



Ceragon Reports Second Quarter 2011 Results

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(U.S. dollars in thousands, except share and per share data)
(Unaudited)

	Three months ended June 30		Six months ended June 30,	
	2011	2010	2011	2010
Revenues	\$ 110,350	\$ 60,889	\$ 210,662	\$ 120,576
Cost of revenues	86,716	39,420	157,444	78,731
Gross profit	23,634	21,469	53,218	41,845
Operating expenses:				
Research and development	12,660	6,919	25,117	12,192
Selling and marketing	21,003	8,959	40,188	18,141
General and administrative	6,212	2,996	11,735	5,776
Restructuring costs	-	-	7,834	-
Acquisition related costs	-	-	4,919	-
<u>Total operating expenses</u>	<u>\$ 39,875</u>	<u>\$ 18,874</u>	<u>\$ 89,793</u>	<u>\$ 36,109</u>
Operating profit (loss)	(16,241)	2,595	(36,575)	5,736
Financial income (expenses), net	(312)	276	(759)	510
Income (loss) before taxes	(16,553)	2,871	(37,334)	6,246
Taxes on income	817	273	1,412	625
Net Income (loss)	<u>\$ (17,370)</u>	<u>\$ 2,598</u>	<u>\$ (38,746)</u>	<u>\$ 5,621</u>
Basic net earnings per share	<u>\$ (0.48)</u>	<u>\$ 0.07</u>	<u>\$ (1.08)</u>	<u>\$ 0.16</u>
Diluted net earnings per share	<u>\$ (0.48)</u>	<u>\$ 0.07</u>	<u>\$ (1.08)</u>	<u>\$ 0.15</u>
Weighted average number of shares used in computing basic net earnings (loss) per share	<u>35,983,033</u>	<u>34,881,532</u>	<u>35,794,446</u>	<u>34,686,410</u>
Weighted average number of shares used in computing diluted net earnings (loss) per share	<u>35,983,033</u>	<u>36,317,945</u>	<u>35,794,446</u>	<u>36,542,735</u>

(more)

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CONDENSED CONSOLIDATED BALANCE SHEETS

(U.S. dollars in thousands)

(Unaudited)

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 33,546	\$ 37,725
Short-term bank deposits	10,991	23,357
Marketable securities	15,186	7,363
Trade receivables, net	113,978	88,074
Deferred taxes	4,446	4,057
Other accounts receivable and prepaid expenses	37,312	15,425
Inventories	103,000	65,921
<u>Total current assets</u>	<u>318,459</u>	<u>241,922</u>
LONG-TERM INVESTMENTS:		
Long-term marketable securities	4,662	13,088
Severance pay funds	6,113	6,039
<u>Total long-term investments</u>	<u>10,775</u>	<u>19,127</u>
OTHER ASSETS:		
Long-term receivables	5,426	-
Deferred taxes	8,408	8,829
Goodwill and intangible assets, net	48,284	1,093
<u>Total other assets</u>	<u>62,118</u>	<u>9,922</u>
PROPERTY AND EQUIPMENT, NET	<u>27,351</u>	<u>16,211</u>
<u>Total assets</u>	<u>\$ 418,703</u>	<u>\$ 287,182</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long term bank loan	\$ 4,116	\$ -
Trade payables	64,100	40,537
Deferred revenues	36,228	20,661
Other accounts payable and accrued expenses	61,886	13,215
<u>Total current liabilities</u>	<u>166,330</u>	<u>74,413</u>
LONG-TERM LIABILITIES		
Long term bank loan, net of current maturities	30,884	-
Accrued severance pay and pension	14,545	8,600
Other long term payables	36,915	-
	<u>82,344</u>	<u>8,600</u>
SHAREHOLDERS' EQUITY:		
Share capital:		
Ordinary shares	97	95
Additional paid-in capital	307,309	300,875
Treasury shares at cost	(20,091)	(20,091)
Other comprehensive income (loss)	(1,671)	159
Accumulated deficits	(115,615)	(76,869)
<u>Total shareholders' equity</u>	<u>170,029</u>	<u>204,169</u>
<u>Total liabilities and shareholders' equity</u>	<u>\$ 418,703</u>	<u>\$ 287,182</u>

