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GILAT SATELLITE NETWORKS LTD

Form 6-K

October 14, 2003

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FORM 6 - K  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report on Foreign Issuer

Pursuant to Rule 13a-- 16 or 15d -16  
of the Securities Exchange Act of 1934

For the Month of October 2003

GILAT SATELLITE NETWORKS LTD.  
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(Translation of Registrant's Name into English)

Gilat House, Yegia Kapayim Street  
Daniv Park, Kiryat Arye, Petah Tikva, Israel  
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(Address of Principal Corporate Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A  
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Gilat Satellite Networks Ltd.

6-K Items.

1. Registrant's Offering Circular and Disclosure Statement dated October 14, 2003 for an offer to exchange ( the "Exchange Offer") 125 ordinary shares, par value NIS 0.20 per share, for each \$1,000 principal amount of our outstanding 4.00% convertible subordinated notes due 2012 and accrued interest thereon.
2. Press release dated October 14, 2003 announcing the commencement of the Exchange Offer.

OFFERING CIRCULAR AND DISCLOSURE STATEMENT  
GILAT SATELLITE NETWORKS LTD.

OFFER TO EXCHANGE OUR  
ORDINARY SHARES  
FOR ALL OF OUR OUTSTANDING  
4.00% CONVERTIBLE SUBORDINATED NOTES DUE 2012

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THE EXCHANGE OFFER WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON NOVEMBER 10, 2003, UNLESS EXTENDED BY US (THE "EXPIRATION DATE"). IF YOU HOLD NOTES IN BOOK-ENTRY FORM, YOU MUST TENDER THEM PRIOR TO 5:00 P.M., NEW YORK CITY TIME, ON THAT DAY.

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We are offering (the "Exchange Offer") to exchange 125 of our ordinary shares, par value NIS 0.20 per share (the "Shares"), for each \$1,000 principal amount of our outstanding 4.00% Convertible Subordinated Notes due 2012 (the "Notes"), and accrued interest thereon.

Subject to the terms and conditions of the Exchange Offer, we will issue Shares in exchange for all outstanding Notes that are properly tendered and not withdrawn prior to the expiration of the Exchange Offer. The Exchange Offer is open to all holders of Notes ("Noteholders"). However, we may limit the amount of Notes that we accept from any Noteholder to the extent that the Exchange Offer would cause that Noteholder to own 20% or more of our Shares. Subject to applicable securities laws and the terms set forth in this Offering Circular and Disclosure Statement, we reserve the right to waive any and all conditions to the Exchange Offer, to extend or terminate the Exchange Offer in our sole and absolute discretion, which may be for any or no reason, and otherwise to amend the Exchange Offer in any respect.

THE BOARD OF DIRECTORS OF GILAT SATELLITE NETWORKS LTD. RECOMMENDS THAT NOTEHOLDERS ACCEPT THE EXCHANGE OFFER.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC") NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS OFFERING CIRCULAR AND DISCLOSURE STATEMENT IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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The Exchange Agent for the Exchange Offer is:

THE BANK OF NEW YORK

SEE "RISK FACTORS" BEGINNING ON PAGE 8 FOR A DISCUSSION OF RISKS YOU SHOULD CONSIDER BEFORE TENDERING YOUR NOTES.

The date of this Offering Circular and Disclosure Statement is October 14, 2003.

THIS OFFERING CIRCULAR AND DISCLOSURE STATEMENT DOES NOT CONSTITUTE A

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SOLICITATION OF ACCEPTANCES IN ANY JURISDICTION IN WHICH, OR FROM ANY PERSON TO OR FROM WHOM, IT IS UNLAWFUL TO MAKE SUCH OFFER UNDER APPLICABLE FEDERAL SECURITIES OR STATE SECURITIES LAWS. THE DELIVERY OF THIS OFFERING CIRCULAR AND DISCLOSURE STATEMENT SHALL NOT UNDER ANY CIRCUMSTANCES CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF OR THAT THERE HAS BEEN NO CHANGE IN THE INFORMATION SET FORTH HEREIN OR ANY ATTACHMENTS HERETO OR IN THE AFFAIRS OF GILAT OR ANY OF ITS SUBSIDIARIES SINCE THE DATE HEREOF.

WE HAVE APPLIED TO THE ISRAELI SECURITIES AUTHORITY TO CONFIRM THAT, UNDER THE SECURITIES LAW, 5728-1968 OF ISRAEL (THE "LAW"), THE EXCHANGE OFFER DOES NOT CONSTITUTE AN OFFER TO THE PUBLIC, AS THOSE TERMS ARE DEFINED IN THE LAW. IF WE RECEIVE THIS CONFIRMATION, OR ANOTHER EXEMPTION IS AVAILABLE, WE PROMPTLY WILL PUBLISH IT BY A PRESS RELEASE OR OTHER FORM OF PUBLIC ANNOUNCEMENT. UNTIL THE TIME THAT WE MAKE SUCH A PUBLICATION, THIS OFFERING CIRCULAR AND DISCLOSURE STATEMENT SHALL NOT CONSTITUTE AN OFFER TO ISRAELI RESIDENTS, OTHER THAN FINANCIAL INSTITUTIONS OF THE TYPE DESCRIBED IN SECTION 15A(b) (1) OF THE LAW.

PRIOR TO TENDERING NOTES, NOTEHOLDERS ARE ENCOURAGED TO READ AND CONSIDER CAREFULLY THIS ENTIRE OFFERING CIRCULAR AND DISCLOSURE STATEMENT AND THE LETTER OF TRANSMITTAL (DEFINED HEREIN).

IN MAKING A DECISION IN CONNECTION WITH THE EXCHANGE OFFER, NOTEHOLDERS MUST RELY ON THEIR OWN EXAMINATION OF US AND THE TERMS OF THE EXCHANGE OFFER, INCLUDING THE MERITS AND RISKS INVOLVED. NOTEHOLDERS SHOULD NOT CONSTRUE THE CONTENTS OF THIS OFFERING CIRCULAR AND DISCLOSURE STATEMENT AS PROVIDING ANY LEGAL, BUSINESS, FINANCIAL OR TAX ADVICE. EACH NOTEHOLDER SHOULD CONSULT WITH ITS OWN LEGAL, BUSINESS, FINANCIAL AND TAX ADVISORS WITH RESPECT TO ANY SUCH MATTERS CONCERNING THIS OFFERING CIRCULAR AND DISCLOSURE STATEMENT, OR THE EXCHANGE OFFER CONTEMPLATED THEREBY.

WE ARE RELYING ON SECTION 3(a) (9) OF THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") TO EXEMPT THE EXCHANGE OFFER FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT WITH RESPECT TO THE EXCHANGE OF THE NOTES FOR THE SHARES. WE ARE ALSO RELYING ON SECTION 18(b) (4) (C) OF THE SECURITIES ACT TO EXEMPT THE EXCHANGE OFFER FROM STATE SECURITIES LAW REQUIREMENTS.

In this Offering Circular and Disclosure Statement, references to "we," "us," "our" and "Gilat" mean Gilat Satellite Networks Ltd., an Israeli corporation, together with its consolidated subsidiaries, unless the context indicates otherwise.

### FORWARD-LOOKING STATEMENTS

Some of the information included in this Offering Circular and Disclosure Statement and other materials filed or to be filed by us with the SEC (as well as information included in oral statements or other written statements made or to be made by us or our representatives) contains or may contain forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts and may include the words "may," "could," "should," "would," "believe," "expect," "anticipate," "estimate," "intend," "plan," "project," "continue," "predict," or other words or expressions of similar meaning. The forward-looking statements include statements that reflect our management's beliefs, plans, objectives, goals, expectations, anticipations, and intentions with respect to our financial condition, results of operations, future performance, and business, including statements relating to our business strategy and our current and future development plans. We have based these forward-looking statements on our management's current expectations about future events or results. Actual events or results may differ materially.

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The potential risks and uncertainties that could cause our actual financial condition, results of operations, and future performance to differ materially from those expressed or implied in this Offering Circular and Disclosure Statement, include the matters discussed under "Risk Factors" and the following:

- o whether we are awarded contracts in competitive bidding processes;
- o the stability of the telecommunications market and a continued demand for our products;

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- o the success of our subsidiaries and joint ventures;
- o technological developments, particularly relating to satellite technology;
- o the timing and success of our business development efforts;
- o the level of competition we experience in our business and its effect on the pricing of our goods and services;
- o our future expenditures for capital projects and our available financial resources;
- o our ability to continue to control costs and maintain quality;
- o general economic, business and social conditions in Israel, in Latin America and in other countries in which we do business; and
- o other uncertainties, all of which are difficult to predict and many of which are beyond our control.

We urge you to review carefully this Offering Circular and Disclosure Statement, particularly the "Risk Factors" section, for a more complete discussion of the risks of an investment in the Shares.

From time to time, oral or written forward-looking statements are also included in our reports on Forms 20-F and 6-K, press releases, and other materials released to the public. Although we believe that at the time made, the expectations reflected in all of these forward-looking statements were, are and will be reasonable, any or all of the forward-looking statements in this Offering Circular and Disclosure Statement, our reports on Forms 20-F and 6-K and any other public statements that are made by us may prove to be incorrect. This may occur as a result of inaccurate assumptions or as a consequence of known or unknown risks and uncertainties. Many factors discussed in this Offering Circular and Disclosure Statement, certain of which are beyond our control, will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from forward-looking statements. In light of these and other uncertainties, you should not regard the inclusion of a forward-looking statement in this Offering Circular and Disclosure Statement or other public communications that we might make as a representation by us that our plans and objectives will be achieved, and you should not place undue reliance on such forward-looking statements.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. However, your attention is directed to any further disclosures made on related subjects in our subsequent reports filed with the SEC on Form 6-K.

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### WHERE YOU CAN FIND MORE INFORMATION

We are a foreign private issuer subject to the informational requirements of the Securities Exchange Act of 1934. Accordingly, we file annual reports on Form 20-F, and proxy statements and other information under cover of Form 6-K with the SEC. We also furnish to our stockholders annual reports, which include financial statements audited by our independent certified public accountants, and other reports which the law requires us to send to our stockholders. The public may read and copy any reports, proxy statements, or other information that we file at the SEC's public reference room at Judiciary Plaza, 450 Fifth Street N.W., Washington, D.C. 20549. The public may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available at the web site maintained by the SEC at "<http://www.sec.gov>." Our Shares are traded on the Nasdaq National Market under the symbol "GILTF."

We have appointed The Bank of New York as the Exchange Agent for the Exchange Offer (the "Exchange Agent"). All completed Letters of Transmittal and Agent's Messages should be directed to the Exchange Agent at one of the addresses on the back cover of this Offering Circular and Disclosure Statement. All questions regarding the procedures for tendering in the Exchange Offer and requests for assistance in tendering your Notes should also be directed to the Exchange Agent at one

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of the telephone numbers and addresses set forth on the back cover of this Offering Circular and Disclosure Statement. All other inquiries concerning the Exchange Offer should be directed to us at the address and telephone number set forth on the back cover of this Offering Circular and Disclosure Statement.

