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

FORM 8-K/A
(Amendment No. 1)

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

March 3, 2020
Date of Report (Date of earliest event reported)

RIBBON COMMUNICATIONS INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	001-38267	82-1669692
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

4 TECHNOLOGY PARK DRIVE, WESTFORD, MASSACHUSETTS 01886
(Address of Principal Executive Offices) (Zip Code)

(978) 614-8100
(Registrant’s telephone number, including area code)

N/A
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.0001	RBBN	The Nasdaq Global Select Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter). Emerging growth company ☐

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

Explanatory Note

On March 3, 2020, Ribbon Communications Inc. (the "Company") filed a Current Report on Form 8-K (the "Original Form 8-K") reporting that, on such date, pursuant to an Agreement and Plan of Merger, dated as of November 14, 2019, by and among the Company, Ribbon Communications Israel Ltd., a company incorporated under the Laws of the State of Israel and an indirect wholly owned Subsidiary of Ribbon, Eclipse Communications Ltd., a company incorporated under the Laws of the State of Israel and a direct wholly owned Subsidiary of Ribbon Israel ("Merger Sub"), ECI Telecom Group Ltd., a company incorporated under the Laws of the State of Israel ("ECI") and ECI Holding (Hungary) Kft, ECI merged with Merger Sub, with ECI as the surviving company (the "Merger"). As a result of the Merger, ECI is now an indirect wholly owned subsidiary of the Company.

This Current Report on Form 8-K/A amends Item 9.01 of the Original Form 8-K to include the financial statements and unaudited pro forma financial information required by Items 9.01(a) and (b) of Form 8-K, respectively, which were not included in the Original Form 8-K pursuant to Items 9.01(a)(4) and (b)(2) of Form 8-K.

Item 9.01. Financial Statements and Exhibits

(a) Financial Statements of the Business Acquired.

The consolidated financial statements of ECI and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, statements of comprehensive loss, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes to the consolidated financial statements are filed as Exhibit 99.1 to this Current Report on Form 8-K/A and incorporated herein by reference.

(b) Pro Forma Financial Information.

The unaudited pro forma condensed combined financial statements of the Company as of and for the year ended December 31, 2019, and the related notes, giving pro forma effect to the Merger as if it had been completed on December 31, 2019, are attached as Exhibit 99.2 to this Current Report on Form 8-K/A and incorporated herein by reference.

(d) Exhibits:

23.1	Consent of Independent Auditors.
99.1	Audited consolidated financial statements of ECI as of December 31, 2019 and 2018 and for the three years ended December 31, 2019.
99.2	Unaudited pro forma condensed combined financial statements of the Company as of and for the year ended December 31, 2019.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: April 13, 2020	**RIBBON COMMUNICATIONS INC.**
	By: /s/ Daryl E. Raiford
	Name: Daryl E. Raiford
	Title: Executive Vice President and Chief Financial Officer

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITOR

We consent to the incorporation by reference in Registration Statement (Nos. 333-232946, 333-226624, 333-221240 and 333-237224) on Form S-8 of Ribbon Communications Inc. of our report dated February 27, 2020, with respect to the consolidated balance sheets of ECI Telecom Group Ltd., as of December 31, 2018 and 2019, the related consolidated statements of operations, comprehensive loss, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes, which report appears in the Current Report on Form 8-K/A of Ribbon Communications Inc. dated April 13, 2020.

/s/ Somekh Chaikin
Somekh Chaikin
Certified Public Accountants (Isr.)
A Member Firm of KPMG International
Tel Aviv, Israel
April 13, 2020

Exhibit 99.1

ECI Telecom Group Ltd.

Consolidated Financial Statements

December 31, 2019

Consolidated Statements of Financial Position as at December 31 2019

Contents

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
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Independent Auditor's Report
To the Board of Directors of ECI Telecom Group Ltd.

We have audited the accompanying consolidated financial statements of ECI Telecom Group Ltd. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, statements of comprehensive loss, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ECI Telecom Group Ltd. and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2019 in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 2Q to the consolidated financial statements, in 2019, the Company adopted new accounting guidance for leases due to the adoption of ASC 842, *Leases*. Our opinion is not modified with respect to this matter.

Somekh Chaikin

Somekh Chaikin
Certified Public Accountants (Isr.)
Member Firm of KPMG International

February 27, 2020

Consolidated Balance Sheets as at December 31

	Note	2019 $ in thousands	2018 $ in thousands
Assets			
Cash and cash equivalents		**19,040**	29,167
Restricted cash		**4,930**	11,796
Trade receivables	4	**91,719**	78,037
Other receivables	4	**15,937**	16,578
Inventory	5	**55,706**	58,651
Total current assets		**187,332**	194,229
Long-term trade and other receivables	4	**3,350**	10,263
Assets held for employees' severance benefits	9	**13,263**	13,243
Property, plant and equipment, net	6	**45,795**	45,616
Software development costs, net	7	**49,047**	42,489
Operating lease right-of-use assets	19	**24,928**	-
Goodwill	7	**105,000**	105,000
Deferred income tax	15	**3,715**	2,255
Total non-current assets		**245,098**	218,866
Total assets		**432,430**	413,095

Suzanne Hart	Darryl Edwards	Giora Bitan
Director	Chief Executive Officer	Chief Financial Officer

Date of approval of the financial statements: February 27, 2020

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

Consolidated Balance Sheets as at December 31

	Note	2019 $ in thousands	2018 $ in thousands
Liabilities			
Short-term loans	8	**2,310**	2,320
Trade payable		**66,849**	60,432
Operating lease liabilities	19	**8,857**	-
Other payables and accrued liabilities	10	**76,699**	83,450
Total current liabilities		**154,715**	146,202
Long-term loans	8	**159,099**	141,847
Liability for employee benefits	9	**22,174**	20,835
Other long-term liabilities	10	**13,723**	19,808
Operating lease liabilities, net of current	19	**18,053**	-
Deferred income tax	15	**885**	346
Total non-current liabilities		**213,934**	182,836
Total liabilities		**368,649**	329,038
Equity	11		
Non-controlling interest		**93,736**	76,475
Ordinary shares, NIS 0.01 par value per share; 189,999,990 shares authorized as at December 31, 2019 and 2018, respectively; 42,337,655 shares issued and outstanding as at December 31, 2019 and 2018, respectively		**122**	122
Capital surplus		**1,296,577**	1,296,577
Preferred A shares, 0.01 NIS par value per share (liquidation preference $87,310 thousand); 10,000,000 shares authorized, issued and outstanding as at December 31, 2019 and 2018, respectively		**87,310**	87,310
Special shares, 0.01 NIS par value per share; 10 shares authorized, issued and outstanding as at December 31, 2019 and 2018, respectively		**-**	-
Capital reserves		**87,998**	87,998
Accumulated deficit		**(1,501,962)**	(1,464,425)
Equity (deficit) attributable to owners of the Company		**(29,955)**	7,582
Total equity		**63,781**	84,057
Total liabilities and equity		**432,430**	413,095

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

Consolidated Statements of Operations for the Year Ended December 31

	Note	2019 $ in thousands	2018 $ in thousands	2017 $ in thousands
Revenue:	3			
Product		**293,915**	320,298	290,036
Service		**87,889**	86,035	77,171
Total revenue		**381,804**	406,333	367,207
Cost of revenue:	13			
Product		**185,676**	213,868	198,539
Service		**52,271**	49,205	40,907
Total cost of revenue		**237,947**	263,073	239,446
Gross profit		**143,857**	143,260	127,761
Research and development costs, net	13	**43,417**	38,578	42,794
Selling and marketing expenses		**58,043**	59,014	55,070
General and administrative expenses		**19,520**	23,429	19,225
Reorganization expenses	10	**-**	1,380	-
Operating income		**22,877**	20,859	10,672
Financial expenses, net	13	**(35,824)**	(48,358)	(43,957)
Other income (expenses), net		**(8,047)**	43	(504)
Loss before taxes on income		**(20,994)**	(27,456)	(33,789)
Taxes on income	15	**(4,748)**	(2,942)	(3,154)
Net loss		**(25,742)**	(30,398)	(36,943)
Attributable to:				
Owners of the Company		**(43,003)**	(40,373)	(36,943)
Non-controlling interests		**17,261**	9,975	-
Net loss		**(25,742)**	(30,398)	(36,943)
Loss per share				
Basic and dilutive loss per ordinary share (in dollars)	14	**(1.26)**	(1.25)	(1.09)

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

Consolidated Statements of Comprehensive loss for the year ended December 31

	2019	2018	2017
	$ in thousands	$ in thousands	$ in thousands
Net loss	**(25,742)**	(30,398)	(36,943)
Other comprehensive income (loss), net of tax	-	-	-
Comprehensive loss, net of tax	**(25,742)**	(30,398)	(36,943)

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

Consolidated Statements of Changes in Equity

	Number of shares	Share capital	Capital surplus	Preferred shares	Capital note	Capital reserves	Accumulated deficit	Total	Non-Controlling interests	Total equity
	$ in thousands (except number of shares)									
Balance at January 1, 2019	**42,337,655**	**122**	**1,296,577**	**87,310**	**-**	**87,998**	**(1,464,425)**	**7,582**	**76,475**	**84,057**
Adoption of Accounting Standards Codification 842, *Leases* (see Note 2Q)	-	-	-	-	-	-	**5,466**	**5,466**	-	**5,466**
Net loss	-	-	-	-	-	-	**(43,003)**	**(43,003)**	**17,261**	**(25,742)**
Balance at December 31, 2019	**42,337,655**	**122**	**1,296,577**	**87,310**	**-**	**87,998**	**(1,501,962)**	**(29,955)**	**93,736**	**63,781**
Balance at January 1, 2018	33,870,124	98	1,246,905	-	37,887	87,998	(1,424,052)	(51,164)	-	(51,164)
Net loss	-	-	-	-	-	-	(40,373)	(40,373)	9,975	(30,398)
Capital contribution	-	-	11,809	-	-	-	-	11,809	-	11,809
Issuance of preferred shares	-	-	-	87,310	-	-	-	87,310	-	87,310
Issuance of preferred shares in a subsidiary to non-controlling interests	-	-	-	-	-	-	-	-	66,500	66,500
Shares issued for a capital note	8,467,531	24	37,863	-	(37,887)	-	-	-	-	-
Balance at December 31, 2018	42,337,655	122	1,296,577	87,310	-	87,998	(1,464,425)	7,582	76,475	84,057
Balance at January 1, 2017	33,870,124	98	1,246,905	-	37,887	87,998	(1,387,109)	(14,221)	-	(14,221)
Net loss	-	-	-	-	-	-	(36,943)	(36,943)	-	(36,943)
Balance at December 31, 2017	33,870,124	98	1,246,905	-	37,887	87,998	(1,424,052)	(51,164)	-	(51,164)

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

Consolidated Statements of Cash Flows for the Year Ended December 31

	2019	2018	2017
	$ in thousands	$ in thousands	$ in thousands
Cash flows from (used in) operating activities			
Net loss	**(25,742)**	(30,398)	(36,943)
Adjustments for:			
Depreciation and amortization	**30,239**	28,388	27,995
Accrued severance pay, net	**1,319**	(1,157)	472
Other, net	**(310)**	1,757	(566)
Deferred taxes	**(921)**	616	(252)
Increase in operating lease liabilities	**1,982**	-	-
Decrease (increase) in trade receivables (including non-current maturities of long-term trade receivables)	**(6,769)**	16,371	(23,737)
Decrease (increase) in other receivables (including non-current maturities of long-term other receivables)	**(366)**	11,415	(12,471)
Decrease (increase) in prepaid expenses	**1,007**	756	(693)
Decrease (increase) in inventories	**1,979**	(781)	(1,265)
Increase (decrease) in trade payables	**5,441**	(27,676)	36,897
Increase (decrease) in other payables and accrued liabilities	**(2,499)**	8,136	35,484
Increase (decrease) in long-term liabilities	**15,218**	31,208	(1,011)
Net cash from operating activities	**20,578**	38,635	23,910

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

Consolidated Statements of Cash Flows for the Year Ended December 31 (cont'd)

	2019 $ in thousands	2018 $ in thousands	2017 $ in thousands
Cash flows used in investing activities			
Software development costs capitalized	**(25,956)**	(25,978)	(20,007)
Investment in property, plant and equipment	**(9,323)**	(7,632)	(6,209)
Net cash used in investing activities	**(35,279)**	(33,610)	(26,216)
Cash flows from (used in) financing activities			
Increase (decrease) in short-term loans, net	**(10)**	1,860	460
Issuance of long-term loans (*)	-	102,200	-
Repayment of long-term loans (*)	-	(202,686)	-
Payment of deferred financing costs (*)	**(2,104)**	(7,913)	(289)
Proceeds from issuance of long-term derivative (*)	-	10,500	-
Repayment of derivatives (*)	-	(8,000)	-
Proceeds from preferred shares issuance in subsidiary (*)	-	59,013	-
Proceeds from preferred shares issuance (*)	-	44,000	-
Net cash from (used in) financing activities	**(2,114)**	(1,026)	171
Effect of exchange rate fluctuations on cash and cash equivalents	**(178)**	(2,266)	738
Net increase (decrease) in cash, cash equivalents and restricted cash	**(16,993)**	1,733	(1,397)
Cash, cash equivalents and restricted cash as at the beginning of the year	**40,963**	39,230	40,627
Cash, cash equivalents and restricted cash as at the end of the year	**23,970**	40,963	39,230
Supplemental disclosures:			
Income taxes paid, net of tax refunds	**3,135**	3,242	3,432
Interest paid mainly on loans	**21,087**	4,507	13,415

(*) Cash inflows (outflows) for the year ended December 31, 2019 and 2018 are in connection with a Debt Refinancing that took place in March 2018 (see Notes 8 and 11).

A. **Non-cash activities**

	2019	2018	2017
		$ in thousands	
Purchase of property, plant and equipment	**2,417**	1,677	1,343
Preferred shares issuance and capital contribution	-	55,119	-
Preferred shares issuance in subsidiary	-	7,489	-

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

Note 1 - General

A. Reporting entity

ECI Telecom Group Ltd. ("ECI Telecom Group" or 'ETG") is an Israeli company that was incorporated in 2007. The address of the registered office is 30 Hasivim Street Petah-Tikva, Israel. ECI Telecom Group and its subsidiaries (collectively, the "Company") is a global provider of ELASTIC Network® solutions for service providers, Cloud Solution Providers, utilities as well as data center operators. These solutions include scalable, transport and data networking infrastructure platforms for optical and digital telecommunications networks, as well as broadband access systems. Along with its long-standing, industry-proven packet-optical transport and broadband access systems, the Company offers a variety of SDN/NFV applications, end-to-end network management, a comprehensive cyber security solution, and a range of professional services. The Company's products are designed to create and manage bandwidth, maximize revenues for network operators, reduce operating expenses, expand capacity, improve performance and enable new revenue-generating services. The Company operates in one operating segment.

B. Agreement and Plan of Merger

On November 14, 2019, ETG and ECI Holding (Hungary) KFT (the "Parent Company") entered into an Agreement and Plan of Merger (the "Merger Agreement") with Ribbon Communications Inc. ("Ribbon"), Eclipse Communications Ltd., an indirect wholly owned subsidiary of Ribbon (the "Merger Sub") and Ribbon Communications Israel Ltd. ("Ribbon Israel"), pursuant to which the Merger Sub will merge with and into ETG, with ETG surviving such merger as a wholly-owned subsidiary of Ribbon.

