

CERAGON NETWORKS LTD

Form 20-F/A

April 02, 2019

As filed with the Securities and Exchange Commission on April 2, 2019

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

FORM 20-F/A  
(Amendment No. 1)

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

OR

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

For the fiscal year ended December 31, 2018

OR

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

OR

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

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

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Israel  
(Jurisdiction of Incorporation or Organization)

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

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Michal Lavee Machlav (+972) 3-543-1284 (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)

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

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

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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 80,089,658 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

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

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

Yes          No

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted 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 such files).

Yes          No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

U.S. GAAP

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

Other

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

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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

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EXPLANATORY NOTE

This Amendment No. 1 (the “Amendment”) to the Annual Report on Form 20-F for the year ended December 31, 2018 (the “Annual Report”), filed on April 1, 2019 with the Securities and Exchange Commission (the “SEC”), is being filed by Ceragon Networks Ltd. (the “Company”), to amend the Annual Report for the sole purposes of:

- adding to the Company’s financial statements included under Item 18 of this Amendment, in accordance with Rule 2-05 of Regulation S-X, the reports of the auditor on the financial statements and internal control over financial reporting of a subsidiary of the Company upon which our principal auditor relied, and to which our principal auditor referred, in rendering its audit report on our consolidated financial statements that were included in the Annual Report, which had been inadvertently omitted from the Annual Report; and
- correcting the date of our principal auditor’s report on our financial statements cross-referenced in their opinion on our internal control over financial reporting, which due to clerical error included a date of March 20, 2019 instead of March 31, 2019.

In keeping with the SEC requirements related to this Amendment, it consists solely of (i) the entirety of Item 18 of Form 20-F, along with (ii) Exhibits 12.1 and 12.2, which constitute the required certifications of our principal executive officer and principal financial officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and (iii) Exhibit 13.1, which consists of the certifications of our principal executive officer and principal financial officer pursuant to Rule 13a-14(b)/Rule 15d-14(b) under the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Other than as expressly set forth above, this Amendment does not, and does not purport to, amend, update or restate the information in any other item of the Annual Report, or reflect any events that have occurred after the Annual Report was originally filed.

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ITEM 18. FINANCIAL STATEMENTS

The Consolidated Financial Statements and related notes thereto required by this item are contained on pages F-2 through F-49 hereof.

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ITEM 19. EXHIBITS

- 1.2 Articles of Association, as amended September 20, 2016 (1)
- 4.4 Credit facility, dated as of March 14, 2013 (“Credit Facility”) by and among the Company and Bank Hapoalim B.M., HSBC Bank Plc, Bank Leumi Le’Israel Ltd. and First International Bank of Israel Ltd. (English summary of the material terms) (2)
- 4.5 Amendment, effective as of October 1, 2013, to the Credit Facility (English summary of the material terms) (3)
- 4.6 Amendment No. 2, effective as of April 29, 2014, to the Credit Facility (English summary of the material terms) (4)
- 4.7 Amendment No. 3, effective as of March 31, 2015, to the Credit Facility (English summary of the material terms) (4)
- 4.8 Amended and Restated Share Option and RSU Plan, as amended August 10, 2014 (4)
- 4.9 Amendment No. 4, effective as of March 10, 2016, to the Credit Facility (English summary of the material terms) (5)
- 4.10 Amendment No. 5, executed in December 2016, to the Credit Facility (English summary of the material terms) (6)
- 4.11 Amendment No. 6, effective as of March 30, 2017, to the Credit Facility (English summary of the material terms) (7)
- 4.12 Amendment No. 7, executed on February 12, 2018, to the Credit Facility (English summary of the material terms) (8)
- 4.13 Amendment No. 8, executed on March 26, 2018, to the Credit Facility (English summary of the material terms) (8)
- 8.1 List of Significant Subsidiaries (9)
- 10.1 Consent of Independent Registered Public Accounting Firm (9)
- 10.2 Consent of Independent Registered Public Accounting Firm (9)
- 12.1 Certification by CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 12.2 Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 13.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101 The following financial information from Ceragon Networks Ltd.’s Annual Report on Form 20-F for the year ended December 31, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016; (ii) Consolidated Statements of Comprehensive Income (Loss) at December 31, 2018, 2017 and 2016; (iii) Consolidated Statements of Changes in Shareholders’ Equity for the years ended December 31, 2018, 2017 and 2016; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016; and (v) Notes to Consolidated Financial Statements. Users of this data are advised, in accordance with Rule 406T of Regulation S-T promulgated by the SEC, that this Interactive Data File is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections. (9)

(1) Previously filed as exhibit 1.2 to the Company’s Annual Report on Form 20-F for the year ended December 31, 2016 and incorporated herein by reference.

(2) Previously filed as exhibit 4.4 to the Company’s Annual Report on Form 20-F for the year ended December 31, 2012 and incorporated herein by reference.

- (3) Previously furnished as exhibit 99.3 in a Report on Form 6-K which exhibit was incorporated by reference into the Company's Registration Statement on Form F-3 (No. 333-183316), and incorporated herein by reference.
  - (4) Previously filed as exhibits 4.6, 4.7 and 4.8 to the Company's Annual Report on Form 20-F for the year ended December 31, 2014 and incorporated herein by reference.
  - (5) Previously filed as exhibits 4.9 to the Company's Annual Report on Form 20-F for the year ended December 31, 2015 and incorporated herein by reference.
  - (6) Previously filed as exhibit 4.10 to the Company's Annual Report on Form 20-F for the year ended December 31, 2016 and incorporated herein by reference.
  - (7) Previously filed as exhibit 4.11 to the Company's Annual Report on Form 20-F for the year ended December 31, 2016 and incorporated herein by reference.
  - (8) Previously filed as exhibits 4.12 and 4.13 to the Company's Annual Report on Form 20-F for the year ended December 31, 2017 and incorporated herein by reference.
  - (9) Filed with the original filing of the Annual Report.
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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CERAGON NETWORKS LTD.

By: /s/ Ira Palti

Name: Ira Palti

Title: President and Chief Executive Officer

Date: April 2, 2019

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CERAGON NETWORKS LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018

IN U.S. DOLLARS

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Ceragon Networks Ltd.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Ceragon Networks Ltd. and its subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We did not audit the financial statements of Ceragon America Latina Ltda., a wholly-owned subsidiary, which reflect total assets constituting 5.32% at December 31, 2018, respectively, and total revenues constituting 4.8% in 2018, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Ceragon America Latina Ltda., is based solely on the report of the other auditors.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 31, 2019 expressed an unqualified opinion thereon.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

/s/KOST FORER GABBAY & KASIERER  
A Member of Ernst & Young Global

We have served as the Company's auditor since 2002

Tel-Aviv, Israel

March 31, 2019

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Ceragon Networks Ltd.

### Opinion on Internal Control over Financial Reporting

We have audited Ceragon Networks Ltd.'s and its subsidiaries (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We did not examine the effectiveness of internal control over financial reporting of Ceragon America Latina Ltda., a wholly owned subsidiary, whose financial statements reflect total assets and revenues constituting 5.32% and 4.8%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2018. The effectiveness of Ceragon America Latina Ltda.'s internal control over financial reporting was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the effectiveness of Ceragon America Latina Ltda.'s internal control over financial reporting, is based solely on the report of the other auditors.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, and the related consolidated statements of operations, statements of comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018 and the related notes of the Company and our report dated March 31, 2019 expressed an unqualified opinion thereon.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

#### Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/KOST FORER GABBAY & KASIERER  
A Member of Ernst & Young Global

Tel-Aviv, Israel  
March 31, 2019

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## CERAGON NETWORKS LTD. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	Note	December 31, 2017	2018
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents		\$25,877	\$35,581
Short- term bank deposits		-	515
Trade receivables (net of allowance for doubtful accounts of \$ 7,883 and \$ 4,327 at December 31, 2017 and 2018, respectively)		113,719	123,451
Other accounts receivable and prepaid expenses	3	17,052	12,135
Inventories	4	54,164	53,509
<u>Total</u> current assets		210,812	225,191
<b>NON-CURRENT ASSETS:</b>			
Long-term bank deposits		996	504
Deferred tax assets	13c	988	7,476
Severance pay and pension fund		5,459	5,096
Other non-current assets		3,269	4,544
<b>PROPERTY AND EQUIPMENT, NET</b>	5	29,870	33,613
<b>INTANGIBLE ASSETS, NET</b>	6	2,199	6,576
<u>Total</u> long-term assets		42,781	57,809
<u>Total</u> assets		\$253,593	\$283,000

