benefits. These are mainly dependent on the number of qualifying employment years, salary level at pension age, and the amount of benefits from the national insurance scheme.

AFP-scheme - in force from 1 January 2011, the AFP-scheme is a defined benefit multi-enterprise scheme, but is recognized in the accounts as a defined contribution scheme until reliable and sufficient information is available for the group to recognize its proportional share of pension cost, pension liability and pension funds in the scheme. Ceragon Networks AS's liabilities are therefore not recognized as liability in the balance sheet.

The difference between the liability (the Projected Benefit Obligation or PBO as defined in ASC No. 715 "Compensation - Retirement Benefits" ("ASC 715")) and the market value of the plan assets is accounted for on the financial statements of the Company.

The liabilities in respect of Ceragon Networks AS's pension plans have been recalculated based on updated employee numbers and asset values at December 31, 2013. These plans together represent 100% of the PBO of the entire group. The value for the other liabilities has been projected from the results of the valuation on the date of Acquisition and updated for changes in discount rate.



## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 12:- PENSION LIABILITIES, NET (Cont.)

The following tables provide a reconciliation of the changes in the plans' benefits obligation and fair value of assets for the year ended December 31, 2013, and the statement of funds status as of December 31, 2013:

	December 31,	
	2012	2013
Accumulated benefit obligation	\$ 9,643	\$ 11,204
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	\$ 9,992	\$ 9,709
Liability assumed at the acquisition date of Nera		
Service cost	63	36
Interest cost	349	349
Plan settlements	-	1,167
Expenses paid	(992 )	(873 )
Exchange rates differences	565	(1,003 )
Actuarial loss (gain)	(268 )	1,819
Projected benefit obligation at end of year	\$ 9,709	\$ 11,204
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 7,122	\$ 7,396
Acquisition of Nera		
Actual return on plan assets	294	245
Employer contributions to plan	95	105
Expenses paid	(524 )	(636 )
Exchange rates differences	525	(619 )
Actuarial gain (loss)	(116 )	633
Fair value of plan assets at end of year	\$ 7,396	\$ 7,124

The assumptions used in the measurement of the Company' benefits obligations as of December 31, 2013 is as follows:

	December		December	
	31, 2012		31, 2013	
Weighted-average assumptions				
Discount rate	4.20	%	4.10	%
Expected return on plan assets	3.60	%	4.40	%
Rate of compensation increase	3.25	%	3.75	%



## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 12:- PENSION LIABILITIES, NET (Cont.)

The amounts reported for net periodic pension costs and the respective benefit obligation amounts are dependent upon the actuarial assumptions used. The Company reviews historical trends, future expectations, current market conditions and external data to determine the assumptions. The discount rate is determined considering the yield of government bonds. For purposes of calculating the 2013 net periodic benefit cost and the benefit obligation, the Company used a discount rate of 4.1 %. The rate of compensation increase is determined by the Company, based upon its long-term plans for such increases.

The following table provides the components of net periodic benefits cost for the years ended December 31, 2012 and 2013:

	December 31, 2012	December 31, 2013
Components of net periodic benefit cost		
Service cost	\$ 63	\$ 36
Interest cost	349	349
Expected return on plan assets	(294 )	(245 )
Exchange rates differences	5	60
Settlement loss recognized	-	1,167
Net periodic benefit cost	\$ 123	\$ 1,367

Benefit payments are expected to be paid as follows:

	December 31, 2012	December 31, 2013
2014	\$ 763	\$ 512
2015	261	617
2016	229	555
2017	199	384
2018 and thereafter	1,050	1,078
	\$ 2,502	\$ 3,146

The plan asset allocations at December 31, 2012 and 2013 are as follows:

	December 31, 2012		December 31, 2013	
Bonds	56	%	56	%
Real estate	14	%	14	%

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Cash	20	%	20	%
Shares	10	%	10	%
	100	%	100	%

F - 38

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## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 12:- PENSION LIABILITIES, NET (Cont.)

Regarding the policy for amortizing actuarial gains or losses for pension and post-employment plans, the Company has chosen to charge the actuarial gains or losses to statement of income (loss).

For the years ended December 31, 2012 and 2013, an actuarial gain (loss) of \$158 and \$(1,291), respectively, was recognized in statements of income (loss).