As provided in the Merger Agreement, in connection with and at the time of the closing of the Merger (the "Effective time" or the "Closing"), all equity securities of ETG issued and outstanding immediately prior to the Effective Time will be converted into the right to receive consideration consisting of $324 million in cash, subject to adjustments for indebtedness (mainly, but not limited to, the repayment of ETG's senior loan, see Note 8), pre-closing distributions and transaction expenses.(the "Cash Consideration"), and 32.5 million shares of common stock of Ribbon subject to adjustments for certain taxes (the "Stock Consideration"). Additionally, ETG equity holders will be entitled to the amount received as a result of ETG's sale of certain real-estate assets of ETG less any taxes payable by ETG resulting from the disposition. There are certain filings and approvals required in order to consummate the Merger. Upon Closing the Company estimates to pay approximately $25 million of transaction expenses, mainly payable to service providers and Company's managers.

Ribbon common stock trades on the Nasdaq Global Select Market under the symbol "RBBN".

In connection with the Merger Agreement, Pathfinder Strategic Credit LP ("Pathfinder"), ETG and Ribbon entered into a Share Purchase Agreement, pursuant to which, among other matters, Pathfinder agreed to sell its preferred shares of ECI Telecom Ltd ("ECI"), a wholly owned subsidiary of ETG (see Note 11D) at the effective Time for an aggregate purchase price of approximately $95 million, depending on the date of the Effective Time.

C. Definitions

In these financial statements –

(1) <u>ECI Telecom Group</u> – ECI Telecom Group Ltd.

(2) <u>The Company</u> – ECI Telecom Group Ltd. and its subsidiaries.

(3) <u>Subsidiaries</u> – Companies, the financial statements of which are fully consolidated, directly or indirectly, with the financial statements of ECI Telecom Group.

(4) <u>Related party</u> – Within its meaning in ASC 850, "*Related Party Disclosures*".

Note 2 - Basis of Preparation and Summary of significant accounting policies

A. Basis of presentation

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

2. The currency of the primary economic environment in which the operations of the Company are conducted is the U.S. dollar ("dollar" or "USD"). The functional currency of the Company and of all the Subsidiaries is the dollar.

   Transactions and balances denominated in dollars are presented at their original amounts. Non-dollar transactions and balances have been re-measured into dollars. Gains and losses from re-measurement of monetary balance sheet items denominated in non-dollar currencies have been included in financial income (expenses) in the consolidated statements of operations.

B. Consolidation

1. The consolidated financial statements comprise the statements of ECI Telecom Group and its wholly owned subsidiaries. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, have been eliminated in consolidation.

2. Non-controlling interests comprise the equity of a subsidiary that cannot be attributed, directly or indirectly, to ECI Telecom Group. As at December 31, 2019 and 2018 they include preferred shares issued by ECI, an entity in which ECI Telecom Group owns all of the issued and outstanding ordinary shares (see Note 11D).

   Profit or loss and any part of other comprehensive income are allocated to the owners of the Company and the non-controlling interests. Dividends accumulated at a rate of 20% per annum are allocated to the owners of the non-controlling interests and the remaining profit or loss and other comprehensive income are allocated to the owners of the Company.

C. Use of estimates and judgements

The preparation of financial statements in conformity with GAAP requires management to make judgements, assumptions and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates and judgements relied upon in preparing these consolidated financial statements and accompanying notes include revenue recognition for multiple element arrangements, inventory valuations, legal contingencies, recoverability of net deferred tax assets and the related valuation allowances, recoverable amounts of goodwill and other intangible assets and the fair value measurement of non-trading derivatives. Actual results could differ materially from the amounts reported based on these estimates.

D. Reclassifications

From time to time, certain amounts in prior year financial statements may be reclassified to conform to the current year presentation.

Note 2 - Basis of Preparation and Summary of significant accounting policies (cont'd)

E. Financial instruments

The Company's financial instruments consist mainly of cash and cash equivalents, short-term interest bearing investments, accounts receivable, accounts payable, short-term and long-term loans, and derivative financial instruments. The carrying amounts of the financial instruments included in the accounts of the Company do not significantly vary from their fair values.

Fair value for the measurement of financial assets and liabilities is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The Company utilizes a valuation hierarchy for disclosure of the inputs for fair value measurement. This hierarchy prioritizes the inputs into three broad levels as follows:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 inputs are quoted prices for identical or similar assets or liabilities in less active markets or model-derived valuations in which significant inputs are observable for the asset or liability, either directly or indirectly through market corroboration;
- Level 3 inputs are unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value.

By distinguishing between inputs that are observable in the market place, and therefore more objective, and those that are unobservable and therefore more subjective, the hierarchy is designed to indicate the relative reliability of the fair value measurements. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

F. Cash and cash equivalents and restricted cash

The Company considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents.

The Company classifies as restricted cash all cash and cash equivalents pledged as collateral to secure certain Company obligations.

G. Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is based on the moving average, and includes expenditure incurred in acquiring the inventories and the costs incurred in bringing them to their existing location and condition. The Company reduces the carrying value of inventories for items that are potentially excess, obsolete or slow moving, based on estimates of future customer demand of products and other economic factors.

Note 2 - Basis of Preparation and Summary of significant accounting policies (cont'd)

H. Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Depreciation is recognized in earnings on a straight-line basis over the estimated useful lives of the assets as follows:

• Buildings	40	years
• Machinery and equipment	3 to 10	years (mainly 10 years)
• Office furniture and equipment	10 to 14	years
• Computers and software	3 to 5	years
• Leasehold improvements	the shorter of the lease term and the useful life	
• Motor vehicles	6	years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting year and adjusted if appropriate.

I. Goodwill and intangible assets

Goodwill

Goodwill is not amortized, but instead is tested for impairment at least annually, or more frequently if indicators of potential impairment exist, by comparing the fair value of the Company's reporting unit to its carrying value.

The Company's annual testing for impairment of goodwill is completed as at December 31. The Company operates as a single operating segment with one reporting unit and consequently evaluates goodwill for impairment based on an evaluation of the fair value of the Company as a whole.

The Company performed its step one assessments for each of the years ended December 31, 2019, 2018 and 2017 and determined each year that its fair value was in excess of its carrying value and accordingly, there was no impairment of goodwill.

Software development costs capitalized

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognized in profit or loss when incurred.

The Company capitalizes certain software development costs. Capitalization of software development costs commences upon the determination of technological feasibility and continues up to the time the software is available for general release to customers, at which time capitalized software costs are amortized to cost of revenues on a straight-line basis over the expected life of the related product, generally up to three years.

In subsequent periods, capitalized software development expenditure is measured at cost less accumulated amortization and accumulated impairment losses, if any. The Company periodically estimates the recoverability of software development costs. The recoverable amounts as of December 31, 2019, 2018 and 2017 were estimated to be higher than the respective carrying amounts and no provision for impairment was required.

Note 2 - Basis of Preparation and Summary of significant accounting policies (cont'd)

J. Revenue recognition

(1) The following accounting policy was applied by the Company for periods ending before January 1, 2018:

Revenue is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists (usually in the form of an executed sales agreement); delivery of the product has occurred or services have been rendered; the price to the buyer is fixed or determinable; and collectability is reasonably assured. In instances where the arrangement includes final acceptance criteria, revenue is not recognized before the Company is able to demonstrate that there are no uncertainties regarding the criteria specified in the acceptance provisions or that they have been satisfied.

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. Revenues from maintenance contracts for the Company's products and software and separately priced extended warranty contracts are usually recognized ratably over the contract period.

When the credit period is short and constitutes the accepted credit period in the industry, the future consideration is not discounted. When the credit period is longer than the accepted credit period in the industry, the Company recognizes the future consideration discounted to its present value using the risk rate of the customer. The difference between the fair value and the nominal amount of the future consideration is recognized as interest revenue over the excess credit period.

Revenue for multiple element arrangements is allocated to each unit of accounting based on the relative selling price of each delivered element, with revenue recognized for each delivered element when the revenue recognition criteria are met. The Company determines the selling price for each deliverable based upon the selling price hierarchy for multiple-deliverable arrangements. Under this hierarchy, the Company uses vendor-specific objective evidence ("VSOE") of selling price, if it exists, or third-party evidence ("TPE") of selling price if VSOE does not exist. If neither VSOE nor TPE of selling price exists for a deliverable, the Company uses its best estimate of selling price ("BESP") for that deliverable.

(2) The following accounting policy was applied by the Company for periods ending after January 1, 2018:

As from January 1, 2018 the Company has early adopted Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606"), which sets out guidance for revenue recognition. The Company elected to apply ASC 606 using the modified retrospective approach, as from the initial date of application, without restatement of comparative data.

As part of the initial application of ASC 606, the Company has chosen to apply the expedients in the transitional provisions, according to which ASC 606 is applied only for contracts not yet complete at the transition date.

The application of new accounting policies for recognizing revenue as of from January 1, 2018 following the application of ASC 606 did not have a material effect on the Company's financial statements. In addition, implementation of ASC 606 had no material effect on retained earnings as at the transition date.

The Company recognizes revenue when the customer obtains control over the promised goods or services. The revenue is measured according to the amount of the consideration to which the Company expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties.

Note 2 - Basis of Preparation and Summary of significant accounting policies (cont'd)

J. Revenue recognition (cont'd)

(2) (cont'd)

Identifying the contract

The Company accounts for a contract with a customer only when the following conditions are met:

(a) The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them

(b) The Company can identify the rights of each party in relation to the goods or services that will be transferred;

(c) The Company can identify the payment terms for the goods or services that will be transferred;

(d) The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and

(e) It is probable that the consideration, to which the Company is entitled to in exchange for the goods or services transferred to the customer, will be collected.

For the purpose of paragraph (e) the Company examines, inter alia, the percentage of the advance payments received and the spread of the contractual payments, past experience with the customer and the status and existence of sufficient collateral.

If a contract with a customer does not meet all of the above criteria, consideration received from the customer is recognized as a liability until the criteria are met, or when one of the following events occurs: the Company has no remaining obligations to transfer goods or services to the customer and any consideration promised by the customer has been received and cannot be returned; or the contract has been terminated and the consideration received from the customer cannot be refunded.

Identifying performance obligations

On the contract's inception date the Company assesses the goods or services promised in the contract with the customer and identifies as a performance obligation any promise to transfer to the customer one of the following:

(a) Goods or services (or a bundle of goods or services) that are distinct; or

(b) A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

The Company identifies goods or services promised to the customer as being distinct when the customer can benefit from the goods or services on their own or in conjunction with other readily available resources and the Company's promise to transfer the goods or services to the customer is separately identifiable from other promises.

In projects executed under contract, when a significant service is provided of integrating the various goods and services in the contract into one integrated outcome, the Company identifies one performance obligation. In all other cases, the Company identifies more than one performance obligation.

Note 2 - Basis of Preparation and Summary of significant accounting policies (cont'd)

J. Revenue recognition (cont'd)

(2) (cont'd)

Determining the transaction price

The transaction price is the amount of the consideration to which the Company expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties. The Company takes into account the effects of all the following elements when determining the transaction price: variable consideration, the existence of a significant financing component, non-cash consideration, and consideration payable to the customer.

Satisfaction of performance obligations

Revenue is recognized when the Company satisfies a performance obligation by transferring control over promised goods or services to the customer.

Contract costs

Incremental costs of obtaining a contract with a customer such as sales fees to agents, are recognized as an asset when the Company is likely to recover these costs. Costs to obtain a contract that would have been incurred regardless of the contract are recognized as an expense as incurred, unless the customer can be billed for those costs.

Costs incurred to fulfill a contract with a customer and not in the scope of another standard are recognized as an asset when they: relate directly to a contract the Company can specifically identify; they generate or enhance resources of the Company that will be used in satisfying performance obligations in the future; and they are expected to be recovered. In any other case the costs are recognized as an expense as incurred.

K. Employee benefits

The majority of the Company's agreements with employees in Israel are in accordance with Section 14 of the Severance Pay Law, 1963 ("Section 14"), where the Company's contributions for severance pay are paid to the employee upon termination instead of the severance liability that would otherwise be payable under the law as aforementioned.

In accordance with Section 14 the Company makes regular deposits with certain insurance companies and pension funds for accounts controlled by each applicable employee. The Company is fully relieved from any severance pay liability with respect to each such employee upon contribution to the insurance company or a pension fund as the amounts deposited are not under the control and management of the Company and the severance pay risks have been irrevocably transferred to the insurance company or the pension fund. Therefore, the related severance pay obligation and amounts deposited on behalf of such obligation are not reflected in the consolidated balance sheets.

Note 2 - Basis of Preparation and Summary of significant accounting policies (cont'd)

K. Employee benefits (cont'd)

The Company's liability for severance pay to a minority of its Israel-based employees to whom Section 14 does not apply is calculated pursuant to Israel's Severance Pay Law. The liability for employee severance benefits is based on salary components as prescribed in the current labor agreement and calculated on the basis of length of service and the latest monthly salary - one month's salary for each year employed. The liability is mostly covered by amounts the company deposits in external pension and severance funds managed by unrelated financial institutions and to a lesser extent by the unfunded provision.

The provision for severance pay also includes amounts related to employees in countries other than Israel and is calculated in accordance with the rules of the country in which they are employed.

Share-based payment transactions

The Company measures and recognizes compensation expense for all share-based payment awards made to employees and directors, based on estimated fair values.

GAAP requires estimating the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense using the straight-line method over the requisite service periods. Because stock-based compensation expense recognized in the Consolidated Statement is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The Company uses the Black-Scholes option-pricing model ("Black-Scholes model") method of valuation for the measurement and recognition of compensation expense for share-based payment awards. The Company's determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company's estimated stock value as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to the Company's expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behaviors. Although the fair value of employee stock options is determined using an option-pricing model, this value may not be indicative of the fair value observed in a willing market participants transaction.

The Company's share-based payment awards will be exercisable following the lapse of their vesting periods and the earlier of (i) an IPO; or (ii) a Corporate Transaction (such as a merger, consolidation or similar transaction, a sale or other disposition of all or substantially all of the consolidated assets of the Company, or of the outstanding securities of the Company), as defined in the plan documents. As a result, an expense will be recorded in respect of these awards only when management estimates that such an event will occur.

L. Research and development costs

Research and development costs are expensed as incurred (see Note 2I for the accounting in respect of capitalized software development costs).

The Company records grants received from the Office of the Innovation Authority of the Israeli Ministry of Economics ("IIA") as a reduction of research and development expenses. Royalties payable to IIA are recognized pursuant to sale of related products and are classified as cost of revenues.

Note 2 - Basis of Preparation and Summary of significant accounting policies (cont'd)

M. Concentrations of credit risk

The financial instruments that potentially subject the Company to concentrations of credit risk are cash, cash equivalents, restricted cash and trade and other receivables.

The cash, cash equivalents and restricted cash are deposited with a number of established financial institutions. Management believes that the financial institutions holding the Company's deposits have a sufficient credit rating.