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

## CERAGON NETWORKS LTD. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

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

	Note	December 31,	
		2017	2018
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Trade payables		75,476	78,892
Deferred revenues		5,193	3,873
Other accounts payable and accrued expenses	7	24,781	27,256
<u>Total</u> current liabilities		105,450	110,021
<b>LONG-TERM LIABILITIES:</b>			
Deferred tax liability	13c	141	28
Accrued severance pay and pensions		10,085	9,711
Other long-term liabilities		4,019	3,672
<u>Total</u> long-term liabilities		14,245	13,411
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>			
	11		
<b>SHAREHOLDERS' EQUITY:</b>			
	12		
Share capital -			
Ordinary shares of NIS 0.01 par value -			
Authorized: 120,000,000 shares at December 31, 2017 and 2018; Issued: 81,526,715			
and 83,571,181 shares at December 31, 2017 and 2018, respectively; Outstanding:			
78,045,192 and 80,089,658 shares at December 31, 2017 and 2018, respectively			
		214	214
Additional paid-in capital		410,817	415,408
Treasury shares at cost – 3,481,523 ordinary shares as of December 31, 2017 and 2018		(20,091 )	(20,091 )
Accumulated other comprehensive loss		(7,171 )	(9,208 )
Accumulated deficit		(249,871)	(226,755)
<u>Total</u> shareholders' equity		133,898	159,568
<u>Total</u> liabilities and shareholders' equity		\$253,593	\$283,000

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

## CERAGON NETWORKS LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

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

		Year ended December 31,		
	Note	2016	2017	2018
Revenues	14	\$293,641	\$332,033	\$343,874
Cost of revenues		194,479	224,698	227,705
Gross profit		99,162	107,335	116,169
Operating expenses:				
Research and development, net		21,695	25,703	28,180
Selling and marketing		39,515	41,656	42,961
General and administrative		20,380	18,576	19,354
Other income		(1,921)	(1,746)	(470)
<u>Total</u> operating expenses		79,669	84,189	90,025
Operating income		19,493	23,146	26,144
Financial expenses, net	16	6,303	5,889	6,349
Income before taxes on income		13,190	17,257	19,795
Taxes on income (benefit)	13b	1,761	1,697	(3,251)
Net income		\$11,429	\$15,560	\$23,046
Net Income per share:				
Basic net income per share		\$0.15	\$0.20	\$0.29
Diluted net income per share		\$0.15	\$0.19	\$0.28
Weighted average number of ordinary shares used in computing basic net income per share		77,702,788	77,916,912	78,579,013
Weighted average number of ordinary shares used in computing diluted net income per share		78,613,528	79,942,353	81,021,527

## CERAGON NETWORKS LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Year ended		
	December 31,		
	2016	2017	2018
Net income	\$11,429	\$15,560	\$23,046
Other comprehensive income (loss):			
Change in foreign currency translation adjustment	861	118	(1,150)
Cash flow hedges:			
Change in net unrealized gains (losses)	168	2,331	(2,260)
Amounts reclassified from AOCI	(261)	(1,772)	1,373
Net change	(93)	559	(887)
Other comprehensive income (loss), net	768	677	(2,037)
Total of comprehensive income	\$12,197	\$16,237	\$21,009

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

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## CERAGON NETWORKS LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Ordinary shares	Share capital	Additional paid-in capital	Treasury shares at cost	Accumulated other comprehensive loss	Accumulated deficit	Total shareholders' equity
Balance as of January 1, 2016	77,636,864	\$ 214	\$ 408,174	\$(20,091)	\$ (8,616 )	\$(276,860 )	\$ 102,821
Exercise of options and RSU's	132,065	*)-	75	-	-	-	75
Share-based compensation expense	-	-	1,071	-	-	-	1,071
Other comprehensive income, net	-	-	-	-	768	-	768
Net income	-	-	-	-	-	11,429	11,429
Balance as of December 31, 2016	77,768,929	214	409,320	(20,091)	(7,848 )	(265,431 )	116,164
Exercise of options and RSU's	276,263	*)-	294	-	-	-	294
Share-based compensation expense	-	-	1,203	-	-	-	1,203
Other comprehensive income, net	-	-	-	-	677	-	677
Net income	-	-	-	-	-	15,560	15,560
Balance as of December 31, 2017	78,045,192	214	410,817	(20,091)	(7,171 )	(249,871 )	133,898
Cumulative effect of the new revenue recognition standard	-	-	-	-	-	70	70
Exercise of options and RSU's	2,044,466	*)-	2,611	-	-	-	2,611
Share-based compensation expense	-	-	1,980	-	-	-	1,980
Other comprehensive loss, net	-	-	-	-	(2,037 )	-	(2,037 )
Net income	-	-	-	-	-	23,046	23,046
Balance as of December 31, 2018	80,089,658	214	415,408	(20,091)	(9,208 )	(226,755 )	159,568

\*) Represent an amount lower than \$1.

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

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## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended		
	December 31,		
	2016	2017	2018
<u>Cash flows from operating activities:</u>			
Net income	\$11,429	\$15,560	\$23,046
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	10,037	9,205	7,758
Share-based compensation expense	1,071	1,203	1,980
Accrued severance pay and pensions, net	28	3	(11 )
Decrease (increase) in trade receivables, net	11,051	(6,403 )	(11,098)
Decrease (increase) in other accounts receivable and prepaid expenses (including other long term assets)	4,747	(259 )	4,624
Decrease (increase) in inventories	4,706	(8,592 )	(956 )
Increase (decrease) in trade payables	(2,355 )	4,836	2,340
Increase (decrease) in deferred revenues	(6,228 )	2,575	(650 )
Decrease )increase) in deferred tax assets, net	478	497	(6,601 )
Increase (decrease) in other accounts payable and accrued expenses (including other long term liabilities)	(9,193 )	(1,474 )	2,062
Net cash provided by operating activities	25,771	17,151	22,494
<u>Cash flows from investing activities:</u>			
Purchase of property and equipment, net	(8,190 )	(8,533 )	(10,303)
Purchase and capitalization of intangible assets, net	-	(1,407 )	(3,412 )
Investment in bank deposits	(153 )	(996 )	48
Investment in shares	-	-	(1,628 )
Proceeds from maturities of short-term bank deposits	153	-	-
Net cash used in investing activities	(8,190 )	(10,936)	(15,295)

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

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2016	2017	2018
<u>Cash flows from financing activities:</u>			
Repayment of bank loan	(17,922)	(17,000)	-
Proceeds from exercise of options	75	294	2,611
Net cash (used in) provided by financing activities	(17,847)	(16,706)	2,611
Effect of exchange rate changes on cash	286	30	(106 )
Increase (decrease) in cash and cash equivalents	20	(10,461)	9,704
Cash and cash equivalents at the beginning of the year	36,318	36,338	25,877
Cash and cash equivalents at the end of the year	\$36,338	\$25,877	\$35,581
<u>Supplemental disclosure of cash flow information:</u>			
Cash paid during the year for income taxes	\$1,370	\$2,493	\$1,617
Cash paid during the year for interest	\$1,739	\$1,837	\$1,752

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

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CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL

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

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

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

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

As to principal markets and major customers, see notes 15b and 15c.

b. Acquisitions:

In December 2017 the Company signed software license agreement with Compass Networks LTD ("Compass") in the amount of \$ 500 and additional agreement for the purpose of developing Disaggregate Microwave products in August 2018, in the amount of up to \$1,500 (out of which \$ 700 was recognized as of December 2018) (see note 6). In addition, the Company signed loan agreements with Compass in the amount of \$ 538, which bear an annual interest rate of 10%.

In December 2018, the company purchased 11% of the share capital of Compass for a consideration of \$ 833. A total investment (including loans) in the amount of \$1,628 was recorded under other non-current assets (see note 2z).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation:

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

CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Use of estimates:

The preparation of the consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make estimates, judgments and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from those estimates. On an ongoing basis, the Company's management evaluates its estimates, including those related to accounts receivable, fair values and useful lives of intangible assets, fair values of stock-based awards, income taxes, and contingent liabilities, among others. Such estimates are based on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of the Company's assets and liabilities.

c. Financial statements in U.S. dollars:

A majority of the revenues of the Company and certain of its subsidiaries are generated in U.S. dollars ("dollars"). In addition, a substantial portion of the Company's and certain of its subsidiaries' costs is incurred in dollars. Since management believes that the dollar is the currency of the primary economic environment in which the Company and its subsidiaries operate and considers the non-U.S. subsidiaries to be a direct, integral extension of the parent company's operations, the dollar is its functional and reporting currency.

