CERAGON NETWORKS LTD
Form 20-F
April 30, 2014
As filed with the Securities and Exchange Commission on April 30, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2013

OR

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

OR

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

For the transition period from _____ to _____

Commission file number 0-30862

_____

CERAGON NETWORKS LTD.
(Exact Name of Registrant as Specified in Its Charter)

_____

Israel
(Jurisdiction of Incorporation or Organization)

24 Raoul Wallenberg Street, Tel Aviv 69719, Israel
(Address of Principal Executive Offices)

Donna Gershowitz, (+972) 3-543-1231 (tel.), (+972) 3-543-1600 (fax), 24 Raoul Wallenberg Street, Tel Aviv 69719,

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

_____

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

Title of Each Class	Name of Exchange of Which Registered
Ordinary Shares, Par Value NIS 0.01	Nasdaq Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 52,457,168 Ordinary Shares, NIS 0.01 par value.

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

Yes ¨ No þ

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

Yes ¨ No þ

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No ¨

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

Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨

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

U.S. GAAP þ

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 þ

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INTRODUCTION

Definitions

In this annual report, unless the context otherwise requires:

- references to “Ceragon,” the “Company,” “us,” “we” and “our” refer to Ceragon Networks Ltd. (the “Registrant”), an Israeli company, and its consolidated subsidiaries;
- references to “ordinary shares,” “our shares” and similar expressions refer to the Registrant’s Ordinary Shares, NIS 0.01 nominal (par) value per share;
- references to “dollars,” “U.S. dollars” and “$” are to United States Dollars;
- references to “shekels” and “NIS” are to New Israeli Shekels, the Israeli currency;
- references to the “Companies Law” are to Israel’s Companies Law, 5759-1999 and regulations promulgated thereunder;
- references to the “SEC” are to the United States Securities and Exchange Commission; and
- References to the "Nasdaq Rules" are to rules of the Nasdaq Global Select Market.

Cautionary Statement Regarding Forward-Looking Statements

This annual report includes certain statements that are intended to be, and are hereby identified as, “forward-looking statements” for the purposes of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future events.

Forward-looking statements can be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “anticipate,” “estimate,” “continue,” “believe” or other similar expressions, but are not the only way these statements are identified. These statements discuss future expectations, plans and events, contain projections of results of operations or of financial condition or state other “forward-looking” information. When a forward-looking statement includes an underlying assumption, we caution that, while we believe the assumption to be reasonable and make it in good faith, assumed facts almost always vary from actual results, and the difference between a forward-looking statement and actual results can be material. Forward-looking statements may be found in Item 4: “Information on the Company” and Item 5: “Operating and Financial Review and Prospects” and in this annual report generally. Our actual results could differ materially from those anticipated in these statements as a result of various factors, including all the risks discussed in “Risk Factors” and other cautionary statements in this annual report. All of our forward-looking statements are qualified by and should be read in conjunction with those disclosures. Except as may be required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties, and assumptions, the forward-looking events discussed in this annual report might not occur.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Financial Data

The selected financial data set forth in the table below have been derived from our audited historical financial statements for each of the years from 2009 to 2013. The selected consolidated statement of operations data for the years 2011, 2012 and 2013, and the selected consolidated balance sheet data at December 31, 2012 and 2013, have been derived from our audited consolidated financial statements set forth in “Item 18 – Financial Statements.” The selected consolidated statement of operations data for the years 2009 and 2010, and the selected consolidated balance sheet data at December 31, 2009, 2010 and 2011, have been derived from our previously published audited consolidated financial statements, which are not included in this annual report. This selected financial data should be read in conjunction with our consolidated financial statements and are qualified entirely by reference to such consolidated financial statements. We prepare our consolidated financial statements in U.S. dollars and in accordance with United States Generally Accepted Accounting Principles (“U.S. GAAP”). You should read the consolidated financial data with the section of this annual report entitled “Item 5 - Operating and Financial Review and Prospects” and our consolidated financial statements and the notes to those financial statements included elsewhere in this annual report.

	Year ended December 31,				
	2009	2010	2011	2012	2013
Consolidated Statement of Operations Data:	(In thousands, except share and per share data)				
Revenues	$184,220	$249,852	$445,269	$446,651	$361,772
Cost of revenues	122,662	160,470	323,191	308,354	249,543
Gross profit	61,558	89,382	122,078	138,297	112,229
Operating expenses:					
Research and development	18,954	25,115	50,456	47,487	42,962
Selling and marketing	29,251	37,179	81,716	77,326	67,743
General and administrative.	10,705	12,328	26,524	27,519	26,757
Restructuring costs	--	--	7,834	4,608	9,345
Other income	--	--	--	--	(7,657)
Acquisition related cost	--	775	4,919	--	--
Total operating expenses	58,910	75,397	171,449	156,940	139,150
Operating income (loss)	2,648	13,985	(49,371)	(18,643)	(26,921)
Financial income, (expense) net	1,496	1,255	(2,024)	(3,547)	(14,018)
Income (loss) before taxes	4,144	15,240	(51,395)	(22,190)	(40,939)
Tax benefit (taxes on income)	(489)	(1,178)	(2,259)	(1,201)	(6,539)
Net income (loss)	3,655	14,062	(53,654)	(23,391)	(47,478)
Basic net earnings (loss) per share	$0.11	$0.40	$(1.49)	$(0.64)	$(1.23)
Diluted net earnings (loss) per share	$ 0.10	$ 0.38	$(1.49)	$(0.64)	$(1.23)
Weighted average number of shares used in computing basic earnings (loss) per share	34,369,212	34,854,657	35,975,434	36,457,989	38,519,606
Weighted average number of shares used in computing diluted earnings (loss) per share	35,796,878	36,564,830	35,975,434	36,457,989	38,519,606

	At December 31,				
	2009	2010	2011	2012	2013
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents, short and long term bank deposits, short and long term marketable securities	$98,320	$81,533	$49,531	$51,589	$52,337
Working capital	149,284	167,509	154,987	129,407	106,765
Total assets	269,373	287,182	411,158	393,596	365,971
Total long term liabilities	7,174	8,600	76,664	69,767	52,498
Shareholders' equity	180,906	204,169	161,051	143,709	135,078

Risk Factors

The following risk factors, among others, could affect our actual results of operations and cause our actual results to differ materially from those expressed in forward-looking statements made by us. These forward-looking statements are based on current expectations and we assume no obligation to update this information. You should carefully consider the risks described below, in addition to the other information contained elsewhere in this annual report. The following risk factors are not the only risk factors facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. Our business, financial condition and results of operations could be seriously harmed if any of the events underlying any of these risks or uncertainties actually occur. In that event, the market price for our ordinary shares could decline.

Risks Relating to Our Business

We face intense competition from other wireless equipment providers. If we fail to compete effectively, our business, financial condition and result of operations would be materially adversely affected.

The market for wireless equipment is rapidly evolving, fragmented, highly competitive and subject to rapid technological change. Increased competition, which may differ from region to region, in the wireless equipment market could result in requirements to provide financing packages to our customers, reduced demand for our products, price reductions or reduced gross margins, any of which could seriously harm our business and results of operations. Our primary competitors include industry "generalists" such as Alcatel-Lucent, Fujitsu Limited, Huawei Technologies Co., Ltd., L.M. Ericsson Telephone Company, NEC Corporation, Nokia Solutions and Networks B.V. (NSN) and ZTE Corporation. In addition to these primary competitors, a number of smaller "specialist" microwave communications equipment suppliers, including Aviat Networks, DragonWave Inc., and SIAE Microelectronica S.p.A., offer or are developing products that compete with our products. Some of our competitors are original equipment manufacturers through whom we market and sell our products, which means our business success may depend on these competitors to some extent.

Most of our principal competitors are substantially larger than we are and have longer operating histories and greater financial, sales, service, marketing, distribution, technical, manufacturing and other resources than we have. They also have greater name recognition and a larger customer base than we have. Many of these competitors have well-established relationships with our current and potential customers, have extensive knowledge of our target markets, and have begun to focus more on selling services and bundling the entire network as a full-package offering. As a result, our competitors may be able to respond more quickly to changes in customer requirements and evolving industry standards and to devote greater resources to the development, promotion and sale of their products than we can. In addition, our competitors, especially those from China, may be able to offer customers financing that would increase the attractiveness of their products in comparison to ours.

Additionally, the telecommunications equipment industry has experienced significant consolidation among its participants, and we expect this trend to continue. Examples include our acquisition of Nera Networks AS ("Nera") in January 2011 (the "Nera Acquisition") and the 2012 acquisition by DragonWave of the microwave division of NSN, which itself was formed as a joint venture between Nokia and Siemens. Other examples include the mergers of Alcatel and Lucent and the wireless divisions of Harris and Stratex Networks, and the acquisition by Ericsson of Marconi. These consolidations have increased the size and thus the competitive resources of these companies. In the future, current and potential competitors may make additional strategic acquisitions or establish cooperative relationships among themselves or with third parties that may allow them to increase their market share and competitive position.

We expect to face increasing competitive pressures in the future. If we are unable to compete effectively, our business, financial condition and results of operations would be materially adversely affected.

We have incurred substantial losses and negative cash flows over the past three years.

We have incurred substantial losses over the past three years. Our losses were $53.7 million, $23.4 million and $47.5 million in 2011, 2012 and 2013, respectively. The Company has experienced significant fluctuations in our working capital needs and generated net operating cash flow of $(20.1) million, $7.2 million and $(29.5) million in 2011, 2012 and 2013, respectively. Our profitability has been negatively impacted by the decrease in sales revenues, as well as significant expenses, costs and charges associated with our organizational restructuring activities in 2011, 2012 and 2013. We are making efforts to increase efficiencies and control costs in order to enhance our profitability. However, we cannot be certain that these actions or others that we may take in the future will result in operating profitability, net income or improved operating cash flow in subsequent periods.

Fluctuating working capital needs could impair our ability to fund operations and jeopardize our business, financial condition, results of operations and cash flow.

The Company has experienced significant fluctuations in our working capital needs and generated net operating cash flow of $(20.1) million, $7.2 million and $(29.5) million in 2011, 2012 and 2013, respectively. Should our cash flow requirements continue to increase, we may need to raise additional funds through public or private debt or equity offerings. If we are not able to raise other capital or borrow additional funds, we may not be able to fund our working capital and operational needs which would have a material adverse effect on our business, financial condition, results of operations and cash flows. The Company believes it has sufficient liquidity resources for at least 12 months and it will be able to obtain the necessary financing to meet its requirements on an ongoing basis; however, there can be no assurance that the necessary financing will be obtained, and such financing, if available, may be very dilutive to the Company's shares and shareholders. As it has in the past, the Company may obtain additional financing through, but not limited to, the issuance of additional equity.

We could be adversely affected by our failure to comply with the covenants in our credit agreement or the failure of any bank to provide us with credit under committed credit facilities.

We have a committed credit facility available for our use from a syndication of four banks, for which we pay commitment fees. The credit facility is provided by the syndication with each bank agreeing severally (and not jointly) to make its agreed portion of the credit loans to us in accordance with the terms of the credit loan agreement which includes a framework for joint decision making powers by the banks. If one or more of the banks providing the committed credit facility were to default on its obligation to fund its commitment, the portion of the committed facility provided by such defaulting bank would not be available to us.

In addition, the credit agreement contains financial and other covenants requiring that we maintain, among other things, a certain ratio between our shareholders' equity and the total value of our assets on our balance sheet and a certain ratio between our net financial debt to each of our working capital and accounts receivable. Any failure to comply with the covenants, including due to poor financial performance, may constitute a default under the credit agreement and may require us to seek an amendment or waiver from the banks to avoid termination of their commitments or an immediate repayment of all outstanding amounts under the credit facilities which will have an adverse effect on our financial condition and ability to operate. In addition, the payment may be accelerated and the credit facility may be cancelled upon an event in which a current or future shareholder acquires control (as defined under Israel Securities Law) of us.

Although we were, and continue to be, in compliance with our bank covenants, in October 2013 and again in April 2014, we obtained the bank syndicate's consent for temporary less restrictive financial covenants. Most of the less restrictive financial covenants shall be in effect until October 1, 2014, except for certain less restrictive financial covenants which shall remain in effect until March 31, 2015. After each date, the respective original covenants again apply. See Item 5 – OPERATING AND FINANCIAL REVIEW AND PROSPECTS; Liquidity and Capital Resources, for a more detailed discussion. There is no assurance that we will be able to meet either the less restrictive financial covenants or the original covenants.

We have recently announced a new product platform. Any technical or other problems with the new platform, or delays in ramping up production, may cause our revenues to decrease and may have a material adverse effect on our business.

In November 2013, we announced the release of a broad range of products built around our new hardware and software platform, which will form the basis for all of our next-generation products. The new, ultra-high capacity hauling platform, which we call IP-20, is combined with our proprietary internetworking operating system, which we call CeraOS. We are in the process of shipping our new set of products based on the new platform and may be required to ramp up our manufacturing and supply chain capabilities quickly to enable us to timely deliver our new set of products based on orders that may be received faster than initially planned. We cannot assure you that acceptance in the market of the new platform will be fully successful, that we will not experience delays in production ramp-up or that our newly-announced products will be free from material defects or will result in profitable sales.

We have in the past undertaken restructuring activities, most recently announced further restructuring activities in the fourth quarter of 2013, which may adversely impact our operations. We may not realize all of the anticipated benefits of these activities.

We continue to evaluate our business to determine the potential need to realign our resources as we continue to transform our business to achieve desired cost savings in an increasingly competitive market. In prior years, we have undertaken a series of restructurings of our operations. We incurred restructuring charges of $7.8 million and $4.6 million, respectively, in 2011 and 2012. In connection with our most recently announced restructuring activities in the

fourth quarter of 2013, the 2013 Restructuring, we incurred restructuring charges of $9.3 million in the fourth quarter of 2013 and estimate that additional costs will be approximately $1 million during the first half of 2014.

We have based our restructuring efforts on assumptions and plans regarding the appropriate cost structure of our businesses based on our product mix and projected sales among other factors. These assumptions may not be correct and we may not be able to operate in accordance with our plans. If our assumptions are not accurate, we may decide that we must incur additional restructuring charges in the future. Moreover, we cannot assure you that we will realize all or any of the anticipated benefits of any restructuring or that we will not further reduce or otherwise adjust our workforce or exit, or dispose of, certain businesses and product lines. Any decision to further limit investment or exit, or dispose of businesses may result in the recording of additional restructuring charges. As a result, the costs actually incurred in connection with the restructuring efforts may be higher than originally planned and may not lead to the anticipated cost savings or improved results. Further, we may have difficulty attracting and retaining personnel as a result of a perceived risk of future workforce reductions.

A decrease in industry growth or reduction in our customers' revenue from increased regulation or new mobile services may cause operators' investments in networks to slow or stop, harming our business.

We are exposed to changing network models that affect operator spending on infrastructure. This resulted in shrinkage of over 13.8% in the market for our products for 2013 compared to 2012. The emergence of over-the-top services, which make use of the operators' network to deliver rich content to users but are not sharing their revenue with the operators, are causing operators to lose a substantial portion of their voice/SMS revenues. In addition, changes in regulatory requirements in certain jurisdictions around the world are allowing smaller operators to enter into, and compete in, the market, which may also reduce our customers' pricing to their end-users further causing them to lose revenues. This is leading operators to spend more carefully on infrastructure upgrades and build-outs. Operators today are revising their old models because adding capacity to meet demand could force them to quadruple their current capital expense investments over the coming years. As a result, operators are looking for more cost-efficient solutions and network architecture that allow them to break the linearity of cost and capacity through more efficient use of existing infrastructure and assets. If operators fail to monetize new services, fail to introduce new business models or experience a decline in operator revenues or profitability, their willingness to invest further in their network systems may decrease which will reduce their demand for our products and services and have an adverse effect on our business, operating results and financial condition.

Our operating results may vary significantly from quarter to quarter and from our expectations for any specific quarter.

Our quarterly results are difficult to predict and may vary significantly from quarter to quarter or from our expectations and guidance for any specific quarter. Most importantly, delays in completing product order delivery or completion of a sale or related services can cause our revenues, net income and operating cash flow to fluctuate significantly from anticipated levels, especially as a large portion of our revenues are traditionally generated towards the end of each quarter, and as our bookings are usually lower than the amount of sales during a quarter. We therefore rely in our quarterly and yearly guidance on orders that we expect to generate during these periods Furthermore, we may reduce prices in specific instances in response to competition or increase spending in order to pursue new market opportunities.

The quarterly variation of our operating results, may, in turn, create volatility in the market price for our shares. In addition, our revenues are typically affected by our customers' capital expense, cash flow and acceptance criteria considerations which are subject to fluctuation on a quarterly and yearly basis.

Global competition and current market conditions, including those specifically impacting the telecommunications industry, have resulted in downward pressure on the prices for our products, which could result in reduced revenues, gross margins, profitability and demand for our products and services.

Currently, we and other manufacturers of telecommunications equipment are experiencing, and are likely to continue to experience, increased downward price pressure, particularly as we increase our customer base to include more Tier 1 customers and increase our sales volumes in India. As a result, we are likely to continue to experience declining average sales prices for our products. Our future profitability will depend upon our ability to improve manufacturing efficiencies, to reduce costs of materials used in our products, and to continue to design to cost and introduce new lower-cost products and product enhancements. Because customers frequently negotiate supply arrangements far in advance of delivery dates, we may be required to commit to price reductions for our products before we are aware of how, or if, cost reductions can be obtained. Current or future price reduction commitments and any inability on our part to respond to increased price competition, in particular from Tier 1 customers with higher volumes and stronger negotiating power, could harm our profitability, business, financial condition and results of operations.

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Also, following the Nera Acquisition, as a percentage from our total sales, we have increased sales of our products in Latin America, a region typically characterized, as having strong downward pricing pressures, in response to the rapid build-out of cellular networks in those geographies. For the years ended December 31, 2012 and 2013 28% and 34%, respectively, of our revenues were earned in Latin America. We expect that our revenues from sales of our products in Latin America will continue to constitute a significant portion of our business in the future. In addition, we currently anticipate an increase in the volume of our sales in India, a country which is historically characterized as having strong downward pricing pressures. Challenging global economic conditions could also have adverse, wide-ranging effects on demand for our products and services and for the products of our customers. The telecommunications industry has experienced downturns in the past in which operators substantially reduced their capital spending on new equipment. Continued adverse economic conditions, which still exist in certain jurisdictions, including certain countries in Europe, could cause network operators to postpone investments or initiate other cost-cutting initiatives to improve their financial position. Recently, network operators have started to share parts of their network infrastructure through cooperation agreements rather than legal considerations, which may adversely affect demand for lower cost network equipment. Moreover, the level of demand by operators and other customers who buy our products and services can change quickly and can vary over short periods, including from month to month.

If the current economic situation deteriorates or if the uncertainty and variations in the telecommunications industry continues, our business could be negatively impacted, including in such areas as reduced demand for our products and services, slowed customer buying decisions, pricing pressures, supplier or customer disruptions, or insolvency of certain of our key distributors, resellers, original equipment manufacturers (OEMs) and systems integrators, which could impair our distribution channels, which could reduce our revenues or our ability to collect our accounts receivable and have a material adverse effect on our financial condition and results of operations.

We face intense competition from other communications solutions that compete with our high-capacity point-to-point wireless products, which could reduce demand for our products and have a material adverse effect on our business and results of operations.

Our products compete with other high-speed communications solutions, including fiber optic lines, leased copper lines and other wireless technologies. Some of these technologies utilize existing installed infrastructure and have achieved significantly greater market acceptance and penetration than high-capacity point-to-point wireless technologies. Moreover, as more and more data demands are imposed on existing network frameworks and because of consolidation of fixed and mobile operators, operators may be more motivated to invest in more expensive high-speed fiber optic networks to meet current needs and remain competitive.