Management believes that the exposure in respect of trade and unbilled receivables is limited because most of the Company's customers are large companies with high credit rates, and also the large number of customers and their geographical spread. In addition, the credit risk is mitigated by credit insurance policies the Company obtains from large insurance entities on the majority of its trade receivables balances.

N. Warranty costs

Estimated future warranty costs are accrued and charged to cost of goods sold in the period that the related revenue is recognized. These estimates are derived from historical data and trends of product reliability and costs of repairing and replacing defective products.

O. Taxes on income

Income tax comprises current and deferred tax. Current tax and deferred tax are recognized in earnings, or are recognized directly in equity to the extent they relate to items recognized directly in equity.

Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates enacted at the reporting date. Current taxes also include taxes in respect of prior years.

Deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities and loss carryforwards, using tax rates expected to be in effect for the years in which the differences are expected to reverse. The Company records valuation allowances to reduce deferred income tax assets to the amount that is more likely than not to be realized. The Company has not recognized a deferred tax liability for the undistributed earnings of its foreign subsidiaries, because the Company considers these earnings to be indefinitely reinvested. A deferred tax liability will be recognized when the Company can no longer demonstrate that it plans to indefinitely reinvest these undistributed earnings.

A provision for uncertain tax positions, including additional tax, interest and penalties, is recognized when the Company determines it is not more likely than not that a certain position will be sustained. The Company measures the tax benefit to be provided for as the largest amount that is more than 50% likely of being realized upon settlement.

P. Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for treasury shares. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding, after adjustment for treasury shares, for the effects of all dilutive potential ordinary shares, share options and share options granted to employees.

Note 2 - Basis of Preparation and Summary of significant accounting policies (cont'd)

Q. Leases

Effective January 1, 2019 (the "Adoption Date"), the Company adopted Accounting Standards Codification 842, *Leases* ("ASC 842") issued by the Financial Accounting Standards Board ("FASB"). ASC 842 replaced existing lease accounting rules with a comprehensive lease measurement and recognition standard and expanded disclosure requirements (see Note 19). ASC 842 requires lessees to recognize most leases on their balance sheets.

The Company elected to use the alternative transition method, which allows entities to initially apply ASC 842 at the Adoption Date with no subsequent adjustments to prior period lease costs for comparability. The Company elected the package of practical expedients permitted under the transition guidance, which provided that a company need not reassess whether expired or existing contracts contained a lease, the lease classification of expired or existing leases, and the amount of initial direct costs for existing leases.

In connection with the adoption of ASC 842, the Company recorded additional lease assets of $29.8 million and additional lease liabilities of $29.8 million as of January 1, 2019. The Company also recognized as a cumulative-effect adjustment to equity at the Adoption Date, an amount of $5.5 million, due to a previously accounted for portion of deferred gain resulting from a sale and operating leaseback that took place prior to the adoption of ASC 842.

As a result the Company stopped amortizing the deferred gain starting from the Adoption Date. This amortization, recorded in 2018 as a reduction of the respective lease expense, amounted to $1.4 million for the year ended on December 31, 2018, and the respective deferred tax expense, amounted to $0.3 million for the year ended on December 31, 2018.

Other than the aforesaid, the adoption of this standard had no impact on the Company's consolidated statements of operations or of cash flows.

R. Recent accounting pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. This update requires measurement and recognition of expected credit losses for financial assets held based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The update has been effective for the Company starting from January 1, 2020. The Company does not expect this accounting standard update will have a material impact on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350)*. This update removes Step 2 of the goodwill impairment test, which requires the assessment of fair value of individual assets and liabilities of a reporting unit to measure goodwill impairments. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value. The Company early adopted this standard for the annual goodwill impairment tests performed on testing dates after January 1, 2017. This accounting standard did not have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. This update amends the disclosure requirements for fair value measurements. The update has been effective for the Company starting from January 1, 2020. The Company does not expect this accounting standard update will have a material impact on the consolidated financial statements.

Note 3 - Operating Segments

The Company operates in one business segment only, namely the development, production and marketing of network solutions.

Entity level disclosures

Major customers

Revenues from major customers of the Company, as a percentage of consolidated revenues for the year (when they exceed 10%), are as follows:

	For the year ended December 31		
	2019	2018	2017
Customer 1	**16%**	23%	27%
Customer 2	*	13%	12%
Customer 3	**10%**	*	12%

* Represents an amount of less than 10%.

Revenues by geographical regions

	For the year ended December 31		
	2019	2018	2017
	$ in thousands	$ in thousands	$ in thousands
EMEA	**171,251**	142,814	116,089
India	**124,982**	155,744	154,961
Israel	**40,620**	64,775	56,709
RoW	**44,951**	43,000	39,448
	381,804	406,333	367,207

Management considers as significant revenues from customers attributed to the group of countries known as EMEA, which includes Europe, Middle East (excluding Israel which is the Company's country of domicile and therefore presented separately) and Africa. Revenues are presented separately for India due to materiality and all other foreign countries are presented in total as RoW (rest of world).

Most of the Company's non-current long lived assets are located in Israel.

Note 4 - Trade and Other Receivables

Current assets

	December 31	
	2019	2018
	$ in thousands	$ in thousands
Trade receivables [(1)]	92,727	80,691
Less provision for doubtful debts	(1,008)	(2,654)
	91,719	78,037
Other receivables [(1)]		
Advances to suppliers	653	818
Prepaid expenses	1,647	3,118
Tax authorities	6,735	3,914
Subcontractors	5,561	5,788
Israeli Innovation Authority	448	1,008
Other	893	1,932
	15,937	16,578

(1) There are no current trade or other receivables due from related parties as at December 31, 2019 and 2018.

Non-current assets

	December 31	
	2019	2018
	$ in thousands	$ in thousands
Trade receivables	2,553	8,837
Tax receivable [(2)] - non-current portion	797	1,426
	3,350	10,263

(2) As at December 31, 2019, the US subsidiary expects to receive a tax refund in the total amount of approximately $1.0 million over the period of 2020 through 2028. Out of this refund an amount of approximately $0.2 million is expected to be received within the next 12 months and is included in other receivables under current assets in the consolidated balance sheet.

Note 4 - Trade and Other Receivables (cont'd)

Details regarding maturity dates of trade receivables:

	December 31, 2019			
	Carrying amount	1 year	2-3 years	More than 3 years
	$ in thousands	$ in thousands	$ in thousands	$ in thousands
Trade receivables	**94,272**	**91,719**	**2,553**	-

	December 31, 2018			
	Carrying amount	1 year	2-3 years	More than 3 years
	$ in thousands	$ in thousands	$ in thousands	$ in thousands
Trade receivables	86,874	78,037	8,837	-

The changes in the allowance for doubtful account balances in the years ended December 31, 2019, 2018 and 2017 were as follows:

	For the year ended December 31		
	2019	2018	2017
	$ in thousands	$ in thousands	$ in thousands
Balance at the beginning of the period	**2,654**	1,958	3,284
Doubtful debt expenses	**291**	1,170	555
Write-downs charged against the allowance	**(1,865)**	(387)	(1,571)
Exchange rate differences	**(40)**	(32)	89
Recoveries of amounts previously charged	**(32)**	(55)	(399)
Balance at the end of the period	**1,008**	2,654	1,958

Note 5 - Inventories

	December 31	
	2019	2018
	$ in thousands	$ in thousands
Raw materials and consumables	**10,874**	9,410
Work in progress	**504**	226
Finished goods	**28,346**	30,145
	39,724	39,781
Service-related inventory	**15,982**	18,870
	55,706	58,651

For further details on inventory under liens see Note 17C.

Note 6 - Property, Plant and Equipment

	Land and buildings	Machinery and equipment	Motor vehicles	Office furniture and equipment	Computers	Software	Total
				$ in thousands			
Cost							
Balance as at January 1, 2019	39,893	155,683	793	6,396	79,246	101,052	383,063
Additions	**787**	**3,157**	**47**	**63**	**1,741**	**4,268**	**10,063**
Disposals	**(784)**	**(214)**	**-**	**(107)**	**(179)**	**-**	**(1,284)**
Balance as at December 31, 2019	**39,896**	**158,626**	**840**	**6,352**	**80,808**	**105,320**	**391,842**
Accumulated depreciation							
Balance as at January 1, 2019	15,738	148,448	678	6,130	76,531	89,922	337,447
Additions	**487**	**2,082**	**46**	**103**	**1,389**	**5,768**	**9,875**
Disposals	**(775)**	**(214)**	**-**	**(107)**	**(179)**	**-**	**(1,275)**
Balance as at December 31, 2019	**15,450**	**150,316**	**724**	**6,126**	**77,741**	**95,690**	**346,047**
Net book value as at December 31, 2019	**24,446**	**8,310**	**116**	**226**	**3,067**	**9,630**	**45,795**
Net book value as at December 31, 2018	24,155	7,235	115	266	2,715	11,130	45,616

Subsequent to the balance sheet date, in connection with the Merger Agreement (see Note 1B), the Company entered into an agreement to sell certain land and building assets in its Israel headquarters location, to a non-related party. The closing of this transaction is to take place on the Effective Time and is conditional on the successful closing of the Merger Agreement.

The expected gross consideration is NIS 156.0 million (approximately $45.5 million). The aggregate net book value of the assets sold is estimated to be approximately $23.3 million, depending on the time of the disposition. Additional transaction related costs are estimated at $11.9 million. Based on current NIS to USD exchange rates and the estimated disposition date, the net capital gain is estimated at approximately $10.3 million.

Note 7 - Intangible assets

The Company's intangible assets as at December 31, 2019 and December 31, 2018 consisted of goodwill and software development costs.

Goodwill

	December 31	
	2019	2018
	$ in thousands	$ in thousands
Goodwill	**325,078**	325,078
Accumulated impairment losses	**(220,078)**	(220,078)
	105,000	105,000

There were no changes in the carrying amounts of the Company's goodwill in the years ended on December 31, 2019 and 2018.

Software development costs

	December 31	
	2019	2018
	$ in thousands	$ in thousands
Cost	**277,270**	251,314
Accumulated amortization	**(228,223)**	(208,825)
	49,047	42,489

The changes in the carrying amount of the Company's software development costs in the years ended December 31, 2019 and 2018 were as follows:

	December 31	
	2019	2018
	$ in thousands	$ in thousands
Balance at the beginning of the period	**42,489**	33,754
Capitalization of software development costs during the period	**25,956**	25,979
Amortization for the period	**(19,398)**	(17,244)
Balance at the end of the period	**49,047**	42,489

Amortization expense for software development costs for the years ended December 31, 2019, 2018 and 2017 was as follows (classified in Cost of product revenue, in the consolidated statements of operations):

	For the year ended December 31		
	2019	2018	2017
	$ in thousands	$ in thousands	$ in thousands
Amortization for the period	19,398	17,244	16,116

Note 7 - Intangible assets (cont'd)

Software development costs (cont'd)

Estimated future amortization expense for the Company's software development costs as at December 31, 2019 was as follows:

Year ending December 31,	$ in thousands
2020	**22,938**
2021	**15,985**
2022	**9,280**
2023	**844**
	49,047

Note 8 - Loans

A. **Composition:**

Short-term loans

	December 31 2019	December 31 2018
	$ in thousands	$ in thousands
Short-term loans from banks	**2,310**	2,320

Long-term loans

	December 31 2019	December 31 2018
	$ in thousands	$ in thousands
Long-term loan	**153,000**	153,000
Original issue discount	(3,060)	(3,060)
	149,940	149,940
Contingent Value Rights (See Note 8E)	(10,500)	(10,500)
Deferred Financing Costs	(9,800)	(9,800)
	129,640	129,640
Accrued Payable-in-Kind ("PIK") interest - non-current portion	**29,459**	12,207
	159,099	141,847

Note 8 - Loans (cont'd)

B. Information on material loans

Type	Interest rate per annum payable on a quarterly basis	Interest rate per annum payable-in-kind, and accumulated until loan maturity	Maturity	December 31, 2019		December 31, 2018	
				Face value	Carrying amount	Face value	Carrying amount
	%	%		$ in thousands		$ in thousands	
Long-term loan	Libor plus margin of 4.5%	8.5%	March 2023 (see note 8D)	**153,000**	**129,640**	153,000	129,640
Accrued PIK Interest	Libor plus margin of 4.5%	8.5%	March 2023 (see note 8D)	**24,515**	**29,459**	10,007	12,207
Short-term loans from banks	3.81% - 4.6%	-	March 2020	**2,310**	**2,310**	2,320	2,320
				179,825	**161,409**	165,327	144,167

C. Long-term loan and Merger Agreement

As part of the Merger agreement (see Note 1B) both the loans, including PIK interest accrued, and the Contingent Value Rights will be paid off in their entirety.

On November 14, 2019, in connection with the Merger Agreement (see Note 1B), the Company entered into a Letter of Intent with the lenders, according to which the Company may elect to prepay the entire facility as of the Effective Time at a repayment price of 102 per cent of the original principal face value of the loan ($153.0 million) plus the amount of all accrued and unpaid PIK Interest.

D. 2018 Debt Refinancing

In March 2018, the Company refinanced its outstanding debt (the "Debt Refinancing").

The Company entered into a long-term credit agreement which provides for a $153.0 million 5 year term loan facility (the "Senior Facility"). The Senior facility was fully drawn at the closing of the credit agreement.

The Senior Facility matures in March 2023. Starting from 36 months after the closing date and ending 57 months after the closing, the Senior Facility amortizes by installments of 1%-1.5% of the facility per each 3 month period. The remaining 90% matures 60 months from the closing date.

The loan drawn under the Senior Facility was used primarily to refinance the previous indebtedness of the Company. The Company settled its outstanding Term and Mezzanine loans, including accrued interest and in addition the Company repaid an outstanding short-term loan from a bank in the amount of $27.8 million.

Out of the previously outstanding Term and Mezzanine loans, a certain lender, Pathfinder, converted $66.5 million owed to it into preferred shares of ECI Telecom Ltd. and special shares of ECI Telecom Group, (see Notes 11C and 11D).

For details on equity securities issued as part of the Debt Refinancing see note 11. For details on liens in respect of the credit agreements see note 17C.

Note 8 - Loans (cont'd)

E. Separable embedded derivatives

The previous lenders of the Term loans and Mezzanine loans had also been entitled to receive additional payments upon the occurrence of a corporate transaction (the "Contingent Value Rights"). The Company's pending obligations under the Contingent Value Rights had been recorded as derivatives at fair value.

As part of the 2018 Debt Refinancing the Company and the previous lenders agreed that the total amount due in respect of these Contingent Value Rights would be $15.5 million. These amounts were settled as part of the Debt Refinancing and are no longer outstanding as of December 31, 2019 and 2018.

As part of the new Senior Facility starting March 2018, the new lenders are also entitled to receive additional payments upon the occurrence of a Liquidity Event, as defined in the credit agreement (the "New Contingent Value Rights"). The actual amounts to be paid under the New Contingent Value Rights are determined based on several parameters, including, the Enterprise Value of the Company in such transaction, the consideration received and its timing.

The Company's pending obligation under the New Contingent Value Rights is recorded as a derivative at fair value. The fair value is determined using valuation models and management estimates. The estimated fair value of the New Contingent Value Rights derivative as of the date of issuance of such obligation, in the amount of $10.5 million was recorded through a reduction in the carrying amount of the Senior Facility loan. The estimated fair value of this derivative amounted to $13.0 million and $15.0 million as at December 31, 2019 and 2018, respectively (see Note 16).