DELIVERY OF A LETTER OF TRANSMITTAL OR AGENT'S MESSAGE TO AN ADDRESS OTHER THAN THE ADDRESS LISTED ABOVE OR ON THE BACK COVER OF THIS OFFERING CIRCULAR AND DISCLOSURE STATEMENT OR TRANSMISSION OF INSTRUCTIONS BY FACSIMILE OTHER THAN AS SET FORTH ABOVE IS NOT VALID DELIVERY OF THE LETTER OF TRANSMITTAL OR AGENT'S MESSAGE.

REQUESTS FOR ADDITIONAL COPIES OF THIS OFFERING CIRCULAR AND DISCLOSURE STATEMENT, ANY OF THE DOCUMENTS INCORPORATED BY REFERENCE HEREIN, THE ENCLOSED LETTER OF TRANSMITTAL OR THE ENCLOSED NOTICE OF GUARANTEED DELIVERY MAY BE DIRECTED EITHER TO THE EXCHANGE AGENT OR TO US AT THE RESPECTIVE TELEPHONE NUMBERS AND ADDRESSES LISTED ON THE BACK COVER OF THIS OFFERING CIRCULAR AND DISCLOSURE STATEMENT.

### INCORPORATION OF DOCUMENTS BY REFERENCE

Certain information that we have filed with the SEC is "incorporated by reference" herein, which means that we are disclosing important information to you by referring you to the documents in which the information appears. The information incorporated by reference is an important part of this Offering Circular and Disclosure Statement, and information that we may file later with the SEC will automatically update and supersede the information in this Offering Circular and Disclosure Statement.

The following documents previously filed with the SEC are incorporated in

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this Offering Circular and Disclosure Statement by reference:

1. Our annual report on Form 20-F for the fiscal year ended December 31, 2002 (our "2002 Annual Report on Form 20-F");
2. Our proxy statement, filed under cover of our report on Form 6-K for the month of March 2003, relating to the 2002 annual general meeting of our shareholders;
3. Our earnings release for the six months ended June 30, 2003, filed under cover of Form 6-K on August 20, 2003;
4. Our foreign private issuer reports on Form 6-K filed on May 8, 2003, June 4, 2003, July 7, 2003, and August 28, 2003; and
5. Our tender offer statement on Schedule TO, relating to our contemplated offer to purchase shares of common stock of rStar Corporation, filed on September 18, 2003.

In addition to the foregoing, all reports and other documents filed by Gilat pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this Offering Circular and Disclosure Statement and prior to the Expiration Date shall be deemed to be incorporated herein by reference and to be a part hereof from the dates of filing of such reports and documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Offering Circular and Disclosure Statement to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or deemed to be incorporated by reference herein, modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular and Disclosure Statement.

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## SUMMARY OVERVIEW AND Q&A

The following are some of the questions that you may have as a Noteholder and answers to those questions.

### WHAT IS GILAT ASKING NOTEHOLDERS TO DO?

We are requesting Noteholders to exchange each \$1,000 principal amount of their outstanding Notes, and accrued interest thereon, for 125 Shares, as described in this Offering Circular and Disclosure Statement.

### WHO IS MAKING THE EXCHANGE OFFER?

The Exchange Offer is being made by us. We are a leading provider of products and services for satellite-based communications networks. We are a leading manufacturer of very small aperture terminals, referred to in the network communications industry as VSATs. We were incorporated in Israel in 1987 and are subject to the laws of the State of Israel. Our corporate headquarters, executive offices and research and development, engineering and manufacturing facilities are located at Gilat House, 21 Yegia Kapayim Street, Kiryat Arye, Petah Tikva 49130, Israel, and our telephone number is (972) 3-925-2000.

For further information concerning us, please see the section of this Offering Circular and Disclosure Statement captioned "Where You Can Find More Information."

### WHAT SECURITIES ARE SOUGHT IN THE EXCHANGE OFFER?

We are offering to acquire up to all of our currently outstanding 4.00% Convertible Subordinated Notes due 2012, in exchange for Shares. The Exchange Offer is subject to our right to extend, terminate or amend the Exchange Offer in our sole and absolute discretion. As of the date of this Offering Circular and Disclosure Statement, approximately \$88,754,000 million aggregate principal amount of Notes was outstanding. For more information regarding the terms of the Exchange Offer, please see the section of this Offering Circular and Disclosure Statement captioned "The Exchange Offer."

### WHAT SECURITIES ARE WE OFFERING TO ISSUE IN EXCHANGE FOR THE NOTES?

We are offering to issue 125 of our Shares, par value NIS 0.20 per share, in exchange for each \$1,000 principal amount of Notes, and accrued interest thereon, that are properly tendered and not withdrawn in the Exchange Offer. If 100% of the outstanding Notes are exchanged in the Exchange Offer, Gilat will issue 11,094,250 Shares. For information regarding the Shares we propose to issue to you, please see the section of this Offering Circular and Disclosure Statement captioned "Description of the Shares."

### WHY ARE WE MAKING THE EXCHANGE OFFER?

We are making the Exchange Offer to increase our shareholders' equity, reduce our debt and improve our balance sheet ratios. At June 30, 2003, we had a shareholders' deficiency of approximately \$3.6 million. We expect that our results of operations will tend to increase our shareholders' deficiency in the next few quarters. Depending on our revenues forecasts, we may need to write down certain assets, which would further increase our shareholders' deficiency. Some of our important customers may assert that this deficiency would constitute a breach of financial covenants in our contracts with them, and may seek to

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cancel those contracts and collect penalties under those contracts. We believe that in the short term the Exchange Offer is our most viable means to substantially increase our equity. See "Risk Factors -- Consequences of Failure to Exchange".

WHAT WILL NOTEHOLDERS WHO ELECT NOT TO TENDER THEIR NOTES BE ENTITLED TO UPON CONSUMMATION OF THE EXCHANGE OFFER?

Non-tendering Noteholders will be entitled to regularly scheduled payments of principal and interest on their Notes and to convert those Notes into shares pursuant to their terms, but they will not be entitled to receive any consideration in the form of the Shares being delivered to the Noteholders who participate in the Exchange Offer. If a large portion of the Notes are exchanged in the Exchange Offer, we expect that the trading market for the remaining Notes would become less liquid.

WHAT IS THE RECOMMENDATION OF THE BOARD?

Our board of directors recommends that Noteholders accept the Exchange Offer. In making this recommendation, the board primarily considered the need to increase our shareholders' equity, reduce our debt and improve our balance sheet ratios. For more information regarding our board's recommendation of the Exchange Offer, please see the section of this Offering Circular and Disclosure Statement captioned "The Exchange Offer -- Recommendation of the Board of Directors."

WHAT RISKS SHOULD I CONSIDER IN DECIDING WHETHER OR NOT TO TENDER MY NOTES?

In deciding whether to exchange your Notes for Shares, you should consider carefully the discussion of risks and uncertainties affecting our business described in the section of this Offering Circular and Disclosure Statement captioned "Risk Factors."

WILL I GIVE UP ANY LEGAL RIGHTS BY TENDERING MY NOTES?

Yes. By tendering your Notes in the Exchange Offer, you may be deemed to have released and waived any and all claims you, your successors and your assigns have or may have had against us, our subsidiaries, our affiliates and shareholders, and our directors, officers, employees, attorneys, accountants, advisors, agents and representatives, in each case whether current or former, and those of our subsidiaries, affiliates and shareholders, arising from, related to, or in connection with, your acquisition or ownership of the Notes, whether those claims arise under federal or state securities laws or otherwise. For more information regarding the release of these legal claims, please see the section of this Offering Circular and Disclosure Statement captioned "The Exchange Offer -- Release of Legal Claims by Tendering Holders of Notes."

CAN I TRANSFER THE SHARES TO THIRD PARTIES?

The Exchange Offer is being extended to you in reliance on the exemption from registration provided by section 3(a)(9) of the Securities Act. As a result, the Shares we issue to you in exchange for the Notes will have the same character, with respect to transferability, as do the Notes you are exchanging. Accordingly, unless you are an "affiliate" of Gilat, you should be able to transfer the Shares without any registration under the Securities Act.



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WHAT WILL BE THE CONSEQUENCES TO ME OF THE EXCHANGE OFFER UNDER THE TAX LAWS OF THE UNITED STATES AND ISRAEL?

Certain consequences to you of the Exchange Offer under the federal income tax laws of the United States are described in this Summary Overview and Q&A under the caption "Material U.S. Federal Income Tax Consequences" and in the section of this Offering Circular and Disclosure Statement captioned "Material United States Federal Income Tax

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Consequences." Certain consequences to you of the Exchange Offer under the tax laws of Israel are described in the section of this Offering Circular and Disclosure Statement captioned "Certain Israeli Income Tax and Capital Gains Tax Consequences."

EXCHANGING HOLDERS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISOR REGARDING THE UNITED STATES FEDERAL, STATE, LOCAL AND ANY FOREIGN TAX CONSEQUENCES OF THE EXCHANGE.

WILL WE RECEIVE ANY CASH PROCEEDS FROM THE EXCHANGE OFFER?

No. We will not receive any cash proceeds from the Exchange Offer.

WHAT ARE THE CONDITIONS TO THE EXCHANGE OFFER?

The Exchange Offer is subject to customary conditions, which we may assert or waive. If any of these conditions is not satisfied, we will not be obligated to accept any properly tendered Notes for exchange. In addition, we may decide to terminate the Exchange Offer for any reason or no reason and not accept for exchange any tendered Notes. For more information regarding the conditions to the Exchange Offer, please see the section of this Offering Circular and Disclosure Statement captioned "The Exchange Offer -- Conditions to the Completion of the Exchange Offer."

HOW LONG DO I HAVE TO DECIDE WHETHER TO TENDER IN THE EXCHANGE OFFER?

If you hold Notes in certificated form, you will have until 12:00 midnight, New York City time, on November 10, 2003 to decide whether to tender your Notes in the Exchange Offer. However, if you hold Notes in book entry form, you will have only until 5:00 p.m., New York City time, on that day to tender them. If you cannot deliver the certificates for the Notes and other documents required to make a valid tender by that time, you may be able to use a guaranteed delivery procedure, which is described later in this Offering Circular and Disclosure Statement. For more information regarding the time period for tendering your Notes, please see the section of this Offering Circular and Disclosure Statement captioned "The Exchange Offer -- Procedures for Tendering Notes in the Exchange Offer."

CAN THE EXCHANGE OFFER BE EXTENDED OR AMENDED AND UNDER WHAT CIRCUMSTANCES?