## NOTE 13:- COMMITMENTS AND CONTINGENT LIABILITIES

## a. Lease commitments:

The Company and its subsidiaries lease their facilities and motor vehicles under various operating lease agreements that expire on various dates. Aggregate minimum rental commitments under non-cancelable leases at December 31, 2013, are as follows:

Year ended December 31,	Facilities	Motor vehicles	Total
2014	\$ 4,654	\$ 1,118	\$ 5,772
2015	3,130	899	4,029
2016	2,754	609	3,363
2017	2,617	58	2,675
2018 and thereafter	631	-	631
	\$ 13,786	\$ 2,684	\$ 16,470

Expenses for lease of facilities for the years ended December 31, 2011, 2012 and 2013 were approximately \$ 10,334, \$ 8,473 and \$ 8,182, respectively.

Expenses for the lease of motor vehicles for the years ended December 31, 2011, 2012 and 2013 were approximately \$ 1,514, \$ 1,404 and \$ 1,568, respectively.

b. In 2013 the Company received new approval for a grant from the Government of Israel through the Office of the Chief Scientist, for the financing of certain research and development expenditures in Israel (the "New Grant") in the amount of approximately \$ 660, which has already been received. The New Grant requires the Company to comply with the requirements of the Research and Development Law in the same manner applicable to previous grants. In a case involving the transfer outside of Israel of technology or know how developed with the New Grants, the Company may be required to pay any royalties related to past sales of products based on the technology or know how developed with the New Grants.

## c. Charges and guarantees:

As of December 31, 2013, the Company provided bank guarantees in an aggregate amount of \$ 36,706 with respect to tender offer guarantees and performance guarantees to its customers.



## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 13:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

## d. Litigations:

The Company is currently involved in various claims and legal proceedings. The Company reviews the status of each matter and assesses its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a liability for the estimated loss.

The Company cannot estimate the exposure amount, and in any case, these allegations have not resulted in any action brought against the Company. The Company's management does not believe that it is probable that the above mentioned allegations will result in a loss to the Company. Accordingly, no provision was recorded with respect to these allegations.

## e. Indirect taxes:

The Company recorded a provision for indirect tax liabilities in Latin America, mainly related to VAT and Custom duties for the years ended December 31, 2012 and 2013, in the amount of approximately \$26,500 and \$16,467, respectively. In addition to the amount currently reserved, the Company may be subject to loss contingencies related to these matters estimated to be up to an additional \$26,000. The Company believes, based on opinion from its tax advisors that such undiscounted unreserved losses are reasonably possible but are not currently considered to be probable of occurrence. During the year ended December 31, 2013, the Company included in its operating expenses an income as a result of expiration of certain pre-acquisition indirect tax exposures due to lapses of applicable statute of limitation, in the amount of \$ 7,657, that is recorded as other income.

## NOTE 14:- SHAREHOLDERS' EQUITY

The Ordinary shares of the Company are traded on Nasdaq Global Market and on the Tel Aviv Stock Exchange, under the symbol "CRNT".

## a. General:

The ordinary shares entitle their holders to receive notice to participate and vote in general meetings of the Company, the right to share in distributions upon liquidation of the Company, and to receive dividends, if declared.

b. In November 2013, the Company completed a public offering of its shares on NASDAQ. The Company issued 14,000,000 of its ordinary shares, nominal value NIS 0.01 per share at a price of \$ 2.40 per share before issuance expenses. The Company also granted to the underwriters the option to purchase up to 1,600,000 additional ordinary shares within 30 days, which was fully exercised. Total net proceeds from the issuance amounted to approximately \$ 34,959, net of issuance expenses in the amount of \$ 361.



## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 14:- SHAREHOLDERS' EQUITY (Cont.)

## c. Stock options plans:

1. Under the Company's 2003 Share Option Plan ("the Plan"), options may be granted to officers, directors, employees and consultants of the Company or its subsidiaries. The options vest primarily over four years. The options expire ten years from the date of grant. In December 2012, the Company extended the term of the Plan for an additional period of ten years.

Upon adoption of the Plan, the Company reserved for issuance 8,639,000 ordinary shares in accordance with the respective terms thereof. As of December 31, 2013, the Company has 890,177 Ordinary shares available for future grant under the Plan. Any options, which are canceled or forfeited before the expiration date, become available for future grants.