Accordingly, amounts in currencies other than U.S dollars have been re-measured in accordance with ASC topic 830, "Foreign Currency Matters" ("ASC 830") as follows:

Monetary balances - at the exchange rate in effect on the balance sheet date. Consolidated statements of operations items - average exchange rates prevailing during the year.

All exchange gains and losses from the re-measurement mentioned above are reflected in the statement of operations in financial expenses, net.

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

d. Principles of consolidation:

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



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Cash equivalents:

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

f. Short term bank deposits:

Short-term bank deposits are deposits with an original maturity of more than three months from the date of investment and which do not meet the definition of cash equivalents.

g. Long-term bank deposits:

Long-term bank deposits are deposits with an original maturity of more than twelve months from the date of investment and which do not meet the definition of cash equivalents.

h. Inventories:

Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are provided to cover risks arising from slow-moving items, technological obsolescence, excess inventories, discontinued products, and for market prices lower than cost, if any.

The Company periodically evaluates the quantities on hand relative to historical and projected sales volume (which is determined based on an assumption of future demand and market conditions) and the age of the inventory. At the point of the loss recognition, a new lower cost basis for that inventory is established. In addition, if required the Company records a liability for firm non-cancelable and unconditional purchase commitments with contract manufacturers for quantities in excess of the Company's future demands forecast consistent with its valuation of excess and obsolete inventory.

Inventory includes costs of products delivered to customers and not recognized as cost of sales, where revenues in the related arrangements were not recognized.

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

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

## i. Property and equipment:

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

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

## j. Impairment of long-lived assets:

The Company's and its subsidiaries' long-lived assets are reviewed for impairment in accordance with ASC topic 360, "Property Plant and Equipment", ("ASC 360"), whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. During 2016, 2017 and 2018, no impairment losses have been recognized.

## k. Income taxes:

The Company and its subsidiaries account for income taxes in accordance with ASC topic 740, "Income Taxes", ("ASC 740"). This Statement prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and tax bases of assets and liabilities and for carry forward losses deferred taxes are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value if it is more likely than not that some portion or all of the deferred tax asset will not be realized. For more information see note 13c.

The Company adopted ASC topic 740-10, "Income Taxes", ("ASC 740-10"). ASC 740-10 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with ASC 740. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company elected to classify interest expenses and penalties recognized in the financial statements as income taxes. For more information see note 13g.



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Intangible assets, net:

Intangible assets consist of technology and incurred software development costs capitalized in accordance with ASC 985-20, "Software - Costs of Software to be Sold, Leased, or Marketed".

Intangible assets that are considered to have definite useful life are amortized using the straight-line basis over their estimated useful lives. The Company has not started to amortize the technology asset and software development costs. The Company will start to amortize the technology upon sale of the related developed products.

m. Revenue recognition:

The Company recognizes revenue when (or as) it satisfies performance obligations by transferring promised products or services to its customers in an amount that reflects the consideration the Company expects to receive. The Company applies the following five steps: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied.

The Company considers customer purchase orders, which in some cases are governed by master sales agreements, to be the contracts with a customer. For each contract, the Company considers the promise to transfer tangible products, network roll-out, professional services and customer support, each of which are distinct, to be the identified performance obligations. In determining the transaction price, the Company evaluates whether the price is subject to rebates and adjustments to determine the net consideration to which the Company expects to receive. As the Company's standard payment terms are less than one year, the contracts have no significant financing component. The Company allocates the transaction price to each distinct performance obligation based on their relative standalone selling price. Revenue from tangible products is recognized at a point in time when control of the product is transferred to the customer (i.e., when the Company's performance obligation is satisfied).

The revenues from customer support and extended warranty is recognized ratably over the contract period and the costs associated with these contracts are recognized as incurred. Revenues from network roll-out and professional services are recognized when the Company's performance obligation is satisfied, usually upon customer acceptance.

Most of the Company's distributors are entitled to a right of return related to stock rotation and rebates. Distributors have the right to return a certain amount of product in exchange for new products, and/or the right for rebates, according to the agreed specification in the contracts.

CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Research and development expenses, net:

Research and development expenses, net of government grants, are charged to the statement of operations as incurred, except for development expenses which were capitalized in accordance with ASC 985-20 "Software – Costs of Software to be Sold, Leased, or Marketed" (see 1 above).

o. Warranty costs:

The Company generally offers a standard limited warranty, including parts and labor for an average period of 1-3 years for its products. The Company estimates the costs that may be incurred under its basic limited warranty and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect the Company's warranty liability include the number of installed units, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary.

The Company recorded income (expenses) from decrease (increase) of warranty provision for the years ended December 31, 2016, 2017 and 2018 in the amount of \$ 252, \$ 437 and \$ (83), respectively. As of December 31, 2017 and 2018, the warranty provision was \$ 2,023 and \$2,106, respectively.

p. Derivative instruments:

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

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

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

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



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

For derivative instruments that are designated as fair value hedges (i.e, hedging of portion of its certain monetary items in the balance sheet), the portion of gains and losses on these forward contracts is recognized in earnings.

The Company's cash flow hedging program is to hedge against the risk of overall changes in cash flows resulting from forecasted foreign currency salary payments during the year. The Company hedges portions of its forecasted expenses denominated in NIS with forward exchange contracts. These forward exchange contracts are designated as cash flow hedges, as defined by ASC 815.

q. Concentrations of credit risk:

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

The majority of the Company's cash and cash equivalents are maintained in U.S. dollar. Generally, these cash and cash equivalents and deposits may be redeemed upon demand. Management believes that the financial institutions that hold the Company's and its subsidiaries' cash and cash equivalents are institutions with high credit standing, and accordingly, minimal credit risk exists with respect to these assets.

The Company's trade receivables are geographically diversified and derived from sales to customers mainly in the Europe, North America, Latin America, India and Asia. The Company and its subsidiaries generally do not require collateral; however, in certain circumstances, the Company and its subsidiaries may require letters of credit, additional guarantees or advance payments.

The Company and its subsidiaries perform ongoing credit evaluations of their customers and insure certain trade receivables under credit insurance policies.

r. Allowance for doubtful debt:

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

s. Transfers of financial assets:

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

CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As of December 31, 2017 and 2018, the Company sold trade receivables to several different financial institutions in a total net amount of \$ 19,797 and \$ 6,968, respectively. Control and risk of those trade receivables were fully transferred in accordance with ASC 860.

During the years ended on December 31, 2016, 2017 and 2018, the Company recorded amounts of \$ 536, \$ 553 and \$ 585, respectively, as financial expense related to its factoring arrangements.

t. Severance pay:

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

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

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

As of December 2017 and 2018, accrued severance pay amounted to \$ 7,962, and \$ 7,409 respectively. Severance expense for the years ended December 31, 2016, 2017 and 2018, amounted to approximately \$ 1,662, \$ 1,852 and \$2,107, respectively.

The Company accounts, for its obligations for pension and other postretirement benefits in accordance with ASC 715, "Compensation - Retirement Benefits". For more information refer to note 10.

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

## u. Accounting for stock-based compensation:

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

the Company estimates the fair value of stock options granted under ASC 718 using the binomial model with the following weighted-average assumptions for 2016, 2017 and 2018:

	December 31,		
	2016	2017	2018
Dividend yield	0%	0%	0%
Volatility	51%-73%	53%-69%	53%-62%
Risk free interest	0.2%-2.1%	0.8%-2.2%	1.8%-2.9%
Early exercise multiple	2.20-3.40	2.10-2.20	2.00-2.30

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

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

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

## v. Fair value of financial instruments:

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

CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

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

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

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

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

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

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

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

## w. Comprehensive income:

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

The components of AOCI, were as follows:

	Unrealized Gains (Losses) on Cash Flow Hedges	Foreign Currency Translation Adjustments	Total
Balance as of January 1, 2018	\$ 303	\$ (7,474 )	\$(7,171)
Other comprehensive income before reclassifications	(2,260 )	(1,150 )	(3,410)
Amounts reclassified from AOCI	1,373	-	1,373
Other comprehensive income	(887 )	(1,150 )	(2,037)
Balance as of December 31, 2018	\$ (584 )	\$ (8,624 )	\$(9,208)

The effects on net income of amounts reclassified from Accumulated other comprehensive income ("AOCI") for the year ended December 31, 2018 derive from realized gains on cash flow hedges, included in operating expenses.