Yes. We can elect to extend of the Exchange Offer in our sole and absolute discretion, and we expressly reserve the right to do so. During any extension of the Exchange Offer, all Notes previously tendered and not withdrawn will remain subject to the Exchange Offer and we may accept them for exchange. In addition, we expressly reserve the right to amend the Exchange Offer, and not accept any

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Notes, for any of the reasons described in the section of this Offering Circular and Disclosure Statement captioned "The Exchange Offer -- Conditions to the Completion of the Exchange Offer" or for any or no reason within our sole and absolute discretion. For more information regarding our right to extend and amend the Exchange Offer, please see the section of this Offering Circular and Disclosure Statement captioned "The Exchange Offer -- Expiration Date; Extensions; Amendments."

### HOW WILL I BE NOTIFIED IF THE EXCHANGE OFFER IS EXTENDED?

If we extend the Exchange Offer, we will issue a press release or another form of public announcement no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration of the Exchange Offer.

### HOW DO I TENDER MY NOTES?

To tender your Notes, you must deliver the certificates representing your Notes, together with a completed Letter of Transmittal and any other documents required by the Letter of

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Transmittal, to the Exchange Agent, not later than the time the Exchange Offer expires. If your Notes are held in street name -- that is, through a broker, dealer or other nominee -- the Notes can be tendered by your nominee through The Depository Trust Company ("DTC"). If you cannot provide the Exchange Agent with all required documents prior to the expiration of the Exchange Offer, you may obtain additional time to do so by submitting a Notice of Guaranteed Delivery to the Exchange Agent, which must be certified by a broker, bank or other fiduciary that is a member of the Securities Transfer Agent Medallion Program or another eligible institution guarantee. You must also guarantee that these items will be received by the Exchange Agent within three trading days. For your tender to be valid, however, the Exchange Agent must receive the missing items within that three trading-day period. For more information regarding the procedures for tendering your Notes, please see the section of this Offering Circular and Disclosure Statement captioned "The Exchange Offer -- Procedures for Tendering Notes in the Exchange Offer."

### UNTIL WHEN CAN I WITHDRAW PREVIOUSLY TENDERED NOTES?

You can withdraw previously tendered Notes at any time until the Exchange Offer has expired and, if we have not agreed to accept your Notes for exchange by the Expiration Date, you can withdraw them at any time after that date until we do accept your Notes for exchange.

### HOW DO I WITHDRAW PREVIOUSLY TENDERED NOTES?

To withdraw previously tendered Notes, you must deliver a written notice of withdrawal, or a facsimile of one, to the Exchange Agent, with all information required by the notice of withdrawal completed, while you still have the right to withdraw the Notes. For more information regarding the procedures for withdrawing tendered Notes, please see the section of this Offering Circular and Disclosure Statement captioned "The Exchange Offer -- Withdrawal of Tenders."

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WHEN WILL I RECEIVE THE SHARES BEING ISSUED IN EXCHANGE FOR MY NOTES?

Subject to the satisfaction or waiver of all conditions to the Exchange Offer, and assuming we have not previously elected to terminate the Exchange Offer for any reason or no reason, in our sole and absolute discretion, we will accept for exchange all Notes that are properly tendered and not withdrawn prior to the Expiration Date. We may limit the amount of Notes that we accept from any Noteholder to the extent that the Exchange Offer would cause that Noteholder to own 20% or more of our Shares. Promptly following this date, Shares will be delivered in exchange for all Notes that are properly tendered and not withdrawn. For more information regarding our obligation to issue Shares in exchange for tendered Notes, please see the section of this Offering Circular and Disclosure Statement captioned "The Exchange Offer -- Acceptance of Notes for Exchange; Delivery of Shares."

WHAT HAPPENS IF MY NOTES ARE NOT ACCEPTED FOR EXCHANGE?

If we decide for any reason not to accept any Notes for exchange, we will return the Notes to the registered holder thereof at our expense promptly after the expiration or termination of the Exchange Offer. In the case of Notes tendered by book-entry transfer into the Exchange Agent's account at DTC, as described above, DTC will credit any withdrawn or unaccepted Notes to the tendering holder's account at DTC. For more information regarding the withdrawal of tendered Notes, please see the sections of this Offering Circular and Disclosure Statement captioned "The Exchange Offer -- Procedures for Tendering Notes in the Exchange Offer" and "The Exchange Offer -- Withdrawal of Tenders."

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WHOM CAN I TALK TO IF I HAVE QUESTIONS ABOUT THE EXCHANGE OFFER?

If you have questions regarding the information in this Offering Circular and Disclosure Statement or the Exchange Offer generally, please contact our Legal Department at +972-3-925-2736.

You can also write to us at the following address:

Gilat Satellite Networks Ltd.  
21 Yegia Kapayim Street  
Kiryat Aryeh, Petach Tikva, 49130 Israel  
Attention: General Counsel

If you would like more general information about Gilat, please visit our website at <http://www.gilat.com>. The information on our web site is not a part of this Offering Circular and Disclosure Statement. In addition, please see the section of this Offering Circular and Disclosure Statement captioned "Where You Can Find More Information."

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### SUMMARY OF THE EXCHANGE OFFER

The following summary highlights selected information from this Offering

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Circular and Disclosure Statement and may not contain all the information that you will need to make a decision regarding whether or not to tender your Notes in the Exchange Offer and accept the Shares that we propose to give you. This Offering Circular and Disclosure Statement includes specific terms of the Exchange Offer, including descriptions of the Shares, as well as information regarding our business and some financial data. We encourage you to read this Offering Circular and Disclosure Statement and the documents to which we refer you carefully, including the discussion of risks and uncertainties affecting our business included in the section of this Offering Circular and Disclosure Statement captioned "Risk Factors."

In the Exchange Offer, we are offering to exchange 125 of our Shares for each \$1,000 principal amount of our outstanding Notes, and accrued interest thereon. For more information regarding the terms of the Exchange Offer, please see the section of this Offering Circular and Disclosure Statement captioned "The Exchange Offer."

SECURITIES OFFERED                      Up to 11,094,250 of our Shares, par value NIS 0.20 per share.

THE EXCHANGE OFFER                      We are offering 125 of our Shares for each \$1,000 principal amount of our outstanding Notes, and accrued interest thereon. You may tender your Notes for exchange by following the procedures described under the heading "The Exchange Offer."

EXPIRATION DATE;  
ACCEPTANCE OF TENDERS;  
DELIVERY OF SHARES                      The Exchange Offer will expire at 12:00 midnight, New York City time, on November 10, 2003, unless we extend it. If you hold Notes in book entry form and wish to tender them, you must do so before 5:00 p.m., New York City time, on that day. Subject to certain conditions described herein, we will accept Notes that are validly tendered on or prior to the Expiration Date. HOWEVER, WE MAY LIMIT THE AMOUNT OF NOTES THAT WE ACCEPT FROM ANY NOTEHOLDER TO THE EXTENT THAT THE EXCHANGE OFFER WOULD CAUSE THAT NOTEHOLDER TO OWN 20% OR MORE OF OUR SHARES. We will issue the Shares promptly following the Expiration Date upon our determination that the conditions to the Exchange Offer have been fulfilled. If we decide for any reason not to accept Notes you have tendered for exchange, those Notes will be returned to you without cost promptly after the expiration or termination of the Exchange Offer. In the case of Notes tendered by book entry transfer into the Exchange Agent's account at DTC, as described below, any unaccepted Notes will be credited to the tendering holder's account at DTC. See "The Exchange Offer -- Procedures for Tendering Notes in the Exchange Offer" for a more complete description of the tender procedures.

WITHDRAWAL RIGHTS AND  
REVOCATION                                      Noteholders may withdraw tenders at any time until the Expiration Date.

CONDITIONS TO THE  
EXCHANGE OFFER                                      The Exchange Offer is subject to customary conditions, which we may assert or waive. See the discussion below under the heading "The Exchange Offer -- Conditions to the Completion of the Exchange Offer."

SPECIAL PROCEDURES FOR BENEFICIAL OWNERS	If you are a beneficial owner whose Notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your Notes in the Exchange Offer, you should promptly contact the person in whose name the Notes are registered and instruct that person to tender on your behalf. If you wish to tender the Notes on your own behalf, prior to completing and executing the Letter of Transmittal and delivering your Notes, you must either make appropriate arrangements to register ownership of the Notes in your name or obtain a properly completed bond power from the person in whose name the Notes are registered.
CONSEQUENCES TO HOLDERS NOT TENDERING IN THE EXCHANGE OFFER	In the event that the Exchange Offer is completed you may be significantly disadvantaged if you have not exchanged your Notes for Shares. See the discussion under the headings "Risk Factors -- Consequences of Failure to Exchange" for more information regarding the consequences of not exchanging your Notes.
EXCHANGE AGENT	The Bank of New York is the Exchange Agent for the Exchange Offer. You can find the address and telephone number of the Exchange Agent set forth on the back cover of this Offering Circular and Disclosure Statement.
FEEES AND EXPENSES	We will bear all expenses related to the Exchange Offer. As a result, you are not required to pay any brokerage commissions or any other fees or expenses to the Exchange Agent.
TERMINATION	We reserve the right to terminate the Exchange Offer at any time and for any reason, or no reason, without accepting any Notes.
ADDITIONAL INFORMATION	You may obtain additional copies of the Offering Circular and Disclosure Statement by contacting the Legal Department of Gilat at the phone number and address set forth on the back cover of this Offering Circular and Disclosure Statement.
MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES	The exchange of Notes for Shares should be treated as a recapitalization for United States federal income tax purposes. Therefore, the holders of Notes validly tendered in exchange for Shares generally should not recognize gain or loss on the exchange. However, a Noteholder may recognize interest income to the extent Shares are deemed to be received in exchange for previously unpaid interest on the Notes. See "Material United States Federal Income Tax Consequences."
OTHER TAX CONSEQUENCES	THE TAX CONSEQUENCES TO YOU OF THE EXCHANGE OFFER WILL DEPEND ON YOUR INDIVIDUAL SITUATION. YOU SHOULD CONSULT YOUR TAX ADVISOR FOR A FULL UNDERSTANDING OF

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THESE TAX CONSEQUENCES.

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### RISK FACTORS

You should carefully consider the risks and uncertainties described below as well as the other information appearing elsewhere in this Offering Circular and Disclosure Statement before making a decision whether to participate in the Exchange Offer. The risks and uncertainties described below are intended to highlight risks and uncertainties that are specific to us but are not the only risks and uncertainties that we face. Additional risks and uncertainties, including those generally affecting the industry in which we operate, and risks and uncertainties that we currently deem immaterial may also impair our business and the value of your investment in the Shares.

The information in this Offering Circular and Disclosure Statement includes forward-looking statements, which involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of numerous factors, including those described in this section and elsewhere in this Offering Circular and Disclosure Statement. See "Forward-Looking Statements" on page iii.