2. On September 6, 2010, the Company's board of directors amended the Plan so as to enable to grant Restricted share Units ("RSUs") pursuant to such Plan.

3. The following is a summary of the Company's stock options and RSUs granted among the various plans:

	Number of options	Year ended December 31, 2013		
		Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at beginning of year	6,027,382	\$ 8.52		
Granted	880,501	\$ 4.16		
Exercised	(242,000 )	\$ 4.73		
Forfeited or expired	(620,010 )	\$ 8.26		
Outstanding at end of the year	6,045,873	\$ 8.07	6.28	\$ 18
Options exercisable at end of the year	4,199,947	\$ 8.19	5.42	\$ 18
Vested and expected to vest	5,815,249	\$ 8.12	6.19	\$ 18

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 14:- SHAREHOLDERS' EQUITY (Cont.)

	Year ended December 31, 2013	
	Number of RSUs	Weighted average exercise price
Outstanding at beginning of year	100,000	\$ 0.00
Granted	1,192,746	\$ 0.01
Exercised	(50,000 )	\$ 0.00
Forfeited or expired	-	\$
Outstanding at end of the year	1,242,746	\$ 0.01
Options exercisable at end of the year	-	\$ -
Vested and expected to vest	964,775	\$ 0.00

The Company's options are generally granted at exercise prices which are equal to the average market value of the Ordinary shares in the period of 30 trading days prior to the grant date. The weighted average grant date fair value of the options granted during 2011, 2012 and 2013 were \$ 5.63, \$ 3.82 and \$ 1.99, respectively. Grant date fair value of the RSUs granted during 2013 was \$ 2.69.

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing stock price on the last trading day of fiscal 2013 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2013. This amount is impacted by the changes in the fair market value of the Company's shares. Total intrinsic value of options and RSUs exercised during the years ended December 31, 2012 and 2013 were \$ 874 and \$ 149, respectively. As of December 31, 2013, there was \$ 2,538 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock option plans and \$ 2,713 under the Company's RSUs plan.

That cost is expected to be recognized over a weighted-average period of approximately one year.

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 14:- SHAREHOLDERS' EQUITY (Cont.)

The following is a summary of the Company's stock options and RSUs granted separated into ranges of exercise price:

Exercise price (range)	Options and RSUs outstanding as of December 31, 2013	Weighted average remaining contractual life (years)	Weighted average exercise price	Options and RSUs exercisable as of December 31, 2013	Remaining contractual life (years) for exercisable options	Weighted average exercise price
\$			\$			\$
RSUs 0.0	121,667		0.00	-	-	-
RSUs 0.01	1,121,079		0.01	-	-	-
2.34-3.90	446,167	7.88	3.56	147,167	6.97	3.19
3.97-5.98	2,110,534	4.65	5.05	1,666,784	3.58	5.13
6.12-7.96	90,064	6.44	6.80	55,405	5.14	6.74
8.16-9.98	1,821,355	7.35	9.01	1,133,796	6.84	9.05
10.19-14.3	1,577,753	6.77	12.36	1,196,795	6.79	12.33
	7,288,619			4,199,947		

The total equity-based compensation expense related to all of the Company's equity-based awards, recognized for the years ended December 31, 2011, 2012 and 2013, was comprised as follows:

	Year ended December 31,		
	2011	2012	2013
Cost of revenues	\$ 255	\$ 197	\$ 181
Research and development	1,536	1,638	1,009
Selling and marketing	2,460	1,975	1,334
General and administrative	2,313	1,650	1,298
Total stock-based compensation expenses *)	\$ 6,564	\$ 5,460	\$ 3,822

\*)Including \$ 460, \$ 473 and \$ 674 compensation expenses related to RSUs for the year ended December 31, 2011, 2012 and 2013, respectively.

## d. Treasury shares:

In October 2008, the Company initiated a share repurchase program, under which, the Company is authorized to purchase its outstanding Ordinary shares up to aggregate value of \$ 20,000. The purchases may be

performed in the open market or in negotiated or block transactions, all subject to regulatory requirements. As of December 31, 2009, the Company had completed the share purchase program with a total purchase of 3,481,523 of its outstanding Ordinary shares, at a weighted average price per share of \$ 5.74, for the total consideration of approximately \$ 20,091 (including commission and broker fees).

CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14:- SHAREHOLDERS' EQUITY (Cont.)

e. Dividends:

In the event that cash dividends are declared in the future, such dividends will be paid in NIS or in foreign currency subject to any statutory limitations. The Company does not intend to pay cash dividends in the foreseeable future.

NOTE 15:- TAXES ON INCOME

a. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969:

The Company currently qualifies as an "industrial company" under the above law and, as such, is entitled to certain tax benefits, mainly accelerated depreciation of machinery and equipment, and amortization of costs relating to know-how and patents over eight years, as a deduction for tax purposes.

b. Corporate tax structure:

Taxable income of Israeli company is subject to tax at the rate of 25% in 2013 and 26.5% in 2014 and onwards.

c. Measurement of taxable income:

The Company has elected to file its tax return under the Israeli Income Tax Regulations 1986 (Principles Regarding the Management of Books of Account of Foreign Invested Companies and Certain Partnerships and the Determination of Their Taxable Income). Accordingly, starting tax year 2003, results of operations in Israel are measured in terms of earnings in U.S. dollar.

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

According to the Law, the Company is entitled to various tax benefits by virtue of the "approved enterprise" and/or "beneficiary enterprise" status granted to part of their enterprises, as implied by this Law. The principal benefits by virtue of the Law are:

According to the provisions of the Law, the Company has chosen to enjoy the "Alternative" track. Under this track, the Company is tax exempt in the first two years of the benefit period and subject to tax at the reduced rate of 10%-25% for the remaining benefit period.

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 15:- TAXES ON INCOME (Cont.)

For receiving the benefits under the alternative track, there is a minimum qualifying investment. This condition requires an investment in the acquisition of productive assets such as machinery and equipment which must be carried out within three years. The minimum qualifying investment required for setting up a plant is NIS 300 thousand. As for plant expansions, the minimum qualifying investment is the higher of NIS 300 thousand and an amount equivalent to the "qualifying percentage" of the value of the productive assets. Productive assets that are used by the plant but not owned by it will also be viewed as productive assets. The Company was eligible under the terms of minimum qualifying investment and elected 2006 and 2009 as its "years of election".

The qualifying percentage of the value of the productive assets is as follows:

The value of productive assets before the expansion (NIS in millions)	The new proportion that the required investment bears to the value of productive assets
Up to NIS 140	12%
NIS 140 - NIS 500	7%
More than NIS 500	5%

The income qualifying for tax benefits under the alternative track is the taxable income of a company that has met certain conditions as determined by the Law ("a beneficiary company"), and which is derived from an industrial enterprise. The Law specifies the types of qualifying income that is entitled to tax benefits under the alternative track with respect of an industrial enterprise, whereby income from an industrial enterprise includes, among others, revenues from the production and development of software products and revenues from industrial research and development activities performed for a foreign resident (and approved by the Head of the Administration of Industrial Research and Development).

The benefit period starts with the first year the beneficiary enterprise earns taxable income, provided that 14 years have not passed since the approval was granted and 12 years have not passed since the enterprise began operating. In respect of expansion programs pursuant to Amendment No. 60 to the Law, the benefit period starts at the later of the year elected and the first year the Company earns taxable income provided that 12 years have not passed since the beginning of the year of election. The respective benefit period has not yet begun.

The above benefits are conditional upon the fulfillment of the conditions stipulated by the Law, regulations published thereunder and the letters of approval for the investments in the approved enterprises, as above. Non-compliance with the conditions may cancel all or part of the benefits and refund of the amount of the benefits, including interest. The management believes that the Company is meeting the aforementioned conditions.



## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 15:- TAXES ON INCOME (Cont.)

The Company is also a "foreign investors' company", as defined by the Capital Investments Law, and, as such, is entitled to a 10-year period of benefits and may be entitled to reduced tax rates of between 10% to 25% (depending on the percentage of foreign ownership in each tax year).

The Company has three capital investment programs that have been granted approved enterprise status, under the Law and two programs under beneficiary enterprise status pursuant to the Amended Legislation.

Income from sources other than the "Approved Enterprise" and "Beneficiary Enterprise" during the benefit period will be subject to the tax at the regular tax rate.