## x. Treasury shares:

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

## y. Basic and diluted net earnings per share:

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

The total weighted average number of shares related to the outstanding options excluded from the calculations of diluted net earnings per share due to their anti-dilutive effect was 3,848,290, 4,668,032 and 2,426,689 for the years

ended December 31, 2016, 2017 and 2018, respectively.

z. Equity method investment

Investments in companies that are not controlled but over which the Company can exercise significant influence are presented using the equity method of accounting.

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CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

aa. Impact of recently issued Accounting Standards:

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). The Company adopted the new standard, effective January 1, 2018, using the modified retrospective method applied to those contracts which were not substantially completed as of the adoption date (see Note 14).

In July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842): Targeted Improvements. The standard provides an additional transition method that allows entities to apply the new leases standard at adoption date and recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption. The Company elected this new transition method when it adopted ASU 2016-02 on January 1, 2019.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The standard requires lessees to recognize almost all leases on the balance sheet as a right-of-use asset and a lease liability and requires leases to be classified as either an operating or a finance type lease. The standard excludes leases of intangible assets or inventory. The standard became effective for the Company beginning January 1, 2019. The Company has estimated the opening balances of the right-of-use assets and lease liabilities upon adopting the standard as of January 1, 2019 to be approximately \$7.0 million and \$7.0 million, respectively. The Company is still in the process of finalizing the calculation.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which expands the activities that qualify for hedge accounting and simplifies the rules for reporting hedging transactions. The standard is effective for the interim and annual periods beginning on or after December 15, 2018. Early adoption is permitted. The standard is not expected to have a material impact on the Company's consolidated financial statements and related disclosures.

In September 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". ASU 2016-13 changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans, and other instruments, entities will be required to use a new forward-looking "expected loss" model that generally will result in the earlier recognition of allowances for losses. The guidance also requires increased disclosures. For public business entities that are SEC filers, the new standard is effective for interim and annual periods beginning after December 15, 2019. For all other public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the impact of the new standard on its consolidated financial statements.

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

## ab. Fair value measurement:

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

	Year ended December 31, 2018 Fair value measurements using input type Level 2 Total	
Derivatives instruments	\$(1,028)	\$(1,028)
Total liabilities	\$(1,028)	\$(1,028)

	Year ended December 31, 2017 Fair value measurements using input type Level 2 Total	
Derivatives instruments	\$ (7 )	\$ (7 )
Total liabilities	\$ (7 )	\$ (7 )

## NOTE 3:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31, 2017 2018	
Government authorities	\$5,202	\$6,573
Deferred charges and prepaid expenses	4,417	3,186
Financial institutions	5,543	-
Deposits receivable	481	367
Advances to suppliers	467	812

Hedging asset	451	5
Other	491	1,192
	\$17,052	\$12,135

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## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 4:- INVENTORIES

	December 31,	
	2017	2018
Raw materials	\$12,011	\$15,065
Work in progress	576	374
Finished products	41,577	38,070
	\$54,164	\$53,509

During the year ended December 31, 2016, 2017 and 2018, the Company recorded inventory write-offs for excess inventory and slow-moving inventory in a total amount of \$ 4,503, \$ 3,932 and \$2,814, respectively that have been included in cost of revenues.

As of December 31, 2018, the Company has an outstanding inventory purchase orders with its suppliers in the amount of \$23,922.

## NOTE 5:- PROPERTY AND EQUIPMENT, NET

	December 31,	
	2017	2018
Cost:		
Computers, manufacturing, peripheral equipment	\$100,027	\$111,012
Office furniture and equipment	2,954	2,201
Leasehold improvements	1,148	1,410
	104,129	114,623
Accumulated depreciation:		
Computers, manufacturing, peripheral equipment	70,956	78,317
Office furniture and equipment	2,502	1,856
Leasehold improvements	801	837
	74,259	81,010
Depreciated cost	\$29,870	\$33,613

Depreciation expenses for the years ended December 31, 2016, 2017 and 2018 were \$ 8,389, \$ 7,661 and \$7,758 respectively.

Changes of property and equipment not resulted in cash outflows as of December 31, 2017 and 2018 amounted of \$ 1,508 and \$2,581.

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 6:- INTANGIBLE ASSETS, NET

## a. Intangible assets:

The following table sets forth the components of intangible assets:

	December 31,	
	2017	2018
Original amounts:		
Technology	\$1,225	\$4,509
Software development costs	974	2,067
Intangible assets, net	\$2,199	\$6,576

Technology includes mainly perpetual software licenses to be used in the Company's research and development activities. During 2018, the Company purchased \$ 3,284 technology, out of which \$ 1,834 was not resulted in cash flow outflows as of December 31, 2018. Some of the software license agreements provide a commitment of the Company for royalties payments upon future sales of the related developed products.

<sup>a</sup> Amortization expense for the years ended December 31, 2016, 2017 and 2018 amounted to \$ 1,648, \$ 1,544 and \$0 ,  
<sup>b</sup> respectively.

## NOTE 7:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2017	2018
Employees and payroll accruals	\$12,717	\$15,389
Provision for warranty costs	2,023	2,106
Government authorities	3,172	2,450
Accrued expenses	4,682	3,529
Advanced payments from customers	1,629	1,864
Hedging Liability	457	1,033
Other	101	885
	\$24,781	\$27,256

## NOTE 8:- CREDIT LINES

In March 2013, the Company was provided with a revolving Credit Facility by four financial institutions. The Credit Facility was renewed and amended several times during the past years according to Company's needs and financial position.

In March 2018, the Company signed an amendment to the agreement in the frame of which, the Credit Facility was extended by 2 years and 3 months, till June 30, 2020. Furthermore, the amendment includes an additional increase in bank guarantees credit lines of \$19,800, to \$85,000, a decrease in Credit Facility for loans of \$10,000 to \$40,000, a decrease in allowed letter of credit discounting activities with one customer from \$94,000 to \$50,000 and additional \$10,000 of allowed factoring of invoices with another specific customer. The existing \$20,000 receivables factoring permitted under the agreement, has remained unchanged. The amendment also includes reduced fees and interest spread as compared with the March 2017 amendment.

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CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 8:- CREDIT LINES (Cont.)

As of December 31, 2018 the Company has not utilized any of the \$ 40,000 credit line available for short term loans. During 2018, the credit lines carry interest rates in the range of Libor+2.7% and Libor+3.0%.

The Credit Facility is secured by a floating charge over all Company assets as well as several customary fixed charges on specific assets.

Repayment could be accelerated by the financial institutions in certain events of default including in insolvency events, failure to comply with financial covenants or an event in which a current or future shareholder acquires control (as defined under the Israel Securities Law) of the Company.

The credit agreement contains financial and other covenants requiring that the Company maintains, among other things, minimum shareholders' equity value and financial assets, a certain ratio between its shareholders' equity (excluding total intangible assets) and the total value of its assets (excluding total intangible assets) on its balance sheet, a certain ratio between its net financial debt to each of our working capital and accounts receivable. As of December 31, 2018 and 2017, the Company met all of its covenants.

NOTE 9:- DERIVATIVE INSTRUMENTS

As of December 31, 2017, the Company had outstanding forward exchange contracts designated as cash flow hedge for the acquisition of NIS 38,077 thousands in consideration for \$ 10,743 maturing, in a period of up to one year. As of December 31, 2018, the Company had outstanding forward exchange contracts designated as cash flow hedge for the acquisition of NIS 135,987 thousands in consideration for \$ 37,398 maturing in a period of up to one year.

The Company also enters into forward exchange contracts to hedge a portion of its certain monetary items in the balance sheet, such as trade receivables and trade payables denominated in foreign currencies for a period of up to one month (the "Fair Value Hedging Program"). The purpose of the Company's Fair Value Hedging Program is to protect the fair value of the monetary assets from foreign exchange rates fluctuations. Gains and losses from derivatives related to the Fair Value Hedging Program are not designated as hedging instruments.

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## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 9:- DERIVATIVE INSTRUMENTS (Cont.)

