CERAGON NETWORKS LTD
Form 424B5
July 28, 2014

Subject to Completion, Dated July 28, 2014
Preliminary Prospectus Supplement
(to Prospectus dated September 19, 2012)

Filed Pursuant to Rule 424(b)(5)
Registration Statement No. 333-183316

The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. A registration statement relating to the Securities has been declared effective by the Securities and Exchange Commission. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Shares

Ordinary Shares

This is a public offering of ordinary shares of Ceragon Networks Ltd. We are offering ordinary shares in this offering.

Our ordinary shares are listed on the Nasdaq Global Select Market and on the Tel Aviv Stock Exchange in Israel under the symbol “CRNT.” On , 2014, the last reported sale price of our ordinary shares on the Nasdaq Global Select Market was $ per share and on , 2014, the last reported sale price of our ordinary shares on the Tel Aviv Stock Exchange was NIS (approximately $) per share.

You should carefully read this prospectus supplement and the accompanying prospectus (including all of the information incorporated by reference therein) before you invest. Investing in our ordinary shares involves a high degree of risk. Before buying any ordinary shares, you should read the discussion of material risks of investing in our ordinary shares in the section entitled “Risk Factors” beginning on page S-7 of this prospectus supplement, beginning on page 2 of the accompanying prospectus and in the documents incorporated by reference.

None of the U.S. Securities and Exchange Commission, the Israeli Securities Authority or any state securities commission have approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense under the laws of the United States and the laws of the State of Israel.

	Per Ordinary Share	Total
Public offering price	$	$
Underwriting discounts and commissions(1)	$	$
Proceeds to us (before expenses)	$	$

(1) See “Underwriting”

We estimate the total expenses of this offering, excluding the underwriting discounts and commissions, will be approximately $. We have also granted the underwriters an option for a period of 30 days from the date of this prospectus supplement to purchase up to ordinary shares at the public offering price per share, less the underwriting discounts and commissions, to cover over-allotments, if any.

Delivery of the shares is expected to be made on or about , 2014, by electronic delivery via the Depository Trust Company, subject to customary closing conditions. The underwriters are offering the ordinary shares as set forth under "Underwriting."

Lead Book-Running Manager	Co-Book Runner
Needham & Company	Oppenheimer & Co.

The date of this prospectus supplement is July , 2014.

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PROSPECTUS SUPPLEMENT

PROSPECTUS

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement is part of a registration statement (No. 333-183316) that we filed with the Securities and Exchange Commission, or the SEC, using a "shelf" registration process. Under the registration statement, we registered the offering by us of up to $150,000,000 of ordinary shares, rights, warrants, debt securities and units for sale from time to time in one or more offerings. This prospectus supplement provides specific information about the offering by us of our ordinary shares under the shelf registration statement, in addition to information concerning the over-allotment option granted by us. This document comprises two parts. The first part is this prospectus supplement, which describes the specific terms of this offering and also adds to and updates information contained in the accompanying prospectus. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering. If the description of the offering varies between this prospectus supplement and the accompanying prospectus or the documents incorporated herein by reference, you should rely on the information contained in this prospectus supplement. However, if any statement in one of these documents is inconsistent with a statement in another document having a later date — for example, a document incorporated by reference in the accompanying prospectus — the statement in the document having the later date modifies or supersedes the earlier statement.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus, or contained in any free writing prospectus prepared by us or on our behalf. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this prospectus supplement and the accompanying prospectus in any jurisdiction where it is unlawful to make such offer or solicitation. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus, or any document incorporated by reference in this prospectus supplement or the accompanying prospectus, is accurate as of any date other than the date on the front cover of the applicable document. Neither the delivery of this prospectus supplement nor any distribution of securities pursuant to this prospectus supplement shall, under any circumstances, create any implication that there has been no change in the information set forth or incorporated by reference into this prospectus supplement or in our affairs since the date of this prospectus supplement. Our business, financial condition, results of operations and prospects may have changed since that date.

Before purchasing any securities, you should carefully read both this prospectus supplement and the accompanying prospectus, together with the additional information described under the heading, "Where You Can Find More Information; Incorporation of Certain Documents by Reference," on page S-43 of this prospectus supplement.

PROSPECTUS SUPPLEMENT SUMMARY

This section summarizes material information that appears later or is incorporated by reference in this prospectus supplement and is qualified in its entirety by the more detailed information and financial statements included elsewhere or incorporated by reference in this prospectus supplement. This summary may not contain all of the information that you should consider before investing in our securities. You should read this summary together with the entire prospectus supplement and the accompanying prospectus, including our financial statements, the notes to those financial statements and the other documents that are incorporated by reference in this prospectus supplement and the accompanying prospectus, before making an investment decision. See “Risk Factors” beginning on page S-7 of this prospectus supplement, beginning on page 2 of the accompanying prospectus and in the documents incorporated by reference, for a discussion of the risks involved in investing in our securities.

Unless the context requires otherwise, when used in this prospectus supplement, references to the terms “Ceragon,” “the Company,” “we,” “us,” “our” and similar terms, refer to Ceragon Networks Ltd. and its wholly owned subsidiaries on a consolidated basis, unless we state or the context implies otherwise.

Unless otherwise indicated, all references to “dollars” and “$” in this prospectus are to, and amounts are presented in, U.S. Dollars. Except where we or the context otherwise indicate, the information presented in this prospectus assumes that the underwriters will not exercise their over-allotment option.

Overview

We are the #1 high-capacity wireless hauling specialist, in terms of unit shipments and global distribution of our business. We provide wireless hauling solutions that enable cellular operators and other wireless service providers to deliver voice and data services, enabling smart-phone applications such as Internet browsing, social networking applications, image sharing, music and video applications. Our wireless backhaul solutions use microwave technology to transfer large amounts of telecommunication traffic between base stations and small-cells and the core of the service provider’s network. We also provide fronthaul solutions that use microwave technology for ultra-high speed, ultra-low latency communication between LTE/LTE-Advanced base stations and remote radio heads. The term fronthaul refers to new technologies that allow transport between a remote radio unit and a baseband unit in front of the base station, with a controlling macro base station. We are also a member of industry consortiums of companies which attempt to better define future technologies in the market, such as Open Networking Foundation (ONF), Next Generation Mobile Network Alliance (NGMN), Metro Ethernet Forum (MEF), European Telecommunications Standards Institute (ETSI) and others.In 2013, we released a broad range of products built around our new hardware and software platform, which forms the basis for our next-generation products. The new, ultra-high capacity hauling platform, which we call IP-20, is based on our in-house modem and radio frequency (RF) chipsets and is combined with our proprietary internetworking operating system, which we call CeraOS.

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

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

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

Corporate Information

Ceragon was incorporated under the laws of the State of Israel on July 23, 1996 as Giganet Ltd. and it changed its name to Ceragon Networks Ltd. on September 6, 2000. Ceragon's registered office is located at 24 Raoul Wallenberg Street, Tel Aviv 69719, Israel and the telephone number is 011-972-3-543-1000. Ceragon's U.S. subsidiary and North American headquarters, Ceragon Networks, Inc., is located at 10 Forest Avenue, Suite 120, Paramus, New Jersey 07652 and the telephone number is (201) 845-6955. Ceragon's Internet address is www.ceragon.com. The information available on or accessible through our website does not constitute a part of this prospectus supplement or the accompanying prospectus.

On July 6, 2014, at an extraordinary general meeting, our shareholders adopted resolutions to revoke the Company's Memorandum of Association, which provided a supermajority vote regarding any increase in our authorized capital and, subject to court approval of the revocation, to authorize an increase of the Company's registered share capital from 60,000,000 ordinary shares to 120,000,000 ordinary shares. On July 15, 2014, the Israeli district court of Tel-Aviv-Jaffa approved the revocation of the Memorandum of Association and the increase in share capital became effective.