#### CONSEQUENCES OF FAILURE TO EXCHANGE

IF AN INSUFFICIENT NUMBER OF HOLDERS TENDER THEIR NOTES, CERTAIN OF OUR CUSTOMERS MAY ASSERT THAT WE ARE IN BREACH OF FINANCIAL COVENANTS IN OUR CONTRACTS WITH THEM, AND WE MAY BE SUBJECT TO LARGE FINES AS A RESULT.

At June 30, 2003, we had a shareholders' deficiency of approximately \$3.6 million. We expect that our results of operations will tend to increase our shareholders' deficiency in the next few quarters. Depending on our revenues forecasts, we may need to write down certain assets, which would further increase our shareholders' deficiency. Some of our important customers may assert that this deficiency would constitute a breach of financial covenants in our contracts with them, and may seek to cancel those contracts and collect penalties under those contracts. The deficiency also may adversely affect our relationships with other customers, and may cause them to cancel orders and terminate contracts. In addition, as a result of our shareholders' deficiency, we may experience difficulties in attracting new customers and gaining the confidence of major potential customers seeking bids, which would have a significant adverse affect on our ability to generate business going forward.

To avoid these adverse results, we forecast that we must increase our shareholders' equity. We believe that in the short term the Exchange Offer is our most viable means to substantially increase our equity. If an insufficient number of holders tender their Notes in the Exchange Offer, we may not be able to increase our shareholders' equity sufficiently to avoid these adverse results.

WE ARE IN BREACH OF FINANCIAL COVENANTS WITH OUR PRINCIPAL BANK LENDER, WHICH HAS WAIVED THE BREACH UNTIL JANUARY 1, 2004. WE MAY BE UNABLE TO CURE THOSE BREACHES IF AN INSUFFICIENT NUMBER OF HOLDERS TENDER THEIR NOTES IN THE EXCHANGE OFFER.

Our loan agreements with one of our bank lender, Bank Hapoalim, includes a financial covenant that requires us to maintain at all times a ratio of shareholders' equity to total assets of no less than 15%. We are in breach of this financial covenant. When an event of default has occurred, our bank lenders

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have the right to declare the outstanding loans due and payable and proceed to foreclose on any security interest granted to them by us. By letter dated April 14, 2003, Bank Hapoalim has informed us that notwithstanding our breach of these obligations, it has agreed to waive its rights with regard to this breach until January 1, 2004. If the breach is not cured by January 1, 2004, Bank Hapoalim may declare the loan due and payable. We are seeking to cure this breach by obtaining an extension from Bank Hapoalim of its waiver and by means of the Exchange Offer.

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IF AN INSUFFICIENT NUMBER OF HOLDERS TENDER THEIR NOTES, WE MAY HAVE TO SEEK OTHER MEANS TO INCREASE OUR SHAREHOLDERS' EQUITY, WHICH COULD ADVERSELY AFFECT OUR BUSINESS.

If an insufficient number of holders tender their Notes, we may have to divert our resources to seeking another means to increase our shareholders' equity, which could disrupt our business and could divert the attention of our management from operation of its business and implementation of its business plan. The uncertainty surrounding a prolonged effort to improve our capital structure also could have other adverse effects on us. For example, it could adversely affect:

- o our ability to capitalize on business opportunities and react to competitive pressures;
- o our ability to attract and retain key employees;
- o our relationships with our key suppliers;
- o our ability to enter into long-term contracts with its customers;
- o how we are viewed by regulators, investors, lenders or credit rating agencies;
- o the amount of collateral required in the transaction of our business; and
- o our enterprise value.

If we are forced to undertake a protracted effort to improve our capital structure, there is a risk that the ability of the Noteholders to recover their investments would be substantially delayed and more impaired than under the proposed Exchange Offer.

THE LIQUIDITY OF ANY TRADING MARKET THAT CURRENTLY EXISTS FOR THE NOTES MAY BE ADVERSELY AFFECTED BY THE EXCHANGE OFFER AND HOLDERS OF NOTES WHO FAIL TO EXCHANGE THEIR NOTES IN THE EXCHANGE OFFER MAY FIND IT MORE DIFFICULT TO SELL THEIR NOTES.

There is currently a limited trading market for the Notes. To the extent that Notes are tendered and accepted for exchange in the Exchange Offer, the trading market for the remaining Notes will be even more limited or may cease altogether. A debt security with a smaller outstanding aggregate principal amount or "float" may command a lower price than would a comparable debt security with a larger float. Therefore, the market price for the unexchanged Notes may be adversely affected to the extent that the principal amount of Notes exchanged in the Exchange Offer reduces the float. The reduced float may also tend to make the trading prices of the Notes more volatile.

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### RISKS RELATED TO OUR BUSINESS

WE HAVE INCURRED MAJOR LOSSES IN RECENT YEARS AND MAY NEVER ACHIEVE PROFITABILITY.

We incurred net losses of approximately \$429.1 million in 2001, \$348.2 million in 2002 and \$67.1 million for the first six months of 2003 (excluding the gain from restructuring of debt). As of December 31, 2002 and June 30, 2003, we had an accumulated deficit of approximately \$782.6 million and approximately \$668.6 million, respectively. We cannot assure you that we can operate profitably in the future. If we do not achieve profitability, the viability of our company will be in question and our share price will likely decline further.

### POSSIBLE NEED FOR ADDITIONAL FUNDS

The Company is currently very thinly capitalized. As such, we may be required to raise additional funds to finance our business. Our cash and cash equivalents balances at December 31, 2002 and June 30, 2003 were approximately \$48.1 million and \$44.9 million,

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respectively (which amounts do not include restricted cash balances of \$22.9 million and \$41.3 million, respectively, at those dates). If we are unable to raise additional funds, our company may fail and our inability to obtain adequate capital would limit our ability to continue our operations. There can be no assurance that we will be able to raise necessary funds or that we will be able to do so on terms acceptable to us. Any such additional funding may result in significant dilution to existing shareholders.

### WE HAVE A NEW BOARD OF DIRECTORS AND NEW SENIOR MANAGEMENT.

The majority of the members of our board of directors, including our chairman of the board of directors, and of the senior executives of our company began their terms of office on April 15, 2003. As such, they are new to our company and have not served in the past as directors, officers or employees of our company. We cannot assure you that the time that will be required by these new appointees to successfully assume their responsibilities will not have an adverse effect on our business.

### OUR NEW SENIOR MANAGEMENT AND BOARD OF DIRECTORS MIGHT MAKE CHANGES TO OUR BUSINESS PLAN AND BUSINESS STRATEGY.

Our new senior management and board of directors are conducting a thorough review of our Company and our business. This review includes various factors that may affect our economic viability and profitability, such as our business model, our corporate structure, our cost structure, the inter-company relationships and organization of our subsidiaries, and other business considerations relevant to our business plan and business strategy. The results of this review may cause us to shift our focus within our field of business, or to altogether depart from historical activities and embark on new ones. There can be no assurance given that our management team will be able to successfully implement our business recovery plan or that our new business focus will succeed.

### IN THE PAST SIX MONTHS WE HAVE LOST KEY MANAGEMENT AND TECHNICAL PERSONNEL. THE



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LOSS OF THESE EMPLOYEES MAY HAVE AN ONGOING ADVERSE EFFECT ON THE BUSINESS OF THE COMPANY.

On April 15, 2003, two of our founders resigned from their positions as CEO and President of the Company. In August 2003, Mr. Joshua Levinberg, a co-founder who most recently served as our Senior Vice President of Business Development, resigned. During this same period, Nick Supron, Chief Executive Officer of our U.S. subsidiary, Spacenet Inc., also resigned. In September 2003, Mr. Erez Antebi, who most recently served as our Chief Operating Officer, also resigned. Other members of senior management have also left our company. The changes in management could materially adversely affect our business, financial condition and operating results.

We face competition for personnel, particularly for employees with technical expertise. Our business, financial condition and operating results could be materially adversely affected if we cannot hire and retain suitable personnel.

IF COMMERCIAL WIRELESS COMMUNICATIONS MARKETS FAIL TO GROW AS ANTICIPATED, OUR BUSINESS COULD BE MATERIALLY HARMED.

A number of the commercial markets for our products in the wireless communications area, including our broadband products, have only recently been developed. Because these markets are relatively new, it is difficult to predict the rate at which these markets will grow, if at all. If the markets for commercial wireless communications products fail to grow, or grow more slowly than anticipated, our business could be materially harmed. Conversely, to the extent that growth in these markets results in capacity limitations in the wireless communications area, it could materially harm our business and impair the value of our Shares.

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WE FACE RISKS FROM THE DOMESTIC AND GLOBAL SLOWDOWN.

The global economy is in the midst of a slowdown that has had significant effects on markets that we serve, particularly satellite communications equipment manufacturers and network operators. This downturn has had a negative effect on our revenues. We cannot predict the depth or duration of this downturn, and if it grows more severe or continues for a long period of time, our ability to increase or maintain our revenues and operating results may be impaired. In addition, because we intend to continue to make investments in research and development during this downturn, any decline in the rate of growth of our revenues will have a significant adverse impact on our operating results.

Further, because current domestic and global economic conditions and economies are extremely uncertain, it is difficult to estimate the growth in various parts of the economy, including the markets in which we participate. Because parts of our budgeting and forecasting are reliant on estimates of growth in the markets we serve, the current economic uncertainty renders estimates of future revenues and expenditures even more difficult than usual to formulate. The future direction of the overall domestic and global economies could have a significant impact on our overall financial performance and impair the value of our common stock.

OUR BUSINESS PLAN RELIES UPON CERTAIN ASSUMPTIONS THAT CANNOT BE GUARANTEED.

Our current business plan contains basic assumptions and risks that include, among others, a continued demand for our product in the telecommunications market and the supply and sale of products to our

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subsidiaries. Our business plan relies on the sale of products through Spacenet, our wholly-owned subsidiary in the United States, and other subsidiaries such as rStar Corporation, our majority owned subsidiary that provides services in Latin America. Some of our affiliated companies may need additional financing in the coming year and we cannot guarantee that, given current economic and market conditions, this financing will be raised.

OUR SUCCESS IN THE MARKET WILL DEPEND HEAVILY ON OUR ABILITY TO MAINTAIN AND EXPLAIN OUR FINANCIAL POSITION TO OUR CUSTOMERS AND OTHERS IN THE INDUSTRY.

In October 2002, we commenced an arrangement to restructure our debt, which was successfully completed on March 6, 2003. Prior to and while the arrangement was under negotiation, our ability to sell our products as well as our reputation in the market were adversely affected and as such, we lost some large customers. While we have successfully completed this restructuring process, our continued success and ability to maintain a presence in our industry will depend heavily on our ability to ensure and convince the marketplace, including our customers and suppliers, of our improved financial position. There is no guarantee that our customers, present and future, will be confident in our financial stability going forward.