	Loss recognized in Statements of comprehensive income	Statement of Operations item	Gain (loss) recognized in consolidated statements of operations Year ended		
	December 31, 2018		December 31, 2016	2017	2018
Derivatives designated as hedging instruments:					
Foreign exchange option and forward contract	\$ (584	) Operating expenses	\$261	\$1,772	\$(1,373)
Derivatives not designated as hedging instruments:					
Foreign exchange forward contracts	-	Financial expenses	(452)	(2,538)	1,172
Total	\$ (584	)	\$(191)	\$(766	) \$(201
	Balance sheet		December 31, 2017	2018	
Derivatives designated as hedging instruments:	"Other account receivables and prepaid expenses"		\$303	\$3	
Foreign exchange forward contracts	"Other account payables and accrued expenses"		\$-	\$(587)	
	"Other comprehensive income (loss)"		\$303	\$(584)	
Derivatives not designated as hedging instruments:					
Foreign exchange forward contracts and other derivatives	"Other receivables and prepaid expenses"		\$148	\$2	
	"Other account payables and accrued expenses"		(457	\$	) \$(446)

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 10:- PENSION LIABILITIES, NET

The Norwegian subsidiary Ceragon Networks AS (formerly "Nera Networks AS") has defined contribution schemes and four unfunded pension plans.

Under the defined contributions scheme Ceragon Networks AS makes a payment to the insurance company who administer the fund on behalf of the employee. Ceragon Networks AS has no liabilities relating to such schemes after the payment to the insurance company. As of December 31, 2018 almost all active employees are in this scheme. The contribution and the corresponding social security taxes are recognized as payroll expenses in the period to which the employee's services are rendered. The defined pension contribution schemes meet the requirements of the law on compulsory occupational pension.

Defined benefit scheme was stopped for admission from December 1, 2007, and persons that were employed after that date were automatically entered into the defined contribution scheme. The schemes give right to defined future benefits. These are mainly dependent on the number of qualifying employment years, salary level at pension age, and the amount of benefits from the national insurance scheme. The commitment related to the pension scheme is covered through an insurance company. As of December 31, 2018, the pension scheme has 0 members.

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

The liabilities in respect of Ceragon Networks AS's pension plans have been recalculated based on updated employee numbers as at December 31, 2018. These plans together represent 100% of the PBO of the entire group.

The following tables provide a reconciliation of the changes in the plans' benefits obligation for the year ended December 31, 2017, and the statement of funds status as of December 31, 2018:

	December 31,	
	2017	2018
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	\$2,373	\$2,123
Liability assumed at the acquisition date of Nera		
Service cost	18	16
Interest cost	47	47
Expenses paid	(143 )	(227 )
Exchange rates differences	(124 )	121
Actuarial loss (gain)	(48 )	97
Projected benefit obligation at end of year	\$2,123	\$2,177



## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 10:- PENSION LIABILITIES, NET (Cont.)

The assumptions used in the measurement of the Company' benefits obligations as of December 31, 2017 and 2018 are as follows:

	December 31,	
	2017	2018
Weighted-average assumptions		
Discount rate	2.30%	2.60%
Rate of compensation increase	2.50%	2.75%

The amounts reported for net periodic pension costs and the respective benefit obligation amounts are dependent upon the actuarial assumptions used. The Company reviews historical trends, future expectations, current market conditions and external data to determine the assumptions. The discount rate is the covered bond. For purposes of calculating the 2018 net periodic benefit cost and the 2018 benefit obligation, the Company has used a discount rate of 2.60%. The rate of compensation increase is determined by the Company, based upon its long-term plans for such increases.

The following table provides the components of net periodic benefits cost for the years ended December 31, 2017 and 2018:

	December 31,	
	2017	2018
Components of net periodic benefit cost		
Service cost	\$ 18	\$ 16
Interest cost	47	\$ 47
Net periodic benefit cost	\$ 65	\$ 63

Benefit payments are expected to be paid as follows:

	December 31,	
	2017	2018
2018	\$227	\$-
2019	260	180
2020	360	180
2021	189	189
2022 and thereafter	1,087	1,628
	\$2,123	\$2,177

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

For the years ended December 31, 2016, 2017 and 2018, an actuarial gain (loss) of \$ (204), \$ 48 and \$ (97) respectively, was recognized in statements of income (loss).

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## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES

## a. Lease commitments:

The Company and its subsidiaries lease their facilities and motor vehicles under various operating lease agreements that expire on various dates. Aggregate minimum rental commitments under non-cancelable leases at December 31, 2018, are as follows:

2019	5,104
2020	1,331
2021	546
2022	215
2023 and thereafter	120
	7,316

Expenses for lease of facilities for the years ended December 31, 2016, 2017 and 2018 were approximately \$ 4,235, \$ 4,675 and \$ 4,979, respectively.

Expenses for the lease of motor vehicles for the years ended December 31, 2016, 2017 and 2018 were approximately \$ 735, \$ 814 and \$ 862, respectively.

During 2016, 2017 and 2018, the Company received several grants from the Israeli Innovation Authority ("IIA"). The grants require the Company to comply with the requirements of the Research and Development Law, however, the Company is not obligated to pay royalties on sales of products based on technology or know how developed b. from the grants. In a case involving the transfer of technology or know how developed from the grants outside of Israel, the Company may be required to pay royalties related to past sales of products based on the technology or the developed know how. The Company recorded income from IIA grants for the years ended December 31, 2016, 2017 and 2018 in the amount of \$ 2,536, \$ 1,548 and \$ 1,174, respectively.

## c. Charges and guarantees:

As of December 31, 2017 and 2018, the Company provided bank guarantees in an aggregate amount of \$ 43,914 and \$ 72,842 (including bank guarantee disclosed in Note 11d), respectively, with respect to tender offer guarantees, financial guarantees, warranty guarantees and performance guarantees to its customers. In addition, the Company has a collateral deposit in the amount of \$ 941 for outstanding bank guarantee.

In September 2018, the Company signed commercial agreements with Orocom, a new operator in Peru, to provide broadband connectivity in rural regions. The Peruvian Government ("Fitel") chose Orocom for the deployment of d. transport and broadband access networks in three of six regions in Peru. Orocom is owned by a consortium of companies, comprising telecommunications license holders as well as companies with expertise in fiber-based technologies.

After signing the commercial agreements mentioned above and an operating agreement with Orocom and its shareholders, the Company provided, in the second quarter of 2018, bank guarantees amounting to \$29.1 million, on behalf of Orocom to Fitel, to secure the return of a down payment to be received by Orocom, or part of it, in case Orocom fails to meet the down payment related obligations. These bank guarantees came into effect in July 2018, when a down payment of \$29.1 million was received by Orocom. Orocom's down payment related obligations include primarily meeting specifications and timelines as defined in the agreement between Orocom and Fitel, unless justified or otherwise agreed between these parties; using the funds provided by Fitel properly for the purpose of the project; and maintaining certain composition of shareholders in Orocom for at least three years. The Company's bank guarantees may be gradually reduced as the network build-out process progresses. Should Orocom meet its down payment related obligations towards Fitel, the bank guarantees are expected to be returned to the Company by the end of 2019.

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CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

Provisions of the operating agreement mentioned above grant the Company certain protective rights in Orocom during the network build-out phase and until the bank guarantees are returned to the Company, as well as recovery rights against Orocom and its shareholders. These protective rights include, among others, two seats in Orocom's board of directors that comprise half of the board seats; a requirement for receipt of consent by all board members to various decisions, including but not limited to, for the approval of any commitment exceeding one hundred thousand dollars; and full access to Orocom's books and records and any other data, including audit rights. Based on the above, Orocom and its shareholders were defined as related companies. For more information see note 17.

e. Litigations:

On January 5, 2015, a motion to approve a purported class action, naming the Company, its CEO and its directors as defendants, was filed with the District Court of Tel-Aviv (Economic Department), on behalf of holders of ordinary shares, including those who purchased shares during the period following the Company's follow on public offering in July 2014 (the "Motion").

The purported class action is based on Israeli law and alleges breaches of duties by the Company and its management on account of false and misleading statements in the Company's SEC filings and public statements, during the period between July and October 2014. The plaintiff's principal claim is that immediately prior to the follow on public offering, the defendants presented misleading guidance concerning the expected financial results for the third quarter of 2014, indicating an anticipated improvement in the rate of gross profit based on orders which were already received by the Company at the time of such presentation. Although the plaintiff admits that, in accordance with the actual results for the third quarter, the Company did meet the guidance as far as revenues were concerned, the actual rate of gross profit turned out to be much lower than the one anticipated. Plaintiff argues that at the time such guidance was presented by the defendants, they already knew, or should have known, that it was incorrect. The plaintiff seeks specified compensatory damages in a sum of up to \$75 million, as well as attorneys' fees and costs.

CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

The Motion was served to the Company on January 6, 2015 and the Company filed its response on June 21, 2015. On October 22, 2015, the plaintiff filed a request for discovery of specific documents. The Company filed its response to the plaintiffs' request for discovery on January 25, 2016, and the plaintiffs submitted their response on February 24, 2016. On June 8, 2016, the District Court partially accepted the plaintiff's request for discovery, and ordered the Company to disclose some of the requested documents. The Company's request to appeal this decision was denied by the Supreme Court on October 25, 2016, and the Company disclosed the required documents to the plaintiffs. The plaintiffs filed their reply to the Company's response to the motion on April 2, 2017. In May 2017 the Company filed two requests: the first, requesting to dismiss the Plaintiff's response to the Company's defense, or, alternatively, to allow the Company to respond to it; the second, to precede discussion with regards to the legal question of the governing law. A preliminary hearing was held on May 22, 2017, where the court set dates for response to the Company's above-mentioned requests and for evidence hearings. On July 17, 2017, the court allowed the Company to respond to the plaintiff's response and on July 29, 2017 the Court denied the Company's second request. The Company filed its response to the plaintiff's response on September 18, 2017.

On October 2, 2017, the plaintiff filed a request to summon its Chairman of the Board, Mr. Zisapel, and its CEO, Mr. Palti, to the upcoming evidence hearing. The Company filed its response to this request on October 26, 2017; and the Plaintiff filed its reply to Company's response.

The first evidence hearing took place on November 2, 2017. During this hearing the Company agreed to consider summoning to the second evidence hearing one of the above-mentioned Company's officers, and on November 8, 2017, the Company advised the court that it agrees that Mr. Palti will be summoned to the next evidence hearing. The second and final evidence hearing took place on January 8, 2018, and the court set dates for submitting summaries, which were submitted to the court as follows:

The Plaintiff submitted his summaries on March 21st, 2018;

The Defendants submitted their summaries on June 12th, 2018;

The Plaintiff submitted his reply summaries on September 5th, 2018.

On October 4th, 2018, an interim decision regarding dual listed companies, which corresponds with the Company's arguments in this case, was rendered by the Supreme Court of Israel. In light of this, on October 15th, 2018, the plaintiff asked from court to add a plea to his summaries. Court has approved and gave to the defendants the right to reply. In accordance, the Company's response was submitted on December 4th, 2018. Plaintiff's reply to Company's response was submitted on December 26 th , 2018.

After submission of the summaries and the responses to plaintiff's plea, the court is expected to issue its decision whether to approve the Motion or deny it.

The Company believes that it has a strong defense against the allegations referred to in the Motion and that the District Court should deny it. The Company is not a party to any other material legal proceedings.



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- SHAREHOLDERS'  
EQUITY

The ordinary shares of the Company are traded on the Nasdaq Global Select Market, under the symbol "CRNT". Up to December 11, 2017, the ordinary shares of the Company were also traded on the Tel Aviv Stock Exchange (TASE). On September 11, 2017 the Company notified TASE that it decided to voluntarily delist its ordinary shares from trading on TASE. Accordingly, the last trading day of Ceragon's ordinary shares on TASE was December 7, 2017 and the shares were delisted on December 11, 2017. Following the delisting, all of the Company's ordinary shares are traded on the NASDAQ.

a. General:

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

b. Stock options plans:

In 2003, the Company adopted a share option plan (the "Plan"). Under the Plan, options and RSU's may be granted to officers, directors, employees and consultants of the Company or its subsidiaries. The options vest primarily over <sup>1</sup> four years. The options expire between six to ten years from the date of grant. In December 2012, the Company extended the term of the Plan for an additional period of ten years.

Upon adoption of the Plan, the Company reserved for issuance 8,639,000 ordinary shares in accordance with the respective terms thereof. From the adoption of the plan until December 31, 2018 the board of the company approved to reserve an additional amount of 15,196,688 ordinary shares. Any options or RSU's, which are canceled or forfeited before the expiration date, become available for future grants. As of December 31, 2018, the Company has 1,109,446 Ordinary shares available for future grant under the Plan.

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

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

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

	Year ended December 31, 2018		Weighted average remaining contractual term (in years)	Aggregate intrinsic value
	Number of options	Weighted average exercise price		
Outstanding at beginning of year	7,939,978	\$ 3.61	3.75	\$ 2,839
Granted	1,273,145	3.33		
Exercised	(1,930,244)	1.44		
Forfeited or expired	(531,273 )	6.00		
Outstanding at end of the year	6,751,606	3.99	3.47	7,937
Options exercisable at end of the year	4,150,587	4.97	2.76	4,517
Vested and expected to vest	6,325,305	4.09	3.36	7,501
			Year ended December 31, 2018	Aggregate intrinsic value
			Number of RSUs	
Outstanding at beginning of year			327,093	\$ 648
Granted			186,608	
Exercised			(112,665)	
Forfeited			(24,225 )	
Outstanding at end of the year			376,811	1,424
Vested and expected to vest			264,496	1,000

The Company's options are generally granted at exercise prices which are equal to the average market value of the ordinary shares in the period of 30 trading days prior to the grant date. The weighted average grant date fair value of the options granted during 2016, 2017 and 2018 were \$ 0.78, \$ 1.11 and \$1.79, respectively. The Company granted 186,608 and 316,827 RSUs during 2018 and 2017, respectively. No RSUs were granted during 2016.

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing stock price on the last trading day of the year and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on the last day of the year.

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## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

This amount is impacted by the changes in the fair market value of the Company's shares. Total intrinsic value of options and RSUs exercised during the years ended December 31, 2017 and 2018 were \$ 265 and \$ 5,116, respectively. As of December 31, 2018, there was \$ 2,225 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. This cost is expected to be recognized over a weighted-average period of 1.00 years.

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

Exercise price (range) \$	Options and RSUs outstanding as of December 31, 2018	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Options and RSUs exercisable as of December 31, 2018	Weighted average remaining contractual life (years) for exercisable options)	Weighted average exercise price \$
RSUs 0.0	376,811	-	0.00	-	-	0.00
0.01-2.00	1,899,640	2.74	1.20	1,209,876	2.58	1.19
2.01-4.00	3,070,807	4.64	2.79	1,159,552	3.79	2.89
4.01-6.00	478,501	2.10	4.97	478,501	2.10	4.97
6.01-8.00	31,000	3.72	6.50	31,000	3.72	6.50
8.01-10.00	643,574	2.60	9.07	643,574	2.60	9.07
10.01-13.04	628,084	1.85	12.36	628,084	1.85	12.36
	7,128,417			4,150,587		

The total equity-based compensation expense related to all of the Company's equity-based awards, recognized for the years ended December 31, 2016, 2017 and 2018, was comprised as follows:

	Year ended December 31,		
	2016	2017	2018
Cost of revenues	\$30	\$54	\$42
Research and development	151	229	313
Selling and marketing	369	292	640
General and administrative	521	628	985
Total share-based compensation expenses	\$1,071	\$1,203	\$1,980

c. Dividends:

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

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CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- TAXES ON INCOME

a. Israeli taxation:

1. Measurement of taxable income:

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

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

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

According to the provisions of the Law, the Company has chosen to enjoy the "Alternative" track. Under this track, the Company is tax exempt in the first two years of the benefit period and subject to tax at the reduced rate of 10%-25% for the remaining benefit period. The benefit period under Approved Enterprise starts with the first year the benefited enterprise earns taxable income, provided that 14 years have not passed since the approval was granted and 12 years have not passed since the enterprise began operating. Under the Benefited Enterprise, the benefit period starts at the later of the year elected and the first year the Company earns taxable income provided that 12 years have not passed since the beginning of the year of election. The respective benefit period has not yet begun, as no taxable income was generated.

Generally, a company that is Abundant in Foreign Investment (owned by at least 74% foreign shareholders and has undertaken to invest a minimum sum of \$20 million in the Beneficiary Enterprise) is entitled to an extension of the benefits period by an additional five years

The tax benefits under the Approved Enterprise and Benefited Enterprise are conditional upon the fulfillment of the conditions stipulated by the Law, regulations published and the letters of approval for the investments in the approved enterprises. Non-compliance with the conditions may cancel all or part of the benefits and refund of the amount of the benefits, including interest.

The Company has three capital investment programs that have been granted Approved Enterprise status, under the Law and two programs under Benefited Enterprise status pursuant to Amendment 60.