The Offering

Ordinary Shares offered by us in the offering	ordinary shares, par value NIS 0.01 per share (ordinary shares if the underwriters exercise their over-allotment option in full).
Total ordinary shares outstanding immediately after this offering	ordinary shares (ordinary shares if the underwriters exercise their over-allotment option in full).
Dividend policy	Our board of directors is authorized to declare dividends, although we anticipate that, for the foreseeable future, we will retain any earnings to support operations and to finance the growth and development of our business. Therefore, we do not expect to pay cash dividends for at least the next several years.
Over-allotment option	ordinary shares.
Timing and settlement of ordinary shares	The ordinary shares are expected to be delivered against payment on or about July , 2014.
The Nasdaq Global Select Market and Tel Aviv Stock Exchange symbol	"CRNT"
Use of proceeds	We intend to use the net proceeds we receive from this offering for general corporate purposes. See "Use of Proceeds" for additional information.
Lock-up	Subject to certain exceptions, we and the members of our board of directors, our executive officers and one of our affiliated shareholders have agreed with the underwriters not to sell, transfer or dispose of any ordinary shares for a period of 90 days (subject to certain exceptions) after the date of this

	prospectus supplement. See "Underwriting."
Risk factors	See "Risk Factors" beginning on page S-7 of this prospectus supplement and beginning on page 2 of the accompanying prospectus for a discussion of factors you should carefully consider before deciding to invest in our ordinary shares.

As of June 30, 2014, 52,482,168 ordinary shares are outstanding, excluding:

- 7,236,314 ordinary shares issuable upon the exercise of outstanding options to purchase 5,921,818 ordinary shares at a weighted average exercise price of $7.94 per share, and vesting of 1,314,496 restricted share units outstanding;
- 292,480 ordinary shares available for grant under our Amended and Restated Share Option and RSU Plan; and
- 3,481,523 treasury shares held by us.

Except as otherwise indicated, all information in this prospectus supplement assumes no exercise by the underwriters of their option to purchase an additional ordinary shares to cover over-allotments.

Summary Consolidated Financial and Other Data

The following summary consolidated financial and other data summarize our historical financial and other information as of and for the years ended December 31, 2011, 2012 and 2013, which is derived from our audited consolidated financial statements included in our Annual Report on Form 20-F for the year ended December 31, 2013, and as of and for the six months ended June 30, 2013 and 2014, which is derived from our unaudited consolidated financial information included in our Report on Form 6-K furnished to the SEC on July 28, 2014. This information should be read in conjunction with other information presented in or incorporated by reference into this prospectus supplement, including in conjunction with “ITEM 3: Key Information — Selected Financial Data,” “ITEM 5: Operating and Financial Review and Prospects” and our consolidated financial statements and the related notes found in our Annual Report on Form 20-F for the year ended December 31, 2013, and the other financial information incorporated by reference in this prospectus supplement and the accompanying prospectus.

	Year ended December 31,			Six months ended June 30,	
Consolidated Statement of Operations Data:	2011	2012	2013	2013	2014
	(In thousands, except share and per share data)				
	(audited)			(unaudited)	
Revenues	$445,269	$446,651	$361,772	$180,181	$160,935
Cost of revenues	323,191	308,354	249,543	124,182	121,543
Gross profit	122,078	138,297	112,229	55,999	39,392
Operating expenses:					
Research and development	50,456	47,487	42,962	22,488	18,893
Selling and marketing	81,716	77,326	67,743	34,341	30,075
General and administrative	26,524	27,519	26,757	12,479	11,626
Restructuring costs	7,834	4,608	9,345	--	936
Acquisition related cost	4,919	--	--	--	--
Other income	--	--	7,657	--	16,800
Total operating expenses	171,449	156,940	139,150	69,308	44,730
Operating loss	49,371	18,643	26,921	13,309	5,338
Financial expense, net	2,024	3,547	14,018	6,876	10,339
Loss before taxes	51,395	22,190	40,939	20,185	15,677
Taxes on income	2,259	1,201	6,539	1,476	3,288
Net loss	53,654	23,391	47,478	21,661	18,965
Basic net loss per share	$1.49	$0.64	$1.23	$0.59	$0.36
Diluted net loss per share	$1.49	$0.64	$1.23	$0.59	$0.36
Weighted average number of shares used in computing basic loss per share	35,975,434	36,457,989	38,519,606	36,673,228	52,457,168

Weighted average number of shares used in computing diluted loss per share	35,975,434	36,457,989	38,519,606	36,673,228	52,457,168

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	Year ended December 31,			Six months ended June 30, 2014	
Consolidated Balance Sheet Data:	2011	2012	2013	Actual	As Adjusted
	(audited)			(unaudited)	
			(In thousands)		
Cash and cash equivalents, short and long term bank deposits, short and long term marketable securities	$49,531	$51,589	$52,337	$36,384	$
Working Capital	154,987	129,407	106,765	88,831	
Total assets	411,158	393,596	365,971	359,816	
Total long term liabilities	76,664	69,767	52,498	49,661	
Shareholders’ equity	161,051	143,709	135,078	119,126	

The as adjusted balance sheet data above reflects the application of the net proceeds from the sale of ordinary shares offered by us, after deducting estimated underwriting discounts and commissions and estimated offering expenses.

Risk Factors

Investing in our ordinary shares involves substantial risk. You should carefully consider all the information in this prospectus supplement and the accompanying prospectus prior to investing in our ordinary shares. In particular, we urge you to consider carefully the factors set forth in the section of this prospectus supplement entitled “Risk Factors” beginning on page S-7 and under “Risk Factors” under Item 3 of our annual report on Form 20-F for the fiscal year ended December 31, 2013.

RISK FACTORS

Investing in our ordinary shares involves a high degree of risk. You should consider carefully the following risk factors and the risk factors discussed under the section captioned "ITEM 3: Key Information — Risk Factors" in our Annual Report on Form 20-F for the year ended December 31, 2013, in addition to all of the other information included in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, and any free writing prospectus that we have authorized for use in connection with this offering, before investing in our ordinary shares. Please also refer to the section in this prospectus supplement entitled "Cautionary Note Regarding Forward-Looking Statements." Each of these risk factors could harm our business, financial condition or operating results, as well as decrease the value of an investment in our ordinary shares.

Risks Relating to Our Business

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

We incurred substantial losses over the past three years and in the first six months of 2014. Our losses were $53.7 million, $23.4 million and $47.5 million for the years ended December 31, 2011, 2012 and 2013, respectively, and $19.0 million during the first six months of 2014. The Company has had and continues to experience, significant fluctuations in its working capital needs and generated net operating cash flow of $(20.1) million, $7.2 million, $(29.5) million and $(25.8) million for the years ended December 31, 2011, 2012, 2013 and the first six months of 2014, respectively. Our profitability has been negatively impacted by the decrease in sales revenues, as well as significant expenses, costs and charges associated with our organizational restructuring activities in 2011, 2012, 2013 and the first six months of 2014.

We are focusing on our newly released IP-20 platform to increase our revenues while making efforts to increase efficiency and control costs in order to enhance our profitability. However, we cannot be certain that our newly released IP-20 platform and these actions or others that we may take in the future will result in growth in revenue, operating profitability or net income or improved operating cash flow in subsequent periods.

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

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

In addition, the credit agreement contains financial and other covenants requiring that we maintain, among other things, a certain ratio between our shareholders' equity and the total value of our assets on our balance sheet, a certain ratio between our net financial debt to each of our working capital and accounts receivable, a minimum cash covenant and, during the second and third quarters of 2014, an EBITDA covenant. Any failure to comply with the covenants, including due to poor financial performance, may constitute a default under the credit agreement and may require us to seek an amendment or waiver from the banks to avoid termination of their commitments and/or an immediate repayment of all outstanding amounts under the credit facilities which will have a material adverse effect on our financial condition and ability to operate. In addition, the payment may be accelerated and the credit facility may be cancelled upon an event in which a current or future shareholder acquires control (as defined under Israel Securities

Law) of us.

We obtained the bank syndicate's consent for temporary less restrictive financial covenants to be in effect until October 1, 2014, except for certain less restrictive financial covenants which shall remain in effect until March 31, 2015. After each date, the respective original covenants again apply. Although we were in compliance with our bank covenants in October 2013, April 2014 and as of June 30, 2014, there is no assurance that we will be able to meet either the less restrictive financial covenants or the original covenants.