## Amendments to the Law:

Effective January 1, 2011, the "Knesset" (Israeli Parliament) enacted the Law for Economic Policy for 2011 and 2012 (Amended Legislation), and among other things, amended the Law, ("the Amendment"). According to the Amendment, the benefit tracks in the Investment Law were modified and a flat tax rate applies to the Company's entire preferred income. The Company will be able to opt to apply (the waiver is non-recourse) the Amendment and from then on it will be subject to the amended tax rates as follows: 2011 and 2012 - 15%, 2013 and 2014 - 12.5% and in 2015 and thereafter - 12%.

e. The income tax expense (benefit) for the years ended December 31, 2011, 2012 and 2013 consisted of the following:

	2011	Year ended December 31, 2012	2013
Current	\$ 3,065	\$ 1,944	\$ 2,967
Deferred	(806 )	(743 )	3,572
	\$ 2,259	\$ 1,201	\$ 6,539
Domestic (Israel)	\$ 2,313	\$ 5,470	\$ 1,150
Foreign	(54 )	(4,269 )	5,389
	\$ 2,259	\$ 1,201	\$ 6,539

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 15:- TAXES ON INCOME (Cont.)

## f. Deferred income taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31,	
	2012	2013
Deferred tax assets:		
Net operating loss carry forward	\$ 50,276	\$ 60,675
Research and Development	12,266	11,938
Other temporary differences mainly relating to reserve and allowances	28,821	23,419
Deferred tax asset before valuation allowance	91,363	96,032
Valuation allowance	(72,588 )	(81,665 )
Deferred tax asset	18,775	14,367
Deferred tax liabilities:		
Acquired intangibles	(1,046 )	(627 )
Deferred tax asset, net	\$ 17,729	\$ 13,740

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that all or some portion of the deferred tax assets will not be realized in each tax jurisdiction. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences are deductible and net operating losses are utilized. Based on consideration of these factors, the Company recorded a valuation allowance amounting \$ 72,588 and \$ 81,665 at December 31, 2012 and 2013, respectively.

## g. Net operating loss carry forward and capital loss:

The Company has accumulated net operating losses and capital loss for Israeli income tax purposes as of December 31, 2013 in the amount of approximately \$ 137,560 and \$ 4,770, respectively. The net operating losses may be carried forward and offset against taxable income in the future for an indefinite period.



## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 15:- TAXES ON INCOME (Cont.)

As of December 31, 2013, the Company's U.S. subsidiary had a U.S. federal net operating loss carry forward of approximately \$ 2,662 that can be carried forward and offset against taxable income and that expires during the years 2017 to 2026. Utilization of U.S. net operating losses may be subject to substantial annual limitations due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state law provisions. The annual limitations may result in the expiration of net operating losses before utilization.

As of December 31, 2013, the Company's Norwegian subsidiary had a net operating loss carry forward of approximately \$ 42,790 that can be carried forward. The net operating losses may be carried forward and offset against taxable income in the future for an indefinite period.

As of December 31, 2013, the Company's Brazilian subsidiary had a net operating loss carryforward of approximately \$ 8,178 that can be carried forward. The net operating losses may be carried forward and offset against taxable income in the future for an indefinite period. The offset is limited to a maximum 30% of the annual taxable income.

h. Loss before taxes is comprised as follows:

	2011	Year ended December 31, 2012	2013
Domestic	\$ (35,797 )	\$ (46,207 )	\$ (79,900 )
Foreign	(15,598 )	24,017	38,961
	\$ (51,395 )	\$ (22,190 )	\$ (40,939 )

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 15:- TAXES ON INCOME (Cont.)