Some of the principal disadvantages of high capacity, point-to-point wireless technologies that may make other technologies more appealing include suboptimal operations in extreme weather conditions and limitations in connection with the need to establish line of sight between antennas.

In addition, customers may decide to use transmission frequencies for which we do not offer products.

To the extent that these competing communications solutions reduce demand for our high-capacity point-to-point wireless transmission products, there may be a material adverse effect on our business and results of operations.

Consolidation of our potential customer base could harm our business.

The increasing trend toward mergers in the telecommunications industry has resulted in the consolidation of our potential customer base. In situations where an existing customer consolidates with another industry participant which uses a competitor’s products, our sales to that existing customer could be reduced or eliminated completely to the extent that the consolidated entity decides to adopt the competing products. Further, consolidation of our potential

customer base could result in purchasing decision delays as consolidating customers integrate their operations and could generally reduce our opportunities to win new customers to the extent that the number of potential customers decreases. Moreover, some of our potential customers have agreed to share networks which results in less network equipment and associated services required and a decrease in the overall size of the market. Recently, network operators have started to share parts of their network infrastructure through cooperation agreements rather than legal consolidations, which may adversely affect demand for network equipment and could harm our revenues and gross margins.

We rely on a limited number of contract manufacturers to manufacture our products and if they experience delays, disruptions, quality control problems or a loss in capacity, it could materially adversely affect our operating results.

While a small portion of our manufacturing is performed in our production facility in Slovakia, we outsource most of our manufacturing processes to a limited number of contract manufacturers that are located in Israel, Malaysia and the Philippines. We do not have long-term contracts with any of these contract manufacturers. From time to time, we have experienced and may in the future experience delays in shipments from these contract manufacturers.

Although we believe that our contract manufacturers have sufficient economic incentive to perform our manufacturing, the resources devoted to these activities are not within our control, and we cannot assure you that manufacturing problems will not occur in the future. Our recent negative cash flows and uncertainties regarding our liquidity have, and may continue to, raise concerns with manufacturers, resulting in their revising or limiting our credit or payment terms which could result in production delays. In addition, the operations of our contract manufacturers are not under our control, and may themselves in the future experience manufacturing problems, including inferior quality and insufficient quantities of components. These delays, disruptions, quality control problems and loss in capacity could result in delays in deliveries of our product to our customers, which could subject us to penalties payable to our customers, increased warranty costs and possible cancellation of orders. If our contract manufacturers experience financial, operational, manufacturing capacity or other difficulties, or shortages in components required for manufacturing, our supply may be disrupted and we may be required to seek alternate manufacturers. We may be unable to secure alternate manufacturers that meet our needs in a timely and cost-effective manner. In addition, some of our contract manufacturers have granted us licenses with respect to certain technology that is used in a number of our products. If we change contract manufacturers, we may be required to renegotiate these licenses or redesign some of our products, either of which could increase our cost of revenues and cause product delivery delays. If we change manufacturers, during the transition period, we may be more likely to face delays, disruptions, quality control problems and loss in capacity, and our sales, profits and customer relationships may suffer.

Our international operations expose us to the risk of fluctuation in currency exchange rates and restrictions related to foreign currency exchange controls.

Although we derive a significant portion of our revenues in U.S. dollars, a portion of our U.S. dollar revenues are derived from customers operating in local currencies which are different from the U.S. dollar. Therefore, devaluation in the local currencies of our customers relative to the U.S. dollar could cause our customers to cancel or decrease orders or delay payment. In addition, part of our revenues from customers are in non-U.S. dollar currencies, therefore we are exposed to the risk of devaluation of such currencies relative to the dollar which could have a negative impact on our revenues. We are also subject to other foreign currency risks including repatriation restrictions in certain countries, particularly in Latin America. A significant portion of our cash reserves are located in Venezuela, and as a result, devaluation in currency in Venezuela could significantly reduce or impair a significant portion of our cash reserves. In 2013, we incurred a financial loss in the amount of $6.7 million as a result of the devaluation of the local currencies in Argentina and Venezuela. Accordingly, the imposition of price controls, restrictions on the conversion of foreign currencies or a devaluation of foreign currencies could have a material adverse effect on our financial results.

In February, 2014, the Government of Venezuela announced a complementary currency system identified as "SICAD 2", which in addition to those currency systems already in existence, are to be regulated by the Central Bank of Venezuela. The most recent transactions executed through SICAD auctions have been at an exchange rate of 51.3 bolivars per U.S. dollar. Depending on the transparency and liquidity of the SICAD market, it is possible that in the future we may remeasure our net monetary assets at the SICAD rate. To the extent that the SICAD rate is higher than the official exchange rate at that time, this could result in an additional devaluation charge. We have not executed any transactions through the SICAD program. For the year ended December 31, 2013, our subsidiary in 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.

A substantial portion of our expenses are denominated in New Israeli Shekels, and to a lesser extent, other non-U.S. dollar currencies. Our NIS-denominated expenses consist principally of salaries and related costs and related personnel expenses. We anticipate that a portion of our expenses will continue to be denominated in NIS. In 2013, the NIS continued to fluctuate in comparison to the U.S. dollar as the NIS appreciated by 7%. If the U.S. dollar weakens against the NIS in the future, there will be a negative impact on our results of operations.

In some cases, we are paid in non-U.S. dollar currencies or maintain monetary assets in non-U.S. dollar currencies, which could affect our reported results of operations. In addition, we have assets and liabilities that are denominated in non-U.S. dollar currencies. Therefore, significant fluctuation in these other currencies could have significant effect on our results.

We use derivative financial instruments, such as foreign exchange forward contracts, to mitigate the risk of changes in foreign exchange rates on balance sheet accounts and forecast cash flows. We do not use derivative financial instruments or other "hedging" techniques to cover all of our potential exposure and may not purchase derivative instruments adequate to insulate ourselves from foreign currency exchange risks. In some countries, we are unable to use "hedging" techniques to mitigate our risks because hedging options are not available for certain government-restricted currencies. During 2013, we incurred losses in the amount of $8.0 million as a result of exchange rate fluctuations that have not been offset in full by our hedging strategy. The volatility in the foreign currency markets may make it challenging to hedge our foreign currency exposures effectively.

We are dependent upon sales of our single family of products into one principal market. Any reduction in demand for these products in this market would cause our revenues to decrease.

We design, develop, manufacture and sell nearly all of our products to meet high-capacity point-to-point wireless hauling needs. Nearly all of our revenues are generated from sales of our single portfolio of products. We expect sales of our single portfolio of products to continue to account for a substantial majority of our revenues for the foreseeable future. As a result, we are more likely to be adversely affected by a reduction in demand for point-to-point wireless hauling products than companies that sell multiple and diversified product lines or into multiple markets.

Goodwill and other intangibles assets represent a portion of our assets, and an impairment of these assets could have a material adverse effect on our financial condition and results of operations.

We have goodwill and amortizable intangibles assets, such as customer relations and technology, almost all of which ($21.1 million) are as a result of the Nera Acquisition. Under generally accepted accounting principles, we are required to perform an annual impairment test on our goodwill and from time to time, we are required to assess the recoverability of both our goodwill and long-lived intangibles assets. We may need to perform impairment tests more frequently if events occur or circumstances indicate that the carrying amount of these assets may not be recoverable. These events or circumstances could include a significant change in the business climate, attrition to key personnel, a prolonged decline in our stock price and market capitalization, operating performance indicators, competition and other factors. If our market value or other long-lived intangibles assets is less than the carrying amount of the related assets, we could be required to record an impairment charge in the future. Because these factors are ever changing, due to market and general business conditions, we cannot predict whether, and to what extent, our goodwill and long lived intangible assets may be impaired in future periods.

At December 31, 2013, we had goodwill of $14.9 million and net intangible assets of $7.2 million. The amount of any future impairment could be significant and could have a material adverse effect on our financial results.

We are increasingly engaged in supplying installation or turn-key projects for our customers. Such long-term projects have inherent additional risks. Problems in executing these turnkey projects, including delays or failure in acceptance testing procedures and other items beyond our control, would have a material adverse effect on our results of operations.

We are increasingly engaged in supplying our products as total turn-key projects which include installation and other services for our customers. In this context, we may act as prime contractor and equipment supplier for network build-out projects, providing installation, supervision and commissioning services required for these projects, or we may provide such services and equipment for projects handled by system integrators. As we engage in more turn-key projects, we expect to continue to routinely enter into contracts involving significant amounts to be paid by our customers over time and which often require us to deliver products and services representing an important portion of the contract price before receiving any significant payment from the customer. Once a purchase agreement has been executed, the timing and amount of revenue, if applicable, may remain difficult to predict. The completion of the installation and testing of the customer's networks and the completion of all other suppliers' network elements are subject to the customer's timing and efforts, and other factors outside our control, such as site readiness for installation, availability of power and access to sites, which may prevent us from making predictions of revenue with any certainty. This could cause us to experience substantial period-to-period fluctuations in our results of operations.

In addition, typically in turn-key projects we are dependent on the customer to issue acceptance certificates to generate and recognize revenue. In such turn-key projects, we typically bear the risks of loss and damage to our products until the customer has issued an acceptance certificate upon successful completion of acceptance tests. The early deployment of our products during a long-term project reduces our cash flow as we generally collect a significant portion of the contract price after successful completion of an acceptance test. If our products are damaged or stolen, or if the network we install does not pass the acceptance tests or if the customer does not or will not issue an acceptance certificate, the end user or the system integrator, as the case may be, could refuse to pay us any balance owed and we would incur substantial costs, including fees owed to our installation subcontractors, increased insurance premiums, transportation costs, and expenses related to repairing or manufacturing the products. Moreover, in such a case, we may not be able to repossess the equipment, thus suffering additional losses.

If any of the above occurs, we may not be able to generate or recognize revenue and we may incur additional costs, any of which could materially adversely impact our results of operation and financial position.

A single customergrouprepresents a significant portion of our revenues, and if we were to lose this customer group or experience any material reduction in orders from this customer group, our revenues and operating results would suffer.

In 2012 and 2013, we had revenues from a single group of affiliated companies that accounted for approximately 11.6% and 15.4%, respectively, of our total revenue. We have entered into or received purchase orders from a number of related companies in this group of companies. Our sales are generally made from standard purchase orders rather than long-term contracts. Accordingly, this customer group is not obligated to purchase a fixed amount of products or services over any period of time from us and may terminate or reduce its purchases from us at any time without notice or penalty. We therefore have difficulty projecting future revenues from this customer group with certainty. However, based on recent discussion with this customer group, we expect the volume of business in 2014 to be significantly lower than in 2012 and 2013. In addition, the customer group could vary, and in 2012 did vary, its purchase or acceptance procedures from period to period, even significantly. This could have, and has had, an adverse effect on our revenues, profitability and cash flow. In addition, the loss of this customer group or any material reduction in orders from either customer group could adversely affect our results of operations, cash flow and financial position.

We derive a substantial portion of our revenues from fixed-price projects, including our turn-key projects, under which we assume greater financial risk if we fail to accurately estimate the costs of the projects.

We are increasingly engaged in supplying turn-key projects, involving fixed-price contracts. We assume greater financial risks on fixed-price projects, which routinely involve the provision of installation and other services, versus equipment –only sales, which do not similarly require us to provide services or require customer acceptance certificates in order for us to recognize revenue. If we miscalculate the resources or time we need for these fixed-price projects, the costs of completing these projects may exceed our original estimates, which would negatively impact our financial condition and results of operations.

In the event we are unable to satisfy regulatory requirements relating to internal controls, or if our internal controls over financial reporting are not effective our business could suffer.

As we manage a global multi-jurisdictional operation, we have identified in the past and may from time-to-time identify deficiencies in our internal control over financial reporting. We are committed to implementing the highest standards of internal control practices, but we cannot assure you that we will be able to implement enhancements of our internal controls on a timely basis, in order to prevent a failure of our internal controls or enable us to furnish future unqualified certifications pursuant to regulatory requirements such as Section 404 of the Sarbanes-Oxley Act.

If we fail to maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting. In addition, we may identify material weaknesses in our internal control over financial reporting. Failure to maintain effective internal control over financial reporting could result in business disruptions, investigation or sanctions by regulatory authorities, and could have a material adverse effect on our business and operating results, investor confidence in our reported financial information, and the market price of our ordinary shares. Any internal control or procedure, no matter how well designed and operated, can only provide reasonable assurance of achieving desired control objectives and cannot prevent intentional misconduct or fraud.

Additional tax liabilities could materially adversely affect our results of operations and financial condition.

As a global corporation, we are subject to income and other taxes both in Israel and various foreign jurisdictions. Our domestic and international tax liabilities are subject to the allocation of revenues and expenses in different jurisdictions and the timing of recognizing revenues and expenses. Our tax expense includes estimates or additional tax, which may be incurred for tax exposures and reflects various estimates and assumptions, including assessments of our future earnings that could impact the valuation of our deferred tax assets. From time to time, we are subject to income and other tax audits, the timings of which are unpredictable. Our future results of operations could be adversely affected by changes in our effective tax rate as a result of a change in the mix of earnings in countries with differing statutory tax rates, changes in our overall profitability, changes in tax legislation and rates, changes in generally accepted accounting principles, changes in the valuation of deferred tax assessments and liabilities, the results of audits and examinations of previously filed tax returns and continuing assessments of our tax exposures. While we believe we comply with applicable tax laws, there can be no assurance that a governing tax authority will not have a different interpretation of the law and assess us with additional taxes. Should we be assessed additional taxes, there could be a material adverse effect on our results of operations and financial condition.

Any inability of the Company to realize its deferred tax assets may have a material adverse effect on the Company's financial results of operations.

The Company recognizes deferred tax assets and liabilities for the future tax consequences related to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for tax credits. The Company evaluates its deferred tax assets for recoverability based on available evidence, including assumptions about future profitability. Although management believes that it is more likely than not that the deferred tax assets will be realized in certain jurisdictions, some or all of the Company’s deferred tax assets could expire unused if the Company is unable to generate taxable income of an appropriate character and in a sufficient amount to utilize these tax benefits in the future.

At December 31, 2013, the company had recorded $13.7 million of deferred tax assets, having performed an adjustment to our valuation allowance of $4.0 million of tax assets in 2013. If the Company determines that it would not be able to realize all or a portion of its deferred tax assets in the future, the Company would further reduce the deferred tax asset through a charge to earnings in the period in which the determination is made. This charge could

have a material adverse effect on the Company's results of operations. In addition, the assumptions used to make this determination are subject to change from period-to-period based on changes in tax laws or variances between the Company's projected operating performance and actual results. As a result, significant management judgment is required in assessing the possible need for a deferred tax asset valuation allowance. If the underlying assumptions underlying our judgment prove to be wrong, it can materially affect the Company's results of operations.

If we fail to effectively manage deliveries of our products and ancillary equipment, we may be unable to timely fulfill our customer commitments, which would adversely affect our business and results of operations and, in the event of an inability to fulfill commitments, would harm our customer relationships.

We outsource most of our manufacturing operations and purchase ancillary equipment to our products from contract and other independent manufacturers and other third parties. If we fail to effectively manage and synchronize our deliveries from all these sources to the customer, if we underestimate our production requirements which could interrupt manufacturing or if one or more of the contract and other independent manufacturers or other third parties does not fully comply with their contractual obligations or experience delays, disruptions or component procurement problems, then our ability to deliver complete product orders to our customers or otherwise fulfill our contractual obligations to our customers could be delayed or impaired, could result in higher manufacturing costs, could damage to customer relationships or could result in our payment of penalties to our customers, which would adversely affect our business, financial results and customer relationships.

Part of our inventory may be written off, which would increase our cost of revenues. In addition, due to inaccurate forecasts, we may be exposed to inventory-related losses on inventories purchased by our contract manufacturers and other suppliers or to increased expenses should unexpected production ramp up be required.

Our contract manufacturers and other suppliers are required to purchase inventory based on manufacturing projections we provide to them. If the actual orders from our customers are lower than these manufacturing projections, our contract manufacturers or other suppliers will have excess inventory of raw materials or finished products which we would be required to purchase. Alternatively, if orders for our products are significantly larger than our planned forecast, we may be required to expedite production and the purchase of raw materials, which may result in increased fees or expenses to our contract manufacturers or other suppliers.

We require our contract manufacturers and other suppliers from time to time to purchase more inventory than is immediately required, and, with respect to our contract manufacturers, to partially assemble components, in order to shorten our delivery time in case of an increase in demand for our products. In the absence of such increase in demand, we may need to make advance payments or compensate our contract manufacturers or other suppliers, as needed. We also may purchase components or raw materials from time to time for use by our contract manufacturers in the manufacturing of our products.

Inventory of raw materials, work in-process or finished products located either at our warehouse or our customers' sites as part of the network build-up may accumulate in the future, and we may encounter losses due to a variety of factors including:

- new generations of products replacing older ones, including changes in products because of technological advances and cost reduction measures; and

- the need of our contract manufacturers to order raw materials that have long lead times and our inability to estimate exact amounts and types of items thus needed, especially with regard to the frequencies in which the final products ordered will operate.

Further, our inventory of finished products located either at our warehouse or our customers' sites as part of a network build-up may accumulate if a customer were to cancel an order or refuse to physically accept delivery of our products, or in turnkey projects which include acceptance tests, refuse to accept the network. The rate of accumulation may increase in a period of economic downturn.

If we fail to accurately predict our manufacturing requirements or forecast customer demand and are required to purchase excess inventory from our contract manufacturers or other suppliers or otherwise compensate our contract manufacturers or other suppliers for purchasing excess inventory, we may incur additional costs of manufacturing and our gross margins and results of operations could be adversely affected. If we overestimate our requirements and actual sales differ materially from these estimates, our inventory levels may be too high, and inventory may become obsolete or over-stated on our balance sheet. This result would require us to write off inventory, which could adversely affect our results of operations. Alternatively, if we underestimate our requirements and actual orders are significantly larger than our planned forecast, we may be required to accelerate production and purchase of supplies, which may result in additional costs of manufacturing and our gross margins and results of operations could be adversely affected.

Our sales cycles in connection with competitive bids or to prospective customers are lengthy.

It typically takes from three to twelve months after we first begin discussions with a prospective customer before we receive an order from that customer, if an order is received at all. In some instances, we participate in competitive bids in tenders issued by our customers or prospective customers. These tender processes can continue for many months before a decision is made by the customer. As a result, we are required to devote a substantial amount of time and resources to secure sales. In addition, the lengthy sales cycle results in greater uncertainty with respect to any particular sale, as events may occur during the sales cycle that impact customers' decisions which, in turn, increases the difficulty of forecasting our results of operations.

Our contract manufacturers obtain some of the components included in our products from a limited group of suppliers and, in some cases, single or sole source suppliers. The loss of any of these suppliers could cause us to experience production and shipment delays and a substantial loss of revenue.

Our contract manufacturers currently obtain key components from a limited number of suppliers. Some of these components are obtained from a single or sole source supplier. Our contract manufacturers' dependence on a single or sole source supplier or on a limited number of suppliers subjects us to the following risks:

- The component suppliers may experience shortages in components and interrupt or delay their shipments to our contract manufacturers. Consequently, these shortages could delay the manufacture of our products and shipments to our customers, which could result in penalties or cancellation of orders for our products.

- The component suppliers could discontinue the manufacture or supply of components used in our systems. In such an event, our contract manufacturers or we may be unable to develop alternative sources for the components necessary to manufacture our products, which could force us to redesign our products. Any such redesign of our products would likely interrupt the manufacturing process and could cause delays in our product shipments. Moreover, a significant modification in our product design may increase our manufacturing costs and bring about lower gross margins.

- The component suppliers may increase component prices significantly at any time and with immediate effect, particularly if demand for certain components increases dramatically in the global market. These price increases would increase component procurement costs and could significantly reduce our gross margins and profitability.

If we do not succeed in developing and marketing new products that keep pace with technological developments, changing industry standards and our customers' needs, we may not be able to grow our business.