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

We experienced significant fluctuations in liquidity. Our working capital needs and generated net operating cash flow of $(20.1) million, $7.2 million, $(29.5) million and $(25.8) million in 2011, 2012, 2013 and in the first six months of 2014, respectively.

Our bookings for the first six months of 2014 exceeded our bookings for the first six months of 2013 by 21.8%, mainly due to bookings in India. We expect the level of bookings in the last six months of 2014 to be consistent with the level of bookings for the first six months of 2014. Such level of bookings will require additional working capital to meet the growth in demand. We may not be able to address the increase in our bookings without defaulting on its current financial covenants due to working capital constraints and operational considerations.

Should our cash flow requirements continue to increase, we will need to raise additional funds through public or private debt or equity offerings. If we are not able to raise other capital or borrow additional funds, we may not be able to fund our working capital and operational needs which would have a material adverse effect on our business, financial condition, results of operations and cash flows. Upon completion of this offering, we believe we will have sufficient liquidity resources for at least 12 months, but if we are not able to begin generating positive cash flow, we may need to again seek additional financing to meet our requirements.

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

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

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

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

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

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

On November 5, 2013, we announced the release of a broad range of products built around our new hardware and software platform, which will form the basis for all of our next-generation products. The new, ultra-high capacity hauling platform, which we call IP-20, is combined with our proprietary internetworking operating system, which we call CeraOS. We are already shipping, our new set of products based on the new platform and have been required to increase substantially our manufacturing and supply chain capabilities to deliver our new set of products. We cannot assure that we will not experience further delays in production or that our newly-announced products will be free from material defects or will result in profitable sales.

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

We continue to evaluate our business to determine the potential need to realign our resources as we continue to transform our business to achieve desired cost savings in an increasingly competitive market. In prior years, we have undertaken a series of restructurings of our operations. We incurred restructuring charges of $7.8 million, $4.6 million, $9.3 million and $0.9 million for the years ended December 31, 2011, 2012, 2013 and the six months ended June 30, 2014, respectively.

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

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

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

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

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

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

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

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

Also, following the Nera Acquisition, as a percentage from our total sales we have increased sales of our products in Latin America, a region typically characterized, as having strong downward pricing pressures, in response to the rapid build-out of cellular networks in those geographies. For the years ended December 31, 2012, 2013 and for the first six months of 2014, 28%, 34% and 26%, respectively, of our revenues were earned in Latin America. We expect that our revenues from sales of our products in Latin America will continue to constitute a significant portion of our business in the future. In addition, we currently anticipate an increase in the volume of our sales in India, a country which is historically characterized as having strong downward pricing pressures. Challenging global economic conditions could also have adverse, wide-ranging effects on demand for our products and services and for the products of our customers. The telecommunications industry has experienced downturns in the past in which operators substantially reduced their capital spending on new equipment. Continued adverse economic conditions, which still exist in certain jurisdictions, including certain countries in Europe, could cause network operators to postpone investments or initiate other cost-cutting initiatives to improve their financial position. Recently, network operators have started to share parts of their network infrastructure through cooperation agreements rather than legal considerations, which may adversely affect demand for lower cost network equipment. Moreover, the level of demand by operators and other customers who buy our products and services can change quickly and can vary over short periods, including from month to month.

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

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

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

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

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

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

Consolidation of our potential customer base could harm our business.

The increasing trend toward mergers in the telecommunications industry has resulted in the consolidation of our potential customer base. In situations where an existing customer consolidates with another industry participant which uses a competitor’s products, our sales to that existing customer could be reduced or eliminated completely to the extent that the consolidated entity decides to adopt the competing products. Further, consolidation of our potential customer base could result in purchasing decision delays as consolidating customers integrate their operations and could generally reduce our opportunities to win new customers to the extent that the number of potential customers decreases. Moreover, some of our potential customers have agreed to share networks which results in less network equipment and associated services required and a decrease in the overall size of the market. Recently, network operators have started to share parts of their network infrastructure through cooperation agreements rather than legal consolidations, which may adversely affect demand for network equipment and could harm our revenues and gross margins.

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

Although we derive a significant portion of our revenues in U.S. dollars, a portion of our U.S. dollar revenues are derived from customers operating in local currencies which are different from the U.S. dollar. Therefore, devaluation in the local currencies of our customers relative to the U.S. dollar could cause our customers to cancel or decrease orders or delay payment. In addition, part of our revenues from customers are in non-U.S. dollar currencies, therefore we are exposed to the risk of devaluation of such currencies relative to the dollar which could have a negative impact on our revenues. We are also subject to other foreign currency risks including repatriation restrictions in certain countries, particularly in Latin America.

In February 2014, the Government of Venezuela announced a complementary currency system identified as "SICAD II", which in addition to those currency systems already in existence, are to be regulated by the Central Bank of Venezuela. The most recent transactions executed through SICAD auctions have been at an exchange rate of 51.3 bolivars per U.S. dollar. Depending on the transparency and liquidity of the SICAD market, we re-measure our net monetary assets at the SICAD rate. To the extent that the SICAD rate is higher than the official exchange rate at that time, this could result in an additional devaluation charge. For the year ended December 31, 2013 and for the six month period ended June 30, 2014, our subsidiary in Venezuela represented approximately 4% and 3%, respectively of the Company's consolidated total assets and approximately 3% and 1%, respectively of the Company's consolidated revenues and approximately 2% and 31%, respectively of the Company's consolidated net loss.

The imposition of price controls, restrictions on the conversion of foreign currencies or a devaluation of foreign currencies could have a material adverse effect on our financial results. In 2013 and the six months ended June 30, 2014, we incurred financial losses in the amounts of $5.7 million and $4.9 million, respectively, as a result of the devaluation of the local currencies in Argentina and Venezuela.

In 2012, 2013 and in the six month period ended June 30, 2014, we incurred consolidated losses in the amount of $0.3 million, $7.9 million and $5.8 million, respectively as a result of exchange rate fluctuations.

A substantial portion of our expenses are denominated in New Israeli Shekels, and to a lesser extent, other non-U.S. dollar currencies. Our NIS-denominated expenses consist principally of salaries and related costs and related personnel expenses. We anticipate that a portion of our expenses will continue to be denominated in NIS. In 2013, the NIS continued to fluctuate in comparison to the U.S. dollar, as NIS appreciated by 7%. In the six months ended June 30, 2014, the NIS appreciated by 1% against the U.S. dollar. If the U.S. dollar weakens against the NIS in the future, there will be a negative impact on our results of operations. In some cases, we are paid in non-U.S. dollar currencies or maintain monetary assets in non-U.S. dollar currencies, which could affect our reported results of operations. In addition, we have assets and liabilities that are denominated in non-U.S. dollar currencies. Therefore, significant fluctuation in these other currencies could have significant effect on our results.

We use derivative financial instruments, such as foreign exchange forward contracts, to mitigate the risk of changes in foreign exchange rates on balance sheet accounts and forecast cash flows. We do not use derivative financial instruments or other “hedging” techniques to cover all of our potential exposure and may not purchase derivative instruments adequate to insulate ourselves from foreign currency exchange risks. In some countries, we are unable to use “hedging” techniques to mitigate our risks because hedging options are not available for certain government-restricted currencies The volatility in the foreign currency markets may make it challenging to hedge our foreign currency exposures effectively.

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

In 2011, 2012, 2013 and the six months ended June 30, 2014, we had revenues from a single group of affiliated companies that accounted for approximately 13.4%, 11.6%, 15.4% and 8.3%, respectively, of our total revenue. We received purchase orders from a number of related companies in this group of companies. Our sales are generally made from standard purchase orders rather than long-term contracts. Accordingly, this customer group is not obligated to purchase a fixed amount of products or services over any period of time from us and may terminate or reduce its purchases from us at any time without notice or penalty. We therefore have difficulty projecting future revenues from this customer group with certainty. In the first half of 2014, the volume of business with this customer group was $13.3 million which is 74% lower than in 2012 and 76% lower than in 2013. In addition, the customer group could vary, and in 2012 did vary, its purchase or acceptance procedures from period to period, even significantly. This could have, and has had, an adverse effect on our revenues, profitability and cash flow. In addition, the loss of this customer group or any material reduction in orders from either customer group could adversely affect our results of operations, cash flow and financial position.