F. Contractual restrictions and financial covenants

According to the terms of the credit agreements in effect as at December 31, 2019 and 2018, the Company is required to comply with certain customary affirmative, information and negative covenants, subject to certain agreed exceptions.

In this respect, the financial and operating performance of ECI Telecom Group, ECI Telecom Ltd. and their subsidiaries is monitored by financial covenants which require such entities to ensure that Interest Cover, Adjusted Leverage, Adjusted EBITDA and Aggregate R&D Expenditures are not more or not less than certain limits and for certain periods. The credit agreements also contain certain restrictions on the Company's Capital Expenditures (as defined in the Credit Agreement).

The Company is in full compliance with the required covenants for the periods ended December 31, 2019 and 2018.

As part of the Merger agreement (see Note 1B) both the loans, including PIK interest accrued, and the Contingent Value Rights will be paid off in their entirety.

Note 9 - Liability for employee benefits

	December 31	
	2019	2018
	$ in thousands	$ in thousands
Employees severance benefits (*)	17,979	16,857
Liability for vacation pay	4,079	3,702
Pension benefits	116	276
	22,174	20,835

(*) The Company's net liability for employee severance benefits is as follows:

	December 31	
	2019	2018
	$ in thousands	$ in thousands
Liability for employee severance benefits	17,979	16,857
Less: Assets held for severance benefits, deposited with outside severance funds and insurance companies	13,263	13,243
Net liability for severance benefits	4,716	3,614

For the current portion of employee benefits included as part of Other payables and accrued liabilities in the consolidated balance sheets, see Note 10.

In some locations in the world, including Israel, the Company`s employees are entitled to severance pay under local law, including upon retirement. The severance payments are calculated based on parameters such as length of employment and the employee`s remuneration, and accruals are maintained to reflect these amounts.

Most of the employment agreements with employees in Israel, where approximately 50% of the Company's employees reside, are in accordance with Section 14 (see Note 2K). The Company makes regular deposits to certain insurance companies and pension funds into accounts controlled by each applicable employee in order to secure the employee's rights upon retirement or employment termination. The Company is then fully relieved from any severance pay liability with respect to each such employee, as the amounts deposited are not under the control and management of the Company and the severance pay risks have been irrevocably transferred to the insurance company or the pension fund. The related severance pay obligation and the amounts deposited pursuant to such obligation are therefore not reflected in the Company's balance sheet.

The Company's liability for severance pay to its Israel-based employees not employed in accordance with Section 14 as well as employees in countries other than Israel, is calculated pursuant to Israel's Severance Pay Law, or in other countries pursuant to local laws. The liability in Israel is fully covered, mostly through monthly deposits the Company makes with severance pay funds and insurance companies and the remaining gap, if any, is covered by an accrual.

Note 9 - Liability for employee benefits (cont'd)

Collective bargaining agreement

In November 2018, the Company entered a collective bargaining agreement with its Israeli employees' representatives and the Histadrut (the leading Israeli labor union) for a term of four years (2018-2022). The agreement applies to all employees in Israel, excluding certain managerial and other employees in certain functions.

The agreement regulates matters regarding certain employee rights and benefits and other organizational and labor matters, including: benefits, annual salary increase, welfare budget and procedures relating to dismissals, including the respective authority of management and the employees' representative with regards to each, and a dispute settlement mechanism.

Note 10 - Other payables and accrued liabilities

Current liabilities

	December 31	
	2019	2018
	$ in thousands	$ in thousands
Employee benefits	**17,363**	21,723
Accrued expenses	**19,948**	19,751
Accrued interest in respect of loans	**2,861**	15,052
Israeli Innovation Authority (royalties)	**7,822**	4,185
Tax authorities	**12,352**	8,471
Commissions payable	**6,838**	6,000
Advances from customers	**2,498**	2,296
Warranty accrual	**4,313**	4,631
Deferred revenue	**785**	-
Deferred sale and lease-back gain - current balance	**-**	1,135
Other payables	**1,919**	206
	76,699	83,450

Non-current liabilities

	December 31	
	2019	2018
	$ in thousands	$ in thousands
Fair value of Separable Embedded Derivatives (see Notes 8E and 16A)	**13,000**	15,000
Deferred sale and lease-back gain	**-**	4,332
Other	**723**	476
	13,723	19,808

Note 10 - Other payables and accrued liabilities (cont'd)

Deferred sale and lease-back gain

In September 2008, the Company completed a sale-leaseback transaction of its Petah-Tikva, Israel, headquarter facility, including the land, building and improvements affixed to the properties. The facility is being leased back over a 15 year term ("Initial lease term"), with two renewal periods, at the option of the Company, of 5 years and 4 years and 11 months, respectively. The net gain on the sale of this facility in the amount of $21.7 million, net of related taxes of $4.7 million, was deferred and is amortized over the initial lease term through December 31, 2018. The amortization of the gain was included in the consolidated statements of operations as a reduction in lease expenses.

Following the adoption of ASC 842 (see Note 2Q) the Company recognized as a cumulative-effect adjustment to equity at January 1, 2019 an amount of $5.5 million due to the de-recognition of the remaining balance of the deferred gain.

Warranty accrual

The changes in the warranty accrual balances in the years ended 31 December, 2019, 2018 and 2017 were as follows:

	Year ended December 31		
	2019	2018	2017
	$ in thousands	$ in thousands	$ in thousands
Balance at the beginning of the period	**4,631**	3,826	3,366
Utilization of warranty accrual	**(1,773)**	(1,055)	(1,423)
Warranty expense	**1,456**	1,860	1,883
Balance at the end of the period	**4,314**	4,631	3,826

Reorganization accruals

During January 2018, the Company implemented a workforce reduction plan. The Company recorded an amount of $1.4 million as part of this plan as reorganization expenses in the consolidated statements of operations. In 2016, the Company provided an amount of $3.7 million in connection with a settlement reached by the Company with its former primary IT provider.

The changes in the reorganization accruals in the years ended December 31, 2019 and 2018 were as follows:

	Severance pay	Other	Total
	$ in thousands	$ in thousands	$ in thousands
Balance at January 1, 2018	604	2,334	2,938
Reorganization expenses	1,380	-	1,380
Paid during the year	(1,590)	(1,167)	(2,757)
Balance at December 31, 2018	394	1,167	1,561
Paid during the year	**(233)**	**(1,167)**	**(1,400)**
Balance at December 31, 2019	**161**	-	**161**

The carrying amount of the reorganization liability in respect of severance pay as of December 31, 2019 and 2018 was included as part of other payables and Liability for employee benefits in the consolidated balance sheets, and is expected to be paid through 2021. The carrying amount of the other reorganization liability as at December 31, 2018 is included as part of other payables in the consolidated balance sheets.

Note 11 - Equity

A. Share capital (in shares of NIS 0.01 par value)

	Ordinary shares	
	December 31 2019	December 31 2018
Issued and paid-in share capital as at	**42,337,655**	42,337,655
Authorized share capital	**189,999,990**	189,999,990

B. Commitments to issue equity instruments

(1) Capital note

In 2014 the Company entered into an agreement with ECI Holding (Hungary) KFT (the "Parent Company"), a Hungarian company, which as at December 31, 2018 held 80% of the ordinary shares of the Company, and a group of private venture lending funds in Israel (the "Lending Funds"), according to which a loan then outstanding between the Company and the Lending Funds, in a total amount of $37.9 million, was converted into a note which will thereafter bear no interest and shall be irrevocably and fully repayable through conversion into a fixed number of ordinary shares of the Company, upon the occurrence of certain events.

As a result, the note was included as part of shareholders' equity.

During June 2018, the note was converted into share capital, and the Company issued, 8,467,531 ordinary shares.

(2) See Note 12 on share-based payments regarding options allotted to employees.

C. Preferred and Special Shares

In March 2018, 10,000,000 authorized Shares were converted and reclassified into 10,000,000 Preferred A Shares of NIS 0.01 par value each, and 10 authorized shares were converted and reclassified into 10 Special Shares of NIS 0.01 par value each.

In March 2018, in connection with the Debt Refinancing, the Company issued and sold 9,825,023 Preferred A Shares to the Parent Company, in consideration for a total amount of $85.8 million, as follows: (a) the Parent Company sold to the Company uncollected trade receivables in total amount of $10.0 million, previously assigned by ECI Telecom Ltd. to the Parent Company as part of a factoring arrangement (see Note 16C); (b) the Parent Company assigned to ECI Telecom Group its right to receive amounts collected by ECI Telecom Ltd. on behalf of the Parent Company as part of a factoring arrangement (see Note 16C), in total amount of $31.8 million; and (c) the Parent Company contributed to the Company an amount of $44.0 million.

In June 2018, in connection with the Debt Refinancing, the Company issued and sold 174,977 Preferred A Shares to the Lending Funds, in consideration for the Lending Funds assigning to the Company their right to receive amounts collected by ECI Telecom Ltd. on behalf of the Lending Funds as part of a factoring arrangement (see Note 16C) in a total amount of $1.5 million.

The Preferred A Shares in total amount of $87.3 million, have preference in liquidation, and accumulate at a rate of 12% per annum.

Note 11 - Equity (cont'd)

C. Preferred and Special Shares (cont'd)

In March 2018, in connection with the Debt Refinancing, the Company issued and sold 10 Special Shares to Pathfinder. The Special Shares confer similar rights to the rights attached to the preferred shares in ECI (see note 11D), and are subject to certain call and buy-back rights.

D. Non-controlling interests in ECI Telecom Ltd.

In March 2018, as part of the Debt Refinancing, ECI issued and sold to Pathfinder 1,000,000 preferred shares in consideration for $66.5 million (the "Preference Amount").

Amounts accumulated at a rate of 20% per annum of the Preference Amount are allocated to the owners of the non-controlling interests out of the net loss for the period.

The holders of the preferred shares are also entitled to receive, in the event of a Liquidity Event, as defined in the investment agreement, an amount equal to the sum that would accrue on the Preference Amount at a rate of 10% and an additional amount calculated based on the timing of such an event and on the net proceeds of such Liquidity Event, subject to maximum and minimum amounts.

In connection with the Merger Agreement, Pathfinder, ETG and Ribbon entered into a Share Purchase Agreement, pursuant to which, among other matters, Pathfinder agreed to sell its preferred shares of ECI at the Effective Time for an aggregate purchase price of approximately $95 million, depending on the date of the Effective Time.

Note 12 - Share-Based Payment Arrangements

Current stock option plans include the ECI Telecom Group's 2014 Share Option Plan (the "2014 Plan"). All options granted under the previously outstanding ECI Telecom Ltd. 2008 Share Incentive Plan had expired due to lapse of the stock options term.

2014 Plan

Vesting for awards made through December 31, 2017 under the 2014 Plan is over a total period of 3 years, with one thirty-sixth (1/36) of the awards vesting at the end of each and every month starting from the Vesting Commencement Date. For new employees vesting starts after six (6) months of employment (at which time 6/36 shall be vested) and the remainder is equally vested monthly over a thirty (30) month period. Vesting for awards made in 2018 and 2019 under the 2014 plan is over a total period of 3 years, with one third (1/3) of the awards vesting at the end of each year starting from the Vesting Commencement Date.

All options will be exercisable following the lapse of their vesting period and the earlier of (i) an IPO; or (ii) a Corporate Transaction (such as a merger, consolidation or similar transaction, a sale or other disposition of all or substantially all of the consolidated assets of the Company, or of the outstanding securities of the Company), as defined in the plan documents. As a result, none of the outstanding options issued as part of the 2014 Plan are exercisable as at the balance sheet date.

Unless otherwise determined by the Board of Directors, the term of a stock option is six (6) years. Each option confers the right to purchase one (1) ordinary share of ECI Telecom Group at an exercise price of $1 per option, subject to anti-dilution adjustment. As at December 31, 2019, the Company is authorized to grant 2,816,000 options.

Note 12 - Share-Based Payment Arrangements (cont'd)

2014 Plan (cont'd)

In July 2019 the Company's board of directors approved the repricing of the exercise price of a certain amount of the outstanding stock options issued to employees under the 2014 plan. The Company issued revised grant letters to the employees in November 2019 and the repricing was effected.

As part of the repricing the exercise price of 916,000 options was reduced from USD 1.00 per option to USD 0.25 per option, and the exercise price of 710,000 options was reduced from GBP 0.75 per option to USD 0.25 per option. As a result of the repricing the Company estimated the additional compensation granted to employees to be $0.5 million.

As at December 31, 2019 unearned compensation subject to future recognition immediately upon the occurrence of an IPO or a Corporate Transaction, or one being probable to occur, is $2,169 thousand. An additional amount of unearned compensation of $355 thousand subject to future recognition upon the occurrence of an IPO or Corporate Transaction, or one being probable to occur, are to be recognized over a period between such an event and the lapse of the vesting period.

As at December 31, 2019 Company management did not determine that an IPO or a Corporate Transaction is probable to occur.

The activity related to the Company's outstanding stock options for the years ended December 31, 2019, 2018 and 2017 was as follows:

	December 31		
	2019	**2018**	**2017**
	Number of options (in thousands)	**Number of options (in thousands)**	**Number of options (in thousands)**
Balance outstanding at beginning of period	**2,233**	2,115	2,259
Changes during the period:			
Granted	**145**	1,147	-
Forfeited	**(110)**	(1,029)	(144)
Balance outstanding at end of period	**2,268**	2,233	2,115

The fair value of employee stock options was measured using the Black & Scholes formula. Measurement input includes the share price on the measurement date, the exercise price of the instrument, expected volatility, expected term of the instruments, expected dividends, and the risk-free interest rate (based on government debentures).

The parameters used in the measurement of the fair values at grant dates of the share-based payments plans were as follows:

	2019	**2018**
Grant date fair value per stock option (in USD)	**0.6 - 0.8**	0.3
Share price on grant date (in USD)	**1.3 - 1.6**	0.9
Expected volatility (weighted average)	**35%**	36%
Expected life	**6**	6
Expected dividends	**-**	-
Risk free interest rate	**2.2% - 2.3%**	1.1%

Note 12 - Share-Based Payment Arrangements (cont'd)

2014 Plan (cont'd)

The share price on grant date was estimated using a valuation model. The expected dividend yield of zero is based on the fact that the Company has not paid dividends in recent years and has no present intention to pay cash dividends. The expected volatility was estimated on the basis of the volatility of different companies that have relatively similar operations as the Company's. The expected life for stock options is based on a combination of the Company's historical option patterns, each option contractual term and expectations of future employee actions.

No new grants took place during the year ended on December 31, 2017.

Note 13 - Supplemental statements of operations information

Cost of Revenue

	For the year ended December 31		
	2019	**2018**	**2017**
	\$ in thousands	**\$ in thousands**	**\$ in thousands**
Finished products consumed	**141,246**	168,493	155,973
Other operations and logistic costs	**30,010**	33,213	31,252
Service costs	**39,454**	36,064	30,627
Amortization of software development costs capitalized	**19,397**	17,244	16,116
Royalties (see Note 17D)	**7,840**	8,059	5,478
	237,947	263,073	239,446

In 2019 inventory write-downs in the amount of \$4.1 million were recognized as an expense within cost of revenue (\$4.1 million and \$2.9 million, in 2018 and 2017 respectively).