The market for our products is characterized by rapid technological advances, changing customer needs and evolving industry standards, as well as increasing pressures to make existing products more cost efficient. Accordingly, in addition to our recently announced new product platform our success will depend, among other things, on our ability to develop and market new products or enhance our existing products in a timely manner to keep pace with developments in technology, and customer requirements.

In addition, the wireless equipment industry is subject to rapid change in technological and industry standards. This rapid change, through official standards committees or widespread use by operators, could either render our products obsolete or require us to modify our products resulting in significant investment, both in time and cost, in new technologies, products and solutions. We cannot assure you that we will continue to successfully develop these components and bring them into full production with acceptable reliability, or that any development or production ramp-up will be completed in a timely or cost-effective manner.

We are continuously seeking to develop new products and enhance our existing products and have recently announced a significant new line of products. Developing new products and product enhancements requires research and development resources. We may not be successful in enhancing our existing products or developing new products in response to technological advances or to satisfy increasingly sophisticated customer needs in a timely and cost-effective manner, which would have a material adverse effect on our ability to grow our business. Moreover, we cannot assure that our newly-announced products will be accepted in the market or will result in profitable sales or that such products will not require additional quality assurance and defect fixing processes.

Due to the volume of our sales in emerging markets, we face challenges and are susceptible to a number of political, economic and regulatory risks that could have a material adverse effect on our business, reputation, financial condition and results of operations.

A majority of our sales are made in countries in Latin America, Africa, Eastern Europe, India and Asia Pacific. For the year ended December 31, 2012 and 2013, sales in these regions accounted for approximately 66% and 73%, respectively, of our revenues. As a result, the occurrence of any international, political, regulatory or economic events in these regions could adversely affect our business and result in significant revenue shortfalls. Any such revenue shortfalls could have a material adverse effect on our business, financial condition and results of operations. For example, in 2011, following the regulatory investigation in the Indian telecommunications market which culminated in the revocation by the Supreme Court of India in 2012 of a large number of licenses and spectrum, sales by vendors, including us, to telecommunications operators in India significantly decreased, which situation has still not yet stabilized. Also, substantial import controls into Argentina are currently in effect under which we need to obtain tax and customs authorities' approvals for import activities. To date we have been able to obtain all required approvals, but we cannot assure you that more stringent requirements will not be imposed in the future. The following are some of the risks and challenges that we face doing business internationally, several of which are more likely in the emerging markets than in other countries:

- unexpected changes in or enforcement of regulatory requirements, including security regulations relating to international terrorism and hacking concerns and regulations related to licensing and allocation processes;
- unexpected changes in or imposition of tax or customs levies;
- fluctuations in foreign currency exchange rates;
- Restrictions on currency repatriation;
- imposition of tariffs and other barriers and restrictions;
- burden of complying with a variety of foreign laws including foreign import restrictions which may be applicable to our products;
- difficulties in protecting intellectual property;
- laws and business practices favoring local competitors;
- demand for high-volume purchases with discounted prices;
- payment delays and uncertainties; and

- civil unrest, war and acts of terrorism.

In addition, local business practices in jurisdictions in which we operate, and particularly in emerging markets, may be inconsistent with international regulatory requirements, such as anti-corruption and anti-bribery regulations to which we are subject. It is possible that, notwithstanding our policies and in violation of our instructions, some of our employees, subcontractors, agents or partners may violate such legal and regulatory requirements, which may expose us to criminal or civil enforcement actions. If we fail to comply with such legal and regulatory requirements, our business and reputation may be harmed.

Our past acquisition activities expose us to risks and liabilities.

The Nera Acquisition was our first acquisition involving significant international operations. In acquiring Nera we undertook a number of identified contingent liabilities of Nera, such as various known litigations with third parties, and other contingent exposures with customers, suppliers and employees, all of which could accumulate to a substantial amount. In addition, we may be exposed to potential tax liabilities worldwide with governmental authorities, which could result in a substantial cost. We also undertook certain exposures for penalties and other financial risks posed by a few of Nera's customers in the event of a default by us due to commercial or political circumstances, which may not be under our control. We assessed these contingent liabilities in the purchase price allocation.

However, our assessment of such contingent liabilities may not have been accurate and we may be exposed to actual payments, which may be significantly higher than we assessed. If we are required to make any actual payment on such potential tax liabilities, this could result in the Nera Acquisition being substantially more expensive than originally estimated and could materially adversely affect our results of operations and financial condition.

In connection with the Nera Acquisition documentation, the amount of $10 million out of the consideration was deposited in escrow to cover possible claims by us. In 2013, we filed a claim against the seller in Oslo court and the seller filed a counterclaim. In April 2014, we signed an agreement with the seller and settled all claims, counter claims, legal proceedings and any other contingent or potential claims regarding alleged breaches of representations and warranties contained in the Nera Acquisition documentation. Pursuant to the settlement agreement, we received $17 million in cash (of which approximately $10 million comes from the escrow described above).

As of December 31, 2013, as a result of the accounting treatment for the Nera Acquisition, there was $7.2 million of amortizable intangible assets and $13.8 million of goodwill reflected on our consolidated financial statements, which, if impaired, would negatively affect our consolidated results of operations.

Our acquisition activities expose us to risks and liabilities, which could also result in integration problems and adversely affect our business.

Following the Nera Acquisition and other smaller acquisitions, we have increased the size of our operations significantly and intend to continue to explore potential merger or acquisition opportunities. We are unable to predict whether or when any prospective acquisitions will be completed. The process of integrating an acquired business may be prolonged due to unforeseen difficulties and may require a disproportionate amount of our resources and management's attention. The anticipated benefits and cost savings of such mergers and acquisitions or other restructuring may not be realized fully, or at all, or may take longer to realize than expected. Acquisitions involve numerous risks any of which could harm our business, results of operations or the price of our ordinary shares.

We rely on a limited number of contractors as part of our research and development efforts.

We conduct a part of our research and development activities through outside contractors. We depend on our contractors' ability to achieve stated milestones and commercialize our products, and on their ability to cooperate and overcome design difficulties. This reliance is likely to increase as a result of the 2013 Restructuring, which principally affected our research and development organization in Norway. Our contractors may experience problems, including the inability to recruit professional personnel, which could delay our research and development process. These delays could:

- increase our research and development expenses;

- delay the introduction of our upgraded and new products to current and prospective customers and our penetration into new markets; and

- adversely affect our ability to compete.

If our contractors fail to perform, we may be unable to secure alternative contractors that meet our needs. Moreover, qualifying new contractors may also increase our research and development expenses.

We sell other manufacturers' products as an original equipment manufacturer, or OEM, which subjects us to various risks that may cause our revenues to decline.

We sell a limited number of products on an OEM basis through relationships with a number of manufacturers. Some of these OEM products enable us to offer a complete solution to some of our customers. These manufacturers have chosen to sell a portion of their systems through us in order to take advantage of our reputation and sales channels. The sale of these OEM products by us depends in part on the quality of these products, the ability of these manufacturers to deliver their products to us on time and their ability to provide both presale and post-sale support. Sales of OEM products by us expose our business to a number of risks, each of which could result in a reduction in the sales of our products. We face the risks of termination of these relationships, technical and financial problems these companies might encounter or the promotion of their products through other channels and turning them into competitors rather than partners. In addition, failure by our OEM manufacturers to deliver their products or discontinue production of their products may cause difficulty to and may have an adverse effect on our business. If any of these risks materialize, we may not be able to develop alternative sources for these OEM products, which may cause us to lose certain customers or a part of their business which would cause our revenues to decline.

If we fail to obtain regulatory approval for our products, or if sufficient radio frequency spectrum is not allocated for use by our products, our ability to market our products may be restricted.

Radio communications are subject to regulation in most jurisdictions and to various international treaties relating to wireless communications equipment and the use of radio frequencies. Generally, our products must conform to a variety of regulatory requirements established to avoid interference among users of transmission frequencies and to permit interconnection of telecommunications equipment. Any delays in compliance with respect to our future products could delay the introduction of those products. Also, these regulatory requirements may change from time to time, which could affect the design and marketing of our products as well as the competition we face from other suppliers' products.

In addition, in most jurisdictions in which we operate, users of our products are generally required to either have a license to operate and provide communications services in the applicable radio frequency or must acquire the right to do so from another license holder. Consequently, our ability to market our products is affected by the allocation of the radio frequency spectrum by governmental authorities, which may be by auction or other regulatory selection. These governmental authorities may not allocate sufficient radio frequency spectrum for use by our products or we may not be successful in obtaining regulatory approval for our products from these authorities. Historically, in many developed countries, the lack of available radio frequency spectrum has inhibited the growth of wireless telecommunications networks. If sufficient radio spectrum is not allocated for use by our products, our ability to market our products may be restricted which would have a materially adverse effect on our business, financial condition and results of operations. Additionally, regulatory decisions allocating spectrum for use in wireless hauling at frequencies used by our competitors' products could increase the competition we face.

Other areas of regulation and governmental restrictions, including tariffs on imports and technology controls on exports or regulations related to licensing and allocation processes, could adversely affect our operations and financial

results.

Our products are used in critical communications networks which may subject us to significant liability claims.

Since our products are used in critical communications networks, we may be subject to significant liability claims if our products do not work properly. The provisions in our agreements with customers that are intended to limit our exposure to liability claims may not preclude all potential claims. In addition, any insurance policies we have may not adequately limit our exposure with respect to such claims. We warrant to our current customers that our products will operate in accordance with our product specifications. If our products fail to conform to these specifications, our customers could require us to remedy the failure or could assert claims for damages. Liability claims could require us to spend significant time and money in litigation or to pay significant damages. Any such claims, whether or not successful, would be costly and time-consuming to defend, and could divert management’s attention and seriously damage our reputation and our business.

Widespread use of wireless products may have health and safety risks.

Our wireless communications products emit electromagnetic radiation. In recent years, there has been publicity regarding the potentially negative direct and indirect health and safety effects of electromagnetic emissions from wireless telephones and other wireless equipment sources, including allegations that these emissions may cause cancer. Health and safety issues related to our products may arise that could lead to litigation or other actions against us or to additional regulation of our products. We may be required to modify our technology and may not be able to do so. We may also be required to pay damages that may reduce our profitability and adversely affect our financial condition. Even if these concerns prove to be baseless, the resulting negative publicity could affect our ability to market these products and, in turn, could harm our business and results of operations. Claims against other wireless equipment suppliers or wireless service providers could adversely affect the demand for our hauling solutions.

If we are unable to protect our intellectual property rights, our competitive position may be harmed.

Our ability to compete will depend, in part, on our ability to obtain and enforce intellectual property protection for our technology internationally. We currently rely upon a combination of trade secret, trademark and copyright laws, as well as contractual rights, to protect our intellectual property. In connection with the Nera Acquisition, we acquired certain patents and patent applications. However, our patent portfolio may still not be as extensive as those of our competitors. As a result, we may have limited ability to assert any patent rights in negotiations with, or in counterclaiming against, competitors who assert intellectual property rights against us.

We also enter into confidentiality, non-competition and invention assignment agreements with our employees and contractors engaged in our research and development activities, and enter into non-disclosure agreements with our suppliers and certain customers so as to limit access to and disclosure of our proprietary information. We cannot assure you that any steps taken by us will be adequate to deter misappropriation or impede independent third-party development of similar technologies. Moreover, under current law, we may not be able to enforce the non-competition agreements with our employees to their fullest extent.

We cannot assure you that the protection provided to our intellectual property by the laws and courts of foreign nations will be substantially similar to the remedies available under U.S. law. Furthermore, we cannot assure you that third parties will not assert infringement claims against us based on foreign intellectual property rights and laws that are different from those established in the United States. Any such failure or inability to obtain or maintain adequate protection of our intellectual property rights for any reason could have a material adverse effect on our business, results of operations and financial condition.

Defending against intellectual property infringement claims could be expensive and could disrupt our business.

The wireless equipment industry is characterized by vigorous protection and pursuit of intellectual property rights, which has resulted in often protracted and expensive litigation. We have been exposed to infringement allegations in the past. We may in the future be notified that we are allegedly infringing certain patent or other intellectual property rights of others. Any such litigation or claim could result in substantial costs and diversion of resources. In the event of an adverse result of any such litigation, we could be required to pay substantial damages (including potentially treble damages and attorney's fees should a court find such infringement willful), cease the use and licensing of allegedly infringing technology and the sale of allegedly infringing products and expend significant resources to develop non-infringing technology or to obtain licenses for the infringing technology. We cannot assure you that we would be successful in developing such non-infringing technology or that any license for the infringing technology would be available to us on commercially reasonable terms, if at all.

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If we fail to attract and retain qualified personnel, our business, operations and product development efforts may be materially adversely affected.

Our products require sophisticated research and development, marketing and sales, and technical customer support. Our success depends on our ability to attract, train and retain qualified personnel in all these professional areas while also taking into consideration varying geographical needs and cultures. We compete with other companies for personnel in all of these areas, both in terms of profession and geography, and we may not be able to hire sufficient personnel to achieve our goals or support the anticipated growth in our business. The market for the highly-trained personnel we require globally is competitive, due to the limited number of people available with the necessary technical skills and understanding of our products and technology. If we fail to attract and retain qualified personnel due to compensation or other factors, our business, operations and product development efforts would suffer.

If we are characterized as a passive foreign investment company, our U.S. shareholders may suffer adverse tax consequences, including higher tax rates and potentially punitive interest charges on certain distributions and on the proceeds of share sales.

We do not believe that for 2013 we were a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. Non-U.S. corporations may generally be characterized as a PFIC if for any taxable year either (1) , after applying certain look through rules, 75% or more of such corporation's gross income is passive income, or (2) at least 50% of the average value of all such corporation's assets are held for the production of, or produce, passive income. If we are characterized as a PFIC, our U.S. shareholders may suffer adverse tax consequences, including having gains realized on the sale of our ordinary shares treated as ordinary income, rather than capital gain income, and having potentially punitive interest charges apply. Similar rules apply to distributions that are "excess distributions."

It is possible that the United States Internal Revenue Service could attempt to treat us as a PFIC for the 2013 year or prior tax years. The tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of our future income, assets, activities and market capitalization, including fluctuations in the price of our ordinary shares, which are relevant to this determination. Accordingly, there can be no assurance that we will not become a PFIC in 2014 or in subsequent years. For a discussion of the rules relating to passive foreign investment companies and related tax consequences, please see the section of this prospectus supplement entitled "Tax Considerations."

The price of our ordinary shares is subject to volatility.

The price of our ordinary shares has experienced volatility in the past and may continue to do so in the future. In the two year period ended December 31, 2013, the price of our ordinary shares has ranged from a high of $9.76 to a low of $2.35. On December 31, 2012 and 2013, the closing price of our ordinary shares was $4.41 and $2.97, respectively. Other factors that may contribute to wide fluctuations in our market price, many of which are beyond our control, include, but are not limited to:

- announcement of corporate transactions or other events impacting our revenues;
- announcements of technological innovations;
- customer orders or new products or contracts;
- competitors' positions in the market;

- changes in financial estimates by securities analysts;
- our earnings releases and the earnings releases of our competitors;
- the general state of the securities markets (with particular emphasis on the technology and Israeli sectors thereof); and
- the general state of the credit markets, the current volatility of which could have an adverse effect on our investments.

In addition to the volatility of the market price of our shares, the stock market in general and the market for technology companies in particular have been highly volatile and at times thinly traded. Investors may not be able to resell their shares following periods of volatility.

Implementation of a new enterprise resource planning system could disrupt our operations and cause unanticipated increases in our costs.

In 2012, we selected a new enterprise resource planning, or ERP, system to be implemented at our major offices worldwide. The implementation of the new ERP system began in 2012 and went live at four of our major locations in July 2013. Full implementation of the ERP system could create problems with our planning, integration of data or compatibility with other internal systems. We have invested and will continue to invest, significant capital and human resources in the implementation of the ERP system, which may be disruptive to our underlying business. Any disruptions, delays or deficiencies in the design and implementation of the new ERP system, particularly any disruption, delays or deficiencies that impact our operations, could adversely affect our ability to process customer orders, ship products, provide services and support to our customers, bill and track our customers, conduct timely financial reporting and otherwise run our business. Even if we do not encounter these adverse effects, the implementation of the new ERP system may be much more costly than we anticipated.

Due to the size of their shareholdings, Yehuda and Zohar Zisapel have influence over matters requiring shareholder approval.

As of March 31, 2014, Yehuda Zisapel and his wife Nava Zisapel beneficially owned, directly or indirectly, 5.9% of our outstanding ordinary shares; and Zohar Zisapel, our Chairman, beneficially owned, directly or indirectly, 13.3% of our outstanding ordinary shares. Such percentages include options which are exercisable within 60 days of March 31, 2014. Yehuda and Zohar Zisapel, who are brothers, do not have a voting agreement. Regardless, these shareholders may influence the outcome of various actions that require shareholder approval. 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.

Provisions of our Articles of Association, Memorandum of Association, Israeli law and financing documents could delay, prevent or make difficult a change of control and therefore depress the price of our shares.

Any modification of our Memorandum of Association, including the increase of our registered share capital, requires a 75% majority vote of the votes represented at the meeting in person or by proxy and voting thereon, and although according to our Articles of Association, a merger in general is subject to an over 50% majority of such votes, such a requirement may subject certain types of merger transactions or other business combinations to such super-majority approval requirements. Additionally, under certain circumstances, a request of a creditor of a party to the proposed merger to the court may delay or prevent a merger. Further, a merger generally may not be completed until the passage of certain time periods. In certain circumstances, an acquisition of shares in a public company must be made by means of a tender offer. Our Articles of Association provide that our directors (other than the external directors) are appointed for a period of three years. This longer appointment term may discourage a takeover of our company.

Furthermore, certain provisions of other Israeli laws may have the effect of delaying, preventing or making more difficult an acquisition of or merger with us. For example, Israeli tax law treats some acquisitions, such as share-for-share exchanges between an Israeli company and a foreign company, less favorably than U.S. tax laws. In addition, approvals of a merger that may be in certain circumstances required under the Restrictive Trade Practices Law, 1988, and under of the Israeli Law for the Encouragement of Industrial Research and Development of 1984 may impede, delay or restrict our ability to consummate a merger or similar transaction.

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Risks Relating to Israel

Conducting business in Israel entails special risks.

Our principal offices and a substantial portion of our research and development and contract manufacturers' facilities are located in Israel. We outsource part of our manufacturing operations to major contract manufacturers outside of Israel and our sales occur mostly outside of Israel. Accordingly, we are directly influenced by the political, economic and military conditions affecting Israel. Specifically, we could be adversely affected by:

- Hostilities involving Israel;
- A full or partial mobilization of the reserve forces of the Israeli army;
- The interruption or curtailment of trade between Israel and its present trading partners; and
- A downturn in the economic or financial condition of Israel.

Israel has been subject to a number of armed conflicts that have taken place between it and its Arab neighbors. While Israel has entered into peace agreements with both Egypt and Jordan, Israel has not entered into peace arrangements with any other neighboring countries and the numerous uprisings in North Africa and the Middle East, including in Egypt, Syria and Jordan which border Israel, have introduced additional uncertainty in the region. Recent events in Iran, including reports of its continuing nuclear development program, have further heightened the antipathy between Israel and Iran.

Over the past several years there has been a significant deterioration in Israel's relationship with the Palestinian Authority and a related increase in violence, including recent hostilities related to Lebanon and the Gaza Strip, which is controlled by the Hamas militant group. Efforts to resolve the problem have failed to result in a permanent solution. In 2012 Israel experienced another round of armed conflict with Hamas in the Gaza Strip, with missiles reaching as far as Tel-Aviv. Any armed conflicts, terrorist activities or political instability in the region could adversely affect our business, financial condition and results of operations. Further deterioration of relations with the Palestinian Authority, Hamas or countries in the Middle East could disrupt international trading activities in Israel and may materially and negatively affect our business conditions and those of our major contract manufacturers and could harm our results of operations. In addition, a significant number of our employees who are Israeli citizens are subject to an obligation to perform reserve military service. In case of further regional instability such employees who may include one or more of our key employees may be absent for extended periods of time which may materially adversely affect our business.