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

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

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

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

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

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

We have goodwill and amortizable intangibles assets, such as customer relations and technology, almost all of which $21.3 million are as a result of the Nera Acquisition. Under generally accepted accounting principles, we are required to perform an annual impairment test on our goodwill and from time to time, we are required to assess the recoverability of both our goodwill and long-lived intangibles assets. We may need to perform impairment tests more frequently if events occur or circumstances indicate that the carrying amount of these assets may not be recoverable. These events or circumstances could include a significant change in the business climate, attrition to key personnel, a prolonged decline in our stock price and market capitalization, operating performance indicators, competition and other factors. If our market value or other long-lived intangibles assets is less than the carrying amount of the related assets, we could be required to record an impairment charge in the future. Because these factors are ever changing, due to market and general business conditions, we cannot predict whether, and to what extent, our goodwill and long lived intangible assets may be impaired in future periods.

At December 31, 2013 and June 30, 2014, we had goodwill of $14.9 million and $15.1, respectively, and net intangible assets of $7.2 million and $6.2 million, respectively. The amount of any future impairment could be significant and could have a material adverse effect on our financial results. As of June 30, 2014, no impairment losses have been recognized.

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

We are engaged in supplying products as total turn-key projects which include installation and other services for our customers. In this context, we may act as prime contractor and equipment supplier for network build-out projects, providing installation, supervision and commissioning services required for these projects, or we may provide such services and equipment for projects handled by system integrators. If our products are damaged or stolen, or if the network we install does not pass the acceptance tests or if the customer does not or will not issue an acceptance certificate, the end user or the system integrator, as the case may be, could refuse to pay us any balance owed and we would incur substantial costs, including fees owed to our installation subcontractors, increased insurance premiums, transportation costs, and expenses related to repairing or manufacturing the products. Moreover, in such a case, we may not be able to repossess the equipment, thus suffering additional losses. The completion of the installation and testing of the customer's networks and the completion of all other suppliers' network elements are subject to the customer's timing and efforts, and other factors outside our control, such as site readiness for installation, availability of power and access to sites, which may prevent us from making predictions of revenue with any certainty. This could cause us to experience substantial period-to-period fluctuations in our results of operations. In addition, if we miscalculate the resources or time we need for any of such projects which are fixed-price projects, the costs of completing such projects may exceed our original estimates, which would negatively impact our financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of June 30, 2014, the company had recorded $11.3 million of deferred tax assets. If the Company determines that it would not be able to realize all or a portion of its deferred tax assets in the future, the Company would reduce the deferred tax asset through a charge to earnings in the period in which the determination is made. This charge could have a material adverse effect on the Company’s results of operations. In addition, the assumptions used to make this determination are subject to change from period-to-period based on changes in tax laws or variances between the Company’s projected operating performance and actual results. As a result, significant management judgment is required in assessing the possible need for a deferred tax asset valuation allowance. If the underlying assumptions underlying our judgment prove to be wrong, it can materially affect the Company’s results of operations.

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

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

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

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

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

A majority of our sales are made in countries in Latin America, Africa, Eastern Europe, India and Asia Pacific. For the years ended December 31, 2012, 2013 and the six months ended June 30, 2014, sales in these regions accounted for approximately 66%, 73%, and 71%, respectively, of our revenues. As a result, the occurrence of any international, political, regulatory or economic events in these regions could adversely affect our business and result in significant revenue shortfalls. Any such revenue shortfalls could have a material adverse effect on our business, financial condition and results of operations. For example, in 2011, following the regulatory investigation in the Indian telecommunications market which culminated in the revocation by the Supreme Court of India in 2012 of a large number of licenses and spectrum, sales by vendors, including us, to telecommunications operators in India significantly decreased, which situation has still not yet stabilized. Also, substantial import controls into Argentina are currently in effect under which we need to obtain tax and customs authorities' approvals for import activities. To date we have been able to obtain all required approvals, but we cannot assure you that more stringent requirements will not be imposed in the future. The following are some of the risks and challenges that we face doing business internationally, several of which are more likely in the emerging markets than in other countries:

- unexpected changes in or enforcement of regulatory requirements, including security regulations relating to international terrorism and hacking concerns and regulations related to licensing and allocation processes;

- unexpected changes in or imposition of tax and/or customs levies;

- fluctuations in foreign currency exchange rates;

- Restrictions on currency repatriation;

- imposition of tariffs and other barriers and restrictions;

- burden of complying with a variety of foreign laws including foreign import restrictions which may be applicable to our products;

- difficulties in protecting intellectual property;

- laws and business practices favoring local competitors;
- demand for high-volume purchases with discounted prices;
- payment delays and uncertainties; and
- civil unrest, war and acts of terrorism.

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

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

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

Our past acquisition activities expose us to risks and liabilities.

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

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

In connection with the Nera Acquisition documentation, the amount of $10 million out of the consideration was deposited in escrow to cover possible claims by us. In 2013, we filed a claim against the seller in Oslo court and the seller filed a counterclaim. In April 2014, we signed an agreement with the seller and settled all claims, counter claims, legal proceedings and any other contingent or potential claims regarding alleged breaches of representations and warranties contained in the Nera Acquisition documentation. Pursuant to the settlement agreement, we received $16.8 million in cash, net of associated legal expenses (of which approximately $10 million came from the escrow described above).

As of June 30, 2014, as a result of the accounting treatment for the Nera Acquisition, there was $6.2 million of amortizable intangible assets and $14.0 million of goodwill reflected on our consolidated financial statements, which, if impaired, would negatively affect our consolidated results of operations.

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

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

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

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

- increase our research and development expenses;
- delay the introduction of our upgraded and new products to current and prospective customers and our penetration into new markets; and
- adversely affect our ability to compete.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The price of our ordinary shares is subject to volatility.

The price of our ordinary shares has experienced volatility in the past and may continue to do so in the future. In the two year period ended June 30, 2014 the price of our ordinary shares has ranged from a high of $9.36 to a low of $2.13. On December 31, 2012, December 31, 2013 and June 30, 2014, the closing price of our ordinary shares was $4.41, $2.97 and $2.54, respectively. Other factors that may contribute to wide fluctuations in our market price, many of which are beyond our control, include, but are not limited to:

- announcement of corporate transactions or other events impacting our revenues;

- announcements of technological innovations;
- customer orders or new products or contracts;
- competitors' positions in the market;
- changes in financial estimates by securities analysts;
- our earnings releases and the earnings releases of our competitors;
- the general state of the securities markets (with particular emphasis on the technology and Israeli sectors thereof); and
- the general state of the credit markets, the current volatility of which could have an adverse effect on our investments.

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

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

As of June 30, 2014, Yehuda Zisapel and his wife Nava Zisapel beneficially owned, directly or indirectly, 5.9% of our outstanding ordinary shares; and Zohar Zisapel, our Chairman, beneficially owned, directly or indirectly, 13.3% of our outstanding ordinary shares. Such percentages include options which are exercisable within 60 days of June 30, 2014. Yehuda and Zohar Zisapel, who are brothers, do not have a voting agreement. Regardless, these shareholders may influence the outcome of various actions that require shareholder approval. Yehuda and Nava Zisapel have an agreement which provides for certain coordination in respect of sales of shares of Ceragon as well as for tag along rights with respect to off-market sales of Ceragon.

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

Under certain circumstances, a request of a creditor of a party to a proposed merger to the court may delay or prevent a merger. Further, a merger generally may not be completed until the passage of certain time periods. In certain circumstances, an acquisition of shares in a public company must be made by means of a tender offer. Our Articles of Association provide that our directors (other than the external directors) are appointed for a period of three years. This longer appointment term may discourage a takeover of our company.

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

Risks Relating to Israel

Conducting business in Israel entails special risks.