Ceragon Reports Second Quarter 2011 Results

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(U.S. dollars, in thousands)

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Cash flow from operating activities:				
Net income (loss)	\$ (17,370)	\$ 2,598	\$ (38,746)	\$ 5,621
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation and amortization	2,951	1,138	6,152	2,178
Stock-based compensation expense	1,437	852	2,856	1,823
Decrease in trade and other receivables, net	6,640	1,673	29,134	11,118
Decrease (increase) in inventory	14,168	5,172	23,993	(2,652)
Decrease in trade payables and accrued liabilities	(7,743)	(11,213)	(24,680)	(17,985)
Decrease in deferred revenues	(12,755)	(2,063)	(12,765)	(742)
Other adjustments	1,662	529	1,682	177
Net cash used in operating activities	\$ (11,010)	\$ (1,314)	\$ (12,374)	\$ (462)
Cash flow from investing activities:				
Purchase of property and equipment ,net	(3,240)	(2,577)	(6,029)	(5,471)
Payment for business acquisition *)	-	-	(42,405)	-
Investment in short and long-term bank deposit	(7,589)	(11,032)	(9,843)	(11,032)
Proceeds from short and long-term bank deposits	10,273	12,607	24,069	19,680
Investment in held-to-maturity marketable securities	-	(3,230)	-	(18,339)
Proceeds from maturities of held-to-maturity marketable securities	23	-	4,258	4,500
Net cash used in investing activities	\$ (533)	\$ (4,232)	\$ (29,950)	\$ (10,662)
Cash flow from financing activities:				
Proceeds from exercise of options	284	430	3,580	3,016
Long term bank loan raised in connection with business acquisition	-	-	35,000	-
Net cash provided by financing activities	\$ 284	\$ 430	\$ 38,580	\$ 3,016
Translation adjustments on cash and cash equivalents	\$ (789)	\$ -	\$ (435)	\$ -
Decrease in cash and cash equivalents	\$ (12,048)	\$ (5,116)	\$ (4,179)	\$ (8,108)
Cash and cash equivalents at the beginning of the period	45,594	35,347	37,725	38,339
Cash and cash equivalents at the end of the period	\$ 33,546	\$ 30,231	\$ 33,546	\$ 30,231

*) Excluding cash and cash equivalents

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RECONCILIATION OF NON-GAAP FINANCIAL RESULTS
(U.S. dollars in thousands, except share and per share data)
(Unaudited)

	Three months ended June 30,			2010
	2011			
	GAAP (as reported)	Adjustments	Non-GAAP	Non-GAAP
Revenues	\$ 110,350		\$ 110,350	\$ 60,889
Cost of revenues	86,716	11,588 (a)	75,128	39,348
Gross profit	23,634		35,222	21,541
Operating expenses:				
Research and development	12,660	1,207 (b)	11,453	5,585
Selling and marketing	21,003	2,273 (c)	18,730	8,607
General and administrative	6,212	703 (d)	5,509	2,752
<u>Total operating expenses</u>	<u>\$ 39,875</u>		<u>\$ 35,692</u>	<u>\$ 16,944</u>
Operating profit (loss)	(16,241)		(470)	4,597
Financial income (expenses), net	(312)		(312)	276
Income (loss) before taxes	(16,553)		(782)	4,873
Taxes on income	817		817	273
Net income (loss)	<u>\$ (17,370)</u>		<u>\$ (1,599)</u>	<u>\$ 4,600</u>
Basic net earnings (loss) per share	<u>\$ (0.48)</u>		<u>\$ (0.04)</u>	<u>\$ 0.13</u>
Diluted net earnings (loss) per share	<u>\$ (0.48)</u>		<u>\$ (0.04)</u>	<u>\$ 0.13</u>
Weighted average number of shares used in computing basic net earnings (loss) per share	<u>35,983,033</u>		<u>35,983,033</u>	<u>34,881,532</u>
Weighted average number of shares used in computing diluted net earnings (loss) per share	<u>35,983,033</u>		<u>35,983,033</u>	<u>36,317,945</u>
<u>Total adjustments</u>		<u>15,771</u>		