Certain countries, as well as certain companies and organizations, primarily in the Middle East, as well as Malaysia and Indonesia, continue to participate in a boycott of Israeli firms and others doing business with Israel and Israeli companies. Thus, there have been sales opportunities that we could not pursue and there may be such opportunities in the future from which we will be precluded. For example, certain countries participating in the boycott described above have recently been increasing their investment in telecom operators in Africa. This growing control of the market in Africa could lead to a decrease of our sales in Africa in the future. The boycott, restrictive laws, policies or practices directed towards Israel or Israeli businesses could, individually or in the aggregate, have a material adverse effect on our business in the future.

We can give no assurance that the political and security situation in Israel, as well as the economic situation, will not have a material impact on our business in the future.

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Since we received Israeli government grants for research and development expenditures, we are subject to ongoing restrictions and conditions, including restrictions on our ability to manufacture products and transfer technologies or know how outside of Israel.

We received grants from the Government of Israel through the Office of the Chief Scientist of the Ministry of Economy, or the OCS, for the financing of a significant portion of our research and development expenditures in Israel through the end of 2006. We therefore must comply with the requirements of the Israeli law for the Encouragement of Industrial Research and Development of 1984 and regulations promulgated thereunder, which we refer to as the R&D Law, with respect to a portion of our products which are deemed to have been developed with OCS funding. The R&D Law and the terms of the grants we received restrict our ability to transfer technology or know how developed with OCS grants or any rights derived from such technology or know how, including by way of the sale of the technology or know how, the grant of a license to such technology or know how or the manufacture of our products based on such technology or know how, outside of Israel unless we obtain the approval of the OCS. There is no assurance that we will receive such OCS approvals. Even if such OCS approvals are obtained we will be required to pay increased royalties to the OCS for the transfer of manufacture or, in case of a transfer of the technology or know how outside of Israel by way of a sale or granting of a license, be required to pay a percentage of the consideration paid for such transfer, but not less than the OCS grants. These restrictions and requirements for payment may impair our ability to sell our technology assets outside of Israel or to outsource or transfer development or manufacturing activities with respect to any product or technology outside of Israel. Furthermore, the consideration available to our shareholders in a transaction involving the transfer outside of Israel of technology or know how developed with OCS funding (such as a merger or similar transaction) may be reduced by any amounts that we are required to pay to the OCS. In addition, under the R&D Law, any non-Israeli who becomes a direct holder of 5% or more of our share capital is required to notify the OCS and to undertake to observe the law governing the grant programs of the OCS, the principal restrictions of which are the transferability limits described above in this paragraph.

In each of 2013 and 2014 we received new approvals for grants from the Government of Israel through the OCS, for the financing of certain research and development expenditures in Israel (the “New Grant”) in the amount of approximately $660,000, which has already been received, and $900,000, respectively. The New Grants require us to comply with the requirements of the R&D Law in the same manner applicable to previous grants. Furthermore, the consideration in a transaction involving the transfer outside of Israel of technology or know how developed with the New Grants (such as a merger or similar transaction) may be reduced by any royalties that the recipient of such technology or know how will be required to pay to the OCS on all past sales of products based on the technology or know how developed with the New Grants.

In addition to the royalty-bearing grants described above, in March 2014 we agreed to participate in two "Magnet" Consortium Programs, sponsored by the OCS, which grants do not bear any royalty obligations, but, as the R&D Law applies to these programs, the restrictions on transfer of know how or manufacturing outside of Israel, as described above, are in effect. See "Israeli Office of Chief Scientist" in Item 4 below.

The tax benefits to which we are currently entitled from our approved enterprise program and our beneficiary enterprise program require us to satisfy specified conditions. If we fail to satisfy these conditions, we may be required to pay increased taxes and would likely be denied these benefits in the future.

The Company has capital investment programs that have been granted approved enterprise status (“Approved Programs”) and a program under beneficiary enterprise status pursuant to the Law for the Encouragement of Capital Investments, 1959 (“Beneficiary Program”). When we begin to generate taxable income from these approved or beneficiary enterprise programs, the portion of our income derived from these programs will be exempt from tax for a period of two years and will be subject to a reduced tax for an additional eight years thereafter, depending on the

percentage of our share capital held by non-Israelis. The benefits available to an approved enterprise program are dependent upon the fulfillment of conditions stipulated under applicable law and in the certificate of approval. If we fail to comply with these conditions, in whole or in part, we may be required to pay additional taxes for the period in which we benefited from the tax exemption or reduced tax rates and would likely be denied these benefits in the future. The amount by which our taxes would increase will depend on the difference between the then applicable tax rate for regular enterprises and the rate of tax, if any, that we would otherwise pay as an approved enterprise or beneficiary enterprise, and the amount of any taxable income that we may earn in the future.

The tax benefits available to approved and beneficiary enterprise programs may be reduced or eliminated in the future. This would likely increase our tax liability.

The Israeli government may reduce or eliminate in the future tax benefits available to approved or beneficiary enterprise programs. Our approved and beneficiary program and the resulting tax benefits may not continue in the future at their current levels or at any level and the new legislation regarding Preferred Enterprise may not be applicable to us or may not fully compensate us for such change. The termination or reduction of these tax benefits would likely increase our tax liability. The amount, if any, by which our tax liability would increase will depend upon the rate of any tax increase, the amount of any tax benefit reduction, and the amount of any taxable income that we may earn in the future. See Item 10 – ADDITIONAL INFORMATION; Taxation; Tax Benefits under the 2011 Amendment, for a description of legislation on “Preferred Enterprise”

It may be difficult to enforce a U.S. judgment against us, and our officers and directors, to assert U.S. securities laws claims in Israel and to serve process on substantially all of our officers and directors.

We are incorporated under the laws of the State of Israel. Service of process upon our directors and officers, substantially all of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, because the majority of our assets and investments, and substantially all of our directors and officers are located outside the United States, any judgment obtained in the United States against us or any of them may not be collectible within the United States. It may be difficult to assert U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws because Israel is not the most appropriate forum to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel addressing these matters.

Subject to specified time limitations and legal procedures, Israeli courts may enforce a U.S. final judgment in a civil matter, including a judgment based upon the civil liability provisions of the U.S. securities laws, and including a judgment for the payment of compensation or damages in a non-civil matter, provided that:

- the judgment was given by a court which was, according to the laws of the state of the court, competent to give it;
- the judgment is executory in the state in which it was given;
- the judgment is no longer appealable;
- the judgment was given by a court that is competent to do so under the rules of private international law applicable in Israel;
- there has been due process and the defendant has had a reasonable opportunity to be heard and to present his or her evidence;
- the obligation imposed by the judgment is enforceable according to the rules relating to the enforceability of judgments in Israel and the substance of the judgment is not contrary to public policy;
- the judgment was not obtained by fraud and does not conflict with any other valid judgment in the same matter between the same parties; and
- an action between the same parties in the same matter is not pending in any Israeli court or tribunal at the time the lawsuit is instituted in the U.S. court.

Even if these conditions are satisfied, an Israeli court will not enforce a foreign judgment if it was given in a state whose laws do not provide for the enforcement of judgments of Israeli courts (subject to exceptional cases) or if its enforcement is likely to prejudice the sovereignty or security of the State of Israel.

Your rights and responsibilities as our shareholder will be governed by Israeli law which may differ in some respects from the rights and responsibilities of shareholders of U.S. corporations.

Since we are incorporated under Israeli law, the rights and responsibilities of our shareholders are governed by our Articles of Association and Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in United States-based corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith and in a customary manner in exercising its rights and performing its obligations towards the company and other shareholders and to refrain from abusing its power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters, such as an amendment to the company's articles of association, an increase of the company's authorized share capital, a merger of the company and approval of related party transactions that require shareholder approval. A shareholder also has a general duty to refrain from discriminating against other shareholders. In addition, a controlling shareholder or a shareholder who knows that it possesses the power to determine the outcome of a shareholders' vote or to appoint or prevent the appointment of an office holder in the company or has another power with respect to the company, has a duty to act in fairness towards the company. Israeli law does not define the substance of this duty of fairness and there is limited case law available to assist us in understanding the nature of this duty or the implications of these provisions. These provisions may be interpreted to impose additional obligations and liabilities on our shareholders that are not typically imposed on shareholders of U.S. corporations.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We were incorporated under the laws of the State of Israel on July 23, 1996 as Giganet Ltd. We changed our name to Ceragon Networks Ltd. on September 6, 2000. We operate under the Israeli Companies Law. Our registered office is located at 24 Raoul Wallenberg Street, Tel Aviv 69719, Israel and the telephone number is 011-972-3-543-1000. Our web address is www.ceragon.com. Information contained on our website does not constitute a part of this annual report.

Our agent for service of process in the United States is Ceragon Networks, Inc., our wholly owned U.S. subsidiary and North American headquarters, located at 10 Forest Avenue, Suite 120, Paramus, New Jersey 07652.

In the years ended December 31, 2013, 2012, and 2011, our capital expenditures were $16.4 million, $14.5 million and $14.4 million, respectively. In 2013 capital expenditures were primarily for the significant implementation/roll out of our ERP system in four of our largest locations implementing new modules which allow us to have better control over our business operations, financial activity and project management. In 2012, capital expenditures were primarily for on a new enterprise resource planning, or ERP, system to be implemented at our offices worldwide. In 2011 capital expenditures were primarily for the purchase of additional testing equipment and office equipment as a result of the acquisition of Nera. In 2014 we anticipate to continue engaging in capital spending consistent with anticipated change in our business activities.

B. Business Overview

We are the #1 high-capacity wireless hauling specialist, in terms of unit shipments and global distribution of our business. We provide 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. Our 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. We also provide fronthaul solutions that use microwave technology for ultra-high

speed, ultra-low latency communication between LTE/LTE-Advanced base stations and remote radio units (RRUs). The term fronthaul refers to new technologies that allow transport between a remote radio unit and a baseband unit in front of the base station, with a controlling macro base station. We are also a member of industry consortiums of companies which attempt to better define future technologies in the market, such as Open Networking Foundation (ONF), Next Generation Mobile Network Alliance (NGMN), Metro Ethernet Forum (MEF), European Telecommunications Standards Institute (ETSI) and others.

In addition to providing our solutions, we also offer our customers a comprehensive set of turn-key services including: advanced network and radio planning, site survey, solutions development, installation, maintenance, training and more. Our services include utilization of powerful project management tools in order to streamline deployments of complex wireless networks, thereby reducing time and costs associated with network set-up, and allowing faster time to revenue. Our experienced teams can deploy hundreds of "links" every week, and our turn-key project track record includes hundreds of thousands of links already installed and in operation with a variety of industry-leading operators.

Designed for all Internet Protocol (IP) network configurations, including risk-free migration from legacy to next-generation backhaul and fronthaul networks, our solutions provide fiber-like connectivity for next generation Ethernet/Internet Protocol, or IP-based, networks; for legacy circuit-switched, or SONET/SDH, networks and for hybrid networks that combine IP and circuit-switching. Our solutions support all wireless access technologies, including LTE-Advanced, LTE, HSPA, EV-DO, CDMA, W-CDMA and GSM. These solutions allow wireless service providers to cost-effectively and seamlessly evolve their networks from circuit-switched and hybrid concepts to all-IP. In addition, our solutions allow for the proliferation of small-cell heterogeneous networks (HetNets) thereby meeting the increasing demands by the growing numbers of subscribers and the increasing needs for mobile data services. Our systems also serve evolving network architectures including all-IP long haul networks.

We also provide our solutions to other non-carrier vertical markets such as oil and gas companies, public safety network operators, businesses and public institutions, broadcasters, energy utilities and others that operate their own private communications networks. Our solutions are deployed by more than 430 service providers of all sizes, as well as in hundreds of private networks, in more than 130 countries.

In March 2013, we received $113.7 million of credit facilities which replaced all of the Company's existing credit facilities, including the agreement with Bank Hapoalim B.M. entered into in 2011 (the Bank Hapoalim Agreement) and other short term credit facilities with other banks. In October 2013 and again in April 2014, we obtained the bank syndicate's consent for temporary less restrictive financial covenants. Most of the less restrictive financial covenants shall be in effect until October 1, 2014, except for certain less restrictive financial covenants which shall remain in effect until March 31, 2015. After each date, the respective original covenants again apply. See Item 5 – OPERATING AND FINANCIAL REVIEW AND PROSPECTS; Liquidity and Capital Resources, for a more detailed discussion.

In November 2013, we announced a significant new restructuring of our operations to reduce our operational costs. The restructuring plan is intended to realign operations, reduce head count and undertake other cost reduction measures in order to lower our breakeven point and improve profitability. Once the restructuring is completed, the restructuring is expected to result in annual savings of approximately $25 million. The restructuring plan includes consolidating research and development activities worldwide and 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. No customer-facing activities are affected. In connection with the 2013 Restructuring, we incurred restructuring charges of $9.3 million in the fourth quarter of 2013 and we estimate that additional costs will be approximately $1 million during the first half of 2014.

In April 2014, we 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 in January 2011. Pursuant to the settlement agreement, we received $17 million in cash.

Hauling Applications - Backhaul and Fronthaul; Short-haul and Long-haul

Today's wireless base stations handle many different technologies such as cell phones, smart phones, tablets and PCs. Voice and data traffic generated by these high-end devices are then gathered and transmitted via the hauling network to the radio frequency (RF), or wireless, network. Wireless hauling offers network operators a cost-efficient alternative to wire-line (copper/fiber) applications. Support for high capacities means that all value-added services can be supported, while the high reliability of wireless systems provide for lower maintenance costs. Because they require no trenching, wireless links can also be set up much faster and at a fraction of the cost of wire-line solutions. This translates to lower total cost of ownership and faster time to market, as well as new revenue streams, for the operator.

The wireless hauling space is segmented into short-haul and long-haul applications. Short-haul, devices typically have a capacity of up to 1 Gbps per link channel and are used to carry voice and data services over distances of between several hundred feet and 10 miles. Short-haul links are deployed in access hauling applications, connecting the individual base-stations and cellular towers to the core network. Short-haul solutions are also used in a range of non-carrier "vertical" applications such as broadcast, state and local government, education and off-shore communication. Ceragon also offers a solution for emerging fronthaul applications that offer ultra-high capacities up to 2Gbps per link channel. The term fronthaul refers to new technologies that allow transport between a remote radio unit and baseband unit in front of the base station, with a controlling macro base station. Fronthaul allows mobile network operators to use detached radio and baseband units (such as remote radio-heads), avoiding the need to deploy and manage full-featured base-station or cells and thus reducing the total network's cost of ownership.

Long-haul links, with a capacity of up to 2 Gbps, are used in the "highways" of the telecommunication backbone network. These links are used to carry services at distances of 10 to50 miles, and, using the right planning, configuration and equipment, can also bridge distances of 100 miles or even longer.

Ceragon has more than once been the first to introduce new products and features to the market, including the first solution for wireless transmission of 155 Mbps at 38 GHz, the first native IP wireless transmission offering. More recently, we introduced a variety of technological enhancements including the first hitless/errorless 8-step Adaptive Coding and Modulation (ACM) technology (2007); first native Ethernet multi-channel long-haul radio with ACM (2010); unique asymmetric transfer mode and multi-layer compression (2011); and 1024QAM Long-Haul IP radio with 9 step ACM (2012); and the industry's first multi-core radio solution supporting 2048 QAM and 4x4 MIMO (2012).

Industry Background

The market for wireless hauling (backhaul and emerging fronthaul) is being generated primarily by cellular operators, wireless broadband service providers and businesses and public institutions operating private networks. This market is fueled by the continuous customer growth in developing countries, and the explosion in mobile data usage in developed countries. Traditionally based on circuit-switched solutions such as T1/E1 or SONET/SDH, the market for high-capacity wireless hauling is now shifting to more flexible and cost efficient architectures based on high-capacity IP/Ethernet- while fronthaul applications will rely solely on IP technology. This shift enables next-generation hauling networks to successfully cope with the continuing growth of bandwidth-hungry data services over LTE/LTE-Advanced, 3G and HSPA technologies. New wireless broadband networks as well as wireless Internet service providers (WISP) and private networks also rely on high-capacity IP/Ethernet technology to haul large amounts of data traffic.

Rapid subscriber growth and the proliferation of advanced, data-centric handsets such as smartphones and tablets have significantly increased the amount of traffic that must be carried over a cellular operator's hauling infrastructure. As a result, existing transport capacity is heavily strained, creating a bottleneck that hinders service delivery and quality.

In order to meet the demand for more bandwidth, operators are constantly seeking new network architectures that will allow for controlling the cost of the network through smart planning, while ensuring the highest capacities and service quality. New technologies such as intelligent small-cells, coordinated macro cells and C-RAN (Cloud or Centralized Radio Access Network) can help operators to cope with the surge in capacity requirements. The evolution of functioning networks is becoming more heterogeneous in that many technologies, concepts and solution generations need to coexist and operate together seamlessly on the same network. These heterogeneous networks, or HetNets, require high-capacity and ultra-high capacity hauling solutions. Wireless systems offer service providers a variety of advantages over competing technologies including ease and speed of deployment, scalability and lower total

cost of ownership.

Cellular Operators

In order to address the strain on hauling capacity, cellular operators have a number of alternatives, including leasing existing fiber lines, laying new fiber optic networks or deploying wireless solutions. Leasing existing lines requires a significant increase in operating expenses and, in some cases, requires the wireless service provider to depend on a direct competitor. Laying new fiber-optic lines is capital-intensive and these lines cannot be rapidly deployed. The deployment of high capacity and ultra-high capacity point-to-point wireless links represents a scalable, flexible and cost-effective alternative for expanding hauling capacity. Supporting data rates of up to 2 Gbps, wireless hauling solutions enable cellular operators to add capacity only as required while significantly reducing upfront and ongoing hauling costs. In addition, ultra-high capacity is a prerequisite for supporting fronthaul applications.

Most of today's hauling networks still employ a large number of circuit switched (or TDM) solutions - be it T1/E1 or high-capacity SDH/SONET. These networks, originally designed to carry voice-only services, have a limited bandwidth capacity and offer no cost-efficient scalability model. The surge in mobile data usage drives operators to migrate their networks to a more flexible, feature-rich and cost optimized IP/Ethernet architecture. Additionally, the surge in data usage in densely populated areas drives operators to explore new network architecture that utilize a variety of small-cell technologies to form HetNets, and require highly compact, ultra-high-capacity systems for backhaul and fronthaul. As operators transition to HSPA, 4G/LTE and LTE-Advanced, all of which are IP-based wireless access technologies, they look for ways to benefit from IP technology in the backhaul and fronthaul segments, while maintaining support for their primary legacy services.

In order to ensure the success of this hauling network migration phase, operators require solutions that can support their legacy transport technology (TDM) while providing all the advanced IP/Ethernet capabilities and functionalities. This is because, in most cases, next generation HSPA and LTE base stations are co-located with 2G/3G base stations, and thus share the same hauling network. Cellular operators therefore seek "hybrid" wireless hauling solutions that can carry both types of traffic seamlessly over a single network, to facilitate their network migration. Our solutions, which support any network architecture and include both all-IP as well as hybrid systems, offer operators a simple migration plan.

Wireless Broadband Service Providers

For wireless broadband service providers, which offer alternate high data access, high-capacity hauling is essential for ensuring continuous delivery of rich media service across their high-speed data networks. If the hauling network and its components do not satisfy the service providers' need for cost-effectiveness, resilience, scalability or ability to supply sufficient capacity, then the efficiency and productivity of the network may be seriously compromised. While both wireless and wire-line technologies can be used to build these hauling systems, many wireless service providers opt for wireless point-to-point microwave solutions. This is due to a number of advantages of the technology including: rapid installation, support for high-capacity data traffic, scalability and lower cost-per-bit compared to wire-line alternatives.