Our principal offices and a substantial portion of our research and development and contract manufacturers' facilities are located in Israel. Accordingly, we are directly influenced by the political, economic and military conditions affecting Israel. Specifically, we could be adversely affected by:

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

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

Over the past several years there has been a significant deterioration in Israel's relationship with the Palestinian Authority and a related increase in violence, including recent hostilities related to Lebanon and the Gaza Strip, which is controlled by the Hamas militant group. Efforts to resolve the problem have failed to result in a permanent solution. In 2014, Israel began experiencing another round of armed conflict with Hamas in the Gaza Strip, with missiles reaching throughout Israel and Israeli ground forces engaged in operations within the Gaza Strip. Any armed conflicts, terrorist activities or political instability in the region could adversely affect our business, financial condition and results of operations. Further deterioration of relations with the Palestinian Authority, Hamas or countries in the Middle East could disrupt international trading activities in Israel and may materially and negatively affect our business conditions and those of our major contract manufacturers and could harm our results of operations. In addition, a significant number of our employees who are Israeli citizens are subject to an obligation to perform reserve military service. In case of further regional instability such employees who may include one or more of our key employees may be absent for extended periods of time which may materially adversely affect our business.

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

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

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

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

In addition, in each of 2013 and 2014 we received new approvals for grants from the Government of Israel through the OCS, for the financing of certain research and development expenditures in Israel (the “New Grants”) in the amount of approximately $700,000, which has already been received, and $900,000, respectively. The New Grants require us to comply with the requirements of the R&D Law in the same manner applicable to previous grants, provided, however, that the obligation to pay royalties on sales of products based on technology or know how developed with the New Grants does not apply to us, but may apply, under certain conditions, to a recipient of such technology or know how developed with the New Grants to the extent such is sold and/or transferred.

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

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

The Company has capital investment programs that have been granted approved enterprise status (“Approved Programs”) and a program under beneficiary enterprise status pursuant to the Law for the Encouragement of Capital Investments, 1959 (“Beneficiary Program”). When we begin to generate taxable income from these approved or beneficiary enterprise programs, the portion of our income derived from these programs will be exempt from tax for a period of two years and will be subject to a reduced tax for an additional eight years thereafter, depending on the percentage of our share capital held by non-Israelis. The benefits available to an approved enterprise program are dependent upon the fulfillment of conditions stipulated under applicable law and in the certificate of approval. If we fail to comply with these conditions, in whole or in part, we may be required to pay additional taxes for the period in which we benefited from the tax exemption or reduced tax rates and would likely be denied these benefits in the future. The amount by which our taxes would increase will depend on the difference between the then applicable tax rate for regular enterprises and the rate of tax, if any, that we would otherwise pay as an approved enterprise or beneficiary enterprise, and the amount of any taxable income that we may earn in the future.

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

The Israeli government may reduce or eliminate in the future tax benefits available to approved or beneficiary enterprise programs. Our approved and beneficiary program and the resulting tax benefits may not continue in the future at their current levels or at any level and the new legislation regarding Preferred Enterprise may not be applicable to us or may not fully compensate us for such change. The termination or reduction of these tax benefits would likely increase our tax liability. The amount, if any, by which our tax liability would increase will depend upon the rate of any tax increase, the amount of any tax benefit reduction, and the amount of any taxable income that we may earn in the future.

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

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

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

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

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

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

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

Risks Related to This Offering

A substantial percentage of our outstanding shares may be sold in this offering, which could cause the price of our ordinary shares to decline.

Pursuant to this offering, we will sell ordinary shares, or approximately %, of our outstanding ordinary shares as of June 30, 2014. This sale and any future sales of a substantial number of ordinary shares in the public market, or the perception that such sales may occur, could adversely affect the price of our ordinary shares. We cannot predict the effect, if any, that market sales of those ordinary shares or the availability of those ordinary shares for sale will have on the market price of our ordinary shares.

Our management has broad discretion over the use of proceeds from this offering.

Our management and board of directors have significant flexibility in applying, and retain significant discretion with respect to the use of, the proceeds that we receive from this offering. The proceeds of this offering may be used in a manner that does not generate favorable returns. We could use such net proceeds for purposes other than those contemplated at the time of this offering.

We do not anticipate paying any dividends.

No dividends have been paid on our ordinary shares. We do not intend to pay cash dividends on our ordinary shares in the foreseeable future, and anticipate that profits, if any, received from operations will be devoted to our future operations. Any decision to pay dividends will depend upon our profitability at the time, cash available and other relevant factors including, without limitation, the conditions set forth in the Israeli Companies Law 1999.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus, and the information incorporated by reference herein and therein contain forward-looking statements which involve known and unknown risks and uncertainties. We include this notice for the express purpose of permitting us to obtain the protections of the safe harbor provided by the Private Securities Litigation Reform Act of 1995 with respect to all such forward-looking statements. Examples of forward-looking statements include: projections of capital expenditures and liquidity, competitive pressures, revenues, growth prospects, product development, financial resources, restructuring costs, cost savings and other financial matters. You can identify these and other forward-looking statements by the use of words such as “may,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “intends,” “potential” or the negative of such terms, or other comparable terminology.

Our ability to predict our operating results or the effects of various events on our operating results is inherently uncertain. Therefore, we caution you to consider carefully the matters described under the caption “Risk Factors” on page S-7 of this prospectus supplement, page 2 of the accompanying prospectus and in the documents incorporated by reference. Such factors and many other factors beyond the control of our management could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by the forward-looking statements.

You should keep in mind that any forward-looking statement made by us in this prospectus supplement, the accompanying prospectus and any documents incorporated by reference herein or therein speaks only as of the date on which we make it. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us. We have no obligation to update any forward-looking statements herein or therein after the date hereof or thereof, except as required by federal securities laws.

USE OF PROCEEDS

We estimate that the net proceeds from the sale of of our ordinary shares in this offering will be approximately $ million, and after deducting underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters’ over-allotment option is exercised in full, we estimate that we will receive net proceeds of approximately $ million, after deducting underwriter discounts and commissions and estimated offering expenses payable by us.

We currently intend to use the net proceeds we receive from this offering for general corporate purposes.

The amounts and timing of our use of proceeds will vary depending on a number of factors, including the amount of cash generated or used by our operations, and the rate of growth, if any, of our business. As a result, our management will have broad discretion in the allocation of the net proceeds of this offering for any purpose, and investors will be relying on the judgment of our management with regard to the use of these net proceeds. In addition, while we have not entered into any agreements, commitments or understandings relating to any significant transaction as of the date of this prospectus supplement, we may use a portion of the net proceeds to pursue acquisitions, joint ventures and other strategic transactions.

Pending the final application of the net proceeds of this offering we intend to invest the net proceeds of this offering in interest-bearing and investment-grade securities.

CAPITALIZATION

The following unaudited table sets forth our capitalization as of June 30, 2014:

- on an actual basis; and

- on an as adjusted basis to give effect to our sale of ordinary shares, after deducting an assumed underwriting discount and estimated offering expenses payable by us (assuming no exercise of the underwriters' option to purchase an additional ordinary shares).

The information set forth in the following table should be read in conjunction with and is qualified in its entirety by reference to the audited and unaudited financial statements and notes thereto incorporated by reference in this prospectus supplement and the accompanying prospectus.

	As of June 30, 2014	
(In thousands, except share data)	Actual	As Adjusted
	(unaudited)	
Shareholders' equity:		
Ordinary shares of NIS 0.01 par value		
Authorized: 120,000,000 shares at June 30, 2014; Issued: 55.963,691 shares at June 30, 2014;		
Outstanding: 52,482,168 shares at June 30, 2014(1), on an as adjusted basis.	$141	$
Additional paid-in capital	360,112	
Treasury shares at cost – 3,481,523 ordinary shares as of June 30, 2014	(20,091)	
Accumulated other comprehensive loss, net of taxes	(679)	
Accumulated deficit	(220,357)	
Total shareholders' equity	119,126	$

(1) Based on 52,482,168 ordinary shares outstanding as of June 30, 2014. This number does not include, as of June 30, 2014:

- 7,236,314 ordinary shares issuable upon the exercise of outstanding options to purchase 5,921,818 ordinary shares at a weighted average exercise price of $7.94 per share, and vesting of 1,314,496 restricted share units outstanding;

- 292,480 ordinary shares available for grant under our Amended and Restated Share Option and RSU Plan; and

- 3,481,523 treasury shares held by us.