Our shareholders' deficiency may adversely affect our relationships with customers, and may cause them to cancel orders and terminate contracts. In addition, as a result of our shareholders' deficiency, we may experience difficulties in attracting new customers and gaining the confidence of major potential customers seeking bids, which would have a significant adverse affect on our ability to generate business going forward.

TRENDS AND FACTORS AFFECTING THE TELECOMMUNICATIONS INDUSTRY ARE BEYOND OUR CONTROL AND MAY RESULT IN REDUCED DEMAND AND PRICING PRESSURE ON OUR PRODUCTS.

There are trends and factors affecting the telecommunications industry which are beyond our control and may affect our operations. These trends and factors include:

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- o adverse changes in the public and private equity and debt markets and our ability, as well as the ability of our customers and suppliers, to obtain financing or to fund working capital and capital expenditures;
- o adverse changes in the credit ratings of our customers and suppliers;
- o adverse changes in the market conditions in our industry and the specific markets for our products;
- o access to, and the actual size and timing of, capital expenditures by our customers;
- o inventory practices, including the timing of product and service deployment, of our customers;
- o the amount of network capacity and the network capacity utilization rates of our customers, and the amount of sharing and/or acquisition of new and/or existing network capacity by our customers;
- o the overall trend toward industry consolidation and rationalization among our customers, competitors, and suppliers;
- o conditions in the broader market for communications products, including

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data networking products and computerized information access equipment and services;

- o governmental regulation or intervention affecting communications or data networking;
- o monetary stability in the countries where we operate; and
- o the effects of war and acts of terrorism, such as disruptions in general global economic activity, changes in logistics and security arrangements, and reduced customer demand for our products and services.

Economic conditions affecting the telecommunications industry, which affect market conditions in the United States and globally, affect our business. Reduced capital spending and/or negative economic conditions in North America, Europe, Asia, Latin America and/or other areas of the world could result in reduced demand for, or pricing pressure on, our products.

BECAUSE WE DEPEND ON BEING AWARDED LARGE-SCALE CONTRACTS IN COMPETITIVE BIDDING PROCESSES, LOSING A RELATIVELY SMALL NUMBER OF BIDS COULD HAVE A SIGNIFICANT ADVERSE IMPACT ON OUR OPERATING RESULTS.

A significant portion of our sales revenue is derived from our being selected as the supplier of networks based on VSATs, under large-scale contracts that we are awarded from time to time in a competitive bidding process. These large-scale contracts typically involve the installation of between 2,000 and 10,000 VSATs. The number of major bids for these large-scale contracts for VSAT-based networks in any given year is limited and the competition is intense. Losing a relatively small number of bids each year could have a significant adverse impact on our operating results.

Specifically, in October 2002, we were selected by Brazil's communication ministry to provide satellite internet services in a contract worth approximately \$23 million. In addition, in November 2002, we were awarded two large projects by the Colombian Government, including the installation and operation of 500 telecenters to provide Internet connectivity and telephony services in cities and towns throughout Colombia and a second 3,000-site fixed rural satellite telephony network. The total value of the Colombian contracts is approximately \$65 million. If we do not meet certain minimum equity requirements, this

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customer may assert that we are in breach of our contracts with them. Any early unilateral termination by the Colombian Government or the Ministry in Brazil could have a significant adverse impact on our operating results.

MANY OF OUR LARGE-SCALE CONTRACTS ARE WITH GOVERNMENTS IN LATIN AMERICAN AND OTHER COUNTRIES; ANY INSTABILITY IN THE EXCHANGE RATES OR IN THE POLITICAL OR ECONOMIC SITUATION OR OTHERWISE, COULD HAVE A SIGNIFICANT ADVERSE IMPACT ON OUR BUSINESS.

In recent years, a significant portion of our revenues has been from large-scale contracts, including those in Peru, Colombia, China and Tibet and most recently, in Brazil. Agreements with the governments in these countries typically include unilateral early termination clauses and other risks such as the imposition of new government regulations and taxation that could pose additional financial burdens on us. In addition, the foreign exchange risks in these countries are often significant due to fluctuations in local currencies

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relative to the U.S. dollar. Any termination of business in any of the aforementioned countries could have a significant adverse impact on our business.

FAILURE TO MANAGE THE CHANGE OF OUR OPERATIONS COULD HARM OUR BUSINESS AND STRAIN OUR MANAGERIAL, OPERATION AND FINANCIAL RESOURCES.

In 2002 and again in June 2003, we changed our business model and strategy. Specifically, we consolidated certain areas of our business operations, including program management and customer care, back to our Israel headquarters. Our employees, outsourcing arrangements, systems, procedures and controls may be inadequate to support our future operations in this configuration. We may therefore experience difficulties meeting a high demand for services in the future or encounter problems in dealing with the demands of customers from Israel. In order to meet this demand, we will need to hire, train and retain the appropriate personnel, as well as the third-party service providers we depend on for customer service, to manage our operations. We will also need to adapt our financial and management controls, billing and information systems, reporting systems and operating systems. Our failure to manage growth and expansion effectively, or the failure by one of our service providers to adequately perform its services, could harm our ability to retain or grow our customer base that in turn would harm our business, financial condition and results of operations.

IF WE ARE UNABLE TO DEVELOP, INTRODUCE AND MARKET NEW PRODUCT APPLICATIONS AND SERVICES ON A COST EFFECTIVE AND TIMELY BASIS, OUR BUSINESS COULD BE ADVERSELY AFFECTED.

The network communications market, to which our services and products are targeted, is characterized by rapid technological changes, new product announcements and evolving industry standards. If we fail to stay abreast of significant technological changes, our existing products and technology could be rendered obsolete. Historically, we have enhanced the applications of our existing products to meet the technological changes and industry standards. For example, our initial product, the OneWay VSAT, which we introduced in 1989, was used primarily to facilitate one-way transmission of information. In 1992, we began marketing our TwoWay VSAT that enabled two-way communication. In 1999, we began marketing our SkyBlaster product that uses advanced technology to provide two-way high speed Internet access and video broadcasting via satellite. To remain competitive in the network communications market, we must continue to be able to anticipate changes in technology and industry standards and to develop and introduce new products and services, as well as enhancements to our existing products and services. If we are unable to respond to technological advances on a cost-effective and timely basis, or if our new products or applications are not accepted by the market, then our business, financial condition and operating results could be adversely affected.

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A DECREASE IN THE SELLING PRICES OF OUR PRODUCTS COULD MATERIALLY HARM OUR BUSINESS.

The average selling prices of wireless communications products historically decline over product life cycles. In particular, we expect the average selling prices of our products to decline as a result of competitive pricing pressures and customers who negotiate discounts based on large unit volumes. We also expect that competition in this industry will continue to increase. To offset these price decreases, we intend to rely primarily on obtaining yield improvements and corresponding cost reductions in the manufacturing process of existing products and on the introduction of new products with advanced features

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that can be sold at higher prices. However, we cannot assure you that we will be able to obtain any yield improvements or cost reductions or introduce any new products in the future. To the extent that we do not reduce costs or introduce new products in a timely manner, or our new products do not achieve market acceptance, it could materially harm our business and impair the value of our Shares.

IF WE ARE NOT ABLE TO FILL OUR BACKLOG OF ORDERS, OUR BUSINESS WILL BE ADVERSELY AFFECTED.

At present, we have a backlog of orders, consisting of network service contracts, generally for three to five years, and of new orders for products and services. As of June 30, 2003 our backlog for equipment sales and for services under service contracts for our VSAT products was \$238 million. If we are unable to satisfy the entire backlog of orders, we will not be able to fully recognize the revenues expected from this backlog and we could lose the contracts from which this backlog of orders arise, either of which could have a material adverse effect on our business. In addition, an inability to supply equipment and services could lead to our default on contracts and the subsequent exercise of performance guarantees by customers.

IF WE LOSE EXISTING CONTRACTS AND ORDERS FOR OUR PRODUCTS ARE NOT RENEWED, OUR ABILITY TO GENERATE REVENUES WILL BE HARMED.

Our existing contracts could be terminated due to any of the following reasons:

- o dissatisfaction of our customers with the services we provide or our inability to timely provide or install additional products or requested new applications;
- o customers' default on payments due;
- o our failure to comply with financial covenants in our customer contracts or in our loan agreements;
- o customer's lack of confidence in our financial condition; and
- o the loss of existing contracts or a decrease in the number of renewals of orders or of new large orders.

The termination or non-renewal of our contracts could have a material adverse effect on our business, financial condition and operating results.

WE ARE DEPENDENT UPON A LIMITED NUMBER OF SUPPLIERS FOR KEY COMPONENTS TO BUILD OUR VSATS, AND WE MAY BE SIGNIFICANTLY HARMED IF THESE SUPPLIERS FAIL TO MEET OUR PRODUCTION REQUIREMENTS ON A TIMELY BASIS.

Several of the components required to build our VSATs are manufactured by a limited number of suppliers. In the past, we have not experienced any difficulties with our suppliers. However, we cannot assure you of the continuous availability of key components or our ability to forecast our component requirements sufficiently in advance.

WE ARE DEPENDENT UPON A LIMITED NUMBER OF SUPPLIERS FOR KEY COMPONENTS TO BUILD

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OUR VSATS, AND MAY BE SIGNIFICANTLY HARMED IF WE ARE UNABLE TO OBTAIN THE HARDWARE NECESSARY FOR OUR VSATS ON FAVORABLE TERMS.

As indicated above, several of the components we require to build our VSATs are manufactured by a limited number of suppliers. Our research and development and operations groups are continuously working with our vendors and subcontractors to obtain components for our products on favorable terms in order to reduce the overall price of our products. If we are unable to obtain the necessary volumes of components at desired favorable terms or prices, we may be unable to produce our products at desired favorable terms or prices. As a result, sales of our products may be lower than expected, which could have a material adverse effect on our business, financial condition and operating results.

The terms on which we are able to obtain components for our products are also affected by our relationship with our suppliers. In connection with the general slowdown in the telecommunications market, we canceled orders for components, or postponed delivery dates for components. Three of our suppliers have initiated legal action against us as a result of our actions, and we may be subject to additional legal actions by other suppliers. Two of these actions have been settled. While we do not anticipate that the outcome of any of these legal actions will have a direct material effect on our business income, they will likely have an adverse impact on our reputation and future relationship with these suppliers, which could affect the terms on which we may be able to obtain the necessary components for our products.

WE OPERATE IN THE HIGHLY COMPETITIVE NETWORK COMMUNICATIONS INDUSTRY. WE MAY BE UNSUCCESSFUL IN COMPETING EFFECTIVELY AGAINST MANY OF OUR COMPETITORS WHO HAVE SUBSTANTIALLY GREATER FINANCIAL RESOURCES AND EXPERIENCE.