Other Vertical Markets

Many large businesses and public institutions require private high bandwidth communication networks to connect multiple locations. These private networks are typically built using IP-based communications infrastructure. This market includes educational institutions, utility companies, oil and gas industry, broadcasters, state and local governments, public safety agencies and defense contractors. These customers continue to invest in their private communications networks for numerous reasons, including security concerns, the need to exercise control over network service quality and redundant network access requirements. As data traffic on these networks rises, we expect that businesses and public institutions will continue to invest in their communications infrastructure, including hauling

equipment. Like wireless service providers, customers in this market demand a highly reliable, cost-effective hauling solution that can be easily installed and scaled to their bandwidth requirements. Approximately 20% of our business is associated with private network operators.

Microwave vs. Fiber

Though fiber-based networks can easily support the rapid growth in bandwidth demands, they carry high initial deployment costs and take longer to deploy than microwave. Certainly, where fiber is available within several hundred feet of the operator's point of presence, with ducts already in place, and when there are no regulatory issues that prohibit the connection – fiber can become the operator's preferred route. In almost all other scenarios, high-capacity microwave is simply much more cost efficient. In fact, in most cases the return-on-investment from fiber installations can only be expected in the long term, making it hard for operators to achieve lower costs per bit and earn profits in a foreseeable future.

Wireless microwave hauling solutions on the other hand are capable of delivering high bandwidth, carrier-grade Ethernet and TDM services, while fronthaul applications will be served via ultra-high capacity microwave systems. Our microwave solutions are suitable for all capacities up to 2 Gbps over a single radio connection (or "link") and may be scaled up to multiple Gbps using aggregated links techniques. Unlike fiber, wireless solutions can be set up quickly and are much more cost efficient on a per-bit basis from the outset. In many countries, microwave links are deployed as alternative routes to fiber, ensuring on-going communication in case of fiber-cuts and network failures.

Licensed vs. License-exempt Radios

Service providers select the optimal available transmission frequency based on the rainfall intensity in the transmission area and the desired transmission range. The regulated, or licensed, bands are allocated by government licensing authorities for high-capacity wireless transmissions. The license grants the licensee the exclusive use of that spectrum for a specific use thereby eliminating any interference issues. Licensed microwave is typically the choice of leading operators around the world because it matches the bandwidth and interference protection they require. Our products operate in the 6 – 42 GHz frequency bands, the principal licensed bands currently available for commercial use throughout the world. We also offer products in the 60, 70, 80 GHz frequency bands for use in ultra-high, short-distance networks, such as small-cell backhaul/fronthaul applications.

License-exempt systems typically operate in the "sub-6" 2.4 — 5.85 GHz or in the 24 GHz spectrum band. These systems can be deployed without any regulatory approval. Due to limited availability of spectrum, and the narrow bandwidth of frequency channels in this range, licensed-exempt systems have limited capacities. Often operating in a near-line-of-sight (NLOS) mode, these systems also suffer from high signal loss which puts more limitations of their ability to provide high capacities. Another disadvantage is that since these frequencies are unregulated, it is impossible to ensure high, carrier-grade quality of service and high availability. There are, however, applications in which service providers, public or private, may use license-exempt systems, for instance in enterprises, education, utility, financial, or public safety. Cellular operators and wireless ISPs may also use unlicensed solutions where NLOS is the only means to connect two end-points. For the license-exempt wireless networks market we offer products that are designed to operate in the sub-6 frequencies.

Industry Trends and Developments

- Network Function Virtualization (NFV) and Software Defined Networking (SDN) are two emerging concepts aimed at simplifying network operations and allowing network engineers and administrators respond quickly to changing business requirements. NFV and SDN deliver network architectures that transition networks from a world of task-specific dedicated equipment elements, to a world of optimization of network performance through network intelligence. Our IP-20 platform, which we have launched during 2013, is an SDN-ready solutions suite built around a powerful software-defined engine. The solution also includes an integrated virtualization card that enables independent software applications to run over the same general-purpose hardware.

- The emergence of small cells present hauling challenges that differ from those of traditional macro-cells. Small cells can be used to provide a second layer of coverage in 3G and 4G/LTE networks, resulting in higher throughput and data rates for the end-user. Although small cell deployments are still evolving and are as of yet not showing significant volumes, Ceragon already offers tailored solutions for forward looking mobile operators. Our small-cell backhaul and fronthaul portfolio includes a variety of compact all-outdoor solutions that provide operators with optimal flexibility in meeting their unique physical, capacity, networking, and regulatory requirements.

- Heterogeneous networks, or HetNets, are a means for increasing the capacity in mobile networks. HetNets are typically composed of multiple radio access technologies, architectures, transmission solutions, and base stations of varying generations. Fixed mobile convergence, which is aimed at removing the distinctions between fixed and mobile networks by using a combination of wire-line broadband and local access wireless technologies, is creating further opportunities for HetNets. As operators look to consolidate their hauling networks, they also want to maintain the different access networks they have in order to serve different customers (for example, DSL, cable and 3G). Our advanced systems are already deployed in a wide range of network architectures, serving a host of wireless voice and broadband data access technologies. In addition, our systems interface and interoperate with a variety of wire-line and wireless solutions from other global vendors, to enable smooth and cost optimized delivery of value added, revenue generating services.

- The network sharing business model is growing in popularity among mobile network operators (MNOs) who are faced with increasing competition from over-the-top players and an ever-growing capacity crunch. Network sharing can be particularly effective in the backhaul portion of mobile networks, especially as conventional macro cells evolve into super-sized macro sites that require exponentially more bandwidth for backhaul. It has become abundantly clear that in these new scenarios, a new breed of backhaul solutions with significant investment is required. Our new IP-20 platform supports network sharing concepts by addressing both the ultra-high capacities required for carrying multiple operator traffic, as well as the policing for ensuring that each operator's service level agreement (SLA) is maintained. IP-20 solutions can deliver up to several Gbps of data over a single link. At the same time, by employing advanced hierarchical quality of service (H-QoS) mechanisms, IP-20 ensures fairness and policy enforcement on a shared network.

- While green-field deployments tend to be all-IP based, the overwhelming portion of network infrastructure investments goes into upgrading, or "modernizing" existing cell-sites to fit new services with a lower total cost of ownership. Modernizing is more than a simple replacement of network equipment. It helps operators build up a network with enhanced performance, capacity and service support. For example, Ceragon offers a variety of innovative mediation devices that eliminate the need to replace costly antennas that are already in deployment. In doing so, we help our customers to reduce the time and the costs associated with network upgrades. The result: a smoother upgrade cycle, short network down-time during upgrades and faster time to revenue.

- A growing market for non-mobile hauling applications which includes: Offshore communications for the oil and gas as well as the shipping industry, require a unique set of solutions for use on moving rigs and vessels; Broadcast networks that require robust, highly reliable communication for the distribution of live video content either as a cost efficient alternative to fiber, or as a backup for fiber installations. Smart Grid networks for utilities, as well as local and national governments that seek greater energy efficiency, reliability, and scale.

- A growing demand for high capacity, IP-based Long Haul solutions in emerging markets. This demand is driven by the need of operators to connect more communities to mobile added value services, and a lack of alternative (wire-line) backbone telecommunication infrastructure in these emerging markets.

- Market consolidation in the wireless hauling segment continues. This trend was made evident in our acquisition of Nera and DragonWave's acquisition of the microwave division of Nokia Siemens Networks.

- Subscriber growth continues mainly in emerging markets such as India, Africa and Latin America.

Our Solutions

We offer a broad portfolio of innovative, field-proven, high capacity wireless backhaul and fronthaul solutions which enable cellular operators and other wireless service providers to effectively eliminate the hauling capacity bottleneck, significantly reduce hauling costs and gradually evolve their networks from TDM to IP/Ethernet and SDN-ready networks. We also provide advanced pure IP/Ethernet solutions to wireless broadband service providers as well as to businesses and public institutions that operate their own private communications networks.

Our FibeAir® Short-Haul family of products supports any transport technology, from 2G up to 4G/LTE and LTE-A, and any deployment architecture or network topology. We deliver platforms that carry pure TDM, a combination (hybrid) of native TDM and native IP/Ethernet and pure IP/Ethernet traffic. Our systems can be deployed in high density, split-mount or compact all-outdoor installations. Understanding the many needs of our customers, we provide solutions for every segment of the hauling (backhaul and fronthaul) network – from tail site, or the last tower in the operator's network, to large aggregations sites – and that support both tree and ring topologies.

Our Evolution™ Long-Haul family of products provides a field-proven, quality microwave radio solution for long distance, high capacity telecommunication networks. Evolution products allow operators to smoothly migrate from legacy TDM to all-IP, satisfying the ever-increasing demand for bandwidth - while keeping revenue generating 2G/3G services intact. Evolution Series IP Long Haul is available in both all indoor as well as split-mount configurations and supports all licensed frequency bands from 4 to 13 GHz. This highly efficient solution provides up to 4 Gbps aggregated Ethernet traffic.

We believe our solutions have proven their ability to provide high performance in a cost-effective manner, and they are differentiated in the following ways:

HetNet Hauling: With decades of market experience we believe that identifying our customers' future needs is key to our business success. Our 3H concept provides the path to meeting and keeping up with capacity demands in the evolving HetNet environment. This concept incorporates smart planning tools and capabilities, out-of-the-box network design concepts and a full range of hardware and software solutions for a host of deployment scenarios. For example, the recently released FibeAir IP-20C is suitable for a wide range of HetNet hauling applications. The platform's small form-factor and support for ultra-high capacities with extremely low latency make it ideal for aggregation networks, super-size macro cell hauling or Cloud Radio Access Networks (C-RAN) or fronthauling with compressed CPRI (Common Public Radio Interface).

Leading Offering for the Wireless Hauling Market. We believe that we provide our customers with a leading offering of high capacity wireless solutions for HetNet hauling as well as the broader wireless hauling market. Our competitive differentiation results from our focus on product development from components to subsystem integration to overall system solution design. Our software defined multi-core IP-based hauling solutions provide fiber-like performance with throughput speeds from 10 Megabit up to 4 Gigabits per second, with high availability and low latency. Our solutions enable wireless service providers to gradually evolve their networks from all circuit-switched through a combined "hybrid" model to all IP/Ethernet-based networks. We provide operators with a range of systems allowing them to serve any application in their network – from small cell sites and remote radios using a compact all-outdoor device, up to large multi-carrier solutions for long-distance backbone applications.

In 2013 we released the IP-20, a service-centric, SDN-ready wireless platform containing a rich product line for backhaul and fronthaul. IP-20 is built around a powerful software-defined engine and supports any radio transmission technology mix, any network topology and any configuration. IP-20 is based on our in-house multi-core modem and RFICs. The capabilities of Ceragon's in-house technology were demonstrated in the first member of the IP-20 platform, the FibeAir IP-20C launched in December 2012. This solution features fully operational 4x4 MIMO

(Multiple Input – Multiple Output) capabilities to deliver 1Gbps over a single 28MHz/30MHz channel and as much as 2Gbps over a single 56MHz/60MHz channel without any compression.

All the solutions under the IP-20 platform share a common, high-performance operating system, CeraOS. CeraOS, provides a complete set of service-centric features and performance-boosting capabilities across the entire IP-20 product series and creates a cohesive, easy to operate and simple to manage approach for building, expanding and maintaining wireless backhaul and fronthaul networks.

During 2013 we shipped thousands of links based on the IP-20 platform. These newly deployed systems join our suite of software defined, multi-core, IP-based products and hybrid networking products which are currently deployed in over 430 wireless service providers' networks, including a growing number of global Tier 1 players, as well as private networks around the world.

Broad Product Portfolio. We offer a broad range of high capacity wireless hauling and ultra-high capacity fronthaul systems enabling us to offer complete solutions for the specific needs of a wide range of customers, based on service type, frequency, distance and capacity requirements. Our solutions include platforms based on pure IP, circuit-switched (or TDM) products, and hybrid solutions that deliver both circuit-switched and IP traffic in their native form over a single radio. This functionality makes the latter particularly attractive for wireless service providers and facilitates cost effective, risk-free migration to IP-based hauling networks and can be integrated in any pure IP, hybrid or circuit-switched network. Through our new IP-20 platform, we allow our customers to benefit from emerging technologies and network concepts such as SDN, NFV, fronthaul and C-RAN. Our solutions can be deployed in all-indoor, all-outdoor and split-mount configurations and support a wide range of network topologies.

Network Management Tools for Advanced Microwave Networks. Our innovative, user-friendly Network Management System (NMS) is designed for managing large scale wireless hauling networks. We offer both "stand-alone" management tools as well as tailored solutions in combination with third party partners. These tools enable advanced service delivery across the network, while allowing effectively seamless management of all the hauling network's elements, thus reducing operational costs. Ceragon NMS provides enhanced system functionality and comprehensive network management for current and legacy radios, including FibeAir and Evolution radios. Built on a powerful platform, our NMS allow operators to provide maximized network uptime by including functionality for managing end-to-end configuration, performance, faults and system security.

Turnkey Services Capabilities. Since 2012, we were responsible for installing most of the links we shipped. We offer complete solutions and services for the design and implementation of telecommunication networks, as well as the expansion or integration of existing ones. In 2011, we put in place a Global Projects and Services group that operates alongside our Solutions Groups. Under this group we offer our customers a comprehensive set of turn-key services including: advanced network and radio planning, site survey, solutions development, installation, maintenance, training and more. Our services include utilization of powerful project management tools in order to streamline deployments of complex wireless networks, thereby reducing time and costs associated with network set-up, and allowing faster time to revenue. Our experienced teams can deploy hundreds of "links" every week, and our turn-key project track-record includes hundreds of thousands of links already installed and in operation with a variety of Tier 1 operators.

Low Total Cost of Ownership. Our solutions address industry requirements for low total cost of ownership backhaul and fronthaul solutions. Total cost of ownership includes the combined cost of initial acquisition, installation and ongoing operation and maintenance, regardless of whether these costs are incurred through leasing arrangements or operating owned equipment. For example, we offer a solution that enables legacy links to be swapped for new, modern radios, while reusing other vendors' antennas. Replacing antennas is a costly effort, not only in equipment and installation costs, but also in network downtime during the set-up and re-alignment of new antennas. By enabling our systems to interface with any antenna in the field and compensating for the lower system gain of older installations, we allow operators to keep the existing antennas and cabling, and reduce the loss of revenues, by minimizing downtime. In addition, our products also offer high spectral utilization, which allows the use of smaller antennas, and

results in lower CAPEX and site rental costs. Additional savings can be achieved through our green-mode radios that include adjustable power features and can reduce radio link power consumption by as much as 30% compared with existing solutions. In some of the regions we serve, this is translated into significant operating expense reductions by saving fuel required for the generators on site.

Design to Cost. We see an increasing demand for smaller systems with low power consumption and a cost structure that fits the “flat price” models of mobile operators. We believe that this complicated puzzle can only be solved through vertical integration from system to chip level. Our strategy to drive performance up while driving cost down is achieved through our investment in modem and RF (radio frequency) integrated circuit (IC) design. Our advanced chipsets, which are already in use in hundreds of thousands of units in the field, integrate all the radio functionality required for high-end microwave systems. By owning the technology and controlling the complete system design, we achieve a very high level of vertical integration. This, in turn, yields systems that have superior performance, due to our ability to closely integrate and fine-tune the performance of all the radio components. By significantly reducing the number of components in the system and simplifying its design, we have made our solutions easier to manufacture. We have introduced automated testing that allows us to speed up production while lowering the costs for electronic manufacturing services manufacturers. Thus we believe we are able to achieve one of the lowest per-system cost positions in the industry and can offer our customers further savings through compact, low power consumption designs – which is becoming a key parameter in the ability of operators to deploy LTE small cells.

As an example, our FibeAir IP-20C, which can quadruple the link capacity over a single frequency channel, has nearly the same footprint as our RFU-C which is a single-channel radio unit, not a full system. This achievement could not have made possible without our full control of the entire design and production process

Scalability and Flexibility. We design our products to enable incremental deployment to meet increased service demand, making it possible for wireless service providers to rapidly deploy additional capacity as needed. This approach allows our customers to establish a wireless broadband network with a relatively low initial investment and later expand the geographic coverage area of their networks as subscriber demand increases. Our pay-as-you-grow model allows our customers to add new features along the product’s evolution cycle. This software-based model allows for seamless upgrades of already-deployed solutions, saving the need for additional site visits and hardware replacements.

Strategic Partnerships. Ceragon maintains strategic partnerships with third party solution vendors and network integrators. Through these relationships Ceragon develops interoperable ecosystems, enabling operators to profitably evolve mobile networks by using complementary backhaul, fronthaul and networking alternatives.

Our Products

Our portfolio of products utilizes microwave radio technology that provides our customers with a wireless connectivity that dynamically adapts to weather conditions and optimizes range and efficiency for a given frequency channel bandwidth. Our products are typically sold as a complete system comprised of four components: an outdoor unit, an indoor unit, a compact high-performance antenna and a network management system. We offer all-packet microwave radio links, with optional migration from TDM to Ethernet. Our products include integrated networking functions for both TDM and Ethernet.

We offer our products in three configurations: All-indoor, All-outdoor and Split-mount.

- Split-mount solutions consist of:

v Indoor units which are used to convert the transmission signals from digital to intermediate frequency signals and vice versa, process and manage information transmitted to and from the outdoor unit, aggregate multiple transmission signals and provide a physical interface to wire-line networks.

- Outdoor units or Radio Frequency Units (RFU), which are used to control power transmission, convert intermediate frequency signals to radio frequency signals and vice versa, and provide an interface between antennas and indoor units. They are contained in compact weather-proof enclosures fastened to antennas. Indoor units are connected to outdoor units by standard coaxial cables.

- All-indoor solutions refer to solutions in which the entire system (indoor unit and RFU) reside in a single rack inside a transmission equipment room. A waveguide connection transports the radio signals to the antenna mounted on a tower. All indoor equipment is typically used in long-haul applications.

- All-outdoor solutions combine the functionality of both the indoor and outdoor units in a single, compact device. This weather-proof enclosure is fastened to an antenna, eliminating the need for rack space or sheltering as well as the need for air conditioning.

- Pointing accuracy solutions for high vibration environments. These are advanced microwave radio systems for use on moving rigs/vessels where the antenna is stabilized in one or two axes, azimuth or azimuth/elevation.

- Antennas are used to transmit and receive microwave radio signals from one side of the wireless link to the other. These devices are mounted on poles typically placed on rooftops, towers or buildings. We rely on third party vendors to supply this component.

- End-to-End Network Management. Our network management system uses standard management protocol to monitor and control managed devices at both the element and network level and can be easily integrated into our customers' existing network management systems.

An antenna, an RFU and an indoor unit comprise a terminal. Two terminals are required to form a radio link, which typically extends across a distance of several miles and can extend across a distance of over 100 miles. The specific distance depends upon the customer's requirements and chosen modulation scheme, the frequency utilized, the available line of sight, local rain patterns and antenna size. Each link can be controlled by our network management system or can be interfaced to the network management system of the service provider. The systems are available in both split-mount, including an indoor and outdoor unit, all-indoor and all-outdoor installations.

The IP-20 Platform provides a wide range of solutions for any configuration requirement and diverse networking scenarios. Composed of high-density multi-technology nodes and integrated radio units of multiple radio technologies ranging from 4GHz and up to 86GHz, it offers ultra-high capacity of multiple Gbps with flexibility in accommodating for every site providing high performance terminals for all-indoor, split-mount and all-outdoor configurations.