As of January 1<sup>st</sup> 2018, the 14 years have passed for the three Approved Enterprise programs.

CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- TAXES ON INCOME (Cont.)

The Company has elected 2006 and 2009 as election years as a Benefited Enterprise.

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

In December 2016, the Knesset passed an additional amendment to the Law which provides for additional benefits to Preferred Technological Enterprises by reducing the tax rate on preferred Technological Enterprise income (as such is defined in Amendment 73) to 12% (the "Amendment"). This Amendment came into effect in May 2017 when the Minister of Finance promulgated the regulations for its implementation. The Company has evaluated the effect of the adoption of the Amendment on its financial statements, and as of the date of the approval of the financial statements, the Company did not apply the Amendment. The Company may change its position in the future.

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

The Encouragement Law provides several tax benefits for industrial companies. An industrial company is defined as a company resident and located in Israel, at least 90% of the income of which in a given tax year exclusive of income from specified Government loans, capital gains, interest and dividends, is derived from an industrial enterprise owned by it. An industrial enterprise is defined as an enterprise whose major activity in a given tax year is industrial production activity.

Management believes that the Company is currently qualified as an "industrial company" under the Encouragement Law and, as such, enjoys tax benefits, including: (1) deduction of purchase of know-how and patents and/or right to use a patent over an eight-year period; (2) the right to elect, under specified conditions, to file a consolidated tax return with additional related Israeli industrial companies and an industrial holding company; (3) accelerated depreciation rates on equipment and buildings; and (4) expenses related to a public offering on the Tel-Aviv Stock Exchange and on recognized stock markets outside of Israel, are deductible in equal amounts over three years.

Eligibility for benefits under the Encouragement Law is not subject to receipt of prior approval from any Governmental authority. No assurance can be given that the Israeli tax authorities will agree that the Company qualifies, or, if the Company qualifies, that the Company will continue to qualify as an industrial company or that the benefits described above will be available to the Company in the future.

4. Tax rates:

Taxable income of Israeli companies was subject to tax at the rate - 23% in 2018 and 24% in 2017.

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 13:- TAXES ON INCOME (Cont.)

In December 2016 the Knesset approved amendment 235 to the Income Tax Ordinance which further reduces the corporate tax rate to 24% in 2017 and 23% in 2018 and thereafter. The effective tax rate payable by a company which is taxed under the Investment Law may be considerably lower (see also note 13.a2 above).

Israeli corporations are generally taxed at the corporate income tax rate on their capital gains.

## 5. Tax Reform in U.S:

On December 22, 2017, new federal tax legislation was enacted in the United States (referred to as the Tax Cuts and Jobs Act). The Tax Cuts and Jobs Act reduces the federal corporate income tax rate to 21% from 35% effective January 1, 2018. The rate change resulted in a reduction of the Company's net deferred tax assets of \$153 and a corresponding deferred income tax expense in 2017. The Company's federal income tax expense for tax years beginning January 1, 2018 will be based on the newly enacted 21% rate.

Accounting Standards Codification Topic 740, Income Taxes ("ASC 740") requires companies to account for the tax effects of changes in income tax rates and laws in the period in which legislation is enacted (December 22, 2017). ASC 740 does not specifically address accounting and disclosure guidance in connection with the income tax effects of the TCJA. Consequently, on December 22, 2017, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), to address the application of ASC 740 in the reporting period that includes the date the TCJA was enacted. SAB 118 allows companies a reasonable period of time to complete the accounting for the income tax effects of the TCJA.

b. The income tax expense (benefit) for the years ended December 31, 2016, 2017 and 2018 consisted of the following:

	Year ended December 31,		
	2016	2017	2018
Current	\$1,418	\$1,200	\$3,350
Deferred	343	497	(6,601)
	\$1,761	\$1,697	\$(3,251)
Domestic (Israel)	\$968	\$1,533	\$(5,919)
Foreign	793	164	2,668
	\$1,761	\$1,697	\$(3,251)



## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 13:- TAXES ON INCOME (Cont.)

## c. Deferred income taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31,	
	2017	2018
Deferred tax assets:		
Net operating loss carry forward	\$76,570	\$75,755
Temporary differences mainly relating to Research and Development, reserves and allowances	31,566	24,875
Deferred tax asset before valuation allowance	108,136	100,630
Valuation allowance	(107,148)	(93,154)
Deferred tax asset	988	7,476
Deferred tax liabilities:		
Other temporary differences	(141)	(28)
Deferred tax asset, net	\$847	\$7,448

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that all or some portion of the deferred tax assets will not be realized in each tax jurisdiction. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences are deductible and net operating losses are utilized. Based on consideration of these factors, In 2018, the Company recorded a tax asset of \$7,200 reflecting tax benefit in Israel due to expected utilization of net operating losses in future years.

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

As of December 31, 2018, the Company has accumulated net operating losses and capital loss for Israeli income tax purposes as of December 31, 2018 in the amount of approximately \$ 190,735 and \$ 7,538, respectively. The net operating losses may be carried forward and offset against taxable income in the future for an indefinite period.

As of December 31, 2018, the Company's Norwegian subsidiary had a net operating loss carry forward of approximately \$ 15,392 that can be carried forward. The net operating losses may be carried forward and offset against taxable income in the future for an indefinite period.



## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 13:- TAXES ON INCOME (Cont.)

As of December 31, 2018 the Company's Brazilian subsidiary had a net operating loss carryforward of approximately \$ 43,805 that can be carried forward. The net operating losses may be carried forward and offset against taxable income in the future for an indefinite period. The offset is limited to a maximum 30% of the annual taxable income.

e. Income (Loss) before taxes is comprised as follows:

	Year ended December 31,		
	2016	2017	2018
Domestic	\$(1,301 )	\$13,145	\$17,921
Foreign	14,491	4,112	1,874
	\$13,190	\$17,257	\$19,795

f. Reconciliation of the theoretical tax expense to the actual tax expense:

Reconciliation between the theoretical tax expense, assuming all income is taxed at the statutory tax rate applicable to income of the Company and the actual tax expense as reported in the statements of operations is as follows:

	Year ended December 31,					
	2016		2017		2018	
Income before taxes as reported in the consolidated statements of operations	\$13,190		\$17,257		\$19,795	
Statutory tax rate	25	%	24	%	23	%
Theoretical tax income on the above amount at the Israeli statutory tax rate	\$3,298		\$4,142		\$4,553	
Non-deductible expenses	467		290		1,299	
Non-deductible expenses related to employee stock options	268		289		376	
Changes in tax rate	8,900		124		179	
Losses in respect of which no deferred taxes were generated (including changes in valuation allowance)	(10,055)		(3,225 )		(4,068 )	
Recognition of deferred taxes during the year, for which valuation allowance was provided in prior years					(7,200 )	
Other	(1,117 )		77		1,610	
Actual tax expense (benefit)	\$1,761		\$1,697		\$(3,251 )	



## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 13:- TAXES ON INCOME (Cont.)

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

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

	December 31,	
	2017	2018
Uncertain tax positions, beginning of year	\$4,686	\$2,160
Decreases in tax positions for prior years	(3,880)	(304 )
Increases in tax positions for prior years	49	18
Increase in tax position for current year	1,305	499
Uncertain tax positions, end of year	\$2,160	\$2,373

The Company has further accrued \$ 84 due to interest and penalty related to uncertain tax positions as of December 31, 2018.

## NOTE 14:- REVENUES

On January 1, 2018, the Company adopted ASC Topic 606-10 using the modified retrospective method and applied the standard to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606-10, while prior period amounts are not adjusted and continue to be reported in accordance with the historic accounting under Topic 605.

The Company recognized the cumulative effect of initially adopting Topic 606-10 as an adjustment to the opening balance of retained earnings as of January 1, 2018. The most significant impact of the standard on the Company's consolidated financial statements, relates to completion of its performance obligations in accordance with variable considerations, which primarily contributed to the adjustment to the opening balance of retained earnings as well as the impact of adoption disclosed in the tables below.

The cumulative effect of the changes made to the consolidated balance sheet as of January 1, 2018 for the adoption of Topic 606-10 were as follows:

	December 31, 2017	Adjustments	January 1, 2018
Trade receivables	\$113,719	\$ 117	\$113,836
Trade payables	\$75,476	\$ 47	\$75,523
Accumulated deficits	\$(249,871)	\$ 70	\$(249,801)



## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 14:- REVENUES (Cont.)