MATERIAL TAX CONSIDERATIONS

Israeli Taxation

The following is a summary of the principal Israeli tax laws applicable to us, and of the Israeli government programs benefiting us. This summary does not discuss all the acts of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. Some parts of this discussion are based on new tax legislation which has not been subject to judicial or administrative interpretation. The discussion should not be construed as legal or professional tax advice and does not cover all possible tax consequences.

INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE ISRAELI OR OTHER TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR ORDINARY SHARES, INCLUDING, IN PARTICULAR, THE EFFECT OF ANY FOREIGN, STATE OR LOCAL TAXES.

General Corporate Tax Structure in Israel

Israeli companies are generally subject to corporate tax. In 2013, the corporate tax rate is 25% of their taxable income. The corporate tax rate for 2014 is 26.5%. However, the effective tax rate payable by a company that derives income from an Approved Enterprise, a Preferred Enterprise or a Beneficiary Enterprise (as discussed below) may be considerably less. Capital gains derived by an Israeli company are generally subject to the prevailing corporate tax rate.

The Law for the Encouragement of Capital Investments, 1959

Tax Benefits before the 2005 amendment

The Law for the Encouragement of Capital Investments, 1959, commonly referred to as the Investments Law, provides that a proposed capital investment in eligible facilities may be designated as an approved enterprise. See “Tax Benefits under the 2005 Amendment” below regarding an amendment to the Investments Law that came into effect in 2005 and “Tax Benefits under the 2011 Amendment” regarding an amendment to the Investment Law that came into effect in 2011.

Generally, an investment program that is implemented in accordance with the provisions of the Investment Law (“Approved Enterprise”) is entitled to benefits. These benefits may include cash grants from the Israeli government and tax benefits, based upon, among other things, the location of the facility in which the investment is made or the election of the grantee. An application to the Investment Center of the Ministry of Industry and Trade (the “Investment Center”), must be submitted to obtain Approved Enterprise status. Each instrument of approval for an Approved Enterprise relates to a specific investment program that is defined both by the financial scope of the investment, including sources of funds, and by the physical characteristics of the facility or other assets. The tax benefits available under any instrument of approval relate only to taxable profits attributable to the specific program and are contingent upon meeting the criteria set out in the instrument of approval.

A company owning an Approved Enterprise may elect to forego any entitlement to the grants otherwise available under the Investment Law and, instead, participate in an alternative package of benefits. Under the alternative package of benefits, a company’s undistributed income derived from an Approved Enterprise will be exempt from corporate tax for a period of between two and ten years from the first year of taxable income after the commencement of production, depending on the geographic location of the Approved Enterprise within Israel. The benefits commence on the date on which that taxable income is first earned. Upon expiration of the exemption period, the Approved

Enterprise is eligible for the reduced tax rates otherwise applicable under the Investment Law for any remainder of the otherwise applicable benefits period. However, this period is limited to twelve years from commencement of production or fourteen years from the date of approval, whichever is earlier.

A company that has an Approved Enterprise program is eligible for further tax benefits if it qualifies as a foreign investors' company ("FIC"). An FIC is essentially a company in which more than 25% of its rights (in terms of shares, rights to profits, voting and appointment of directors) and combined share and loan capital are owned, directly or indirectly, by non-Israeli residents. If a company that has an Approved Enterprise program is a wholly-owned subsidiary of another company, then the percentage of foreign investment is determined based on the percentage of foreign investment in the parent company. The determination as to whether or not a company qualifies as an FIC is made on an annual basis. A company that qualifies as an FIC and has an Approved Enterprise program is eligible for tax benefits for a ten-year benefit period (instead of seven).

Depending on the geographic location of the Approved Enterprise within Israel, income derived from the Approved Enterprise program may be exempt from tax on its undistributed income for a period of between two and ten years and will be subject to a reduced tax rate for rest of the benefits period (up to eight years). The tax rate for the additional benefits period is 25%, unless the level of foreign investment exceeds 49%, in which case the tax rate is 20% if the foreign investment is 49% or more and less than 74%; 15% if 74% or more and less than 90%; and 10% if 90% or more.

A company that has elected the alternative package of benefits and that subsequently pays a dividend out of income derived from the Approved Enterprise during the tax exemption period will be subject to tax on the gross amount distributed. The tax rate will be the rate which would have been applicable had the company not elected the alternative package of benefits. This rate is generally 10%-25%, depending on the percentage of the company’s shares held by foreign shareholders. The company is required to withhold tax at the source at a rate of 15% (20% with respect to dividends distributed as of January 1, 2014, provided that the income from which the dividend is distributed was generated on or after January 1, 2014 and subject to certain conditions or such lower rate as may be provided in an applicable tax treaty), if the dividend is distributed during the tax exemption period or within 12 years after the period. This limitation does not apply to an FIC.

The benefits available to an Approved Enterprise are conditional upon the fulfillment of conditions stipulated in the Investments Law and its regulations and the criteria in the specific certificate of approval, as described above. If a company does not meet these conditions, in whole or in part, it would be required to refund the amount of tax benefits, with the addition of the consumer price index linkage adjustment and interest.

The Investment Center has granted Approved Enterprise status to three investment programs at our former facility in Tel Aviv and we have derived and expect to continue to derive a substantial portion of our income from these programs. We have elected the alternative package of benefits under these Approved Enterprise programs. The portion of our income derived from these Approved Enterprise programs will be exempt from tax for a period of two years commencing in the first year in which there is taxable income after the commencement of production and will be subject to a reduced company tax of between 10% and 25% for the subsequent period of five years, or up to eight years if the percentage of non-Israeli investors who hold our ordinary shares exceeds 25%. The period of tax benefits for our Approved Enterprise programs has not yet commenced, because we have yet to realize taxable income.

Tax Benefits under the 2005 Amendment

On April 1, 2005, an amendment to the Investments Law (the “2005 Amendment”) came into force. The 2005 Amendment includes revisions to the criteria for investments qualified to receive tax benefits as an Approved Enterprise. The 2005 Amendment applies to new investment programs and investment programs commencing after 2004, and does not apply to investment programs approved prior to December 31, 2004, whose benefits will remain as they were on the date of such approval. Pursuant to the 2005 Amendment, the Investment Center will continue to grant Approved Enterprise status to qualifying investments. However, a company that was granted benefits according to section 51 of the Investments Law (prior to the 2005 Amendment) would not be allowed to choose a new tax year as a year of election (as described below) under the 2005 Amendment for a period of 2 years from the company’s previous year of commencement under the old Investment Law.

The Company will continue to enjoy its current tax benefits in accordance with the provisions of the Investment Law prior to its revision. However, if the Company is granted any new benefits in the future, they will be subject to the provisions of the amended Investment Law. Therefore, the above discussion is a summary of the Investment Law prior to its amendment and the following is a discussion of the relevant changes contained in the new legislation.

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An enterprise that qualifies under the 2005 Amendment is referred to as a "Beneficiary Enterprise", rather than "Approved Enterprise". The 2005 Amendment simplifies the approval process: according to the 2005 Amendment, only Approved Enterprises receiving cash grants require the approval of the Investment Center. As a result, a company is no longer required to obtain the advance approval of the Investment Center in order to receive tax benefits. Rather, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set out by the 2005 Amendment.