	Short-Haul					Long-Haul		
Product	FibeAir IP-20G	FibeAir IP-20N / IP-20A*	FibeAir IP-20C	FibeAir IP-20S	FibeAir IP-20E	FibeAir IP-20C HP	FibeAir IP-20LH /IP-20A*	Evoluti IP-20
Description	Multi-Radio Technology Edge Node	Multi-Radio Technology Aggregation Node	Compact All-Outdoor Multi-Core Node	Compact All-Outdoor Node	Compact All-Outdoor Node for E-band (70-80GHz)	Compact, high power, multi-carrier trunk	Ultra-high power multi-carrier trunk with HP-radio ODUs	Ultra-hi power multi-ca trunk w Evoluti ODUs
Interfaces	1GE, FE, and E1/T1	10GE, 1GE, FE, E1/T1	1GE	1GE	1GE	10GE, 1GE, STM-1/OC-3, E1/T1 Note: support for some interfaces requires use of IP-20N/IP-20A IDU	10GE, 1GE, FE, STM-1/OC-3, E1/T1	10GE, FE, STM-1/ E1/T1
Site Configuration	Split-mount		All-outdoor			All-outdoor / Split Mount (with IP-20N or IP-20A IDU)	All-indoor / Split-mount	
Transport Technology	Hybrid and/or all-packet		All-packet			All-packet and/or Hybrid	Hybrid and/or all-pa	
Typical Applications	Cellular operators, Wireless service providers, Incumbent local exchange carriers, Private Networks (Public Safety, First Responders, state/local gov. institutions and Utility Companies)	Cellular operators, Wireless service providers, Incumbent local exchange carriers, Private Networks (Public Safety, First Responders, state/local gov. institutions and Utility Companies)	Cellular operators, Wireless ISPs, , , Private Networks (Public Safety, First Responders, state/local gov. institutions and Utility Companies)	Cellular operators, Wireless ISPs, , Private Networks (Public Safety, First Responders, state/local gov. institutions and Utility Companies)	Cellular operators, Wireless ISPs, , Private Networks (Public Safety, First Responders, state/local gov. institutions and Utility Companies)	Cellular operators, Wireless ISPs, Private Networks (Public Safety, First Responders, state/local gov. institutions and Utility Companies)	Cellular operators, Wireless service providers, Incumbent local exchange carriers, Private Networks (Public Safety, First Responders, state/local gov. institutions and Utility Companies)	Cellular operato Wireles service provide Incumb local ex carriers Private Networ (Public First Respon state/loc gov. instituti and Uti Compar
Type of Customers	Cellular operators, Wireless	Cellular operators, Wireless	Cellular operators, Wireless	Cellular operators, Wireless	Cellular operators, Wireless	Cellular operators, Wireless service providers, Incumbent	Cellular operators, Wireless	Cellular operato Wireles

	ISPs, Private Network providers, Government institutions	ISPs, Private Network providers, Government institutions	ISPs, Private Network providers, Government institutions	ISPs, Private Network providers, Government institutions	ISPs, Private Network providers, Government institutions	local exchange carriers, Private Network providers	service providers, Incumbent local exchange carriers, Private Network providers	service provide Incumb local ex carriers Private Networ provide
Operating system	Unified operating system (CeraOS), uniformly supporting End-to-End networking, services and radio capabi across the entire IP-20 platform series of products							

* ANSI version

The diverse FibeAir® IP-10 product family offers products that address the complete hauling needs of IP-based, hybrid and circuit-switched networks:

				Short-Haul			
Product	FibeAir IP-10C	FibeAir IP-70	FibeAir 2500	FibeAir IP-10E	FibeAir IP-10Q	FibeAir IP-10G	FibeAir 2000/4800
Description	High-Capacity Compact All-Outdoor Solution	High-Capacity 70 GHz Hauling Solution	Sub 6GHz, Point to Multi Point System	High-Capacity Ethernet Solution	High-Capacity, High-Density solution for aggregation sites	High-Capacity Multi-Service	Sub 6GHz, Point to Point system, Multi-Service
Interfaces	Gigabit Ethernet, Fast Ethernet	Gigabit Ethernet	Gigabit Ethernet, Fast Ethernet	Gigabit Ethernet, Fast Ethernet	Multiple Gigabit Ethernet	Gigabit Ethernet multiple E1/T1, Fast Ethernet multiple E1/T1	Gigabit Ethernet, Fast Ethernet multiple E1/T1
Site Configuration	All-outdoor				Split-mount		All-outdoor
Transport Technology	Packet-based					Hybrid	
Typical Applications	Wireless backhaul at tail-sites and small-cell sites	Wireless hauling at tail-sites and small-cell sites	Wireless backhaul for carriers, Private networks and Metro area networks	Private Networks, Business access, Wireless Hauling at small cells sites	Wireless backhaul at aggregation sites	Wireless backhaul for carriers and Private networks	Private Networks, Business access, wireless backhaul at small cells sites
Type of Customers	Cellular operators, Wireless ISPs, Private Network providers	Cellular operators, Wireless ISPs, Private Network providers	Cellular operators, WiMax carriers, Wireless ISPs, Incumbent local exchange carriers, Businesses, Public institutions	Cellular operators, Wireless ISPs, Businesses, Public institutions	Cellular operators, Wireless service providers, Incumbent local exchange carriers	Cellular operators, Wireless service providers, Incumbent local exchange carriers	Cellular operators, Wireless ISPs, Businesses, Public institutions

Our Evolution™ product family offers products that address the needs for high capacity all-IP, TDM or hybrid long-haul and backbone applications:

Network Infrastructure	Long-Haul				
	IP/Hybrid All-Indoor			Split-Mount	
Product	Evolution Long-Haul	FibeAir 3200	Evolution IP-10 Compact Long-Haul (CLH)	Evolution Long-Haul	PointLink
Description	Multi-channel High-Capacity Long-Haul solution	High-Capacity Circuit-switched TDM	Compact all-indoor system for high capacity long distance applications.	4-channels High-Capacity Long-Haul solution	High capacity offshore communication
Interfaces	6 Gigabit ports (SFP or electric), nxSTM-1/OC-3, nxSTM-4/OC-12, 75xE1s/80xDS1s	Multiple STM-1/OC-3	Gigabit Ethernet multiple E1/T1, Fast Ethernet multiple E1/T1	6 Gigabit ports (SFP or electric), nxSTM-1/OC-3, nxSTM-4/OC-12, 75xE1s/80xDS1s	
Typical Applications	Wireless hauling, Wireless backbone, simple migration from TDM to IP long-haul	Wireless hauling, Long distance networks	Wireless hauling, Long distance networks in sites with limited 'real-state'	Wireless hauling, Wireless backbone, simple migration from TDM to IP long-haul	Offshore oil/gas rigs in high vibration environment
Type of Customers	Wireless service providers, Incumbent local exchange carriers, Public institutions	Wireless service providers, Incumbent local exchange carriers	Wireless service providers, private network operators (utilities, rail, state & local government etc.)	Wireless service providers, Incumbent local exchange carriers, Public institutions	Oil and gas drilling companies, shipping industry

Our network management system (NMS) can be used to monitor network element status, provide statistical and inventory reports, download software and configuration to elements in the network, and provide end-to-end service management across the network. Our NMS solutions can support both the FibeAir and Evolution products through a single user interface.

	Network Management System (NMS)
Description	User-friendly Network Management System designed for managing large scale wireless hauling networks. Optimized for centralized operation and maintenance of a complete network with an intuitive graphical

	interface for managing performance, end-to-end configuration, faults and system security.
Key Features	Managing wireless hauling networks; Fault management; Configuration & performance management; Network awareness; Full FCAPS Support Redundancy & Backup; Pay as you Grow with Software Key Mechanism; Northbound Interfaces; Multi-platform Operating System Support

Our IP-based network products use native IP technology. Our hybrid products use our hybrid concept which allows them to transmit both native IP and native circuit-switched TDM traffic simultaneously over a single radio link. Native IP refers to systems that are designed to transport IP-based network traffic directly rather than adapting IP-based network traffic to existing circuit-switched systems. This approach increases efficiency and decreases latency. Our products provide effectively seamless migration to gradually evolve the network from an all circuit-switched and hybrid concept to an all IP-based packet.

As telecommunication networks and services become more demanding, there is an increasing need to match the indoor units' advanced networking capabilities with powerful and efficient radio units. Our outdoor RFUs are designed with sturdiness, power, simplicity, and compatibility in mind. As such, they provide high-power transmission for both short and long distances and can be assembled and installed quickly and easily. The RFUs can operate with different Ceragon indoor units, according to the desired configuration, addressing any network need be it cellular, backbone, rural or private hauling networks.

Our RFUs deliver a maximum capacity over 86 MHz channels with configurable modulation schemes from QPSK to 2048QAM. High spectral efficiency is ensured by using the same bandwidth for double the capacity, using a single channel, with vertical and horizontal polarizations. This feature is implemented with a built-in cross polarization interference canceller (XPIC) mechanism. Ceragon was also the first microwave solutions vendor to introduce a fully functioning 4x4 MIMO (multiple inputs, multiple outputs) radio. Taking advantage of MIMO technology, our solutions quadruple the available capacity over a single frequency channel using a single, compact FibeAir IP-20C device.

Our Services

We are committed to providing high levels of service and implementation support to our customers. Our sales and network field engineering services personnel work closely with customers, system integrators and others to coordinate network design and ensure successful deployment of our solutions.

We offer our customers turnkey project services that include: advanced network and radio planning, site survey, solutions development, installation, maintenance, training and more. We are increasingly engaged in projects in which we provide the requisite installation, supervision and testing services, either directly or through subcontractors.

We support our products with documentation and training courses tailored to our customers' varied needs. We have the capability to remotely monitor the in-network performance of our products and to diagnose and address problems that may arise. We help our customers to integrate our network management system into their existing internal network operations control centers.

Our Customers

We have sold our products through a variety of channels to over 430 service providers and the operators of hundreds of private networks in more than 130 countries. Our principal customers are mobile operators, cellular operators and wireless service providers that use our products to expand hauling network capacity, reduce hauling costs and support the provision of advanced telecommunications services. In 2013, we maintained our positioning as the #1 high-capacity wireless hauling specialist, in terms of unit shipments and global distribution of our business. While most of our sales are direct, we do reach a number of these customers through OEM or distributor relationships. We also sell systems to large businesses and public institutions that operate their own private communications networks through system integrators, resellers and distributors. Our customer base is diverse in terms of both size and geographic location. In 2013, customers from the Europe region contributed 18% of total yearly revenue. Our sales in Latin America and Africa have increased significantly following the acquisition of Nera, and reached 34% and 20% of yearly revenue in 2013 respectively. Our sales in Asia Pacific, North America and India in 2013 were 11%, 9% and 8%, respectively.

The following table summarizes the distribution of our revenues by region, stated as a percentage of total revenues for the years ended December 31, 2011, 2012 and 2013, and the names of representative customers:

	Year Ended December 31,						
Region	2011		2012		2013		Representative Customers
North America	11	%	9	%	9	%	Peg Bandwidth, Connectronics, Tessco, Conterra
Europe	22	%	22	%	18	%	Hutchison 3, Telenor Serbia, KPN, Tele2, Telecom Austria Group
Africa	17	%	13	%	20	%	Airtel, Globacom, Vodacom
Asia Pacific	17	%	16	%	11	%	Digitel Mobile Philippines, ATI
India	10	%	12	%	8	%	Bharti Airtel, IDEA Cellular, Reliance Communications, Tata Teleservices
Latin America	23	%	28	%	34	%	Telefonica, Telcel, America Movil

Sales and Marketing

We sell our products through a variety of channels, including direct sales, OEMs, resellers, distributors and system integrators. Our sales and marketing staff includes approximately 613 employees in numerous countries worldwide, who work together with local agents, distributors and OEMs to expand our sales.

We are a supplier to three key OEMs, which together accounted for approximately 4.2% of our revenues for the year ended December 31, 2013. We are focusing our efforts on direct sales, which accounted for approximately 95.8% of our revenues for the year ended December 31, 2013, because we believe that this is the way to provide more value to our customers. We also plan to develop additional strategic relationships with equipment vendors, integrators, networking companies and other industry suppliers with the goal of gaining greater access to our target markets.

Our marketing efforts include advertising, public relations and participation in industry trade shows and conferences.

Manufacturing and Assembly

Our manufacturing process consists of materials planning and procurement, assembly of indoor units and outdoor units, final product assurance testing, quality control and packaging and shipping. With the goal of streamlining all manufacturing and assembly processes, we have implemented an outsourced, just-in-time manufacturing strategy that relies on contract manufacturers to manufacture and assemble circuit boards and other components used in our products and to assemble and test indoor units and outdoor units for us. The use of advanced supply chain techniques has enabled us to increase our manufacturing capacity, reduce our manufacturing costs and improve our efficiency.

We outsource most of our manufacturing operations to major contract manufacturers in Israel, Malaysia and the Philippines. Some of our manufacturing and warehousing is done in our production facility in Slovakia. Most of our warehouse operations are outsourced to subcontractors in Israel and the Philippines. The raw materials for our products come primarily from the United States, Europe and Asia Pacific. In 2012 we opened an RMA (return merchandise authorization) center at our subcontractor site in the Philippines to improve cost efficiencies in handling repairs and in 2011 we opened an RMA center in India at our New Delhi offices to provide quick and efficient repair services to our customers in that region.

We comply with standards promulgated by the International Organization for Standardization and have received certification under the ISO 9001 and ISO 14000 standards. These standards define the procedures required for the manufacture of products with predictable and stable performance and quality, as well as environmental guidelines for

our operations. Our headquarters in Tel Aviv and our production plant in Slovakia are certified to OHSAS 18001 for Occupational Health and Safety assurance system.

Our activities in Europe require that we comply with European Union Directives with respect to product quality assurance standards and environmental standards including the "RoHS" (Restrictions of Hazardous Substances) Directive.

Research and Development

We place considerable emphasis on research and development to improve and expand the capabilities of our existing products, to develop new products, with particular emphasis on equipment for transitioning to IP-based networks, and to lower the cost of producing both existing and future products. We intend to continue to devote a significant portion of our personnel and financial resources to research and development. As part of our product development process, we maintain close relationships with our customers to identify market needs and to define appropriate product specifications. In addition, we intend to continue to comply with industry standards and, in order to participate in the formulation of European standards, we are full members of the European Telecommunications Standards Institute.

Our research and development activities are conducted mainly at our facilities in Tel Aviv, Israel and also at our subsidiaries in Greece and Romania. As part of the restructuring activities in 2013, we closed our research and development activities in Bergen, Norway. As of December 31, 2013, our research, development and engineering staff consisted of 286 employees. Our research and development team includes highly specialized engineers and technicians with expertise in the fields of millimeter wave design, modem and signal processing, data communications, system management and networking solutions.

Our research and development department provides us with the ability to design and develop most of the aspects of our proprietary solutions, from the chip-level, including both application specific integrated circuits, or ASICs and RFICs, to full system integration. Our research and development projects currently in process include extensions to our leading IP-based networking product lines and development of new technologies to support future product concepts. In addition, our engineers continually work to redesign our products with the goal of improving their manufacturability and testability while reducing costs.

Intellectual Property

To safeguard our proprietary technology, we rely on a combination of patent, copyright, trademark and trade secret laws, confidentiality agreements and other contractual arrangements with our customers, third-party distributors, consultants and employees, each of which affords only limited protection. We have a policy which requires all of our employees to execute employment agreements which contain confidentiality provisions.

Our patent portfolio may not be as extensive as those of our competitors. As a result, we may have limited ability to assert any patent rights in negotiations with, or in counterclaiming against, competitors who assert intellectual property rights against us. To date, we have 21 patents granted in the United States and other foreign jurisdictions including the EPO (European Patent Office) and 22 patent applications pending in the United States and other foreign jurisdictions including the EPO. We cannot assure you that any patents will actually be issued or that the scope of any issued patent will adequately protect our intellectual property rights.

We have registered trademarks as follows:

- for the standard character mark Ceragon Networks and our logo in the United States, Israel, and the European Union;
- for the standard character mark Ceragon Networks in Canada;
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for the standard character mark CERAGON in Russia, Morocco, Israel, Mexico, Malaysia, United States, South Africa, the Philippines and International Registration (protection granted in Australia, Iceland, Bosnia & Herzegovina, Switzerland, Croatia, Norway, Russia, South Korea, Ukraine, CTM (European Union), Turkey and Singapore);

- for our design mark for FibeAir in the United States, Israel and the European Union;
- for the standard character mark FibeAir in the United States;
- for the standard character mark CeraView in the United States, Israel and the European Union; and
- For the standard character mark Native2 in India.

We have pending trademark applications s as follows:

- for the standard character mark CERAGON in Argentina, Brazil, Chile, Colombia, Indonesia, India, , Nigeria, Venezuela, and International Registration (protection pending in China, Egypt, Kenya, Macedonia and Vietnam).

Competition

The market for wireless equipment is rapidly evolving, fragmented, highly competitive and subject to rapid technological change. We expect competition, which may differ from region to region, to persist, intensify and increase in the future, especially if rapid technological developments occur in the broadband wireless equipment industry or in other competing high-speed access technologies. We also expect consolidation to continue as some players are looking to exit the wireless hauling space in order to focus on other lines of their business. We believe that in a consolidating market the role of microwave specialists, such as ourselves, will be more significant.

We compete with a number of wireless equipment providers worldwide that vary in size and in the types of products and solutions they offer. Our primary competitors include industry "generalists" such as Alcatel-Lucent, Fujitsu Limited, Huawei Technologies Co., Ltd., L.M. Ericsson Telephone Company, NEC Corporation, Nokia Solutions and Networks B.V. (NSN) and ZTE Corporation. In addition to these primary competitors, a number of other smaller "specialist" microwave communications equipment suppliers, including Aviat Networks, DragonWave Inc., and SIAE Microelectronica S.p.A offer or are developing products that compete with our products.

Additionally, the telecommunications equipment industry has experienced significant consolidation among its participants, and we expect this trend to continue. Examples include our acquisition of Nera in January 2011 and the 2012 acquisition by DragonWave of the microwave division of NSN, which itself was formed as a joint venture between Nokia and Siemens. Other examples include the mergers of Alcatel and Lucent and the wireless divisions of Harris and Stratex Networks, and the acquisition by Ericsson of Marconi. These consolidations have increased the size and thus the competitive resources of these companies.

We believe we compete favorably on the basis of:

- our focus on the mobile market and active involvement in shaping next generation standards and technologies;
- product performance, reliability and functionality;
- range and maturity of product portfolio, including the ability to provide both circuit switch and IP solutions and therefore to provide a migration path for circuit-switched to IP-based networks;
- cost structure;
- focus on high-capacity, point-to-point microwave technology, which allows us to quickly adapt to our customers' evolving needs;

- range of turnkey services offering for faster deployment of an entire network and reduced total cost of ownership; and

- support and technical service, experience and commitment to high quality customer service.

Our products also indirectly compete with other high-speed communications solutions, including fiber optic lines and other wireless technologies.

Israeli Office of Chief Scientist

The Government of Israel encourages research and development projects through the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor, or the OCS, pursuant to the Law for the Encouragement of Industrial Research and Development, 1984, and the regulations promulgated thereunder, commonly referred to as the R&D Law.

Under the R&D Law, we applied for and were granted R&D grants. In exchange, we as a recipient of such grants were required to pay the OCS royalties from the revenues derived from products developed within the framework of such R&D programs.

In December 2006, we entered into an agreement with the OCS to conclude our R&D grant programs sponsored by the OCS and by 2008, retired all the debt remaining therefrom. The R&D Law generally requires that the product developed under a program be manufactured in Israel. However, upon the approval of the OCS, some of the manufacturing volume may be performed outside of Israel, provided that the grant recipient pays royalties at an increased rate and at an increased total amount, which may be substantial.

The R&D Law also provides that know-how developed under an approved research and development program may not be transferred to third parties in Israel without the approval of the research committee. Such approval is not required for the sale or export of any products resulting from such research or development. The R&D Law further provides that the know-how developed under such research and development program may not be transferred to any third parties outside Israel, except in certain circumstances and subject to prior OCS approval, which may be conditioned by payment of substantial payments or reciprocal exchange of know-how with the recipient or a cooperation program therewith.