Research and development costs, net

	For the year ended December 31		
	2019	**2018**	**2017**
	\$ in thousands	**\$ in thousands**	**\$ in thousands**
Expenses incurred	**72,507**	68,926	73,413
Less development costs capitalized	**(25,956)**	(25,979)	(20,007)
Less participation of the government of Israel in research and development expenses [(1)]	**(3,134)**	(4,369)	(10,612)
	43,417	38,578	42,794

(1) For information on a commitment to pay royalties to the government of Israel, see Note 17D.

Note 13 - Supplemental statements of operations information (cont'd)

Financial expense (income), net

	For the year ended December 31		
	2019	2018	2017
	$ in thousands	$ in thousands	$ in thousands
Current interest on loans	**11,800**	11,554	11,232
Payable in kind (PIK) interest on loans	**14,508**	11,884	22,776
Amortization of debt raising costs, original issue discount (OID) and fair value assigned to Contingent Value Rights (CVR)	**3,026**	2,201	2,642
Total interest expense on loans	**29,334**	25,639	36,650
Interest expense on other liabilities	**1,127**	1,063	1,046
Bank charges and factoring fees	**4,058**	5,584	6,487
Change in fair value of derivatives, net (see Note 16A)	**(2,000)**	13,907	-
Net foreign exchange loss	**2,624**	2,323	(678)
Other, net	**681**	(158)	452
	35,824	48,358	43,957

Note 14 - Loss Per Share

The calculation of basic and diluted losses per share for the years ended on December 31, 2019, 2018 and 2017 was based on the losses attributable to the Company's ordinary shareholders for the period divided by a weighted average number of ordinary shares outstanding, calculated as follows:

	For the year ended December 31		
	2019	2018	2017
	$ in thousands	$ in thousands	$ in thousands
Loss attributable to ordinary shareholders ($ in thousands)	**(43,003)**	(40,373)	(36,943)
Return to equity-classified preferred shares (see Note 11C) ($ in thousands)	**(10,477)**	(7,951)	-
Loss attributable to ordinary shareholders ($ in thousands)	**(53,480)**	(48,324)	(36,943)
Weighted average number of ordinary shares:			
Balance at beginning of period	**42,338**	33,870	33,870
Effect of shares issued during the period (in thousands) (see Note 11B)	-	4,849	-
Weighted-average shares - basic (in thousands) as at end of period	**42,338**	38,719	33,870
Effect of dilutive share incentive	-	-	-
Weighted-average shares - dilutive (in thousands) as at end of period	**42,338**	38,719	33,870
Basic and dilutive loss per share ($)	**(1.26)**	(1.25)	(1.09)

Note 15 - Taxes on Income

A. Details regarding the tax environment of the Company

(1) Corporate tax rate

(a) Presented hereunder are the tax rates relevant to the Company and its Israeli subsidiaries in the years 2017-2019:

2017 – 24%
2018 – 23%
2019 – 23%

On December 22, 2016 the Knesset plenum passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016, by which, inter alia, the corporate tax rate would be reduced from 25% to 23% in two steps. The first step will be to a rate of 24% as from January 2017 and the second step will be to a rate of 23% as from January 2018. As a result of the reduction in the tax rate to 23% in two steps, the deferred tax balances as at December 31, 2019 were calculated at the tax rate expected to apply on the date of reversal.

Current taxes for the reported periods are calculated according to the tax rates presented above.

(b) Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (the "Investments Law");

During January 2011 an amendment to the Investments Law (the "Amendment") became effective. The Amendment's provisions apply to Preferred Income derived or accrued in 2011 and thereafter by a Preferred Company, per the definition of these terms in the Amendment. Companies can choose not to be included in the scope of the Amendment and to stay in the scope of the Investments Law before its amendment until the end of the benefits period of its approved/beneficiary enterprise.

The amendment provides a uniform and reduced tax rate for all the Company's income entitled to the benefits ("Preferred Income"). Starting from tax year 2014, the tax rate on Preferred Income for a company operating in the same area as ECI Telecom Ltd. is 16%.

As part of the 2016 Budget Law, inter alia, the Investments Law was amended such that a company meeting certain criteria ("Preferred Technology Enterprise"), starting from January 1, 2017, will benefit from a tax rate on Preferred Income derived from Intellectual Property, as defined in the amended law, for a company operating in the same area as ECI Telecom Ltd., of 12%. Upon reaching taxable income and if the benefits are still valid, management will evaluate whether its operations meet the criteria in order to qualify for the benefits of the Preferred Technology Enterprise.

The Amendment also provides that no tax will apply to a dividend distributed out of Preferred Income to an Israeli resident company shareholder. A tax rate of 20% shall apply to a dividend distributed out of Preferred Income to an individual shareholder or foreign resident, subject to double taxation prevention treaties. A reduced tax rate of 4% shall apply to a dividend distributed out of the income of Preferred Technology Enterprise to a foreign resident company, if 90% or higher of the distributing entity is held directly by foreign entities.

Note 15 - Taxes on Income (cont'd)

A. Details regarding the tax environment of the Company (cont'd)

(1) Corporate tax rate (cont'd)

(c) Measurement of results for tax purposes under the Income Tax Law

The measurement of the Company's results for tax purposes is calculated based on the Income Tax Regulations (principles for the bookkeeping of foreign invested companies and of certain partnerships and the determination of their taxable income) – 1986. Accordingly, the taxable income or loss is calculated in U.S. dollars.

(d) Tax benefits under the Law for the Encouragement of Industry (Taxation), 1969

The Company is an "Industrial Holding Company" as defined by this law, and as such is entitled, among other benefits, to claim accelerated depreciation of machinery and equipment as prescribed by regulations issued under the inflationary adjustments tax law.

Starting from 2013 tax year, the Company elected to file a consolidated return for Israeli income tax purposes, together with its subsidiary, ECI Telecom Ltd., in accordance with the provisions of this law.

(e) Non Israeli subsidiaries are taxed based upon tax laws in their countries of residence.

(2) In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations where a company does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the TCJ Act. It allows companies to record provisional amounts during a measurement period, which is not to extend beyond one year. Consistent with SAB 118, the Company was able to make reasonable estimates and recorded provisional amounts related to the impact of tax reform. As of December 2019, all provisional amounts have been finalized and there were no adjustments made to previously disclosed estimates.

B. Taxes on income from continuing operations

Taxes on income included in the consolidated statements of operations are comprised as follows:

	Year ended December 31		
	2019	2018	2017
	$ in thousands	$ in thousands	$ in thousands
Current taxes relating to –			
The Company and its Israeli Subsidiaries	**269**	330	391
Foreign subsidiaries	**5,409**	1,700	2,735
	5,678	2,030	3,126
Deferred taxes relating to –			
The Company and its Israeli subsidiaries	-	311	311
Foreign subsidiaries	**(930)**	601	(283)
	(930)	912	28
Taxes on income	**4,748**	2,942	3,154

Note 15 - Taxes on Income (cont'd)

C. Loss from continuing operations before taxes on income

	Year ended December 31		
	2019	2018	2017
	$ in thousands	$ in thousands	$ in thousands
The Company and its Israeli subsidiaries	**(10,100)**	(6,792)	(42,766)
Foreign subsidiaries	**(10,894)**	(20,664)	8,977
	(20,994)	(27,456)	(33,789)

D. Reconciliation of the statutory tax expense (benefit) to actual tax expense

	For the year ended December 31		
	2019	2018	2017
	$ in thousands	$ in thousands	$ in thousands
Loss before taxes on income	**(20,994)**	(27,456)	(33,789)
Primary tax rate of the Company	**23%**	23%	24%
Theoretical provision for income taxes	**(4,829)**	(6,315)	(8,109)
Additional tax (tax saving) in respect of:			
Different tax rate of foreign subsidiaries	**790**	869	755
Difference between measurement basis of income/expenses for income tax purposes and measurement basis of income/expenses for financial reporting purposes	**1,070**	(7,840)	1,612
Current year tax losses and benefits for which deferred taxes were not created	**(406)**	10,176	5,289
Capital losses and benefits for which deferred taxes were not created	**5,774**	7,826	2,144
Uncertain tax positions	**989**	(595)	460
Taxes in respect of previous years	**-**	47	(158)
Taxes in respect of previous years due to TCJ act	**-**	(1,426)	-
Other differences	**1,360**	200	1,161
Income tax expense	**4,748**	2,942	3,154

Note 15 - Taxes on Income (cont'd)

E. Deferred tax assets and liabilities

The following is a summary of the significant components of deferred tax assets and liabilities:

	December 31	
	2019	2018
	$ in thousands	$ in thousands
Deferred tax assets:		
Capital loss and other losses carryforward	**81,911**	75,847
Operating loss carryforward	**377,414**	388,921
Research and development costs, net	**12,278**	12,700
Vacation pay accruals, severance pay fund, net, and other accruals	**3,686**	6,236
Other	**1,166**	1,063
Gross total deferred tax assets	**476,455**	484,767
Valuation allowance for deferred tax assets	**(460,459)**	(470,526)
Net deferred tax assets	**15,996**	14,241
Deferred tax liabilities:		
Software development costs and other intangibles	**11,149**	10,454
Property, plant and equipment and other	**2,017**	1,878
Deferred tax liabilities	**13,166**	12,332
Deferred taxes, net	**2,830**	1,909

F. Carry-forwards

As of December 31, 2019, the Company and its subsidiaries had operating loss carryforwards, capital loss carryforwards, loss from marketable securities, and general business tax credit carryforward for income tax purposes of $1,653.3 million, $207.5 million, $55.5 million and $3.6 million, respectively. In addition, a subsidiary in the Netherlands had a carry-forward tax loss with limitation on the off-set for holding and financing companies in the amount of $93.6 million. This Netherlands carry-forward tax loss will expire over the period of 2020 through 2028.

In general, under United States tax law Section 382 of the Internal Revenue Code of 1986, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-change net operating losses ("NOLs"), to offset future taxable income. As at December 31, 2019, the US subsidiary had $123.6 million NOLs out of which $34.9 million are subject to Internal Revenue Code Section 382 limitations. In addition, these U.S federal net operating loss carryforwards will expire over the period of 2020 through 2027.

The remainder of the consolidated loss carryforwards has no expiration period. Substantially, all of the capital losses have an indefinite carryforward period.

G. Tax assessments

The Company files income tax returns in various jurisdictions with varying statutes of limitations. ECI Telecom Group and its subsidiaries in Israel have received final tax assessments or tax assessments that are considered as final due to lapse of statute of limitation period, through tax year 2014.

Note 15 - Taxes on Income (cont'd)

H. Unrecognized tax benefits

The following table summarizes the activity of the Company's gross unrecognized tax benefits:

	Year ended December 31	
	2019	2018
	$ in thousands	$ in thousands
Balance at the beginning of the year	6,326	6,921
Additions based on tax position related to the current year	1,777	384
Additions for tax positions of prior years	127	136
Reductions for tax positions of prior years relating to settlements with tax authorities	(474)	(454)
Reductions to unrecognized tax benefits as a result of a lapse of the applicable statute of limitations	(441)	(661)
Balance at the end of the year	7,315	6,326

The Company and its subsidiaries are subject to periodic and routine audits by the tax authorities in all major tax jurisdictions in which they operate. It is reasonably possible that the amounts of unrecognized tax benefits could change as a result of an audit. Based on the current audits in process, the payment of taxes as a result of audit settlements are not expected to have an adverse significant impact on the Company's financial position or results of operations.

The Company recognizes the benefit of tax positions only if those positions are more likely than not to be sustained. The Company measures the tax benefit to be provided for as the largest amount that is greater than 50% likely of being realized upon settlement.

Note 16 - Financial Instruments

A. Fair value

The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, restricted cash, trade receivables, other receivables, loans and borrowings, trade payables and other payables are the same or proximate to their fair value.

The table below presents an analysis of financial instruments measured at fair value on the temporal basis using valuation methodology in accordance with the fair value hierarchy levels (for a definition of the various hierarchy levels, see Note 2 regarding the basis of preparation of the financial statements).

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
	$ in thousands	$ in thousands	$ in thousands	$ in thousands
Financial liabilities:				
Separable Embedded Derivatives	-	-	13,000	13,000
	-	-	13,000	13,000

Note 16 - Financial Instruments (cont'd)

A. Fair value (cont'd)

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
	$ in thousands	$ in thousands	$ in thousands	$ in thousands
Financial liabilities:				
Separable Embedded Derivatives	-	-	15,000	15,000
	-	-	15,000	15,000

The table hereunder presents a reconciliation from the opening balance to the closing balance of separable embedded derivatives carried at fair value level 3 of the fair value hierarchy:

	Year ended December 31,	
	2019	2018
	$ in thousands	$ in thousands
Balance at beginning of the year	**15,000**	6,080
Additions	-	10,500
Deletions	-	(15,487)
Change in the fair value	**(2,000)**	13,907
Balance at end of the year	**13,000**	15,000

For the purpose of measurement of the fair value of the separable embedded derivative outstanding as at December 31, 2019 , representing the Contingent Value Rights issued by ETG to its lenders (see Note 8E), the Company used the Monte Carlo Simulation model.

As part of the Merger Agreement (see Note 1B) and the expected repayment of the senior long-term loan (see Note 8), the Company also expects to repay the Contingent Value Rights issued to the lenders. The Contingent Value Rights payoff is expected to be mainly part of the Share Consideration and to the lesser extent part of the Cash Consideration. A measurement input that would have significantly changed the fair value is the value of each Ribbon share. An increase, or decrease, of 10% in the value of each Ribbon share as at the Effective Time would result in an increase, or decrease, in the estimated fair value of the Contingent Value Rights as at December 31, 2019 of $0.3 million, or 0.3 million, respectively.

B. Financial guarantees

The Company maintains certain guarantees mainly through banks and with insurance companies to support its performance obligations under customer contracts and other contracts that can be called in case of a material breach of contracts. As at December 31, 2019, these guarantees totaled approximately $28.1 million ($38.2 million as at December 31, 2018).

Note 16 - Financial Instruments (cont'd)

C. Transfers of financial assets

The Company maintains customer receivables factoring agreements with a number of financial institutions. Additional factoring agreements with the Parent Company, and the Lending Funds were in effect through March 2018 and were terminated in connection with the Debt Refinancing (see Note 8). Under the terms of those agreements, the Company may transfer receivables to the financial institutions, on a non-recourse basis, provided that the financial institutions approve the receivables in advance.

In respect of a majority of its trade receivables, the Company maintains credit insurance policies from major insurance entities or obtains letters of credit from the customers, covering a major part of the credit risk. In some cases, the Company maintains some recourse obligations, limited to events of commercial disputes, such as product defects, which are not covered under the credit insurance policy, and are unrelated to the credit worthiness of the customer. The Company does not expect any recourse to take place in the foreseeable future due to commercial disputes.

The Company accounts for the factoring of its financial assets as a sale of the assets and records the factoring fees, when incurred, in profit and loss as finance expenses. As at December 31, 2019 and 2018 the outstanding trade receivables derecognized from the consolidated balance sheet in connection with factoring agreements amounted to $67.8 million and 67.1 million, respectively.

