



Ceragon Reports Third Quarter 2011 Results

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

	Three months ended September 30		Nine months ended September 30,	
	2011	2010	2011	2010
Revenues	\$ 116,120	\$ 62,293	\$ 326,782	\$ 182,869
Cost of revenues	81,651	39,514	239,095	118,245
Gross profit	34,469	22,779	87,687	64,624
Operating expenses:				
Research and development	12,805	6,191	37,922	18,383
Selling and marketing	20,988	9,397	61,176	27,538
General and administrative	6,452	2,940	18,187	8,716
Restructuring costs	-	-	7,834	-
Acquisition related costs	-	-	4,919	-
<u>Total operating expenses</u>	\$ 40,245	\$ 18,528	\$ 130,038	\$ 54,637
Operating profit (loss)	(5,776)	4,251	(42,351)	9,987
Financial income (expenses), net	(241)	621	(1,000)	1,131
Income (loss) before taxes	(6,017)	4,872	(43,351)	11,118
Taxes on income	724	249	2,136	874
Net Income (loss)	\$ (6,741)	\$ 4,623	\$ (45,487)	\$ 10,244
Basic net earnings per share	\$ (0.19)	\$ 0.13	\$ (1.27)	\$ 0.29
Diluted net earnings per share	\$ (0.19)	\$ 0.13	\$ (1.27)	\$ 0.28
Weighted average number of shares used in computing basic net earnings (loss) per share	36,065,381	34,933,437	35,885,904	34,769,657
Weighted average number of shares used in computing diluted net earnings (loss) per share	36,065,381	36,233,612	35,885,904	36,440,599

(more)

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CONDENSED CONSOLIDATED BALANCE SHEETS

(U.S. dollars in thousands)

(Unaudited)

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 22,941	\$ 37,725
Short-term bank deposits	9,569	23,357
Marketable securities	8,821	7,363
Trade receivables, net	135,849	88,074
Deferred taxes	4,446	4,057
Other accounts receivable and prepaid expenses	38,398	15,425
Inventories	95,925	65,921
<u>Total current assets</u>	<u>315,949</u>	<u>241,922</u>
LONG-TERM INVESTMENTS:		
Long-term marketable securities	4,608	13,088
Severance pay funds	5,611	6,039
<u>Total long-term investments</u>	<u>10,219</u>	<u>19,127</u>
OTHER ASSETS:		
Long-term receivables	4,756	-
Deferred taxes	8,408	8,829
Goodwill and intangible assets, net	44,646	1,093
<u>Total other assets</u>	<u>57,810</u>	<u>9,922</u>
PROPERTY AND EQUIPMENT, NET	<u>29,173</u>	<u>16,211</u>
<u>Total assets</u>	<u>\$ 413,151</u>	<u>\$ 287,182</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long term bank loan	\$ 6,174	\$ -
Trade payables	71,582	40,537
Deferred revenues	37,638	20,661
Other accounts payable and accrued expenses	62,109	13,215
<u>Total current liabilities</u>	<u>177,503</u>	<u>74,413</u>
LONG-TERM LIABILITIES		
Long term bank loan, net of current maturities	26,107	-
Accrued severance pay and pension	10,660	8,600
Other long term payables	36,915	-
	<u>73,682</u>	<u>8,600</u>
SHAREHOLDERS' EQUITY:		
Share capital:		
Ordinary shares	97	95
Additional paid-in capital	309,362	300,875
Treasury shares at cost	(20,091)	(20,091)
Other comprehensive income (loss)	(5,046)	159
Accumulated deficits	(122,356)	(76,869)
<u>Total shareholders' equity</u>	<u>161,966</u>	<u>204,169</u>
<u>Total liabilities and shareholders' equity</u>	<u>\$ 413,151</u>	<u>\$ 287,182</u>

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(U.S. dollars, in thousands)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Cash flow from operating activities:				
Net income (loss)	\$ (6,741)	\$ 4,623	\$ (45,487)	\$ 10,244
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation and amortization	3,744	1,213	9,896	3,391
Stock-based compensation expense	1,677	843	4,533	2,666
Increase in trade and other receivables, net	(32,624)	(12,603)	(3,490)	(1,485)
Decrease in inventory, net of write off	9,033	6,727	33,026	4,075
Increase (decrease) in trade payables and accrued liabilities	9,531	(10,422)	(15,894)	(28,407)
Increase (decrease) in deferred revenues	882	(5,047)	(11,883)	(5,789)
Other adjustments	(689)	(497)	1,738	(320)
Net cash used in operating activities	\$ (15,187)	\$ (15,163)	\$ (27,561)	\$ (15,625)
Cash flow from investing activities:				
Purchase of property and equipment	(3,722)	(2,244)	(9,751)	(7,715)
Payment for business acquisition *)	-	(1,232)	(42,405)	(1,232)
Investment in short and long-term bank deposits	-	(750)	(7,304)	(11,782)
Proceeds from short and long-term bank deposits	1,766	5,420	23,296	25,100
Investment in held-to-maturity marketable securities	-	-	-	(18,339)
Proceeds from held-to-maturity and available-for-sale marketable securities	6,000	3,000	10,258	7,500
Net cash provided (used in) investing activities	\$ 4,044	\$ 4,194	\$ (25,906)	\$ (6,468)
Cash flow from financing activities:				
Proceeds from exercise of options	376	284	3,956	3,300
Long-term bank loan raised in connection with business acquisition	-	-	35,000	-
Net cash provided by financing activities	\$ 376	\$ 284	\$ 38,956	\$ 3,300
Translation adjustments on cash and cash equivalents	\$ 162	\$ -	\$ (273)	\$ -
Decrease in cash and cash equivalents	\$ (10,605)	\$ (10,685)	\$ (14,784)	\$ (18,793)
Cash and cash equivalents at the beginning of the period	33,546	30,231	37,725	38,339
Cash and cash equivalents at the end of the period	\$ 22,941	\$ 19,546	\$ 22,941	\$ 19,546