The R&D Law imposes reporting requirements with respect to certain changes in the ownership of a grant recipient. The law requires the grant recipient and its controlling shareholders and foreign interested parties to notify the OCS of any change in control of the recipient or a change in the holdings of the means of control of the recipient that results in a non-Israeli becoming an interested party directly in the recipient and requires the new interested party to undertake to the OCS to comply with the R&D Law. In addition, the rules of the OCS may require additional information or representations in respect of certain of such events. For this purpose, “control” is defined as the ability to direct the activities of a company other than any ability arising solely from serving as an officer or director of the company. A person is presumed to have control if such person holds 50% or more of the means of control of a company. “Means of control” refers to voting rights or the right to appoint directors or the chief executive officer. An “interested party” of a company includes a holder of 5% or more of its outstanding share capital or voting rights, its chief executive officer and directors, someone who has the right to appoint its chief executive officer or at least one director, and a company with respect to which any of the foregoing interested parties owns 25% or more of the outstanding share capital or voting rights or has the right to appoint 25% or more of the directors. Accordingly, any non-Israeli who acquires 5% or more of our ordinary shares will be required to notify the OCS that it has become an interested party and to sign an undertaking to comply with the R&D Law.

In each of 2013 and 2014 we received new approvals for grants from the Government of Israel through the OCS, for the financing of certain research and development expenditures in Israel (the “New Grants”) in the amounts of approximately $660,000, which has already been received, and $900,000, respectively. The New Grants require us to comply with the requirements of the R&D Law in the same manner applicable to previous grants, provided, however, that the obligation to pay royalties on sales of products based on technology or know how developed with the New

Grants does not apply to us, but may apply, under certain conditions, to a recipient of the technology or know how developed with the New Grants, to the extent such is sold and/or transferred.

In addition to the royalty-bearing grants described above, in March 2014 we agreed to participate in two "Magnet" Consortium Programs (the "Programs"), sponsored by the OCS, which grants do not bear any royalty obligations. In the framework of the Programs, intended to support innovative generic industry-oriented technologies, we are to cooperate with additional companies and research institutes. The R&D Law applies to these programs, including the restrictions on transfer of know how or manufacturing outside of Israel, as described above. In 2014 we expect to receive a total of $0.4 million from the OCS under the Programs, and we anticipate receiving further sums of approximately $0.8 million in each of 2015 and 2016, respectively, subject to our compliance with the terms of the Programs.

C. Organizational Structure

We are an Israeli company that commenced operations in 1996. The following is a list of our significant subsidiaries:

Company	Place of Incorporation	Ownership Interest
Ceragon Networks, Inc.	New Jersey	100%
Ceragon Networks AS	Norway	100%
Ceragon America Latina Ltda.	Brazil	100%
Ceragon Telecommunicaciones Latin America S.A.	Venezuela	100%
Ceragon Argentina s.a.	Argentina	100%
Ceragon Networks s.r.o	Slovakia	100%
Ceragon Networks, S.A. de C.V.	Mexico	100%
Ceragon Networks (India) Private Limited	India	100%

D. Property, Plants and Equipment.

Our corporate headquarters and principal administrative, finance and operations departments are located at a leased facility of approximately 83,646 square feet of office space in Tel Aviv, Israel. The leases for the majority of this space expire December 31, 2017, with an option to terminate early after three years.

We also lease the following space at the following properties:

- in the United States, we lease approximately 5,800 square feet of office space in Paramus, New Jersey and approximately 12,000 square feet of office space in Richardson, Texas. The lease in Paramus is valid until January 2015 and the lease in Texas is valid until May 2018;

- in Norway, we lease approximately 72,310 square feet of office space in Bergen expiring in April 2014. In May 2014, we will move to new premises in Bergen leasing approximately 12,000 square feet of office space expiring in May 2019;

- in India, we lease approximately 11,737 square feet of office space in New Delhi expiring in October 2016;

- in Slovakia, we lease approximately 44,780 square feet of manufacturing facility in Liptovsky Hradoc expiring in December 2014;

- in Brazil we lease approximately 33,850 square feet of office and warehouse space in Barueri expiring in December 2017;

- in Mexico, we lease approximately 15,150 square feet of office space in Mexico City expiring in August 2014; and

- in Argentina we lease approximately 6,810 square feet of office space and approximately 23,310 square feet of warehouse space in Cordoba expiring in February 2017, and approximately 1,200 square feet of office space in Buenos Aires expiring in April 2016.

We also lease space for other local subsidiaries to conduct pre-sales and marketing activities in their respective regions.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis should be read in conjunction with our consolidated financial statements, the notes to those financial statements and other financial data that appear elsewhere in this annual report. In addition to historical information, the following discussion contains forward-looking statements based on current expectations that involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in such forward-looking statements due to a number of factors, including those set forth in “Risk Factors” and elsewhere in this annual report. Our consolidated financial statements are prepared in conformity with U.S. GAAP.

A. Operating Results

Overview

We are the #1 high-capacity wireless hauling specialist in terms of unit shipments and global distribution of our business. We provide 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. Our 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.

Designed for all Internet Protocol (IP) network configurations, including risk-free migration from legacy to next-generation backhaul and fronthaul , our solutions provide fiber-like connectivity for next generation Ethernet/Internet Protocol, or IP-based, networks; for legacy circuit-switched, or SONET/SDH, networks and for hybrid networks that combine IP and circuit-switching. Our solutions support all wireless access technologies, including LTE-Advanced, LTE, HSPA, EV-DO, CDMA, W-CDMA and GSM. These solutions allow wireless service providers to cost-effectively and seamlessly evolve their networks from circuit-switched and hybrid concepts to all IP. In addition, our solutions allow for the proliferation of small-cell heterogeneous networks (HetNets), thereby meeting the increasing demands by the growing numbers of subscribers and the increasing needs for mobile data services. Our systems also serve evolving network architectures including all-IP long haul networks.

We also provide our solutions to other non-carrier vertical markets such as oil and gas companies, public safety network operators, businesses and public institutions, broadcasters, energy utilities and others that operate their own private communications networks. Our solutions are deployed by more than 430 service providers of all sizes, as well as in hundreds of private networks, in nearly 130 countries.

In March 2013, we received $113.7 million of credit facilities which replaced all of the Company’s existing credit facilities, including the Bank Hapoalim Agreement and other short term credit facilities with other banks. In October 2013 and again in April 2014, we obtained the bank syndicate's consent for temporary less restrictive financial covenants. Most of the less restrictive financial covenants shall be in effect until October 1, 2014, except for certain less restrictive financial covenants which shall remain in effect until March 31, 2015. After each date, the respective original covenants again apply. See Liquidity and Capital Resources below, for more detailed discussion.

In November 2013, we announced a significant new restructuring of our operations to reduce our operational costs. The restructuring plan is intended to realign operations, reduce head count and undertake other cost reduction measures in order to lower our breakeven point and improve profitability. Once the restructuring is completed, the

restructuring is expected to result in annual savings of approximately $25 million. The restructuring plan includes consolidating research and development activities worldwide and 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. No customer-facing activities are affected. In connection with the 2013 Restructuring, we incurred restructuring charges of $9.3 million in the fourth quarter of 2013 and estimate costs will be approximately $1 million during the first half of 2014.

In April 2014, we 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 in January 2011. Pursuant to the settlement agreement, we received $17 million in cash.

Industry Trends

Market trends have placed, and will continue to place, pressure on the selling prices for our products. Our objective is to continue to meet the demand for our solutions while at the same time increasing our profitability. We seek to achieve this objective by constantly reviewing and improving our execution in, among others, development, manufacturing and sales and marketing. Set forth below is a more detailed discussion of the trends affecting our business:

- Growing Number of Global Wireless Subscribers. Growth in the number of global wireless subscribers is being driven by the availability of inexpensive cellular phones and more affordable wireless service, particularly in developing countries and emerging markets, and is being addressed by expanding wireless networks and by building new networks.

- Increasing Demand for Mobile Data Services. Cellular operators and other wireless service providers are facing increasing demand from subscribers to deliver voice and data services, including Internet browsing, music and video applications.

- The emergence of small cells and HetNets present hauling challenges that differ from those of traditional macro-cells. Small cells and HetNet architectures can be used to provide a second layer of coverage in 3G and LTE networks, resulting in higher throughput and data rates for the end-user.

- Transition to IP-based Networks. Cellular operators and other wireless service providers are deploying all-IP networks and upgrading their infrastructure to interface with an IP-based core network in order to increase network efficiency, lower operating costs and more effectively deliver high-bandwidth data services.

- Network Function Virtualization (NFV) and Software Defined Networking (SDN) deliver network architectures that transition networks from a world of task-specific dedicated equipment elements, to a world of optimization of network performance through network intelligence.

- Network sharing business models are being adopted by mobile network operators (MNOs) who are faced with increasing competition from over-the-top players and an ever-growing capacity crunch. Network sharing can be particularly effective in the backhaul portion of mobile networks, especially as conventional macro cells evolve into super-sized macro sites that require exponentially more bandwidth for backhaul.

We are also experiencing pressure on our sale prices as a result of several factors:

- Increased Competition: Our target market is characterized by vigorous, worldwide competition for market share and rapid technological development. These factors have resulted in aggressive pricing practices and downward pricing pressures, and growing competition from both start-up companies and well-capitalized telecommunication systems providers.

- Regional Pricing Pressures: A significant portion of our sales derives from Latin America in response to the rapid build-out of cellular networks in this region. For the years ended December 31, 2011, 2012 and 2013, 23%, 28% and 34%, respectively, of our revenues were earned in Latin America. Sales of our products in these markets are

generally at lower gross margins in comparison to other regions. Recently, network operators have started to share parts of their network infrastructure through cooperation agreements rather than legal considerations, which may adversely affect demand for network equipment.

- Transaction Size: Competition for larger equipment orders is increasingly intense since the number of large equipment orders in any year is limited. Consequently, we generally experience greater pricing pressure when we compete for larger orders as a result of this increased competition and demand from purchasers for greater volume discounts. As an increasing portion of our revenues is derived from large orders, we believe that our business will be more susceptible to these pressures.

Although we have successfully reduced the cost of producing our equipment and continue to focus on operational improvements, these price pressures may have a negative impact on our gross margins.

As we continue to expand our geographic footprint, we are increasingly engaged in supplying installation and other services for our customers, often in emerging markets. In this context, we may act as prime contractor and equipment supplier for network build-out projects, providing installation, supervision and commissioning services required for these projects, or we may provide such services and equipment for projects handled by system integrators. In such cases, we typically bear the risks of loss and damage to our products until the customer has issued an acceptance certificate upon successful completion of acceptance tests. If our products are damaged or stolen, or if the network we install does not pass the acceptance tests, the end user or the system integrator, as the case may be, could delay payment to us and we would incur substantial costs, including fees owed to our installation subcontractors, increased insurance premiums, transportation costs and expenses related to repairing or manufacturing the products. Moreover, in such a case, we may not be able to repossess the equipment, thus suffering additional losses. Also these projects are turn-key projects, which involve fixed-price contracts. We assume greater financial risks on fixed-price projects, which routinely involve the provision of installation and other services, versus short-term projects, which do not similarly require us to provide services or require customer acceptance certificates in order for us to recognize revenue.

Until 2011, our revenues had grown rapidly; our revenues were flat in 2012 decreased significantly in 2013. We cannot assure you that we will be able to resume growth in future periods, taking also into consideration that a large portion of the growth resulted from the Nera Acquisition.

Results of Operations

Revenues. We generate revenues primarily from the sale of our products, and, to a lesser extent, services. The final price to the customer may vary based on various factors, including but not limited to the size of a given transaction, the geographic location of the customer, the specific application for which products are sold, the channel through which products are sold, the competitive environment and the results of negotiation.

Cost of Revenues. Our cost of revenues consists primarily of the prices we pay contract manufacturers for the products they manufacture for us, the costs of our manufacturing facility, estimated warranty costs, costs related to management of our manufacturing facility, supply chain and shipping. In addition, we pay salaries and related costs to our employees and fees to subcontractors relating to installation services with respect to our products.

Significant Expenses

Research and Development Expenses. Our research and development expenses consist primarily of salaries and related costs for research and development personnel, subcontractors' costs, costs of materials and depreciation of equipment. All of our research and development costs are expensed as incurred. We believe continued investment in research and development is essential to attaining our strategic objectives.

Selling and Marketing Expenses. Our selling and marketing expenses consist primarily of compensation and related costs for sales and marketing personnel, amortization of intangible assets, trade show and exhibit expenses, travel

expenses, commissions and promotional materials.

General and Administrative Expenses. Our general and administrative expenses consist primarily of compensation and related costs for executive, finance, information system and human resources personnel, professional fees (including legal and accounting fees), insurance, provisions for doubtful accounts and other general corporate expenses.

Restructuring costs. Our restructuring expenses consisted primarily of severance and related benefit charges, and to a lesser extent, facilities costs related to obligations under non-cancelable leases for facilities that we ceased to use and other associated costs.

Acquisition related costs. The 2011 income statement includes Nera Acquisition related costs that consist primarily from fees associated with transaction financial advisors, as well as legal, accounting and tax related fees associated with the due diligence.

Financial Income (expenses), net. Our financial income (expenses), net, consists primarily of interest paid on bank debts, gains and losses arising from the remeasurement of transactions and balances denominated in non-dollar currencies into dollars, gains and losses from our currency hedging activity, amortization of marketable securities premium, net, and other fees and commissions paid to banks, offset by interest earned on bank deposits and marketable securities.

Taxes. Our tax expenses consist of current corporate tax expenses in various locations and changes in deferred tax assets and liabilities.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP. These accounting principles require management to make certain estimates, judgments and assumptions based upon information available at the time they are made, historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented.

Our management believes the accounting policies that affect its more significant judgments and estimates used in the preparation of its consolidated financial statements and which are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

- Revenue recognition;
- Inventory valuation;
- Provision for doubtful accounts;
- Taxes on income;
- Stock-based compensation expense; and
- Impairment of goodwill and long-lived assets

Revenue recognition. We 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.

In case the sale is subject to a right of return, we record 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 know factors. Such provisions were immaterial as of December 31, 2012 and 2013, respectively.

Pursuant to the guidance of ASU 605-25, "Multiple Deliverable Revenue Arrangements," when a sales arrangement contains multiple elements, such as equipment and services, we allocate 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 using the relative estimated selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy.

In certain arrangements, we consider 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(s) is considered probable and substantially in the control of the company. In such an 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.

We determine the selling price in our 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 ESP is made through consultation with management, taking into consideration the pricing model and strategy.

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

To assess the probability of collection for revenue recognition purposes, we analyze historical collection experience, current economic trends and the financial position of our customers. On the basis of these criteria, we conclude whether revenue recognition should be deferred and recognized on a cash basis.

Deferred revenue includes unearned amounts received in our 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.

Inventory valuation. Our inventories are stated at the lower of cost or market value. Cost is determined by using the moving average cost method. At each balance sheet date, we evaluate our inventory balance for excess quantities and obsolescence. This evaluation includes an analysis of slow-moving items and sales levels by product and projections of future demand. If needed, we write off inventories that are considered obsolete or excessive. If future demand or market conditions are less favorable than our projections, additional inventory write-downs may be required and would be reflected in cost of revenues in the period the revision is made. As of December 31, 2013 our inventory write-off provision was $3.2 million.

Provision for doubtful accounts. We perform ongoing credit evaluations of our trade receivables and maintain an allowance for doubtful accounts, based upon our judgment as to our ability to collect outstanding receivables. Allowance for doubtful accounts is made based upon a specific review of all the outstanding invoices. In determining the provisions, we analyze our historical collection experience, current economic trends, the financial position of our customers and the payment guarantees (such as letters of credit) that we receive from our customers. We also insure certain trade receivables under credit insurance policies. If the financial condition of our customers deteriorates, resulting in their inability to make payments, additional allowances might be required. As of December 31, 2013, our allowance for doubtful accounts was $6.5 million and our trade receivables were $131.2 million. Historically, our

provision for doubtful accounts has been sufficient to account for our bad debts.

Taxes on income. We utilize the liability method of accounting for income taxes. We record a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. In assessing the need for a valuation allowance, we consider all positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. Forming a conclusion that a valuation allowance is not required is difficult when there is negative evidence such as cumulative losses in the past. As a result of our cumulative losses and the utilization of our loss carry forward opportunities, we have recorded valuation allowances to reduce our net deferred tax assets to the amount we believe is more likely than not to be realized. While we have considered future taxable income and ongoing tax planning strategies in assessing the need for any valuation allowance, in the event we were to determine that it is more likely than not that we will be able to realize our deferred tax assets in the future in excess of the net recorded amount, an adjustment to the valuation allowance would increase income in the period such a determination is made. Likewise, should we determine that it is more likely than not that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the valuation allowance would be charged to expenses in the period such a determination is made. As a result, in the years ended December 31, 2011, 2012 and 2013 we recorded a tax income (expense) from the adjustment of the deferred tax assets in the amount of approximately $0.8 million, $0.2 million and $(4.0) million, respectively.

We establish reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when we believe that certain positions might be challenged despite our belief that our tax return positions are in accordance with applicable tax laws. As part of the determination of our tax liability, management exercises considerable judgment in evaluating tax positions taken by us in determining the income tax provision and establishes reserves for tax contingencies in accordance with ASC 740 "Income Taxes" guidelines. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit, new tax legislation or the change of an estimate based on new information. To the extent that the final tax outcome of these matters is different from the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the effect of reserve provisions and changes to reserves that are considered appropriate, as well as the related interest and penalties.

Management’s judgment is required in determining our provision for income taxes in each of the jurisdictions in which we operate. The provision for income tax is calculated based on our assumptions as to our entitlement to various benefits under the applicable tax laws in the jurisdictions in which we operate. The entitlement to such benefits depends upon our compliance with the terms and conditions set out in these laws. Although we believe that our estimates are reasonable and that we have considered future taxable income and ongoing prudent and feasible tax strategies in estimating our tax outcome, there is no assurance that the final tax outcomes will not be different than those which are reflected in our historical income tax provisions and accruals. Such differences could have a material effect on our income tax provision, net income and cash balances in the period in which such determination is made.

Stock-based compensation expense. ASC 718, “Compensation- Stock Compensation”, 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 our consolidated income statement.

We selected the binomial option pricing model as the most appropriate fair value method for our share-option awards based on the market value of the underlying shares at the date of grant. We recognize compensation expenses for the value of our awards, which have graded vesting, based on the accelerated attribution method over the requisite service period, net of estimated forfeitures. Estimated forfeitures are based on actual historical pre-vesting forfeitures and on management’s estimates. If actual forfeitures differ from our estimates, stock-based compensation expense and our results of operations would be impacted.

Stock-based compensation expense recognized under ASC 718 was $6.6 million, $5.5 million and $3.8 million for the years ended December 31, 2011, 2012 and 2013, respectively.

Impairment of Long-Lived Assets. Our long-lived assets include property and equipment, goodwill and identifiable other intangible assets that are subject to amortization. In assessing the recoverability of our goodwill, property and equipment and other identifiable intangible assets that are held and used, we make judgments regarding whether impairment indicators exist based on our legal factors, market conditions and operating performances. Future events could cause us to conclude that impairment indicators exist and that the carrying values of the goodwill, property and equipment and other intangible assets are impaired. Any resulting impairment loss could have a material adverse impact on our financial position and results of operations.

ASC 350 "Intangible – Goodwill and Other," requires that goodwill be tested for impairment on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the company below its carrying value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition or sale or disposition of a significant portion of the company. We have concluded that we have one reporting unit. The goodwill impairment test is a two-step test. Under the first step, the fair value of the company is compared with its carrying value (including goodwill). If the fair value of the company is less than its carrying value, an indication of goodwill impairment exists and we must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the company's goodwill over the implied fair value of that goodwill. If the fair value of the company exceeds its carrying value, step two does not need to be performed. The fair value of the company is estimated using a discounted cash flow methodology. This requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of our long-term rate of growth, the period over which cash flows will occur and determination of our weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value or goodwill impairment for the company.