Tax benefits are available under the 2005 Amendment to production facilities (or other eligible facilities), which are generally required to derive more than 25% of their business income from export to specific markets with a population of at least 12 million (following an amendment which became effective as of July 2013, the export criteria was increased to markets with population of at least 14 million, such export criteria will further increase in the future by 1.4% per annum). In order to receive the tax benefits, the 2005 Amendment states that the company must make an investment in the Beneficiary Enterprise exceeding a certain percentage or a minimum amount specified in the Investments Law. Such investment may be made over a period of no more than three years ending at the end of the year in which the company requested to have the tax benefits apply to the Beneficiary Enterprise (the "Year of Election"). A company wishing to receive the tax benefits afforded to a Beneficiary Enterprise is required to select the tax year from which the period of benefits under the Investments Law are to commence by notifying the Israeli Tax Authority within 12 months of the end of that year. Companies are also granted the right to approach the Israeli Tax Authority for a pre-ruling regarding their eligibility for benefits under the 2005 Amendment. Where the company requests to have the tax benefits apply to an expansion of existing facilities, then only the expansion will be considered a Beneficiary Enterprise and the company's effective tax rate will be the result of a weighted combination of the applicable rates. In this case, the minimum investment required in order to qualify as a Beneficiary Enterprise is required to exceed a certain percentage or a minimum amount of the company's production assets before the expansion.

The duration of tax benefits is subject to a limitation of the earlier of 7 to 10 years from the Commencement Year, or 12 years from the first day of the Year of Election. The tax benefits granted to a Beneficiary Enterprise are determined, as applicable to its geographic location within Israel, according to one of the following new tax routes, which may be applicable to us:

- Similar to the currently available alternative route, exemption from corporate tax on undistributed income for a period of two to ten years, depending on the geographic location of the Beneficiary Enterprise within Israel, and a reduced corporate tax rate of 10% to 25% for the remainder of the benefits period, depending on the level of foreign investment in each year. Benefits may be granted for a term of seven to ten years, depending on the level of foreign investment in the company. If the company pays a dividend out of income derived from the Beneficiary Enterprise during the tax exemption period, such income will be subject to corporate tax at the applicable rate (10%-25%) in respect of the gross amount of the dividend that we may distribute. The company was required to withhold tax at the source at a rate of 15% (20% with respect to dividends distributed as of January 1, 2014, provided that the income from which the dividend is distributed was generated on or after January 1, 2014 and subject to certain conditions or such lower rate as may be provided in an applicable tax treaty) from any dividends distributed from income derived from the Beneficiary Enterprise; and

- A special tax route, which enables companies owning facilities in certain geographical locations in Israel to pay corporate tax at the rate of 11.5% on income of the Beneficiary Enterprise. The benefits period is ten years. Upon payment of dividends, the company is required to withhold tax at source at a rate of 15% (20% with respect to dividends to be distributed as of January 1, 2014, provided that the income from which the dividend is distributed was generated on or after January 1, 2014, and subject to certain conditions or such lower rate as may be provided in an applicable tax treaty) for Israeli residents and at a rate of 4% for foreign residents.

The benefits available to a Beneficiary Enterprise are subject to the fulfillment of conditions stipulated in the Investment Law and its regulations. If a company does not meet these conditions, it may be required to refund the amount of tax benefits, together with consumer price index linkage adjustment and interest, or other monetary penalties.

As of June 30, 2014, we did not generate income under the provisions of the new law.

Tax Benefits under the 2011 Amendment

As of January 1, 2011 new legislation amending to the Investment Law came into effect (the "2011 Amendment"). The 2011 Amendment introduced a new status of "Preferred Company" and "Preferred Enterprise", replacing the existed status of "Beneficiary Company" and "Beneficiary Enterprise". Similarly to "Beneficiary Company", a Preferred Company is an industrial company owning a Preferred Enterprise which meets certain conditions (including a minimum threshold of 25% export). However, under this new legislation the requirement for a minimum investment in productive assets was cancelled.

Under the 2011 Amendment, a uniform corporate tax rate will apply to all qualifying income of the Preferred Company, as opposed to the former law, which was limited to income from the Approved Enterprises and Beneficiary Enterprise during the benefits period. The uniform corporate tax rate will be 9% in areas in Israel designated as Development Zone A and 16% elsewhere in Israel during 2014.

A dividend distributed from income which is attributed to a Preferred Enterprise/Special Preferred Enterprise will be subject to withholding tax at source at the following rates: (i) Israeli resident corporation – 0%, (ii) Israeli resident individual –20% in 2014 (iii) non-Israeli resident - 20% in 2014 subject to a reduced tax rate under the provisions of an applicable double tax treaty.

The provisions of the 2011 Amendment also provided transitional provisions to address companies already enjoying current benefits. These transitional provisions provide, among other things, that unless an irrevocable request is made to apply the provisions of the Investment Law as amended in 2011 with respect to income to be derived as of January 1, 2011: (i) the terms and benefits included in any certificate of approval that was granted to an Approved Enterprise, which chose to receive grants before the 2011 Amendment came into effect will remain subject to the provisions of the Investment Law as in effect on the date of such approval, and subject to certain conditions; (ii) terms and benefits included in any certificate of approval that was granted to an Approved Enterprise, which had participated in an alternative benefits program before the 2011 Amendment came into effect will remain subject to the provisions of the Investment Law as in effect on the date of such approval, provided that certain conditions are met; and (iii) a Beneficiary Enterprise can elect to continue to benefit from the benefits provided to it before the 2011 Amendment came into effect, provided that certain conditions are met.

We examined the possible effect of the 2011 Amendment on our financial statements, if at all, and at this time do not believe we will opt to apply the amendment.

Taxation of Shareholders

Capital Gains

Israeli law generally imposes a capital gains tax on the sale of capital assets. The Israeli Income Tax Ordinance (New Version), (1961) (the "Ordinance") distinguishes between the "Real Capital Gain" and the "Inflationary Surplus". The Inflationary Surplus is a portion of the total capital gain which is equivalent to the increase of the relevant asset's purchase price which is attributable to the increase in the Israeli consumer price index (CPI) or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of sale. The Real Capital Gain is the excess of the total capital gain over the Inflationary Surplus.

Israeli Resident Shareholders

Generally, as of January 1, 2006, the tax rate applicable to Real Capital Gain derived by Israeli individuals from the sale of shares which had been purchased on or after January 1, 2003, whether or not listed on a stock exchange, is 25%, unless such shareholder claims a deduction for interest and linkage differences expenses in connection with the purchase and holding of such shares, in which case the gain will generally be taxed at a rate of 30%. Additionally, if such a shareholder is considered a Substantial Shareholder (i.e., a person who holds, directly or indirectly, alone or together with another, 10% or more of any of the company's "means of control" (including, among other things, the right to receive profits of the company, voting rights, the right to receive the company's liquidation proceeds and the right to appoint a director)) at the time of sale or at any time during the preceding 12-month period, such gain will be taxed at the rate of 30%. Individual shareholders dealing with securities in Israel are taxed at their marginal tax rates applicable to business income (up to 50% in 2014).

Furthermore, beginning on January 1, 2013, an additional tax liability at the rate of 2% was added to the applicable tax rate on the annual taxable income of the individuals (whether any such individual is an Israeli resident or non-Israeli resident) exceeding NIS 811,560 (in 2014) (hereinafter, “Excess Tax”).

Israeli Resident Corporations

Under present Israeli tax legislation, the tax rate applicable to Real Capital Gain derived by Israeli resident corporations from the sale of shares of an Israeli company is the general corporate tax rate (26.5% in 2014).

Non-Israeli Resident Shareholders

Israeli capital gain tax is imposed on the disposal of capital assets by a non-Israeli resident if such assets are either (i) located in Israel; (ii) shares or rights to shares in an Israeli resident company; or (iii) represent, directly or indirectly, rights to assets located in Israel, unless a tax treaty between Israel and the seller’s country of residence provides otherwise.

Notwithstanding the foregoing, shareholders who are non-Israeli residents (individuals and corporations) are generally exempt from Israeli capital gain tax on any gains derived from the sale, exchange or disposition of shares publicly traded on the Tel Aviv Stock Exchange or on a recognized stock exchange outside of Israel, provided, among other things, that (i) such gains are not generated through a permanent establishment that the non-Israeli resident maintains in Israel, (ii) the shares were purchased after being listed on a recognized stock exchange, and (iii) with respect to shares listed on a recognized stock exchange outside of Israel, such shareholders are not subject to the Inflationary Adjustments Law. However, non-Israeli corporations will not be entitled to the foregoing exemptions if an Israeli resident (a) has a controlling interest of 25% or more in such non-Israeli corporation, or (b) is the beneficiary of or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly. Such exemption is not applicable to a person whose gains from selling or otherwise disposing of the shares are deemed to be business income.