- (a) Cost of revenues includes \$0.2 million of amortization of purchased intangible assets, \$9.8 million of inventory step-up, \$0.1 million of stock based compensation expenses and \$1.5 million of on going costs in the three months ended June 30, 2011.
- (b) Research and development expenses include \$0.8 million of integration plan related costs and \$0.4 million of stock based compensation expenses in the three months ended June 30, 2011.
- (c) Selling and marketing expenses includes \$0.5 million of amortization of purchased intangible assets, \$1.2 million of integration plan related costs and \$0.5 million of stock based compensation expenses in the three months ended June 30, 2011.
- (d) General and administration expenses includes, \$0.2 million of integration plan related costs and \$0.5 million of stock based compensation expenses in the three months ended June 30, 2011.

RECONCILIATION OF NON-GAAP FINANCIAL RESULTS

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

(Unaudited)

	Six months ended June 30,			2010
	2011		Non-GAAP	
	GAAP (as reported)	Adjustments		
Revenues	\$ 210,662		\$ 210,662	\$ 120,576
Cost of revenues	157,444	14,483 (a)	142,961	78,593
Gross profit	53,218		67,701	41,983
Operating expenses:				
Research and development	25,117	2,623 (b)	22,494	10,681
Selling and marketing	40,188	4,797 (c)	35,391	17,527
General and administrative	11,735	1,634 (d)	10,101	5,066
Restructuring costs	7,834	7,834	-	-
Acquisition related costs	4,919	4,919	-	-
Total operating expenses	\$ 89,793		\$ 67,986	\$ 33,274
Operating profit (loss)	(36,575)		(285)	8,709
Financial income (expenses), net	(759)		(759)	510
Income (loss) before taxes	(37,334)		(1,044)	9,219
Taxes on income	1,412		1,412	625
Net income (loss)	\$ (38,746)		\$ (2,456)	\$ 8,594
Basic net earnings (loss) per share	\$ (1.08)		\$ (0.07)	\$ 0.25
Diluted net earnings (loss) per share	\$ (1.08)		\$ (0.07)	\$ 0.24
Weighted average number of shares used in computing basic net earnings (loss) per share	35,794,446		35,794,446	34,686,410
Weighted average number of shares used in computing diluted net earnings (loss) per share	35,794,446		35,794,446	36,542,735
Total adjustments		36,290		

(a) Cost of revenues includes \$0.5 million of amortization of purchased intangible assets, \$11.2 million of inventory step-up, \$0.1 million of stock based compensation expenses and \$2.7 million of integration plan related costs in the six months ended June 30, 2011.

(b) Research and development expenses include \$1.9 million of integration plan related costs and \$0.7 million of stock based compensation expenses in the six months ended June 30, 2011.

(c) Selling and marketing expenses includes \$0.8 million of amortization of purchased intangible assets, \$2.9 million of integration plan related costs and \$1.1 million of stock based compensation expenses in the six months ended June 30, 2011.

(d) General and administration expenses include, \$0.5 million of integration plan related costs and \$1.1 million of stock based compensation expenses in the six months ended June 30, 2011.

Ceragon Reports Second Quarter 2011 Results

**RECONCILIATION BETWEEN REPORTED AND NON-GAAP
OPERATING LOSS**

(U.S. dollars in thousands)

(Unaudited)

	Three months ended	Six months ended
	June 30, 2011	
Reported GAAP net operating loss	(16,241)	(36,575)
Stock based compensation expenses	1,437	2,856
Amortization of purchased intangible assets	717	1,274
Inventory step up	9,837	11,281
Integration plan related costs	3,780	8,126
Restructuring costs	-	7,834
Acquisition related costs	-	4,919
Non-GAAP net operating loss	(470)	(285)

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