Note 17 - Commitments, Contingent Liabilities and Assets Pledged

A. Legal claims

In the normal course of business, legal claims were filed against group companies or there are pending claims against the Company (in this section: "Legal Claims"). In the opinion of Company management, based, among other things, on legal opinions as to the likelihood of success of the claims, the financial statements include adequate provisions, where provisions are required to cover the exposure resulting from such claims.

Claims of employees and former employees of group's companies
Several lawsuits and claims have been submitted against the Company in Israel and in other jurisdictions in respect of labor and related matters. Such matters include the calculation of benefits, right to receive additional benefits for termination, determination of employee status, right to terminate, and others. A provision in the amount of $0.4 million was included as at December 31, 2019 and 2018. Management of the Company believes, based on the opinion of its legal advisors that the financial statements include adequate provisions in respect of such claims.

Claims by enterprises and companies
Several claims have been submitted against the Company and against consolidated subsidiaries, in respect of activities conducted by the Company, in the ordinary course of business, alleging that the Company, inter alia, used patents owned by others. No provision in respect of such claims was included as at December 31, 2019 and 2018. The Company's Management, based mainly on opinions of its legal advisors, believes that the effect, if any, of the results of such claims on the financial position of the Company and the results of its operations will be immaterial.

Note 17 - Contingent Liabilities and Assets Pledged (cont'd)

A. Legal claims (cont'd)

During 2018 the Company received a letter from Sisvel International SA ("Sisvel") advising the Company's wholly owned subsidiary in Germany ("ECI GMBH") that it needs to seek a license from Sisvel for products which implement DSL technologies to cover certain patents that are owned by Sisvel. Sisvel continued to send letters, the last of which was received on July 23, 2018. The Company has not received any further correspondence regarding this matter. The Company believes it is too early to assess the outcome. ECI has not been selling such products for several years.

ECI GMBH has received a request for indemnification from Deutsche Telekom ("DT") in relation to an alleged intellectual property infringement claim brought by Intellectual Ventures II LLC ("IVII") in Germany and concerning a component sold to DT by ECI GMBH. The Company is looking into the matter, however, it believes that DT purchased the allegedly infringing component from one of the Company's vendors and therefore plans to submit a request for indemnification to such vendor. Additionally, the patent(s)-in-suit are subject to a validity proceeding pending in the Federal Patent Court in Munich, the outcome of which may have an impact on the aforementioned claims. IVII is also pursuing an identical claim in France against Orange. Orange has placed ECI France on notice that it may seek indemnification from ECI France as a third-party supplier in connection with such claim. The planned defense of this claim will be the same as that of the case in Germany, namely that the relevant chipsets were obtained through a licensee of the plaintiff and therefore did not infringe upon the patent and that the patent involved is invalid. Company believes it is too early to assess the outcome.

In addition, the Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, the Company does not expect that the ultimate costs to resolve these matters will have a material adverse effect on its consolidated financial position, results of operations, or cash flows. Liabilities related to legal proceedings are recorded when it is likely that a liability has been incurred and the associated amount can be reasonably estimated. As additional information becomes available, the potential liability related to these matters will be reassessed and the estimates revised, if necessary. In each of these matters the Company continuously evaluates the merits of the respective claims and defends itself vigorously or seeks to arrive at alternative resolutions in its best interest, as it deems appropriate.

B. Purchase commitments

As at December 31, 2019, the Company had commitments in the amount of $61.0 million covering, primarily, the purchase of materials ($59.2 million as at December 31, 2018).

C. Assets pledged

(1) As at December 31, 2019, the Company pledged certain of its assets, including those of its subsidiaries, to the lending parties in several credit agreements.

In Israel, that included the creation of (1) fixed charges on assets like machinery, equipment, intellectual property, shares that the Company and its subsidiary hold in its subsidiaries, material insurance policies and bank accounts and (2) a floating charge on all assets and properties owned from time to time by the Company and its subsidiaries, and

Outside Israel, several Company subsidiaries have pledged certain assets as at December 31, 2019, in favor of the lending parties in several security agreements. That included the creation of (1) fixed charges on assets such as shares that they hold in subsidiaries, material insurance policies and bank accounts and of (2) a floating charge on all assets and properties owned from time to time by these subsidiaries.

Note 17 - Contingent Liabilities and Assets Pledged (cont'd)

C. Assets pledged (cont'd)

(1) (cont'd)

As at December 31, 2019, fixed charges are duly registered with the relevant authorities with respect to certain machinery, equipment, intellectual property, shares and bank accounts of several of the Company's subsidiaries and certain insurance policies, and a floating charge has been registered on all assets of the Company and of certain of its subsidiaries.

(2) Short-term deposits in an amount of $2.4 million (December 31, 2018 - $9.3 million) were pledged in favor of banks and an insurance company ("Financial Institutions") to secure their potential obligations under certain performance bonds issued by the Financial Institutions. The performance bonds, in a total amount of $2.9 million were issued to Company customers as a security for the Company's contractual obligations under tenders and contracts.

In addition $2.5 million of short-term bank deposits (December 31, 2018 - $2.5 million) were pledged in favor of a certain bank to secure $7.2 million of financial bonds issued covering the Company's obligation to one of its main subcontractors.

(3) As at December 31, 2019, two mortgages, on certain real estate assets of the Company which are located in the cities of Petach Tikva (the same place as the Company's main offices) and Givat Shmuel (adjacent to the Company's main offices) in Israel, are registered in favor of Flextronics (Israel) Ltd. ("Flextronics"). These mortgages were registered in order to secure certain indebtedness owed from time to time by the Company to Flextronics pursuant to a manufacturing agreement entered into between the parties.

(4) The Company registers pledges in immaterial amounts from time to time on certain equipment items in the ordinary course of business.

D. Royalties payable to the IIA

The Company is committed to pay royalties to the IIA on proceeds from sale of products which the government supported by way of research and development grants. The royalties are calculated mainly at the rates of 1.3% to 3.0% of the aggregated proceeds from the sale of such products developed at the Company`s R&D center in Beer-Sheva, or 3.5% to 5.0% of the aggregated proceeds from sale of such products developed at the Company's R&D center in its headquarters facility in Israel, up to an amount not exceeding 100% of such grants plus interest at LIBOR rate (for new cases approved starting from 2017, interest at the higher of LIBOR plus 1.5%, and 2.75%). Where manufacturing is performed outside Israel, the respective royalty rates are increased by an additional 1%.

As at December 31, 2019 the Company's maximum possible future royalties commitment, subject to future sale of such products, and based on grants received from the IIA and not yet repaid and on management's estimation of future sales of products still being sold and as a result might be subject to future royalties payments, is approximately $52.1 million (including interest in the amount of $1.8 million).

Note 18 - Related Parties

A. Parent company and subsidiaries

The Company's parent company is ECI Holding (Hungary) KFT, a Hungarian company, which as at December 31, 2019 held 80% of the ordinary shares of the Company.

B. Transactions with related parties

Balances due from or to related parties

	December 31	
	2019	2018
	$ in thousands	$ in thousands
Long-term trade and other receivables	**518**	534
Trade payables	**117**	30
Other payables	**1,206**	2,755

Transactions with related parties

	Year ended December 31		
	2019	2018	2017
	$ in thousands	$ in thousands	$ in thousands
Revenues	**-**	-	7,500
Expenses	**1,340**	1,937	5,609

C. Other engagements between the Company and related parties

(1) The Company pays fees to an entity controlled by the indirect shareholders of the Company in respect of letters of credit issued by this entity to an Israeli bank to support credit lines issued by the bank to the Company.

This engagement was terminated in March 2018. In addition, in March 2018 the aforesaid related entity waived its right to receive from ECI Telecom Ltd. accrued and unpaid fees in total amount of $11.8 million. The waived fees were recorded as a capital contribution made to the Company's Capital Surplus by its shareholders.

(2) In March 2018 the Company entered into an agreement to receive management services from an entity controlled by the indirect shareholders of the Company, for a period of five years, for a monthly payment of $25 thousand.

(3) Sales of certain of the Company's receivables (see Note 16C). This engagement was terminated in March 2018.

(4) During December 2018 the Company entered into an agreement with its indirect shareholders. The indirect shareholders provided guarantees to an Israeli bank to secure Company obligations under a credit line issued by the bank to the Company. As part of the said agreement the Company committed, subject to the provisions of other finance documents (see notes 8 and 12), to pay fees starting from January 2019 to the indirect shareholders in respect of the issued guarantees. In addition, the Company committed to indemnify and compensate the indirect shareholders in case the bank forfeits the guarantees.

Note 19 - Leases

The Company has operating leases for its global facilities and for offices and vehicles in certain locations, and finance leases for computers and IT equipment. Operating leases are reported separately in the Company's consolidated balance sheet as at December 31, 2019. Assets acquired under finance leases are included in Property, plant and equipment, net, in the consolidated balance sheets as at December 31, 2019 and December 31, 2018.

The Company determines if an arrangement is a lease at inception. A contract is determined to contain a lease component if the arrangement provides the Company with a right to control the use of an identified asset.

Right-of-use assets and lease liabilities are initially measured based on the present value of the future minimum fixed lease payments (i.e., fixed payments in the lease contract) over the lease term at the commencement date. As many of the Company's leases do not have a readily determinable implicit rate, the Company typically uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of future minimum fixed lease payments.

The Company calculates its incremental borrowing rate to reflect the interest rate that it would have to pay to borrow on a collateralized basis an amount equal to the lease payments in a similar economic environment over a similar term and considers its historical borrowing activities and market data from entities with comparable credit ratings in this determination. The measurement of the right-of-use asset also includes any lease payments made prior to the commencement date (excluding any lease incentives) and initial direct costs incurred.

Lease terms may include options to extend or terminate the lease and the Company incorporates such options in the lease term when it has the unilateral right to make such an election and it is reasonably certain that the Company will exercise that option. In making this determination, the Company considers its prior renewal and termination history and planned usage of the assets under lease, incorporating expected market conditions.

For operating leases, lease expense for minimum fixed lease payments is recognized on a straight-line basis over the lease term. The expense for finance leases includes both interest and amortization expense components, with the interest component calculated based on the effective interest method and the amortization component calculated based on straight-line amortization of the right-of-use asset over the lease term.

The Company's right-of-use lease assets and lease liabilities as at December 31, 2019 and December 31, 2018 were as follows:

	Classification	December 31, 2019 $ in thousands	December 31, 2018 $ in thousands
Assets			
Operating lease assets	Operating lease right-of-use assets	**24,928**	-
Finance lease assets	Property, plant and equipment, net	**1,460**	914
Total leased assets		**26,388**	914
Liabilities			
Current			
Operating	Operating lease liabilities	**8,857**	-
Finance	Other payables and accrued liabilities	**569**	383
Noncurrent			
Operating	Operating lease liabilities, net of current	**18,053**	-
Finance	Other long-term liabilities	**720**	476
Total lease liabilities		**28,199**	859

Note 19 - Leases (cont'd)

The components of lease expense for the year ended December 31, 2019 were as follows:

	Year ended December 31, 2019
	$ in thousands
Operating lease cost	9,568
Finance Lease cost	
Amortization of Finance leased assets	588
Interest on lease liability	63
Net lease cost - Total	10,219

The Company elected to use the alternative transition method, which allows entities to initially apply ASC 842 at the adoption date with no subsequent adjustments to prior period lease costs for comparability. As a result, operating leases in periods prior to the Company's adoption of ASC 842 were not recorded on the consolidated balance sheet. Prior to the adoption of ASC 842, rent expense (including any escalation clauses, free rent and other lease concessions) on operating leases was recognized on a straight-line basis over the minimum lease term, and this remains consistent with the Company's application of ASC 842. Rent expense for operating leases was $9.3 million and $9.0 million for the year ended December 31, 2018 and 2017, respectively. Interest expense for finance leases was approximately $50 thousand and $25 thousand for the years ended December 31, 2018 and 2017, respectively. Amortization expense for finance leases was approximately $153 thousand and $40 thousand for the year ended December 31, 2018 and 2017, respectively.

Other information related to the Company's leases as at and for the year ended December 31, 2019 was as follows:

	$ in thousands (except lease terms and percentages)
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	9,186
Operating cash flows from finance leases	710
Weighted average remaining lease term (years)	
Operating leases	3.81
Finance leases	1.84
Weighted average discount rate	
Operating leases	4.2%
Finance leases	10.4%

Note 19 - Leases (cont'd)

Future minimum fixed lease payments under non-cancelable leases at December 31, 2019 were as follows:

	Operating leases $ in thousands	Finance leases $ in thousands
2020	**9,062**	**731**
2021	**8,118**	**676**
2022	**6,115**	**224**
2023	**4,489**	**68**
2024	**762**	**30**
2025 and beyond	**910**	**-**
Total lease payments	**29,456**	**1,729**
Less: interest	**(2,546)**	**(440)**
Present value of lease liabilities	**26,910**	**1,289**

Future minimum fixed lease payments under non-cancelable leases at December 31, 2018 were as follows:

	Operating leases $ in thousands	Finance leases $ in thousands
2019	7,625	357
2020	7,575	281
2021	6,686	239
2022	5,130	38
2023	4,151	3
2024 and beyond	1,062	-
Total lease payments	32,229	918
Less: interest		(59)
Present value of lease liabilities		859

Exhibit 99.2

RIBBON COMMUNICATIONS INC.
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The unaudited pro forma condensed combined financial statements combine the historical financial results of Ribbon Communications Inc. ("Ribbon") and ECI Telecom Group Ltd. ("ECI") to illustrate the effect of the merger of a wholly-owned subsidiary of Ribbon with and into ECI, with ECI surviving such merger as a wholly-owned subsidiary of Ribbon (the "Merger"). The Merger has been accounted for as a business combination where Ribbon is the acquirer and ECI is the acquiree. Accordingly, the unaudited pro forma condensed combined balance sheet combines the unaudited condensed consolidated balance sheets of Ribbon and ECI as of December 31, 2019 and gives pro forma effect to the Merger as if it had been completed on December 31, 2019. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2019 combines the historical consolidated statements of operations of Ribbon and ECI for the year ended December 31, 2019, giving pro forma effect to the Merger as if it had been completed on January 1, 2019. The historical financial information has been adjusted in the unaudited pro forma condensed combined financial statements to give effect to pro forma events that are (1) directly attributable to the Merger, (2) factually supportable and (3) with respect to the statements of operations, expected to have a continuing impact on the combined results.

The unaudited pro forma condensed combined financial statements presented are based on the assumptions and adjustments described in the accompanying notes. The unaudited pro forma condensed combined financial statements are presented for illustrative purposes and do not purport to represent what the financial position or results of operations would actually have been if the Merger occurred as of the dates indicated or what such financial position or results would be for any future periods for the combined company. The unaudited pro forma condensed combined financial statements are based upon the respective historical consolidated financial statements of Ribbon and ECI, and should be read in conjunction with the:

- Accompanying notes to the unaudited pro forma condensed combined financial statements;
- Separate historical audited consolidated financial statements of Ribbon included in its Annual Report on Form 10-K for the year ended December 31, 2019; and
- Separate historical audited consolidated financial statements of ECI as of December 31, 2019 and 2018 and for the three years ended December 31, 2019, included as Exhibit 99.1 to this Current Report on Form 8-K/A.