## i. Reconciliation of the theoretical tax expense to the actual tax expense:

Reconciliation between the theoretical tax expense, assuming all income is taxed at the statutory tax rate applicable to income of the Company and the actual tax expense as reported in the Statement of Income (Loss) is as follows:

	2011		Year ended December 31, 2012		2013	
Loss before taxes as reported in the consolidated statements of operations	\$	(51,395 )	\$	(22,190 )	\$	(40,939 )
Statutory tax rate		24 %		25 %		25 %
Theoretical tax income on the above amount at the Israeli statutory tax rate	\$	(12,335 )	\$	(5,548 )	\$	(10,235 )
Non-deductible expenses		3,061		193		9,459
Non-deductible expenses related to employee stock options		1,575		1,366		955
Changes in valuation allowance, net		8,984		5,415		4,223
Other		974		(225 )		2,137
Actual tax expense	\$	2,259	\$	1,201	\$	6,539

## j. The Company adopted the provisions of ASC topic 740-10, "Income Taxes".

A reconciliation of the beginning and ending balances of the total amounts of unrecognized tax benefits is as follows:

	December 31,	
	2012	2013
Uncertain tax positions, beginning of year	\$ 9,741	\$ 9,718
Decreases in tax positions for prior years	-	(1,204 )
Increases (decreases) in tax positions for prior years	(23 )	631
Uncertain tax positions, end of year	\$ 9,718	\$ 9,145

The Company has further accrued \$ 51 and \$ (83) due to interest and penalty related to uncertain tax positions as of December 31, 2012 and 2013, respectively.

As of December 31, 2013, the Company is subject to Israeli income tax audits for the tax years 2009 through 2012, to U.S. federal income tax audits for the tax years of 2009 through 2012 and to other income tax audits for the tax years

of 2002 through 2012.

F - 49

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## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 16:- SEGMENTS, CUSTOMERS AND GEOGRAPHIC INFORMATION

a. The Company applies ASC topic 280, "Segment Reporting", ("ASC 820"). The Company operates in one reportable segment (see Note 1 for a brief description of the Company's business). The total revenues are attributed to geographic areas based on the location of the end customer.

b. The following tables present total revenues for the years ended December 31, 2011, 2012 and 2013 and long-lived assets as of December 31, 2011, 2012 and 2013:

	2011	Year ended December 31, 2012	2013
Revenues from sales to unaffiliated customers:			
North America	\$ 46,442	\$ 40,496	\$ 35,584
Europe	101,324	97,133	62,914
Africa	57,701	58,212	73,735
Asia-Pacific and Middle East	90,461	70,704	40,731
India	44,608	54,358	26,646
Latin America	104,733	125,748	122,162
	\$ 445,269	\$ 446,651	\$ 361,772
Property and equipment, net, by geographic areas:			
Israel	\$ 22,502	\$ 27,837	\$ 30,759
Others	7,963	5,805	4,486
	\$ 30,465	\$ 33,642	\$ 35,245

c. Major customer data as a percentage of total revenues:

In 2011, 2012 and 2013, the Company generated revenues from a single group of affiliated companies that accounted for approximately 13.4%, 11.6% and 15.4%, respectively, of total revenues.

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 17:-

## FINANCIAL INCOME, NET

	2011	Year ended December 31, 2012	2013
<b>Financial income:</b>			
Interest on marketable securities and bank deposits	\$ 2,643	\$ 644	\$ 1,310
Foreign currency translation differences and derivatives	2,563	2,839	1,599
	5,206	3,483	2,909
<b>Financial expenses:</b>			
Bank charges and interest on loans	(3,448 )	(3,850 )	(5,260 )
Foreign currency translation differences (*)	(3,434 )	(3,180 )	(9,453 )
Impairment and amortization of premium on marketable securities	(348 )	-	(2,214 )
	(7,230 )	(7,030 )	(16,927 )
	\$ (2,024 )	\$ (3,547 )	\$ (14,018 )

(\*)

In 2013, includes \$ 6,673 from Venezuela and Argentina.



## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 18:- FAIR VALUE MEASUREMENT:

The Company's financial assets (liabilities) measured at fair value on a recurring basis, excluding accrued interest components, consisted of the following types of instruments:

	Year ended December 31, 2012			
	Level 1	Level 2	Level 3	Total
Marketable securities	4,068	-	-	4,068
Derivatives designated as hedging instrument (net of tax effect of \$ 257)	-	276	-	276
Pension liability, net *)	-	-	(2,247 )	(2,247 )
<b>Total assets (liabilities)</b>	<b>4,068</b>	<b>276</b>	<b>(2,247 )</b>	<b>2,097</b>

	Year ended December 31, 2013			
	Level 1	Level 2	Level 3	Total
Marketable securities	9,484	-	-	9,484
Derivatives designated as hedging instrument (net of tax effect of \$ 114)	-	314	-	314
Pension liability, net *)	-	-	(4,076 )	(4,076 )
<b>Total assets (liabilities)</b>	<b>9,484</b>	<b>314</b>	<b>(4,076 )</b>	<b>5,722</b>

\*)

See also Note 12.