We operate in a highly competitive industry of network communications, both in the sales of our products and our services. As a result of the rapid technological changes that characterize our industry, we face intense worldwide competition to capitalize on new opportunities, to introduce new products and to obtain proprietary technologies that are perceived by the market as being superior to those of our competitors. Some of our competitors have substantially greater financial resources, providing them with greater research and development and marketing capabilities. These competitors are also more experienced in obtaining regulatory approvals for their products and services and in marketing them. Our relative position in the network communications industry may place us at a disadvantage in responding to our competitors' pricing strategies, technological advances and other initiatives. Our principal competitor in the supply of VSAT networks is Hughes Network Systems, Inc. Hughes Network Systems obtains the majority of its satellite capacity on the satellite system operated by PanAmSat. An additional competitor to our entire product line is ViaSat, Inc. There are other manufacturers of products that compete with one or more of our products such as STM Networks Inc., which competes with our DialAway VSAT, and our Faraway VSAT system.

In addition, there is currently a developing trend for product standardization of satellite communications, known as DVB-RCS (Digital Video Broadcasting, Return Channel Satellite). Alcatel Space, EMS, Nera Telecommunications Ltd., Newtech and others have introduced DVB-RCS compatible products which compete with our Skystar 360E line of products. While at present there are only a small number of such units installed throughout the world, it is possible that this trend could become a standard for the satellite communication industry, and pose a serious threat to the continued acceptance of our current and future DVB-RCS products in the market.

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Another trend for product standardization is known as DOCSIS (Data Over Cable Service Interface Specification) for satellite communications. If deployed, this standardization could pose a threat to the acceptance in the market of our current and future non-DOCSIS products.

If either of the above trends were to become a standard for our industry, we may need to adapt our products accordingly.

We also compete with various mobile satellite communications companies such as Asia Cellular Satellite and Thuraya Satellite Communications Company and companies that offer communication network systems based on other non-satellite technologies such as terrestrial lines (including cable, DSL, fixed wireless, ISDN lines, cellular GPRS and fiber optics), frame relay, radio and microwave transmissions. These technologies can often be cheaper than VSAT technology in some applications while still providing a sufficient variety of the features required by customers.

OUR ACTIONS TO PROTECT OUR PROPRIETARY VSAT TECHNOLOGY MAY BE INSUFFICIENT TO PREVENT OTHERS FROM DEVELOPING PRODUCTS SIMILAR TO OUR PRODUCTS.

Our business is based on our proprietary VSAT technology and related products and services. We establish and protect proprietary rights and technology used in our products by the use of patents, trade secrets, copyrights and trademarks. We also utilize non-disclosure and intellectual property assignment agreements. Because of the rapid technological changes and innovation that characterize the network communications industry, our success will depend in large part on our ability to protect and defend our intellectual property rights. Our actions to protect our proprietary rights in our VSAT technology and related products may be insufficient to prevent others from developing products similar to our products. In addition, the laws of many foreign countries do not protect our intellectual property rights to the same extent as the laws of the United States. If we are unable to protect our intellectual property, our ability to operate our business and generate revenues as expected may be harmed.

WE DEPEND ON A SINGLE FACILITY IN ISRAEL AND ARE SUSCEPTIBLE TO ANY EVENT THAT WOULD ADVERSELY AFFECT ITS CONDITION.

Most of our laboratory capacity, our principal offices and principal research and development facilities are concentrated in a single location in Israel. Fire, natural disaster or any other cause of material disruption in our operation in this location could have a material adverse effect on our business, financial condition and operating results. As discussed above, to remain competitive in the network communications industry, we must respond quickly to technological developments. Damage to our facility in Israel could cause serious delays in the development of new products and services and, therefore, could adversely affect our business. In addition, the particular risks relating to our location in Israel are described below.

OUR INTERNATIONAL SALES EXPOSE US TO CHANGES IN FOREIGN REGULATIONS AND TARIFFS, POLITICAL INSTABILITY AND OTHER RISKS INHERENT TO INTERNATIONAL BUSINESS, ANY OF WHICH COULD ADVERSELY AFFECT OUR OPERATIONS.

We sell and distribute our products and provide our services internationally, particularly in the United States, Asia, Africa, Europe and Latin America. A component of our strategy is to continue to expand into new international markets. Our operations can be limited or disrupted by various factors known to affect international trade. These factors include the following:

- o imposition of governmental controls, regulations and taxation which might include a government's decision to raise import tariffs or license fees in countries in which we do business;
- o government regulations that may prevent us from choosing our business partners or restrict our activities. For example, a particular Latin American country may decide that high-speed data networks used to provide access to the Internet should be made available generally to Internet service providers and may require us to provide our wholesale service to any Internet service providers that request it, including entities that compete with us. If we become subject to any additional obligations such as these, we would be forced to comply with potentially costly requirements and limitations on our business activities. This could result in a substantial reduction in our revenue;
- o political instability in countries in which we do or desire to do business. For example, economic instability in Indonesia has led to a decrease in the value of the Indonesian Rupiah. If such decrease continues, this could adversely affect the ability of the Indonesian market to finance VSAT projects. We also face similar risks from potential or current political and economic instability in countries such as Russia, Angola, Kenya and Argentina;
- o trade restrictions and changes in tariffs which could lead to an increase in costs associated with doing business in foreign countries;
- o difficulties in staffing and managing foreign operations that might mandate employing staff in the United States and Israel to manage foreign operations. This change could have an adverse effect on the profitability of certain projects;
- o longer payment cycles and difficulties in collecting accounts receivable;
- o foreign exchange risks due to fluctuations in local currencies relative to the U.S. dollar; and
- o relevant zoning ordinances that may restrict the installation of satellite antennas that might also reduce market demand for our service. Additionally, authorities may increase regulation regarding the potential radiation hazard posed by transmitting earth station satellite antennas' emissions of radio frequency energy that may negatively impact our business plan and revenues.

Any decline in commercial business in any country can have an adverse effect on our business as these trends often lead to a decline in technology purchases or upgrades by private companies. We expect that in difficult economic periods, countries in which we do business will find it more difficult to raise financing from investors for the further development of the telecommunications industry. Any such changes could adversely affect our business in these and other countries.

WE MAY FACE DIFFICULTIES IN OBTAINING REGULATORY APPROVALS FOR OUR TELECOMMUNICATION SERVICES, WHICH COULD ADVERSELY AFFECT OUR OPERATIONS.

Our telecommunication services require licenses and approvals by the



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Federal Communications Commission, or FCC, in the United States, and by regulatory bodies in other countries. In the United States, the operation of satellite earth station facilities and VSAT systems such as ours are prohibited except under licenses issued by the FCC. We must also obtain approval of the regulatory authority in each country in which we propose to provide network services or operate VSATs.

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The approval process can often take a substantial amount of time and require substantial resources. For instance, Spacenet Services License Sub, Inc., our indirect wholly owned subsidiary, obtained authorization from the FCC to provide two-way data communications services on a specific frequency band six months after Spacenet Services License Sub filed the required regulatory application. Moreover, the license for Spacenet Services License Sub required approximately four months of technical and legal preparation to complete the application.

In addition, any approvals that are granted may be subject to conditions that may restrict our activities or otherwise adversely affect our operations. Also, after obtaining the required approvals, the regulating agencies may, at any time, impose additional requirements on our operations. We cannot assure you that we will be able to comply with any new requirements or conditions imposed by such regulating agencies on a timely or economic basis.

OUR LENGTHY SALES CYCLES COULD HARM OUR RESULTS OF OPERATIONS IF FORECASTED SALES ARE DELAYED OR DO NOT OCCUR.

The length of time between the date of initial contact with a potential customer or sponsor and the execution of a contract with the potential customer or sponsor may be lengthy and vary significantly depending on the nature of the arrangement. During any given sales cycle, we may expend substantial funds and management resources and not obtain significant revenue, resulting in a negative impact on our operating results.

OUR OPERATING RESULTS MAY VARY SIGNIFICANTLY FROM QUARTER TO QUARTER AND THESE QUARTERLY VARIATIONS IN OPERATING RESULTS, AS WELL AS OTHER FACTORS, MAY CONTRIBUTE TO THE VOLATILITY OF THE MARKET PRICE OF OUR SHARES.

Our operating results may vary significantly from quarter to quarter. The causes of fluctuations include, among other things:

- o the timing, size and composition of orders from customers;
- o our timing of introducing new products and product enhancements and the level of their market acceptance;
- o the mix of products and services we offer; and
- o the changes in the competitive environment in which we operate.

The quarterly variation of our operating results, may, in turn, create volatility in the market price for our Shares. Other factors that may contribute to wide fluctuations in our market price, many of which are beyond our control, include:

- o announcements of technological innovations;
- o customer orders or new products or contracts;

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- o competitors' positions in the market;
- o changes in financial estimates by securities analysts;
- o conditions and trends in the VSAT and other technology industries;
- o our earnings releases and the earnings releases of our competitors; and
- o the general state of the securities markets (with particular emphasis on the technology and Israeli sectors thereof).

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

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WE MAY AT TIMES BE SUBJECT TO CLAIMS BY THIRD PARTIES ALLEGING THAT WE ARE INFRINGING THEIR INTELLECTUAL PROPERTY RIGHTS. WE MAY BE REQUIRED TO COMMENCE LITIGATION TO PROTECT OUR INTELLECTUAL PROPERTY RIGHTS. ANY INTELLECTUAL PROPERTY LITIGATION MAY CONTINUE FOR AN EXTENDED PERIOD AND MAY MATERIALLY ADVERSELY AFFECT OUR BUSINESS, FINANCIAL CONDITION AND OPERATING RESULTS.

There are numerous patents, both pending and issued, in the network communications industry. We may unknowingly infringe a patent. We may from time to time be notified of claims that we are infringing on the patents, copyrights or other intellectual property rights owned by third parties. While we do not believe we are currently infringing any intellectual property rights of third parties, we cannot assure you that we will not, in the future, be subject to such claims.

In addition, we may be required to commence litigation to protect our intellectual property rights and trade secrets, to determine the validity of and scope of the proprietary rights of others or to defend against third-party claims of invalidity. Any such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on our business, financial condition and operating results.

POTENTIAL PRODUCT LIABILITY CLAIMS RELATING TO OUR PRODUCTS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS.

We may be subject to product liability claims relating to the products we sell. Potential product liability claims could include those for exposure to electromagnetic radiation from the antennas we provide. Our agreements with our business customers generally contain provisions designed to limit our exposure to potential product liability claims. We also maintain a product liability insurance policy. However, our insurance may not cover all relevant claims or may not provide sufficient coverage. To date, we have not experienced any material product liability claims. Our business, financial condition and operating results could be materially adversely affected if costs resulting from future claims are not covered by our insurance or exceed our coverage.

WE ARE INVOLVED IN LITIGATION ALLEGING VIOLATIONS OF THE FEDERAL SECURITIES LAWS THAT MAY HAVE AN ADVERSE EFFECT ON OUR BUSINESS.