The Merger is being accounted for as a business combination where Ribbon is acquiring ECI. ECI's assets and liabilities will be measured and recognized at their fair values as of the date of the Merger, and consolidated with the assets, liabilities and results of operations of Ribbon following the consummation of the Merger. The difference between the fair value of the purchase price consideration and the fair value of assets acquired and liabilities assumed will be recorded as goodwill.

The unaudited pro forma condensed combined statements of operations do not include the benefits of any revenue, cost or other operating synergies that may result from the Merger or any related restructuring costs or certain amounts resulting from the Merger that were determined to be of a non-recurring nature.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
As of December 31, 2019
(in thousands)

	Historical		Pro Forma		Pro Forma
	Ribbon (A)	ECI (B)	Adjustments	Note 3	Combined
Assets					
Current assets					
Cash and equivalents	$ 44,643	$ 19,040	$ (9,234)	(a)(b)(d)	$ 54,449
Restricted cash	-	4,930	-		4,930
Accounts receivable, net	192,706	91,719	-		284,425
Other receivables	-	15,937	(15,937)	(g)	-
Inventory	14,800	55,706	-		70,506
Other current assets	27,146	-	16,257	(b)(g)	43,403
Total current assets	279,295	187,332	(8,914)		457,713
Property and equipment, net	28,976	45,795	20,200	(c)	94,971
Intangible assets, net	213,366	-	308,400	(c)	521,766
Goodwill	224,896	105,000	(32,252)	(a)(c)(e)(f)	297,644
Software development costs, net	-	49,047	(49,047)	(c)	-
Deferred income taxes	4,959	3,715	-		8,674
Operating lease right-of-use assets	36,654	24,928	-		61,582
Long-term trade and other receivables	-	3,350	(3,350)	(h)	-
Assets held for employeees' severance benefits	-	13,263	(13,263)	(i)	-
Other assets	26,762	-	22,246	(b)(f)(h)(i)	49,008
	$ 814,908	$ 432,430	$ 244,020		$ 1,491,358
Liabilities, convertible preferred stock and stockholders' equity (deficit)					
Current liabilities					
Current portion of long-term debt	$ 2,500	$ -	$ 6,220	(b)	$ 8,720
Revolving credit facility	8,000	-	(8,000)	(b)	-
Short-term loan	-	2,310	-		2,310
Accounts payable	31,412	66,849	-		98,261
Accrued expenses and other	56,700	76,699	39,828	(a)(b)(k)	173,227
Operating lease liabilities	7,719	8,857	-		16,576
Deferred revenue	100,406	-	785	(k)	101,191
Total current liabilities	206,737	154,715	38,833		400,285
Long-term debt, net of current	45,995	159,099	179,771	(a)(b)	384,865
Operating lease liabilities, net of current	37,202	18,053	-		55,255
Deferred revenue, net of current	20,482	-	-		20,482
Deferred income taxes	4,648	885	13,095	(e)	18,628
Liability for employee benefits	-	22,174	(22,174)	(j)	-
Other long-term liabilities	16,589	13,723	13,313	(a)(e)(j)(k)	43,625
Total liabilities	331,653	368,649	222,838		923,140
Commitments and contingencies					
Stockholders' equity					
Preferred stock	-	-	-		-
Common stock	11	-	3	(a)	14
Additional paid-in-capital	1,747,784	-	108,547	(a)	1,856,331
Ordinary shares	-	122	(122)	(c)	-
Capital surplus	-	1,296,577	(1,296,577)	(c)	-
Preferred A shares	-	87,310	(87,310)	(c)	-
Capital reserves	-	87,998	(87,998)	(c)	-
Accumulated deficit	(1,267,067)	(1,501,962)	1,478,375	(c)(d)	(1,290,654)
Accumulated other comprehensive income	2,527	-	-		2,527
Non-controlling interest	-	93,736	(93,736)	(c)	-
Total stockholders' equity	483,255	63,781	21,182		568,218
	$ 814,908	$ 432,430	$ 244,020		$ 1,491,358

(A) As reported in Ribbon's Annual Report on Form 10-K, filed with the SEC on February 28, 2020.
(B) As reported by ECI and included in Exhibit 99.1 to this Current Report on Form 8-K/A.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the year ended December 31, 2019
(in thousands, except per share amounts)

	Historical		Pro Forma		Pro Forma	
	Ribbon (A)	ECI (B)	Adjustments	Note 3	Combined	Note 2
Product revenue	$ 262,030	$ 293,915	$ -		$ 555,945	
Service revenue	301,081	87,889	-		388,970	
Total revenue	563,111	381,804	-		944,915	
Cost of product revenue	133,347	185,676	(6,260)	(m)(n)	312,763	
Cost of service revenue	112,680	52,271	-		164,951	
Total cost of revenue	246,027	237,947	(6,260)		477,714	
Total gross profit	317,084	143,857	6,260		467,201	
Research and development	141,060	43,417	25,956	(m)	210,433	
Sales and marketing	117,962	58,043	11,565	(n)	187,570	
General and administration	53,870	19,520	(231)	(l)	73,159	
Impairment of goodwill	164,300	-	-		164,300	
Acquisition-related expense	12,953	-	-		12,953	
Restructuring	16,399	-	-		16,399	
Total operating costs and expenses	506,544	120,980	37,290		664,814	
Operating income (loss)	(189,460)	22,877	(31,030)		(197,613)	
Interest expense, net	(3,877)	-	(17,882)	(o)(p)(q)(r)	(21,759)	
Financial expenses, net	-	(35,824)	35,824	(r)	-	
Other income (expense), net	70,444	(8,047)	695	(p)(r)	63,092	
Loss before income taxes	(122,893)	(20,994)	(12,393)		(156,280)	
Income tax provision	(7,182)	(4,748)	-	(s)	(11,930)	
Net loss	$ (130,075)	$ (25,742)	$ (12,393)		$ (168,210)	
Loss per share:						
Basic	$ (1.19)				$ (1.18)	
Diluted	$ (1.19)				$ (1.18)	
Shares used to calculate loss per share:						
Basic	109,734				142,234	(t)
Diluted	109,734				142,234	(t)

(A) As reported in Ribbon's Annual Report on Form 10-K, filed with the SEC on February 28, 2020.
(B) As reported by ECI and included elsewhere in Exhibit 99.1 to this Current Report on Form 8-K/A.

RIBBON COMMUNICATIONS INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

1. Description of Transaction and Basis of Presentation

Description of Transaction

On March 3, 2020, Ribbon completed its previously announced merger transaction with ECI in accordance with the terms of the Agreement and Plan of Merger, dated as of November 14, 2019 (the “Merger Agreement”), by and among Ribbon, ECI, an indirect wholly owned subsidiary of Ribbon (“Merger Sub”), Ribbon Communications Israel Ltd., ECI Telecom Group Ltd. (“ECI”) and ECI Holding (Hungary) kft (“Swarth”), pursuant to which Merger Sub merged with and into ECI, with ECI surviving such merger as a wholly owned subsidiary of Ribbon.

As consideration for the Merger, Ribbon issued the ECI shareholders and certain others 32.5 million shares of Ribbon Common Stock (the “Stock Consideration”) and $322.5 million of cash, reflecting adjustments for certain indebtedness and other liabilities (the “Cash Consideration”). In addition, ECI shareholders received $33.4 million from the sale of ECI’s real estate assets. Cash consideration was financed through cash on hand and committed debt financing consisting of a new $400 million term loan facility (the “New Term Loan”) and new $100 million revolving credit facility (together, the “New Facility”), which was undrawn at close. The New Facility retired Ribbon’s existing credit facility. At the time the Stock Consideration was issued, previously existing holders of Ribbon Common Stock owned approximately 77% of shares in the share capital of Ribbon and the former holders of ECI owned approximately 23% of shares in the share capital of Ribbon.

To prepare the unaudited pro forma condensed combined financial statements, Ribbon adjusted ECI’s assets and liabilities to their estimated fair values based on preliminary valuation work. As of the date of this Current Report on Form 8-K/A, Ribbon has not completed the detailed valuation necessary to finalize the required estimated fair values of the ECI assets acquired and liabilities assumed and the related allocation of purchase price. The final allocation of the purchase price will be determined after completion of an analysis to determine the estimated net fair value of ECI’s assets and liabilities. Accordingly, the final acquisition accounting adjustments may be materially different from the unaudited pro forma adjustments. The unaudited pro forma condensed combined financial statements reflect material presentation adjustments made to ECI’s consolidated statements of operations and consolidated balance sheet to conform to Ribbon’s presentation. Ribbon is reviewing, in detail, ECI’s accounting policies. As a result of that review, Ribbon may identify additional presentation differences or differences between the accounting policies of the two companies, that when conformed, could have a material impact on the combined financial results. Based on information available at this time, Ribbon is not aware of any differences that would have a material impact on the post combination financial statements other than those presented in the pro forma condensed combined financial statements included herein. The unaudited pro forma condensed combined financial statements do not give effect to any cost savings, operating synergies or revenue synergies that may result from the Merger or the costs to achieve any such cost savings, operating synergies and revenue synergies. There were no material transactions between Ribbon and ECI during the periods presented in the unaudited pro forma condensed combined financial statements and accordingly, no such transactions were eliminated.

Basis of Presentation

The unaudited pro forma condensed combined financial statements were prepared in accordance with Article 11 of SEC Regulation S-X. The unaudited pro forma condensed combined balance sheet as of December 31, 2019 is presented as if the Merger had been completed on December 31, 2019. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2019 assumes that the Merger took place as of January 1, 2019, and combines the historical results of Ribbon and ECI for the same periods. Ribbon is deemed to be the acquiring company and the Merger is being accounted for as a business combination in accordance with U.S. GAAP. Accordingly, the assets and liabilities of Ribbon will be recorded as of the closing date at their respective carrying values and the acquired assets and assumed liabilities of ECI will be recorded as of the closing date at their fair values, with the excess of the value of net assets acquired recognized as goodwill. For the purpose of these unaudited pro forma financial statements, management of Ribbon has determined a preliminary estimated purchase price for the business combination, and such amount has been calculated as described in Note 2 to these unaudited pro forma condensed combined financial statements. The net assets acquired in connection with the transaction are at their estimated fair values. A final determination of these estimated fair values will be based on the actual net acquired assets of ECI as of the closing date.

2. Preliminary Consideration Transferred and Preliminary Fair Value of Net Assets Acquired

The unaudited pro forma condensed combined financial statements include various assumptions, including those related to the preliminary purchase price allocation of the assets acquired and liabilities assumed of ECI based on management's preliminary estimates of fair value. The final purchase price allocation may differ significantly based on final appraisals, third-party valuations and analyses of the assets acquired and liabilities assumed. Accordingly, the preliminary allocation described below is subject to change.

The total estimated consideration transferred was determined as follows (in thousands):

Cash consideration:		
Repayment of ECI's long-term debt, net of current	$	159,099
Repayment of ECI's accrued interest on debt		2,861
Payment of ECI's outstanding Contingent Value Rights related to their outstanding debt		13,000
Cash paid to selling shareholders, net of payments above		147,550
Less cash acquired		(23,970)
Net cash consideration		298,540
Payment obligation to selling shareholders from sale of ECI real estate assets		33,400
Fair value of Ribbon common stock to be issued ($3.34 on March 3, 2020)		108,550
Total estimated purchase consideration	$	440,490

The preliminary allocation of estimated purchase price to the fair value of assets acquired and liabilities assumed is as follows (in thousands):

Fair value of assets acquired and liabilities assumed:		
Accounts receivable	$	91,719
Inventory		55,706
Other current assets		15,937
Property and equipment		65,995
Goodwill		72,748
Intangible assets:		
In-process research and development		23,000
Developed technology		110,400
Customer relationships		172,000
Trade names		3,000
Deferred tax assets		3,715
Operating lease right-of-use assets		24,928
Other assets		22,365
Total assets		661,513
Short-term loan		(2,310)
Current liabilities		(159,644)
Operating lease liabilities, net of current		(18,053)
Deferred tax liability		(13,980)
Other liabilities		(27,036)
Total liabilities		(221,023)
	$	440,490

A summary of the pro forma purchase accounting adjustments recorded to the historical ECI balance sheet at December 31, 2019 and the resulting pro forma opening ECI balance sheet at December 31, 2019 are as follows (in thousands):

	Historical balance sheet December 31, 2019	Reclassifications to conform to Ribbon's presentation	Note 3	Purchase accounting adjustments to fair value/ purchase consideration	Note 3	Pro forma purchase price allocation December 31, 2019
Assets						
Current assets						
Cash and equivalents	$ 19,040	$ -		$ (19,040)	(a)	$ -
Restricted cash	4,930	-		(4,930)	(a)	-
Accounts receivable, net	91,719	-		-		91,719
Other receivables	15,937	(15,937)	(g)	-		-
Inventory	55,706	-		-		55,706
Other current assets	-	15,937	(g)	-		15,937
Total current assets	187,332	-		(23,970)		163,362
Property and equipment, net	45,795	-		20,200	(c)	65,995
Intangible assets, net	-	-		308,400	(c)	308,400
Goodwill	105,000	-		(32,252)	(a)(c)(e)(f)	72,748
Software development costs	49,047	-		(49,047)	(c)	-
Deferred income taxes	3,715	-		-		3,715
Operating lease right-of-use assets	24,928	-		-		24,928
Long-term trade and other receivables	3,350	(3,350)	(h)	-		-
Assets held for employees' severance benefits	13,263	(13,263)	(i)	-		-
Other assets	-	16,613	(h)(i)	5,752	(f)	22,365
Total assets	$ 432,430	$ -		$ 229,083		$ 661,513
Liabilities, convertible preferred stock and stockholders' equity						
Current liabilities						
Short-term loan	$ 2,310	$ -		$ -		$ 2,310
Accounts payable	66,849	-		-		66,849
Accrued expenses and other	76,699	(785)	(k)	7,239	(a)	83,153
Operating lease liabilities	8,857	-		-		8,857
Deferred revenue	-	785	(k)	-		785
Total current liabilities	154,715	-		7,239		161,954
Long-term debt, net of current	159,099	-		(159,099)	(a)	-
Operating lease liabilities, net of current	18,053	-		-		18,053
Deferred income taxes	885	-		13,095	(e)	13,980
Liability for employee benefits	22,174	(22,174)	(j)	-		-
Other long-term liabilities	13,723	22,174	(j)(k)	(8,861)	(a)(e)	27,036
	368,649	-		(147,626)		221,023
Commitments and contingencies						
Stockholders' equity (deficit)						
Ordinary shares	122	-		(122)	(c)	-
Capital surplus	1,296,577	-		(1,296,577)	(c)	-
Preferred A shares	87,310	-		(87,310)	(c)	-
Capital reserves	87,998	-		(87,998)	(c)	-
Accumulated deficit	(1,501,962)	-		1,501,962	(c)	-
Non-controlling interest	93,736	-		(93,736)	(c)	-
	63,781	-		(63,781)		-
	$ 432,430	$ -		$ (211,407)		$ 221,023
Net assets	$ 63,781	$ -		$ 376,709		
Total consideration, net of cash acquired				$ 440,490		$ 440,490

Ribbon issued 32.5 million shares of Ribbon common stock to the ECI shareholders on March 3, 2020. The estimated fair value of Ribbon common stock on a pro forma basis as of December 31, 2019 as part of the purchase consideration is computed as follows (in thousands, except per share amount):

Total shares of Ribbon common stock to be issued to ECI shareholders	32,500,000
Price per share of Ribbon common stock on March 3, 2019	$ 3.34
Fair value of Ribbon common stock to be issued to ECI shareholders	$ 108,550,000

A 10% increase in the stock price would result in total stock-based purchase consideration of $119.4 million, an increase of $10.9 million. A 10% decrease in the stock price would result in total stock-based purchase consideration of $97.7 million, a decrease of $10.9 million. Any such increase or decrease in the fair value of the stock-based purchase consideration would result in a corresponding increase or decrease to the goodwill recorded in connection with the transaction.