We are required to assess the impairment of long-lived assets, tangible and intangible, other than goodwill, under ASC 360 "Property, Plant, and Equipment," when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment indicators include any significant changes in the manner of our use of the assets or the strategy of our overall business, significant negative industry or economic trends and significant decline in our share price for a sustained period.

Upon determination that the carrying value of a long-lived asset may not be recoverable based upon a comparison of aggregate undiscounted projected future cash flows to the carrying amount of the asset, an impairment charge is recorded for the excess of fair value over the carrying amount. We measure fair value using discounted projected future cash flows. During 2013, we recognized impairment of fixed assets in the amount of $2.6 million related to our restructuring plan.

Comparison of Period to Period Results of Operations

The following table presents consolidated statement of operations data for the periods indicated as a percentage of total revenues.

	Year Ended December 31		
	2011	2012	2013
Revenues	100 %	100 %	100 %
Cost of revenues	72.6	69	69
Gross profit	27.4	31	31
Operating expenses:			
Research and development, net	11.3	10.6	11.9
Selling and marketing	18.4	17.3	18.7
General and administrative	6	6.2	7.4
Restructuring costs	1.8	1	2.6
Acquisition related costs	1.1	--	--
Other income	--	--	(2.1)
Total operating expenses	38.5	35.1	38.5
Operating loss	11.1	4.1	7.4
Financial expenses, net	0.5	0.8	3.9
Taxes on income	0.5	0.3	1.8
Net loss	12	5.2	13.1

Year ended December 31, 2012 compared to year ended December 31, 2013

Revenues. Revenues decreased from $446.7 million for the year ended December 31, 2012 to $361.8 million for the year ended December 31, 2013, a decrease of $84.9 million, or 19.0%, partially due to recent downturns in the telecommunication industry. Revenues in India decreased from $54.4 million in 2012 to $26.6 million in 2013, primarily due to completion of a major deployment cycle in one of our largest customers while our other major customers are still deferring their investment as a result of market and regulatory conditions. Revenues in the Europe region decreased from $97.1 million in 2012 to $62.9 million in 2013, primarily due to economic and market conditions and our inability to penetrate/obtain substantial new customers. Revenues in the Asia Pacific region decreased from $70.7 million in 2012 to $40.7 million in 2013, primarily due to slow progress in penetrating new customers while our existing customers reduced their investment as part of cycle investment patterns. The decrease in revenues was partially offset by an increase in the African region from $58.2 million in 2012 to $73.7 million in 2013. Revenues in the Latin America region remained flat in 2013; however, following discussions with a single group customer in this region, we expect the volume of business in the Latin America region to be significantly lower in 2014 than it was in 2012 and 2013.

Cost of Revenues. Cost of revenues decreased from $308.4 million for the year ended December 31, 2012 to $249.5 million for the year ended December 31, 2013, a decrease of $58.9 million, or 19.1%. This decrease was attributable mainly to the following:

- Lower material costs resulting from our reduction in revenues of $48.7 million;
- Lower cost of inventory step-up adjustment of acquired deferred revenue and customer orders to be delivered as of the closing of the Nera Acquisition, in the amount of $4.0 million; and
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Lower shipment and supply-related expenses in the amount of $3.6 million resulting from our reduction in revenues.

Gross Profit. Gross profit as a percentage of revenues was 31.0% for the years ended December 31, 2012 and 2013.

Research and Development Expenses. Our research and development expenses decreased from $47.5 million for the year ended December 31, 2012 to $43.0 million for the year ended December 31, 2013, a decrease of $4.5 million, or 9.5%. The decrease in our research and development expenses was attributable primarily to a reduction of approximately $1.5 million in salary and related expenses as a result of the 2012 and 2013 restructuring plans, a decrease of approximately $1.3 million in subcontractors and related expenses, mainly as a result of the decrease in research and development activities in Norway, a decrease in stock based compensation expenses of $0.6 million and a $0.6 grant from the Israeli Office of the Chief Scientist received in 2013. Our research and development efforts are a key element of our strategy and are essential to our success. We intend to maintain our commitment to research and development and an increase or a decrease in our total revenue would not necessarily result in a proportional increase or decrease in the levels of our research and development expenditures. As a percentage of revenues, research and development expenses increased to 11.9% in the year ended December 31, 2013 compared to 10.6% for the year ended December 31, 2012.

Selling and Marketing Expenses. Selling and marketing expenses decreased from $77.3 million for the year ended December 31, 2012 to $67.7 million for the year ended December 31, 2013, a decrease of $9.6 million, or 12.4%. This decrease was primarily attributable to a decrease of approximately $4.5 million in salary and related expenses, mainly as a result of the 2012 and 2013 restructuring plans, a decrease of $1.2 million in commissions as a result of the reduction in revenues, a decrease of $1.2 million in office expenses, mainly related to the closure of several offices in Europe, a decrease of $1.0 million in amortization of intangible assets and a decrease in stock based compensation expenses of $0.6 million . As a percentage of revenues, selling and marketing expenses were 18.7% in the year ended December 31, 2013 and 17.3% in the year ended December 31, 2012.

General and Administrative Expenses. General and administrative expenses decreased from $27.5 million for the year ended December 31, 2012 to $26.8 million for the year ended December 31, 2013, a decrease of $0.7 million, or 2.8%. This decrease was attributable primarily to a decrease of approximately $1.0 million in salary and related expenses, mainly as a result of the 2012 and 2013 restructuring plans, a decrease of $0.5 million in legal expenses and a decrease in stock based compensation expenses of $0.4 million, offset by a one-time expense in 2013 in the amount of $1.3 million related to an adjustment of pension liabilities in Norway as a result of a change in the official Norwegian data regarding estimated life expectancy. As a percentage of revenues, general and administrative expenses were 6.2% and 7.4% for the years ended December 31, 2012 and 2013, respectively.

Restructuring costs. Restructuring costs consist primarily of severance and related benefit charges, and to a lesser extent, facilities costs related to obligations under non-cancelable leases for facilities that we ceased to use and other associated costs. Restructuring costs increased from $4.6 million for the year ended December 31, 2012 to $9.3 million for the year ended December 31, 2013, an increase of $4.7 million, or 102.8%.

Other income. Other income for the year ended December 31, 2013 includes $7.7 million related to the expiration of certain pre-acquisition indirect tax exposures in connection with the Nera Acquisition.

Financial expenses, Net. Financial expenses, net increased from $3.5 million for the year ended December 31, 2012 to $14.0 million for the year ended December 31, 2013, a change of $10.5 million. The increase in the financial expenses is mainly related to a $3.1 million non-recurring currency devaluation in Venezuela, a $3.3 million non-recurring charge related to actions taken in order to expatriate cash from Argentina, an increase in currency revaluation expenses in the amount of $3.4 million in various countries worldwide and an increase in interest expenses of our short-term loans in the amount of $1.0 million, offset by an increase in finance income from marketable securities and bank deposits in the amount of $0.7 million. As a percentage of revenues, financial expenses, net increased to 3.9% in the year ended December 31, 2013 compared to 0.8% for the year ended December 31, 2012.

Taxes on income. Taxes on income increased from $1.2 million for the year ended December 31, 2012 to $6.5 million for the year ended December 31, 2013, an increase of $5.3 million. The increase in tax expenses was mainly attributable to a $4.0 million non-recurring adjustment of valuation allowance on tax assets in the year ended December 31, 2013, and to a $1.1 million increase in current tax expenses. Our effective tax rate was 5% in 2012 and 16% in 2013. This change was attributable to tax expenses related to higher taxable income in our sales, distribution and subcontracting manufacturing subsidiaries, where the local activities are profitable and taxable in addition to the $4.0 million adjustment of valuation allowance on tax assets.

Net loss. Net loss increased from $23.4 million for the year ended December 31, 2012 to $47.5 million for the year ended December 31, 2013. As a percentage of revenues, net loss increased from 5.2 % for the year ended December 31, 2012 to 13.1% for the year ended December 31, 2013. The increase in net loss was attributable primarily to the decrease in gross profit as a result of the reduction in revenues, as well as to the increase in financial and tax expenses, offset by a decrease in operating expenses.

Year ended December 31, 2011 compared to year ended December 31, 2012

Revenues. Revenues increased from $445.3 million for the year ended December 31, 2011 to $446.7 million for the year ended December 31, 2012, an increase of $1.4 million, or 0.3%. Revenues in the Latin America region increased to $125.7 million for the year ended December 31, 2012 as compared to $104.7 million for the year ended December 31, 2011, primarily due to initial deployments of a Tier1 operator. Revenues in the Asia Pacific region decreased to $55.3 million for the year ended December 31, 2012 compared to $75.0 million for the year ended December 31, 2011, primarily due to several turn-key projects for which revenue was recognized in 2011.

Cost of Revenues. Cost of revenues decreased from $323.2 million for the year ended December 31, 2011 to $308.4 million for the year ended December 31, 2012, a decrease of $14.8 million, or 4.6%. This decrease was attributable mainly to the following:

- Lower cost of inventory step-up adjustment of acquired deferred revenue and customer orders to be delivered as of the closing of the Nera Acquisition, in the amount of $10.9 million;

- Lower salary and related expenses as a result of the integration plan related to the Nera Acquisition in the amount of $4.9 million;

- Lower material cost related to our ongoing own product cost reduction efforts of $3.2 million; and

- Offset by a $2.3 million change in pre-acquisition indirect tax position in 2012

Gross Profit. Gross profit as a percentage of revenues increased from 27.4% for the year ended December 31, 2011 to 31.0% for the year ended December 31, 2012. This increase was attributable mainly to our ability to reduce our cost of revenues following the Nera Acquisition and lower material costs related to our product cost reduction.

Research and Development Expenses. Our research and development expenses decreased from $50.5 million for the year ended December 31, 2011 to $47.5 million for the year ended December 31, 2012, a decrease of $3.0 million, or 5.9%. The decrease in our research and development expenses was attributable primarily to a reduction in subcontractor expenses of $1.7 million and a Norwegian governmental grant in an amount of $1.2 million deducted from expenses. As a percentage of revenues, research and development expenses decreased to 10.6% in the year ended December 31, 2012 compared to 11.3% for the year ended December 31, 2011.

Selling and Marketing Expenses. Selling and marketing expenses decreased from $81.7 million for the year ended December 31, 2011 to $77.3 million for the year ended December 31, 2012, a decrease of $4.4 million, or 5.4%. This decrease was primarily attributable to the decrease of approximately $3.5 million, or 8.0%, in salary and related expenses as a result of the integration plan related to Nera Acquisition. As a percentage of revenues, selling and marketing expenses were 17.3% in the year ended December 31, 2012 and 18.4% in the year ended December 31, 2011.

General and Administrative Expenses. General and administrative expenses increased from $26.5 million for the year ended December 31, 2011 to $27.5 million for the year ended December 31, 2012, an increase of $1.0 million, or

3.8%. This increase was attributable primarily to the increase in doubtful debt expenses of $1.7 million or 804% due to an increase in our accounts receivable balance and an increase in depreciation expenses of $1.1 million, due to higher depreciation expenses of investments in IT infrastructures, offset by a decrease in salary and related expenses as a result of the integration plan related to Nera Acquisition of $2.0 million. As a percentage of revenues, general and administrative expenses were 6.0% and 6.2% for the years ended December 31, 2011 and 2012 respectively.

Restructuring costs. Restructuring costs consist of employee one-time termination benefits and other termination costs related to organizational changes to integrate certain administrative functions and combine our two solution groups. Restructuring costs decreased from $7.8 million for the year ended December 31, 2011 to $4.6 million for the year ended December 31, 2012, a decrease of $3.2 million, or 41.2%.

Acquisition related costs. The acquisition related costs consist primarily of fees for financial advisors in connection with the Nera Acquisition, as well as legal, accounting and tax related fees associated with due diligence. Acquisition related costs were $4.9 million in the year ended December 31, 2011. The Company did not have any acquisition-related costs in the year ended December 31, 2012.

Financial expenses, Net. Financial expenses, net increased from $2.0 million for the year ended December 31, 2011 to $3.5 million for the year ended December 31, 2012, a change of $1.5 million. The increase in the financial expenses was mainly related to decrease in finance income from marketable securities and bank deposits in the amount of $1.7 million and an increase in interest expenses of our short-term loans in the amount of $0.4 million, offset by a decrease in currency revaluation expenses in the amount of $0.6 million. As a percentage of revenues, financial expenses, net changed to 0.8% in the year ended December 31, 2012 compared to 0.5% for the year ended December 31, 2011.

Taxes on income. Taxes on income decreased from $2.3 million for the year ended December 31, 2011 to $1.2 million for the year ended December 31, 2012, a decrease of $1.1 million, or 46.8%. Our effective tax rate was 4% in 2011 and 5% in 2012. This change was attributed to tax expenses related to lower taxable income in our sales, distribution and subcontracting manufacturing subsidiaries, where the local activities are profitable and taxable.

Net loss. Net loss decreased from $53.7 million for the year ended December 31, 2011 to $23.4 million for the year ended December 31, 2012. As a percentage of revenues, net loss decreased to 5.2 % for the year ended December 31, 2012 from 12% for the year ended December 31, 2011. The decrease in net loss was attributable primarily to the decrease in operating expenses as a result of the integration plan, as well as an increase in gross profit as a result of step-up adjustment of acquired deferred revenue in 2011, both of which are related to Nera Acquisition.

Impact of Currency Fluctuations

We typically derive the majority of our revenues in U.S. dollars. Although the majority of our revenues were denominated in U.S. dollars, a significant portion of our expenses were denominated in NIS, NOK (Norwegian Kroner) and Euros. Our NIS- and NOK-denominated expenses consist principally of salaries and related personnel expenses. We anticipate that a material portion of our expenses will continue to be denominated in NIS and NOK.

In addition, since exchange rates between the dollar and the NIS, the NOK and the Euro fluctuate continuously, and since exchange rates between the dollar and the ARS (Argentine Peso), the VEB (Venezuelan bolivar) and the BRL (Brazilian Real) fluctuated significantly in recent years, exchange rate fluctuations would have an impact on our results and period-to-period comparisons of our results. We partially reduce this currency exposure by entering into hedging transactions. The effects of foreign currency re-measurements are reported in our consolidated statements of operations. For a discussion of our hedging transactions, please see “Item 11. Quantitative and Qualitative Disclosures about Market Risk.”

Transactions and balances in currencies other than U.S. dollars are remeasured into U.S. dollars according to the principles in ASC topic 830, “Foreign Currency Matters”. Gains and losses arising from remeasurement are recorded as financial income or expense, as applicable.

The following table presents information about the change in exchange rate of several major currencies against the dollar:

	Change against US Dollar					
Year ended December 31,	NIS (%)	NOK (%)	Euro (%)	ARS (%)	VEB (%)	BRL (%)
2009	(0.7)	(17.7)	(3.3)	11.4	0.1	(26.9)
2010	(6.0)	1.6	8.0	4.5	100.2	(3.1)
2011	7.7	3.0	3.3	7.9	0.0	8.2
2012	(2.3)	(7.5)	(2.1)	13.6	0.0	13.5
2013	(7.0)	(4.2)	9.0	29.7	46.6	12.5

Effects of Government Regulations and Location on the Company's Business

For a discussion of the effects of Israeli governmental regulation and our location in Israel on our business, see "Information on the Company – Business Overview – Conditions in Israel" in Item 4 and the "Risks Relating to Israel" as well as the Risk Factor "Our international operations expose us to the risk of fluctuation in currency exchange rates and restrictions related to cash repatriation" in Item 3, above.

B. Liquidity and Capital Resources

Since our initial public offering in August 2000, we have financed our operations primarily through the proceeds of that initial public offering and a follow-on offering and through royalty-bearing grants from the OCS. In the initial public offering, we raised $97.8 million; and through December 31, 2006, we received a total of $18.5 million from the OCS. In follow-on public offerings completed in December 2007 and November 2013, we raised net amounts of $88.3 million and $35.0 million, respectively.

In January 2011, we entered into a loan agreement with Bank Hapoalim B.M. in the principal amount of $35 million (the Bank Hapoalim Agreement). The Bank Hapoalim Agreement provided that the principal amount of $35 million bore interest at a rate of Libor + 3.15%, which Libor was updated every three months. The principal amount was to be repaid in 17 quarterly installments from February 19, 2012, through February 19, 2016 and the interest was to be paid in quarterly payments starting as of February 19, 2011. As of December 31, 2013, the balance of the loan amounted to $18.5 million including current maturities in the amount of $8.2 million.

In March 2013, we entered into a Credit Facility with four banks: Bank Hapoalim B.M. (also the lead - arranger and securities trustee), HSBC Bank Plc, Bank Leumi Le'Israel Ltd., and First International Bank Israel Ltd., pursuant to which we received $113.7 million of committed credit facilities consisting of up to $73.5 million in credit loans as well as up to $40.2 million for bank guarantees. The Credit Facility replaced all of the Company's existing credit facilities, including the Bank Hapoalim Agreement, and other short term credit facilities with other banks. The Credit Facility will terminate, and all borrowings shall be repaid, upon March 14, 2016. Borrowings will bear floating interest at a base rate plus an applicable spread of up to 3% per annum. The credit facilities are secured by (1) a floating charge over all our assets and (2) floating and fixed charges over our bank accounts with the banks. In the framework of the Credit Facility, we undertook certain financial and other standard covenants, including not to distribute dividends (unless certain terms are met) without the banks' prior written consent pursuant to the agreement. In October 2013 and again in April 2014, we obtained the bank syndicate's consent for temporary less restrictive financial covenants. Most of the less restrictive financial covenants shall be in effect until October 1, 2014, except for certain less restrictive financial covenant which shall remain in effect until March 31, 2015. After each date, the respective original covenants again apply. According to the April 2014 amendment, the available loan facilities shall be reduced by $5 million on January 1, 2015 and additional $5 million on April 1, 2015. In addition, if the Company does not meet the revised EBITDA covenant in the third quarter of 2014, the available loan

facilities will be reduced further by $5 million, starting October 1, 2014 instead of April, 2015.

During the fourth quarter of 2012, we initiated a restructuring plan to improve our operating efficiency. The restructuring plan contributed to the reduction of the operating expenses by $15.0 million for the year ended December 31, 2013. The restructuring costs in 2012 amounted to $4.6 million. In November 2013, we announced a significant new restructuring of our operations to reduce our operational costs. The restructuring plan is intended to realign operations, reduce head count and undertake other cost reduction measures in order to lower our breakeven point and improve profitability. Once the restructuring is completed, it is expected to result in annual savings of approximately $25 million. The restructuring plan includes consolidating research and development activities worldwide and 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. No customer-facing activities are affected. In connection with the 2013 restructuring, we incurred restructuring charges of $9.3 million in the fourth quarter of 2013 and we estimate that additional costs will be approximately $1 million during the first half of 2014.

As of December 31, 2013, our short term debt from financial institutions amounted to $38.7 million excluding current maturities of long-term loan in the amount of $8.2 million.

As of December 31, 2013, we had approximately $52.3 million in cash and cash equivalents, short term bank deposits and short and long-term marketable securities.

As of December 31, 2013, our cash investments were comprised of the following: 81% consisted of short-term, highly liquid investments with original maturities of up to three months,1% consisted of short-term bank deposits and 10% and 8% of our liquid assets is invested in short and long term corporate and government debt securities, respectively. Most of these investments are in US dollars.

Net cash used in operating activities was $29.5 million for the year ended December 31, 2013. Net cash provided by operating activities was $7.2 million for the year ended December 31, 2012 and net cash used in operating activities was $20.1 million for the year ended December 31, 2011.

In 2013, our cash used in operating activities was affected by the following principal factors:

- our net loss of $47.5 million;
-