In addition, a sale of securities may be exempt from Israeli capital gain tax under the provisions of an applicable tax treaty. For example, under the U.S.-Israel Tax Treaty, (“U.S-Israel Treaty”), the sale, exchange or disposition of shares of an Israeli company by a shareholder who is a U.S. resident (for purposes of the U.S.-Israel Treaty) holding the shares as a capital asset is exempt from Israeli capital gains tax unless either (i) the shareholder holds, directly or indirectly, shares representing 10% or more of the voting capital during any part of the 12-month period preceding such sale, exchange or disposition; (ii) the shareholder, being an individual, has been present in Israel for a period or periods of 183 days or more in the aggregate during the applicable taxable year; or (iii) the capital gains arising from such sale are attributable to a permanent establishment of the shareholder which is maintained in Israel. In either case, the sale, exchange or disposition of such shares would be subject to Israeli tax, to the extent applicable; however, under the U.S.-Israel Treaty, a U.S. resident would be permitted to claim a credit for the Israeli tax against the U.S. federal income tax imposed with respect to the sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S-Israel Treaty does not provide such credit against any U.S. state or local taxes.

Payors of consideration for traded securities, like our common shares, including the purchaser, the Israeli stockbroker effectuating the transaction, or the financial institution through which the sold securities are held, are required, subject to any of the foregoing exemptions and the demonstration of a shareholder regarding his, her or its foreign residency, to withhold tax upon the sale of publicly traded securities from the consideration or from the Real Capital Gain derived from such sale, as applicable, at the rate of 25%.

Upon the sale of securities traded on a stock exchange a detailed return, including a computation of the tax due, must be filed and an advanced payment must be paid on January 31 and July 31 of every tax year in respect of sales of securities made within the previous six months. However, if all tax due was withheld at source according to applicable provisions of the Ordinance and regulations promulgated thereunder, the aforementioned return need not be filed and no advance payment must be paid. Capital gain is also reportable on the annual income tax return.

Dividends

Israeli Resident Shareholders

Israeli residents who are individuals are generally subject to Israeli income tax for dividends paid on our common shares (other than bonus shares or share dividends) at 25% (plus Excess Tax if applicable), or 30% (plus Excess Tax if applicable) if the recipient of such dividend is a Substantial Shareholder at the time of distribution or at any time during the preceding 12-month period. Dividends distributed from taxable income accrued during the period of benefit of an Approved Enterprise, Beneficiary Enterprise or Preferred Enterprise are subject to withholding tax as mentioned above in section “The Law for the Encouragement of Capital Investments, 1959.”

Israeli Resident Corporations

Israeli resident corporations are generally exempt from Israeli corporate tax for dividends paid on our common shares from income sourced in Israel. Dividends distributed from taxable income accrued during the period of benefit of an Approved Enterprise, Beneficiary Enterprise or Preferred Enterprise are subject to withholding tax as mentioned above in section “The Law for the Encouragement of Capital Investments, 1959.

Non-Israeli Resident Shareholders

Non-Israeli residents (whether individuals or corporations) are generally subject to Israeli withholding tax on the receipt of dividends paid for publicly traded shares, at the rate of 25%, so long as the shares are registered with a Nominee Company, which is a company incorporated to be a holder of record and distribution agent of publicly traded or other securities in accordance with the Israeli Securities Law, at the rate of 30% on dividends paid to Substantial Shareholders whose shares are not registered with a Nominee Company or 20% (with respect to dividends to be distributed beginning as of January 1, 2014, provided that the income from which the dividend is distributed was generated on or after January 1, 2014 and subject to certain conditions) if the dividend is distributed from income attributed to Approved or Beneficiary Enterprises, unless a reduced rate is provided under an applicable tax treaty. For example, under the U.S.-Israel Treaty, the maximum rate of tax withheld in Israel on dividends paid to a holder of our common shares who is a U.S. resident (for purposes of the U.S.-Israel Treaty) is 25%. However, generally, the maximum rate of withholding tax on dividends, not generated by our Approved or Beneficiary Enterprises, that are paid to a U.S. corporation holding at least 10% or more of our outstanding voting capital from the start of the tax year preceding the distribution of the dividend through (and including) the distribution of the dividend, is 12.5%, provided that no more than 25% of our gross income for such preceding year consists of certain types of dividends and interest. Notwithstanding the foregoing, dividends distributed from income attributed to an Approved Enterprise or a Beneficiary Enterprise or a Preferred Enterprise are subject to a withholding tax rate of 20% for such a U.S. shareholder, provided that the condition related to our gross income for the previous year (as set forth in the previous sentence) is met. If the dividend is attributable partly to income derived from an Approved Enterprise, a Beneficiary Enterprise or a Preferred Enterprise, and partly to other sources of income, the withholding rate will be a blended rate reflecting the relative portions of the two types of income. U.S. residents who are subject to Israeli withholding tax on a dividend may be entitled to a credit or deduction for U.S. federal income tax purposes in the amount of the taxes withheld, subject to detailed rules contained in United States tax legislation.

A non-Israeli resident who receives dividends from which tax was withheld is generally exempt from the obligation to file tax returns in Israel with respect to such income, provided that (i) such income was not generated from business conducted in Israel by the taxpayer, and (ii) the taxpayer has no other taxable sources of income in Israel with respect to which a tax return is required to be filed.

Payors of dividends on our common shares, including the Israeli stockbroker effectuating the transaction, or the financial institution through which the securities are held, are required, subject to any of the foregoing reduced tax rates and the demonstration of a shareholder regarding his, her or its foreign residency, to withhold tax upon the distribution of dividend at the rate of 25%, so long as the shares are registered with a Nominee Company (for corporations and individuals).

U.S. Federal Income Tax Considerations

U.S. Taxation

The following discussion describes the material U.S. federal income tax consequences of the purchase, ownership and disposition of our ordinary shares to a U.S. holder.

For purposes of this discussion, a "U.S. holder" is:

- an individual who is a citizen or resident of the United States;
- a corporation (or another entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, or any political subdivision thereof or the District of Columbia;
- an estate, the income of which is includable in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust, if (1) a U.S. court is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or (2) if the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

This summary is for general information purposes only and does not purport to be a comprehensive description of all of the U.S. federal income tax considerations that may be relevant to a decision to purchase, hold or dispose of the Company's ordinary shares. This summary generally considers only U.S. holders that will own the ordinary shares as capital assets and does not consider the U.S. tax consequences to a person that is not a U.S. holder or the tax treatment of persons who hold the ordinary shares through a partnership or other pass-through entity. In addition, the possible application of U.S. federal estate or gift taxes or any aspect of state, local or non-U.S. tax laws is not considered. This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), current and proposed Treasury Regulations promulgated under the Code, and administrative and judicial interpretations of the Code, all as in effect today and all of which may change, possibly with a retroactive effect.

This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular U.S. holder based on the holder's particular circumstances, such as,

- persons who own, directly, indirectly or constructively, 10% or more (by voting power or value) of our outstanding voting shares;
- persons who hold the ordinary shares as part of a hedging, straddle or conversion transaction;
- persons whose functional currency is not the U.S. dollar;
- persons who acquire their ordinary shares in a compensatory transaction;
- broker-dealers;
- insurance companies;

- regulated investment companies;
- real estate investment companies;
- traders who elect to mark-to-market their securities;

- tax-exempt organizations;
- banks or other financial institutions;
- certain former citizens or long-term residents of the United States; and
- persons subject to the alternative minimum tax.

EACH U.S. SHAREHOLDER SHOULD CONSULT HIS OR HER TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES TO HIM OR HER OF AN INVESTMENT IN THE ORDINARY SHARES, INCLUDIN