On May 13, 2003, a complaint was filed with the United States District Court for the Eastern District of New York against our company and certain of our officers and directors asserting claims under Section 10(b) of the Securities Exchange Act of 1934 (the "Complaint"). The Complaint was the result

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of the court-ordered consolidation of nine separate similar actions filed in March 2002 in the United States District Court for the Eastern District of Virginia and the United States District Court for the Eastern District of New York. In addition, a request was made to file a class action lawsuit in the Tel Aviv, Israel, District Court, but this action was stayed pending the outcome of the class action proceedings in the United States. The Complaint asserts the claims of purchasers of our securities between February 9, 2000 and May 29, 2002, inclusive, and alleges violations of the federal securities laws and claims that we issued material misrepresentations to the market. We believe that the allegations against us and certain of our current and former officers and directors are without merit and intend to contest them vigorously. However, these legal proceedings are in the preliminary stages and we cannot predict their outcome. The litigation process is inherently uncertain. If we are not successful in defending these legal proceedings, we could incur substantial monetary judgments or penalties in excess of available insurance coverage or damage to our reputation. Whether or not we are successful, the proceedings could result in substantial costs and may occupy a significant amount of time and attention of our senior management.

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### RISKS REGARDING THE SHARES AND OUR CAPITAL STRUCTURE

IF WE BECOME INSOLVENT, HOLDERS OF NOTES WOULD BE IN A BETTER POSITION THAN HOLDERS OF SHARES.

The Notes are secured obligations, junior to our bank creditors but senior to the Shares. If we become insolvent and are required to liquidate our assets and distribute them, our creditors, including the holders of the Notes, generally would be entitled to be paid in full before the holders of the Shares would receive anything. Our liabilities currently exceed our assets and if we were forced to liquidate at this time, holders of the Notes would be in a superior position to holders of the Shares, who would likely receive little or nothing. If we become insolvent and were to restructure our capital under a court order, it is likely that the holders of Notes would be in a superior position to receive some interest in the restructured company than would the holders of the Shares.

TWO OF OUR PRINCIPAL SHAREHOLDERS ARE ALSO MAJOR CREDITORS OF THE COMPANY.

Two of our principal shareholders, Bank Hapoalim and Israel Discount Bank Ltd., have extended loans or credit facilities to the Company and are also holders of Notes. Bank Hapoalim has extended loans and credit facilities in significant amounts and has a representative on our board of directors. Each of these principal shareholders has a right (as do any of our shareholders that meets the shareholding threshold mentioned below) to appoint one director to our board of directors at every annual general meeting of our shareholders, as long as its holdings of our Shares does not fall below the threshold set forth in our amended articles of association. The interests of these two principal shareholders as major creditors of our company may conflict at times with the interests of our other shareholders, whether in their capacity as shareholders or as holders of Notes.

ONE OF OUR PRINCIPAL SHAREHOLDERS IS A MAJOR SERVICE PROVIDER TO AND A CREDITOR OF OUR COMPANY.

One of our principal shareholders, SES Americom Inc., is a major provider

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of satellite transponder capacity to us. In addition, SES Americom is a creditor of one of our subsidiaries and we have guaranteed the payment of outstanding amounts when due to SES Americom and its affiliates. SES Americom also has a representative on our board of directors. The interests of SES Americom as a major service provider to and a creditor of our company may conflict at times with the interests of our other shareholders.

OUR SHARES MAY BE DELISTED FROM NASDAQ. IF THEY ARE DELISTED THE ABILITY TO SELL OUR SHARES MAY BE LIMITED AND THE VALUE OF THE SHARES COULD DECLINE SIGNIFICANTLY.

Our Shares are currently traded on the Nasdaq National Market. On September 3, 2002, we received a deficiency notice from the Nasdaq Listing Qualifications stating that our Shares may be delisted because for the previous 30 consecutive trading days our Shares had closed below the minimum \$1.00 per share requirement for continued listing under the Nasdaq National Marketplace Rules. Subsequent to that notice, we were parties to a hearing in front of a Nasdaq Qualifications Panel. In March 2003, following a hearing held in January 2003, the Qualifications Panel determined to continue our listing status. There can be no assurance that we will be able to continue to comply with the Nasdaq listing standards. If our Shares are delisted, the ability to sell our Shares may be limited and the value of the Shares could decline significantly.

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IF DELISTED, OUR SHARES MAY BE CHARACTERIZED AS PENNY STOCK, WHICH MAY SEVERELY HARM THEIR LIQUIDITY.

The SEC has adopted regulations that define a penny stock to be any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, these rules require delivery, prior to any transaction in a penny stock, of a disclosure schedule relating to the penny stock market. Disclosure is also required to be made about current quotations for the securities and about commissions payable to both the broker-dealer and the registered representative. Finally, broker-dealers must send monthly statements to purchasers of penny stocks disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Although we are not currently considered a penny stock, the foregoing penny stock restrictions will apply to our Shares if our Shares are deemed to be "penny stock." Our Shares may not qualify for an exemption from the penny stock restrictions. If our Shares were subject to the rules on penny stocks, the liquidity of our Shares would be severely harmed.

UNITED STATES PERSONS OWING SHARES FACE UNITED STATES FEDERAL INCOME TAX RISKS.

We could be a "passive foreign investment company" (or PFIC) for United States federal income tax purposes. If we were considered a PFIC, then United States persons owning Shares would be subject to materially adverse United States federal income tax consequences with respect to distributions received on, and dispositions of, such Shares. See "Material United States Federal Income Tax Consequences."

THE PROPOSED EXCHANGE OF OUR SHARES FOR OUR NOTES WILL RESULT IN A DILUTION TO THE HOLDINGS OF OUR CURRENT SHAREHOLDERS AND MAY RESULT IN A DECLINE IN THE PRICE OF OUR SHARES.

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In the Exchange Offer, the holders of our Notes may presently exchange them for our Shares. If a significant number of the Notes are exchanged for our Shares, the holdings of our existing shareholders will be diluted and the price per Share could decline as a result of the issuance of a significant number of Shares and their potential overhang over the market.

OUR STOCK PRICE HAS BEEN HIGHLY VOLATILE, HAS EXPERIENCED A SIGNIFICANT DECLINE, AND MAY CONTINUE TO BE VOLATILE AND DECLINE.

The trading price of our Shares has fluctuated widely in the past and is expected to continue to do so in the future as a result of a number of factors, many of which are outside our control. In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market prices of many technology companies, particularly telecommunication and Internet-related companies, and that have often been unrelated or disproportionate to the operating performance of these companies. These broad market fluctuations could adversely affect the market price of our Shares. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. Securities class action litigation could result in substantial costs and a diversion of our management's attention and resources.

WE HAVE NEVER PAID CASH DIVIDENDS AND HAVE NO INTENTION TO PAY DIVIDENDS IN THE FORESEEABLE FUTURE.

We have never paid cash dividends on our Shares and do not anticipate paying any cash dividends in the foreseeable future. We intend to continue retaining earnings for use in our business, in particular to fund our research and development, which are important to

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capitalize on technological changes and develop new products and applications. In addition, the terms of some of our financing arrangements restrict us from paying dividends to our shareholders.

### RISKS RELATED TO REGULATORY MATTERS

WE HAVE HISTORICALLY RELIED, AND IN THE FUTURE INTEND TO RELY, UPON TAX BENEFITS FROM THE STATE OF ISRAEL ON OUR TAXABLE INCOME. THE TERMINATION OR REDUCTION OF THESE TAX BENEFITS WOULD SIGNIFICANTLY INCREASE OUR COSTS AND COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL CONDITION.

Under the Israeli Law for Encouragement of Capital Investments, 1959, some of our Israeli facilities qualify as "Approved Enterprises." As a result, we have been eligible for tax benefits for the first several years in which we generated taxable income. Our historical operating results reflect substantial tax benefits, including tax exemptions and decreased tax rates up to December 31, 2000. In 2001 and 2002 we had substantial losses and therefore could not realize any tax benefits. The Israeli Government has shortened the period for which tax exemptions are applicable to Approved Enterprises from four to two years. This change only applies to our last five Approved Enterprises and to any future Approved Enterprises, if any. Our financial condition could suffer if the Israeli government terminated or reduced the current tax benefits available to us.

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In addition, in order to receive these tax benefits, we must comply with two material conditions. We must (1) invest specified amount in fixed assets in Israel, and (2) finance a portion of these investments with the proceeds of equity capital we raise. We believe we have complied with these conditions, but we have not received confirmation of our compliance from the government. If we have failed or fail in the future to comply in whole or in part with these conditions, we may be required to pay additional taxes and would likely be denied these tax benefits in the future, if and when we are profitable, which could harm our financial condition. We are currently negotiating the approval of our tenth enterprise with the Israeli Government. If we fail to receive such approval, we will be required to pay additional taxes, which may negatively affect our results of operations and financial condition.

WE BENEFIT FROM ISRAELI GOVERNMENT GRANTS. THE TERMINATION OR REDUCTION OF THESE GRANTS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR ABILITY TO DEVELOP NEW PRODUCTS AND APPLICATIONS.

Research and development grants from the Office of the Chief Scientist of the Israeli Ministry of Industry and Commerce during 2001, 2002 and the first six months of 2003 amounted to \$4,393,000, \$3,639,000 and \$1,912,000, respectively. These grants enable us to develop new products and applications. However, they also impose certain restrictions on us, as discussed below. Israeli authorities have indicated that the grant program may be reduced in the future. The termination or reduction of these grants to us could have a material adverse effect on our ability to develop new products and applications, which could harm our business.

THE TRANSFER AND USE OF SOME OF OUR TECHNOLOGY IS LIMITED BECAUSE OF THE RESEARCH AND DEVELOPMENT GRANTS WE RECEIVED FROM THE ISRAELI GOVERNMENT TO DEVELOP SUCH TECHNOLOGY. SUCH LIMITATIONS MAY RESTRICT OUR BUSINESS GROWTH AND PROFITABILITY.

Our research and development efforts associated with the development of our OneWay VSAT product and our DialAw@y IP product and our SkyBlaster product have been partially financed through grants from the Office of the Chief Scientist of the Israeli Ministry

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of Industry and Commerce. Under the terms of these Chief Scientist grants, we are required to repay these grants from the revenue we generate from the sale of the products we developed with the financing provided by the grants.

Moreover, we are subject to certain restrictions under the terms of the Chief Scientist grants. Specifically, the products developed with the funding provided by these grants may not be manufactured without appropriate governmental approvals, nor may the technology which is embodied in our products be transferred outside of Israel. These restrictions do not apply to the sale or export from Israel of our products developed with this technology. These restrictions will continue to apply after we pay the full amount of royalties payable to the Israeli government in respect of these grants. Further, if the Chief Scientist consents to the manufacture of our products outside Israel, we will be required to pay a higher royalty rate on the sale of these products and we will also be required to pay a higher overall amount, ranging from 120% to 300% of the amount of the Chief Scientist grant, depending on the percentage of foreign manufacture. These royalty payment obligations and restrictions could limit or prevent our growth and profitability.