In accordance with Topic 606-10, the disclosure of the impact of adoption on the consolidated balance sheet as of December 31, 2018 was as follows:

	As Reported	Impact of Adoption	Amounts under Topic 605
Consolidated Balance Sheet			
Trade receivables	\$123,451	\$ (741 )	\$122,710
Trade payables	\$78,892	\$ (84 )	\$78,808
Accumulated deficits	\$(233,955)	\$ (657 )	\$(234,612)

The following table summarizes the impacts of adopting Topic 606-10 on our consolidated statements of income during the twelve months ended December 31, 2018:

	As Reported	Impact of Adoption	Amounts under Topic 605
Consolidated Statements of Income			
Revenue	\$343,874	\$ (741 )	\$343,133
Cost of Sales	\$227,705	\$ (84 )	\$227,621
Gross margin	\$116,169	\$ (657 )	\$115,512

The Company records contract liabilities as deferred revenues, when it receives payments from customers before performance obligations have been performed and satisfied. The Company recognizes deferred revenues as revenues in the income statement once performance obligations have been performed and satisfied. The balance of deferred revenues approximates the aggregate amount of the transaction price allocated to the unsatisfied performance obligations at the end of reporting period.

Because the performance obligations are part of a contracts that have an original expected duration of one year or less, all performance obligations in the Company's contracts with customers, other than post-contract customer support, the Company has elected to apply the optional exemption and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 14:- REVENUES (Cont.)

The following table presents the significant changes in the deferred revenue balance during the twelve months ended December 31, 2018:

	Twelve months ended December 31, 2018
Balance, beginning of the period	\$ 5,193
New performance obligations	12,746
Reclassification to revenue as a result of satisfying performance obligations	(14,066 )
Balance, end of the period	\$ 3,873

## NOTE 15:- SEGMENTS, CUSTOMERS AND GEOGRAPHIC INFORMATION

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

b. The following tables present total revenues for the years ended December 31, 2016, 2017 and 2018 and long-lived assets as of December 31, 2016, 2017 and 2018:

	Year ended December 31,		
	2016	2017	2018
Revenues from sales to unaffiliated customers:			
North America	\$40,236	\$39,498	\$41,384
Europe	43,457	45,448	38,919
Africa	19,872	12,111	23,690
Asia-Pacific and Middle East	29,743	44,983	47,320
India	80,247	130,042	131,201
Latin America	80,086	59,951	61,360
	\$293,641	\$332,033	\$343,874
Property and equipment, net, by geographic areas:			
Israel	\$23,162	\$25,419	\$28,494

Others	4,398	4,451	5,119
	\$27,560	\$29,870	\$33,613

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## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 15:- SEGMENTS, CUSTOMERS AND GEOGRAPHIC INFORMATION (Cont.)

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

In 2018, the Company had revenues from a single customer that accounted for approximately 21.1% and from a customer that represents group of affiliated companies equaling 19.6% of total revenues. In 2017, the Company had revenues from a single customer that accounted for approximately 27.3% and from a customer that represents group of affiliated companies equaling 12.3% of total revenues. In 2016, the Company had revenue from a single customer that accounted for approximately 16.6% of total revenues.

## NOTE 16:- SELECTED STATEMENTS OF OPERATIONS DATA

## a. Financial expenses, net:

	Year ended December 31,		
	2016	2017	2018
Financial income:			
Interest on deposits	\$242	\$126	\$111
Foreign currency translation differences and derivatives (*)	966	2,522	3,981
	1,208	2,648	4,092
Financial expenses:			
Bank charges and interest on loans	(3,794)	(4,830)	(4,597 )
Foreign currency translation differences and derivatives	(3,717)	(3,707)	(5,844 )
	(7,511)	(8,537)	(10,441)
	\$(6,303)	\$(5,889)	\$(6,349 )

During 2016 and 2018 the Company recorded \$ 907 and \$ 969 income (respectively) upon collection of trade (\*)receivables balances from customers in Venezuela at a rate which was higher than the rate it could collect these receivables previously

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## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 16:- SELECTED STATEMENTS OF OPERATIONS DATA (Cont.)

## b. Net income per share:

The following table sets forth the computation of basic and diluted net earnings per share:

	Year ended December 31,		
	2016	2017	2018
Numerator:			
Numerator for basic and diluted net income per share - income available to shareholders of Ordinary shares	\$ 11,429	\$ 15,560	\$ 23,046
Denominator:			
Denominator for basic net income per share - weighted average number of shares	77,702,788	77,916,912	78,579,013
Effect of dilutive securities:			
Employee stock options and RSU	910,740	2,025,441	2,442,514
Denominator for diluted net income per share - adjusted weighted average number of shares	78,613,528	79,942,353	81,021,527

## NOTE 17:- RELATED PARTY BALANCES AND TRANSACTIONS

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

Members of the RAD-BYNET group provide the Company on an as-needed basis with information systems infrastructure, administrative services, medical insurance, as well as in connection with logistics services, the Company reimburses each company for its costs in providing these services. The aggregate amount of these expenses was approximately \$ 1,668, \$ 1,857 and \$ 1,856 in 2016, 2017 and 2018, respectively.

The Company leases its offices in Israel from real estate holding companies controlled by Yehuda and Zohar Zisapel. The leases of this facility will expire end of December 2019. Subsequent to balance sheet date, the agreement was extended until end of December 2020.

The aggregate amount of rent and maintenance expenses related to these properties was approximately \$ 1,963 in 2016, \$ 1,849 in 2017 and \$1,960 in 2018.



## CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 17:- RELATED PARTY BALANCES AND TRANSACTIONS (Cont.)

The Company has an OEM arrangement with RADWIN, a member of RAD-BYNET group, according to which the Company purchases RADWIN products that are then resold to the Company's customers. In addition, the Company purchases certain inventory components from other members of the RAD-BYNET group, which are integrated into its products. The aggregate purchase price of these components was approximately \$ 2,866, \$ 1,325 and \$ 78 for the years ended December 31, 2016, 2017 and 2018, respectively.

The Company purchases certain property and equipment from members of the RAD-BYNET group, the aggregate purchase price of these assets was approximately \$ 1,019, \$ 224 and \$ 148 for the years ended December 31, 2016, 2017 and 2018, respectively.

As part of the commercial agreements with Orocom for the Fitel project in Peru, the Company has two seats in Orocom's board of directors, which comprise half of Orocom's board seats, as well as other protective rights in Orocom (for more information see note 11 above). As a result, Orocom and its shareholders were defined as related companies of Ceragon. During 2018, Amitel Perú Telecomunicaciones S.A.C. ("Amitel") - one of Orocom's shareholders and a partner in the Fitel project – won a tender of Ceragon for the provision of site surveys services in the sum of approximately \$ 490.

In December 2018, the company purchased 11% of the share capital of Compass for a consideration of \$ 833. (see note 1b).

## Transactions with related parties:

	Year ended December 31,		
	2016	2017	2018
Revenues	\$95	\$173	\$3,336
Cost of revenues	\$3,561	\$2,160	\$1,111
Research and development expenses	\$1,093	\$1,063	\$1,008
Selling and marketing expenses	\$733	\$813	\$771
General and administrative expenses	\$1,109	\$995	\$1,067
Purchase of property and equipment	\$1,019	\$224	\$148

## Balances with related parties:

December 31,  
2017 2018

Trade payables, other accounts payable and accrued expenses	\$363	\$2,077
Trade Receivables	\$49	\$1,733

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of  
Ceragon America Latina Ltda.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheet of Ceragon America Latina Ltda. and its subsidiary (the “Company”) as of December 31, 2018, and the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows for the year then ended December 31, 2018 and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 31, 2019 expressed an unqualified opinion thereon.

The financial statements of the Company as of December 31, 2017 were audited by other auditors who did not issue a separate opinion on those financial statements.

Basis for opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Mazars Auditores Independentes S.S.

We have served as the Company’s auditor since 2018.

São Paulo, SP  
March 31, 2019

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of  
Ceragon America Latina Ltda.

Opinion on the internal control over financial reporting

We have audited Ceragon America Latina Ltda.'s and its subsidiary (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework (2013) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet as of December 31, 2018 and the related statements of income, comprehensive income, stockholders' equity, and cash flows of the Company for the year then ended, and our report dated March 31, 2019, expressed an unqualified opinion thereon.

Basis for opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and limitations of internal control over financial reporting

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

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

/s/ Mazars Auditores Independentes S.S.

São Paulo, SP  
March 31, 2019

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