3. Pro Forma Adjustments

The unaudited pro forma condensed combined financial statements include pro forma adjustments giving effect to the Merger. The pro forma adjustments reflecting the completion of the Merger are based upon the assumptions set forth below. A reconciliation of the pro forma adjustments affecting each line item in the unaudited pro forma condensed combined balance sheet as of December 31, 2019 and the unaudited pro forma condensed combined statement of operations for the year ended December 31, 2019 where there are multiple adjustments to that item and a description of each adjustment are below.

Reconciliations of the pro forma balance sheet line items with multiple adjustments at December 31, 2019 are as follows (in thousands):

Cash and equivalents		
Purchase price cash consideration, including payoff of all ECI's outstanding debt [see Note 3 Item (a)]	$	(322,510)
Ribbon's borrowings in connection with the Merger [see Note 3 Item (b)]		400,000
Payment of debt issuance costs on new borrowings in connection with the Merger [see Note 3 Item (b)]		(8,000)
Payoff of Ribbon's previous credit facility with proceeds from New Term Loan entered in connection with the Merger [see Note 3 Item (b)]		(56,791)
Payment of Ribbon's transaction costs in connection with the Merger [see Note 3 Item (d)]		(21,933)
	$	(9,234)
Other current assets		
Record capitalized debt issuance costsallocable to the revolving credit facility portion of Ribbon's new borrowings [see Note 3 Item (b)]	$	320
Reclassify ECI's other receivables to other current assets to conform to Ribbon's balance sheet presentation [see Note 3 Item (g)]		15,937
	$	16,257
Goodwill		
Record common stock issued as purchase price consideration; offset to goodwill [see Note 3 Item (a)]	$	108,550
Record cash paid as purchase price consideration; offset to goodwill [see Note 3 Item (a)]		322,510
Record payoff of ECI's outstanding debt using cash purchase price consideration; offset to goodwill [see Note 3 Item (a)]		(174,960)
Record obligation to selling shareholders from sale of ECI real estate assets; offset to goodwill [see Note 3 Item (a)]		33,400
Record remeasurement of ECI's real estate assets; offset to goodwill [see Note 3 Item (c)]		(20,200)
Record liability for taxes in connection with sale of ECI real estate assets; offset to goodwill [see Note 3 Item (c)]		10,100
Eliminate ECI's software development costs; offset to goodwill [see Note 3 Item (c)]		49,047
Record identifiable intangible assets arising from the acquisition; offset goodwill [see Note 3 Item (c)]		(308,400)
Eliminate ECI's historical stockholders' equity; offset to goodwill [see Note 3 Item (c)]		(63,781)
Adjustment to Ribbon's deterred tax liabilities primarily related to taxes on undistributed earnings; offset to goodwill [see Note 3 Item (e)]		17,234
Record tax indemnification of Ribbon by ECI in accordance with the Merger Agreement; offset to goodwill [see Note 3 Item (f)]		(5,752)
	$	(32,252)
Other assets		
Write off Ribbon's capitalized debt issuance costs in connection with retirement of Ribbon's previous credit facility [see Note 3 Item (b)]	$	(1,399)
Record capitalized debt issuance costs allocable to the revolving credit facility portion of Ribbon's new borrowings [see Note 3 Item (b)]		1,280
Record tax indemnification of Ribbon by ECI in accordance with the Merger Agreement; offset to goodwill [see Note 3 Item (f)]		5,752
Reclassify ECI's long-term trade and other receivables to other assets to conform to Ribbon's balance sheet presentation [see Note 3 Item (h)]		3,350
Reclassify ECI's assets held for employee severance benefits to other assets to conform to Ribbon's balance sheet presentation [see Note 3 Item (i)]		13,263
	$	22,246
Current portion of long-term debt		
Payment of Ribbon's previous outstanding debt from proceeds of New Term Loan [see Note 3 Item (b)]	$	(2,500)
Record current portion of New Term Loan [see Note 3 Item (b)]		10,000
Record capitalized debt issuance costs allocable to the New Term Loan [see Note 3 Item (b)]		(1,280)
	$	6,220
Accrued expenses and other		
Payment of ECI's accrued interest on outstanding long-term debt [see Note 3 Item (a)]	$	(2,861)
Payment of Ribbon's accrued interest on previous credit facility from proceeds of New Term Loan [see Note 3 Item (b)]		(26)
Record payment obligation to selling shareholders for the proceeds from the sale of ECI real estate assets [see Note 3 Item (c)]		33,400
Record liability for taxes in connection with sale of ECI real estate assets [see Note 3 Item (c)]		10,100
Reclassify ECI's historical deferred revenue from accrued expenses and other to deferred revenue to conform to Ribbon's balance sheet presentation [see Note 3 Item (k)]		(785)
	$	39,828

Long-term debt, net of current	
Payment of ECI's outstanding long-term debt [see Note 3 Item (a)]	$ (159,099)
Record long-term portion of New Term Loan [see Note 3 Item (b)]	390,000
Payment of Ribbon's outstanding long-term debt from proceeds of New Term Loan [see Note 3 Item (b)]	(46,265)
Write off Ribbon's capitalized debt issuance costs in connection with retirement of Ribbon's previous credit facility [see Note 3 Item (b)]	255
Record capitalized debt issuance costs allocable to the lonog-term debt portion of Ribbon's new borrowings [see Note 3 Item (b)]	(5,120)
	$ 179,771
Other long-term liabilities	
Payment of ECI's outstanding Contingent Value Rights related to their outstanding debt [see Note 3 Item (a)]	$ (13,000)
Adjustment to Ribbon's deterred tax liabilities primarily related to taxes on undistributed earnings; offset to goodwill [see Note 3 Item (e)]	4,139
Reclassify ECI's historical liability for employee benefits to other long-term liabilities to conform to Ribbon's balance sheet presentation [see Note 3 Item (j)]	22,174
	$ 13,313
Accumulated deficit	
Write off Ribbon's capitalized debt issuance costs in connection with retirement of Ribbon's previous credit facility [see Note 3 Item (b)]	$ (1,654)
Eliminate ECI accumulated deficit; offset to goodwill [see Note 3 Item (c)]	1,501,962
Record payment of Ribbon transaction costs [see Note 3 Item (d)]	(21,933)
	$ 1,478,375

Reconciliations of the pro forma statement of operations line items with multiple adjustments for the year ended December 31, 2019 are as follows (in thousands):

Cost of product revenue		
Reversal of ECI's historical amortization of capitalized software costs [see Note 3 Item (m)]	$	(19,398)
Record amortization of identifiable intangible assets arising from the Merger [see Note 3 Item (n)]		13,138
	$	(6,260)
Interest income (expense), net		
Reclassify ECI's financial expenses, net, to interest income (expense), net, to conform to Ribbon's presentation [see Note 3 Item (r)]	$	(34,519)
Reversal of Ribbon's interest expense, including amortization of debt issuance costs, for previous credit facility replaced by New Facility [see Note 3 Item (o)]		4,450
Reversal of ECI's historical interest expense for debt retired repaid as part of purchase consideration [see Note 3 Item (p)]		29,334
Record interest expense related to the New Term Loan entered into by Ribbon in connection with the Merger [see Note 3 Item (q)]		(17,147)
	$	(17,882)
Other income (expense), net		
Reversal of ECI's historical other income (expense), net, related to adjustments to the fair value of the Contingent Value Rights in connection with ECI's historical outstanding debt [see Note 3 Item (p)]	$	2,000
Reclassify ECI's financial expenses, net, to other income (expense), net, to conform to Ribbon's presentation [see Note 3 Item (r)]		(1,305)
	$	695

The pro forma adjustments to the condensed combined financial statements are as follows:

(a) To record estimated purchase consideration, comprised of $322.5 million of cash, including $159.1 million to repay ECI’s long-term debt, $2.9 million of additional accrued interest recorded in accrued expenses and other, and $13.0 million for the outstanding Contingent Value Rights related to ECI’s debt; 32.5 million shares of Ribbon common stock valued at an estimated $108.6 million as of December 31, 2019; and a $33.4 million payment obligation to the selling shareholders for the proceeds from the sale of ECI real estate assets.

(b) To record the $400 million of proceeds from the New Term Loan portion of the New Facility, entered into in connection with the Merger; the repayment of Ribbon’s previously existing credit facility, comprised of $2.5 million, $8.0 million, $46.9 million and $26,000, representing Ribbon’s outstanding current portion of long-term debt, revolving credit facility, long-term debt, net of current, and accrued interest reported in accrued expenses and other, respectively; the write-off of Ribbon’s capitalized debt issuance costs incurred in connection with the previous credit facility, comprised of $1.4 million included in other assets and $0.3 million recorded in long-term debt, net of current; and payment and capitalization of debt issuance costs aggregating $8.0 million in connection with the New Facility, comprised of $1.6 million related to the revolving credit facility and $6.4 million related to the New Term Loan.

(c) To record the preliminary purchase price allocation. See Note 2, “Preliminary Consideration Transferred and Preliminary Fair Value of Net Assets Acquired.”

(d) To record a reduction of $21.9 million to cash, representing Ribbon’s estimated remaining transaction costs in connection with the Merger that would be paid as of the closing date of the Merger, as it is assumed that the expense for these costs would be accrued in Ribbon’s historical financial results prior to that date and paid on the closing date. This amount is offset with an equal adjustment to Accumulated deficit. These costs are considered to be non-recurring and as such, are not included in the unaudited pro forma condensed combined statements of operations.

(e) To record an adjustment to Ribbon’s deferred and FIN 48 liabilities. The Merger will result in the recognition of additional net deferred tax liabilities aggregating $13.1 million and taxes payable of $4.1 million on uncertain tax positions with corresponding offsets to goodwill. The net deferred tax liability relates to taxes on undistributed earnings. These adjustments are considered to be non-recurring, and as such, are not included in the unaudited pro forma condensed combined statements of operations.

(f) To record a receivable of $5.7 million related to the indemnification of 50% of the indemnified taxes under the Merger Agreement with a corresponding offset to goodwill.

(g) To reclassify ECI's historical other receivables to other current assets to conform to Ribbon's balance sheet presentation.

(h) To reclassify ECI's historical long-term trade and other receivables to other assets to conform to Ribbon's balance sheet presentation.

(i) To reclassify ECI's historical assets held for employee severance benefits to other assets to conform to Ribbon's balance sheet presentation.

(j) To reclassify ECI's historical liability for employee benefits to other long-term liabilities to conform to Ribbon's balance sheet presentation.

(k) To reclassify ECI's historical deferred revenue from accrued expenses and other to deferred revenue to conform to Ribbon's balance sheet presentation. ECI did not have long-term deferred revenue, net of current, at December 31, 2019.

(l) To reverse previously recognized depreciation of ECI's building of $0.2 million. The depreciation expense reversed relates to real estate assets that will be sold, with the proceeds remitted to ECI's shareholders as part of the purchase consideration.

(m) To reverse previously recognized amortization of ECI's capitalized software costs of $19.4 million and record research and development expense of $26.0 million. The amortization expense was reversed and the research and development expense recorded to conform to Ribbon's statement of operations presentation.

(n) To record the amortization expense for the preliminary estimate of identifiable intangible assets arising from the Merger. The expense recorded in the pro forma statements of operation is as follows (in thousands):

	Useful life (years)	Statement of operations classification		
In-process research and development	*	N/A *	$	-
Developed technology	5 - 10**	Cost of product revenue		13,138
Customer relationships	15	Sales and marketing		9,868
Trade names	2	Sales and marketing		1,697
Total amortization expense			$	24,703

* No pro forma amortization has been recorded in connection with the in-process research and development intangible assets because the related products are not generally available. Once the related products become generally available, these intangible assets will be amortized in relation to the expected cash flows from the individual intangible assets over their respective useful lives.

** Developed technology is comprised of two components: one has a preliminary valuation of $108.0 million with a useful life of 10 years, and the other component has a preliminary valuation of $2.4 million with a useful life of 5 years, for a weighted average useful life of 9.89 years.

Amortization expense is recognized based on the pattern over which we expect to receive the economic benefit from these assets. Future amortization expense for the preliminary estimate of these identifiable intangible assets excluding in-process research and development is as follows (in thousands):

	Cost of product revenue	Sales and marketing	Total
2020	$ 13,138	$ 11,565	$ 24,703
2021	12,928	12,010	24,938
2022	12,185	12,147	24,332
2023	11,950	13,453	25,403
2024	11,857	14,009	25,866
Thereafter	48,342	111,816	160,158
	$ 110,400	$ 175,000	$ 285,400

(o) To eliminate $4.5 million of interest expense, including the amortization of debt issuance costs associated with the repayment of the principal and accrued interest in connection with Ribbon's outstanding debt from the proceeds of Ribbon's new $400 million term loan facility.

(p) To eliminate interest expense, including the amortization of debt issuance costs, aggregating $29.3 million and $2.0 million of other expense related to adjustments to the fair value of the Contingent Value Rights associated with the repayment of the principal, accrued interest and Contingent Value Rights in connection with ECI's outstanding debt.

(q) To record interest expense and the amortization of debt issuance costs associated with the New Term Loan at an average interest rate of 4.14%.

(r) To reclassify ECI's historical financial expenses, net, to interest income (expense), net and other income (expense), net, as applicable, to conform to Ribbon's statement of operations presentation.

(s) Typically, pro forma adjustments are tax-effected at the statutory rate for the jurisdictions affected. However, since both companies have been in a loss position and have full valuation allowances in the relevant jurisdictions, the tax effect of the change in the loss before income taxes due to the pro forma adjustments would be offset by the change in the valuation allowance. Accordingly, there is no net tax expense impact to the pro forma adjustments.

(t) The pro forma combined basic and diluted net loss per share amounts have been adjusted to reflect the pro forma combined net loss. In addition, the numbers of shares used in calculating the pro forma combined basic and diluted net losses per share has been adjusted to reflect the 32.5 million shares of Ribbon common stock that will be issued as part of the purchase consideration in connection with the Merger. The following table sets forth the calculation of the pro forma outstanding shares at December 31, 2019 and the pro forma weighted average number of shares of Ribbon common stock outstanding – basic and diluted for the year ended December 31, 2019 (in thousands):

Shares of Ribbon common stock outstanding at December 31, 2019	110,472
Shares to be issued as purchase consideration	32,500
Pro forma shares of Ribbon common stock outstanding at December 31, 2019	142,972

Weighted average Ribbon shares outstanding	109,734
Shares to be issued as purchase consideration	32,500
Pro forma weighted average shares outstanding - basic	142,234
Potential dilutive common shares	-
Pro forma weighted average shares outstanding - diluted	142,234