*) 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 September 30,			2010
	2011			
	GAAP (as reported)	Adjustments	Non-GAAP	Non-GAAP
Revenues	\$ 116,120		\$ 116,120	\$ 62,293
Cost of revenues	<u>81,651</u>	2,984 (a)	<u>78,667</u>	<u>39,420</u>
Gross profit	<u>34,469</u>		<u>37,453</u>	<u>22,873</u>
Operating expenses:				
Research and development	12,805	782 (b)	12,023	5,998
Selling and marketing	20,988	2,629 (c)	18,359	9,073
General and administrative	<u>6,452</u>	941 (d)	<u>5,511</u>	<u>2,708</u>
Total operating expenses	<u>\$ 40,245</u>		<u>\$ 35,893</u>	<u>\$ 17,779</u>
Operating profit (loss)	(5,776)		1,560	5,094
Financial income (expenses), net	<u>(241)</u>		<u>(241)</u>	<u>621</u>
Income (loss) before taxes	(6,017)		1,319	5,715
Taxes on income	<u>724</u>		<u>724</u>	<u>249</u>
Net income (loss)	<u>\$ (6,741)</u>		<u>\$ 595</u>	<u>\$ 5,466</u>
Basic net earnings (loss) per share	<u>\$ (0.19)</u>		<u>\$ 0.02</u>	<u>\$ 0.16</u>
Diluted net earnings (loss) per share	<u>\$ (0.19)</u>		<u>\$ 0.02</u>	<u>\$ 0.15</u>
Weighted average number of shares used in computing basic net earnings (loss) per share	<u>36,065,381</u>		<u>36,065,381</u>	<u>34,933,437</u>
Weighted average number of shares used in computing diluted net earnings (loss) per share	<u>36,065,381</u>		<u>37,527,749</u>	<u>36,233,612</u>
Total adjustments		<u>7,336</u>		

- (a) Cost of revenues includes \$0.3 million of amortization of purchased intangible assets, \$1.4 million of inventory step-up, \$0.1 million of stock based compensation expenses and \$1.2 million of integration plan related costs in the three months ended September 30, 2011.
- (b) Research and development expenses include \$0.3 million of integration plan related costs and \$0.5 million of stock based compensation expenses in the three months ended September 30, 2011.
- (c) Selling and marketing expenses includes \$1.1 million of amortization of purchased intangible assets, \$0.8 million of integration plan related costs and \$0.7 million of stock based compensation expenses in the three months ended September 30, 2011.
- (d) General and administration expenses includes, \$0.5 million of integration plan related costs and \$0.4 million of stock based compensation expenses in the three months ended September 30, 2011.

RECONCILIATION OF NON-GAAP FINANCIAL RESULTS

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

(Unaudited)

	Nine months ended September 30,			2010
	2011		Non-GAAP	
	GAAP (as reported)	Adjustments		
Revenues	\$ 326,782		\$ 326,782	\$ 182,869
Cost of revenues	239,095	17,466 (a)	221,629	118,013
Gross profit	87,687		105,153	64,856
Operating expenses:				
Research and development	37,922	3,405 (b)	34,517	16,680
Selling and marketing	61,176	7,426 (c)	53,750	26,600
General and administrative	18,187	2,575 (d)	15,612	7,773
Restructuring costs	7,834	7,834	-	-
Acquisition related costs	4,919	4,919	-	-
Total operating expenses	\$ 130,038		\$ 103,879	51,053
Operating profit (loss)	(42,351)		1,274	13,803
Financial income (expenses), net	(1,000)		(1,000)	1,131
Income (loss) before taxes	(43,351)		274	14,934
Taxes on income	2,136		2,136	874
Net income (loss)	\$ (45,487)		\$ (1,862)	\$ 14,060
Basic net earnings (loss) per share	\$ (1.27)		\$ (0.05)	\$ 0.40
Diluted net earnings (loss) per share	\$ (1.27)		\$ (0.05)	\$ 0.39
Weighted average number of shares used in computing basic net earnings (loss) per share	35,885,904		35,885,904	34,769,657
Weighted average number of shares used in computing diluted net earnings (loss) per share	35,885,904		35,885,904	36,440,599
Total adjustments		43,625		

- (a) Cost of revenues includes \$0.8 million of amortization of purchased intangible assets, \$12.6 million of inventory step-up, \$0.2 million of stock based compensation expenses and \$3.9 million of integration plan related costs in the nine months ended September 30, 2011.
- (b) Research and development expenses include \$2.2 million of integration plan related costs and \$1.2 million of stock based compensation expenses in the nine months ended September 30, 2011.
- (c) Selling and marketing expenses includes \$1.9 million of amortization of purchased intangible assets, \$3.7 million of integration plan related costs and \$1.8 million of stock based compensation expenses in the nine months ended September 30, 2011.
- (d) General and administration expenses include, \$1.0 million of integration plan related costs and \$1.5 million of stock based compensation expenses in the nine months ended September 30, 2011.

Ceragon Reports Third Quarter 2011 Results

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

(U.S. dollars in thousands)

(Unaudited)

	Three months ended	Nine months ended
	September 30, 2011	
Reported GAAP net operating loss	(5,776)	(42,351)
Stock based compensation expenses	1,677	4,533
Amortization of purchased intangible assets	1,430	2,704
Inventory step up	1,348	12,628
Integration plan related costs	2,881	11,007
Restructuring costs	-	7,834
Acquisition related costs	-	4,919
Non-GAAP net operating profit	1,560	1,274

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