## NOTE 19:- RELATED PARTY BALANCES AND TRANSACTIONS

Most of the related party balances and transactions are with related companies and principal shareholders. Yehuda Zisapel is a principal shareholder of the Company. Zohar Zisapel is the Chairman of the Board of Directors and a principal shareholder of the Company. Yehuda and Zohar Zisapel are brothers who do not have a voting agreement between them. Jointly or severally, they are also founders, directors and principal shareholders of several other companies that are known as the RAD-BYNET group.

Members of the RAD-BYNET group provide the Company on an as-needed basis with information systems, marketing, and administrative services, the Company reimburses each company for its costs in providing these services. The aggregate amount of these expenses was approximately \$ 1,476, \$ 1,476 and \$ 1,197 in 2011, 2012 and 2013, respectively.



## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 19:- RELATED PARTY BALANCES AND TRANSACTIONS (Cont.)

The Company leases its offices in Israel from real estate holding companies controlled by Yehuda and Zohar Zisapel. The leases for the majority of this facility expire in December 2017, with an option to terminate early after three years. . Additionally, the Company leases the U.S. subsidiary's office space from a real estate holding company controlled by Yehuda and Zohar Zisapel. The lease for this facility is valid until January 2015. The aggregate amount of rent and maintenance expenses related to these properties was approximately \$ 2,059 in 2011, \$ 2,121 in 2012 and \$ 2,412 in 2013.

The Company has an OEM arrangement with RADWIN, a member of RAD-BYNET group, according to which the Company purchases RADWIN products which are then resold to our customers. In addition, the Company purchases certain inventory components from other members of the RAD-BYNET group, which are integrated into its products. The aggregate purchase price of these components was approximately \$ 1,305, \$ 4,310 and \$ 4,770 for the years ended December 31, 2011, 2012 and 2013, respectively.

The Company purchases certain property and equipment from members of the RAD-BYNET group, the aggregate purchase price of these assets was approximately \$ 275, \$ 1,130 and \$ 265 for the years ended December 31, 2011, 2012 and 2013, respectively.

## Transactions with related parties:

	2011	Year ended December 31, 2012	2013
Cost of revenues	\$ 1,819	\$ 4,974	\$ 5,381
Research and development expenses	\$ 1,010	\$ 1,032	\$ 1,011
Selling and marketing expenses	\$ 1,308	\$ 1,233	\$ 1,189
General and administrative expenses	\$ 704	\$ 684	\$ 798
Purchase of property and equipment	\$ 275	\$ 1,130	\$ 265

## Balances with related parties:

	December 31, 2012	2013
Trade payables, other accounts payable and accrued expenses	\$ 3,024	\$ 3,176



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 20:- NONRECOGNIZED SUBSEQUENT EVENTS

- a. In April 2014, the Company signed an agreement with Eltek ASA, to settle all claims, counter claims, legal proceedings, and any other contingent or potential claims regarding alleged breaches of representations and warranties contained in the purchase agreement governing the Nera Acquisition from Eltek in January 2011. Pursuant to the settlement agreement, the Company received \$17,000 in cash.
- b. In April 2014, the Company has further amended its Credit Facility arrangements to adjust the financial covenants and applicable interest rates to better reflect new operational results of the Company. For more information, see note 1d.
- c. In February 2014, the Government of Venezuela announced a complementary currency system identified as "SICAD", in addition to those already in existence, which will be regulated by the Central Bank of Venezuela. The most recent transactions executed through SICAD auctions have been at an exchange rate of 49.1 bolivars per U.S. dollar. As of December 31, 2013, Ceragon Venezuela represented approximately 4% of the Company's consolidated total assets and approximately 3% of the Company's consolidated Revenues and approximately 2% of the Company's consolidated Net loss. The Company still evaluates the effect of the change on its Financial Statements.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CERAGON NETWORKS LTD.

Date: June 10, 2014

By: /s/ Nisan Ben-Hamo  
Name: Nisan Ben-Hamo  
Title: VP and General Counsel