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### RISKS RELATED TO DOING BUSINESS IN ISRAEL

CONDITIONS IN ISRAEL MAY LIMIT OUR ABILITY TO PRODUCE AND SELL OUR PRODUCTS. THIS COULD RESULT IN A MATERIAL ADVERSE EFFECT ON OUR OPERATIONS AND BUSINESS.

We are incorporated under the laws of the State of Israel, where we also maintain our headquarters and most of our manufacturing facilities. Political, economic and military conditions in Israel directly influence us. Since the establishment of the State of Israel in 1948, Israel and its Arab neighbors have engaged in a number of armed conflicts. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Major hostilities between Israel and its neighbors may hinder Israel's international trade and lead to economic downturn. This, in turn, could have a material adverse effect on our operations and business.

Since October 2000, there has been substantial deterioration in the relationship between Israel and the Palestinian Authority that has resulted in increased violence. The future effect of this deterioration and violence on the Israeli economy and our operations is unclear. Ongoing violence between Israel and the Palestinians as well as tension between Israel and the neighboring Syria and Lebanon may have a material adverse effect on our business, financial conditions or results of operations.

Generally, male adult citizens and permanent residents of Israel under the age of 51 are obligated to perform up to 36 days of military reserve duty annually. Additionally, these residents may be called to active duty at any time under emergency circumstances. The full impact on our workforce or business if some of our officers and employees are called upon to perform military service is difficult to predict.

YOU MAY NOT BE ABLE TO ENFORCE CIVIL LIABILITIES IN THE UNITED STATES AGAINST OUR OFFICERS AND DIRECTORS.

All of our directors and executive officers are non-residents of the United States. A significant portion of our assets and the personal assets of most of our directors and executive officers are located outside the United States. Therefore, it may be difficult to effect service of process upon any of these persons within the United States. In addition, a judgment obtained in the United States against us, and most of our directors and executive officers, including but not limited to judgments based on the civil liability provisions of the U.S. federal securities laws, may not be collectible in the United States.

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Generally, it may also be difficult to bring an original action in an Israeli court to enforce liabilities based upon the U.S. federal securities laws against us and most of our directors and executive officers. Subject to particular time limitations, executory judgments of a United States court for liquidated damages in civil matters may be enforced by an Israeli court, provided that:

- o the judgment was obtained after due process before a court of competent jurisdiction, that recognizes and enforces similar judgments of Israeli courts, and according to the rules of private international law currently prevailing in Israel;

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- o adequate service of process was effected and the defendant had a reasonable opportunity to be heard;
- o the judgment and its enforcement are not contrary to the law, public policy, security or sovereignty of the State of Israel;
- o the judgment was not obtained by fraud and does not conflict with any other valid judgment in the same matter between the same parties;
- o the judgment is no longer appealable; and
- o an action between the same parties in the same matter is not pending in any Israeli court at the time the lawsuit is instituted in the foreign court.

Furthermore, if a foreign judgment is enforced by an Israeli court, it will be payable in Israeli currency.

CURRENT TERRORIST ATTACKS MAY HAVE A MATERIAL ADVERSE EFFECT ON OUR OPERATING RESULTS.

Terrorist attacks, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, terrorist attacks in Israel and other acts of violence or war may affect the markets on which our Shares trade, the markets in which we operate, and our operations and profitability. We cannot assure you that there will not be further terrorist attacks against the United States or Israel, or against American or Israeli businesses. These attacks or subsequent armed conflicts resulting from or connected to them may directly impact our physical facilities or those of our suppliers or customers. Furthermore, these terrorist attacks may make travel and the transportation of our supplies and products more difficult and more expensive and ultimately affect the sales of our products in the United States and overseas. Also, the ongoing armed conflict in Iraq could have a further impact on our sales, our profitability, our supply chain, our production capability and our ability to deliver product and services to our customers.

OUR OPERATING RESULTS WOULD BE ADVERSELY AFFECTED IF INFLATION IN ISRAEL IS NOT OFFSET ON A TIMELY BASIS BY A DEVALUATION OF THE NEW ISRAELI SHEKEL (NIS) AGAINST THE U.S. DOLLAR.

Our international sales expose us to fluctuations in foreign currencies. Substantially all of our sales are denominated in U.S. dollars. Conversely, a portion of our expenses in Israel, mainly salaries, is incurred in NIS and is linked to the Israeli Consumer Price Index. When the Israeli inflation rate exceeds the rate of the NIS devaluation against the foreign currencies, our NIS expenses increase to the extent of the difference between the rates. A significant disparity of this kind may have a material adverse effect on our operating results.

UNDER CURRENT ISRAELI LAW, WE MAY NOT BE ABLE TO ENFORCE COVENANTS NOT TO COMPETE AND THEREFORE MAY BE UNABLE TO PREVENT OUR COMPETITORS FROM BENEFITING FROM THE EXPERTISE OF SOME OF OUR FORMER EMPLOYEES.

We currently have non-competition clauses in the employment agreements of nearly all of our employees. The provisions of such clauses prohibit our employees, if they cease

working for us, from directly competing with us or working for our competitors.



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Recently, Israeli courts have required employers, seeking to enforce non-compete undertakings against former employees, to demonstrate that the competitive activities of the former employee will cause harm to one of a limited number of material interests of the employer recognized by the courts (e.g. the confidentiality of certain commercial information or a company's intellectual property). In the event that any of our employees chooses to go and work for one of our competitors, we may be unable to prevent our competitors from benefiting from the expertise of our former employees obtained from us, if we cannot demonstrate to the court that harm would be caused to us.

UNCERTAINTIES CONCERNING THE NEW ISRAELI COMPANIES LAW COULD ADVERSELY AFFECT US.

The new Israeli Companies Law, which became effective on February 1, 2000, has resulted in significant changes to the Israeli corporate law. Under this new law, uncertainties may arise regarding corporate governance in some areas. For example, the law obligates a shareholder who controls a company to act with fairness towards the company. The Israeli Company Law does not specify the substance of this duty and there is no binding case law that addresses this subject directly. These and other uncertainties could exist until this law has been adequately interpreted, and these uncertainties could adversely affect our ability to engage in various types of corporate transactions and inhibit other corporate decisions.

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### GILAT SATELLITE NETWORKS LTD.

We are a leading provider of products and services for satellite-based communications networks. We are a leading manufacturer of very small aperture terminals, referred to in the network communications industry as VSATs. We were incorporated in Israel in 1987 and are subject to the laws of the State of Israel. Our corporate headquarters, executive offices and research and development, engineering and manufacturing facilities are located at Gilat House, 21 Yegia Kapayim Street, Kiryat Arye, Petah Tikva 49130, Israel, and our telephone number is (972) 3-925-2000.

For further information concerning our company, please see the section of this Offering Circular and Disclosure Statement captioned "Where You Can Find More Information."

### RECENT BUSINESS DEVELOPMENTS

On April 15, 2003, Oren Most was appointed to serve as our President and Chief Executive Officer. Mr. Most joined us from Cellcom (Israel), one of Israel's largest and most successful cellular phone companies, where he was one of that company's founders and served as Deputy CEO and Head of its Customers Division.

On September 18, 2003, we announced that we are contemplating a purchase of all outstanding shares of common stock of rStar Corporation not already owned by us at a price not yet determined but expected to be between \$0.60 and \$0.70 per share in cash. We currently own approximately 85% of the outstanding shares of rStar. It is currently anticipated that the purchase would be made through a tender offer, subject to customary conditions, in accordance with the rules of the SEC.

We also stated that, if we hold at least 90 percent of the outstanding

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rStar shares following completion of the offer, we may effect a "short-form" merger of rStar with one of our subsidiaries. If such a merger takes place promptly after the offer, the consideration given to stockholders in the merger would be the same as the consideration received by tendering stockholders in the offer.

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### CAPITALIZATION

The table below sets forth our actual capitalization as of June 30, 2003, and our capitalization as of June 30, 2003 as adjusted to give effect to the Exchange Offer and assuming that all outstanding Notes are exchanged for Shares.

This table has been included to provide additional information regarding the anticipated impact of the Exchange Offer. The information presented below should be read in conjunction with "Selected Consolidated Financial Information" and "Management's Discussion and Analysis of Results of Operation and Financial Condition" included elsewhere in this Offering Circular and Disclosure Statement and our consolidated financial statements and the related notes and "Management's Discussion and Analysis of Results of Operations and Financial Condition" included in our 2002 Annual Report on Form 20-F incorporated herein by reference.

#### PRO FORMA CAPITALIZATION UNDER EXCHANGE OFFER

	JUNE 30, 2003	
	----- ACTUAL	AS ADJUSTED (4) -----
	(UNAUDITED) (IN THOUSANDS)	
Current maturities of long-term loans .....	\$ 2,510	\$ 2,510
Long-term loans, net of current maturities .....	115,769	115,769
Convertible subordinated notes (1) .....	90,529	--
Accrued interest related to restructured debt (2) .....	50,154	15,686
Shareholders' equity:		
Share capital (3) .....	570	1,085
Additional paid-in capital .....	671,074	727,029
Accumulated other comprehensive loss .....	(6,607)	(6,607)
Accumulated deficit .....	(668,603)	(600,376)
Total shareholders' equity (deficiency) .....	(3,566)	121,131
Total capitalization .....	\$ 255,396 =====	\$ 255,096 =====

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(1) Includes accrued interest as of June 30, 2003 in the amount of \$1.775

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million.

- (2) Future accrued interest for restructured debts as follows: \$15.686 million and \$34.468 million for long-term loans and convertible subordinated notes respectively.
- (3) Consisting of Shares par value NIS 0.20 per share, 27,500,000 authorized and 12,987,860 issued and outstanding as of June 30, 2003 and 24,082,110, issued and outstanding as adjusted to give effect to the Exchange Offer.
- (4) The "As Adjusted" calculation assumes a price of \$5.09 per Share, the closing price per Share on June 30, 2003.

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### SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated balance sheet data set forth below as of December 31, 2002 is derived from our audited consolidated financial statements that are incorporated by reference to this Offering Circular and have been prepared by us in accordance with U.S. GAAP and include our accounts and those of our subsidiaries collectively. The selected consolidated statement of operations data set forth below with respect to the six month periods ended June 30, 2002 and 2003 and the consolidated balance sheet data as of June 30, 2003 are derived from our unaudited condensed consolidated financial statements which, in the opinion of our management, have been prepared in accordance with U.S. GAAP and reflect all adjustments consisting only of normal recurring adjustments.

The selected consolidated financial information set forth below should be read in conjunction with "Management's Discussion and Analysis of Results of Operations and Financial Condition" herein and with the consolidated financial statements as of and for the year ended December 31, 2002 as attached to our 2002 Annual Report on Form 20-F incorporated herein by reference and should be read with the assumption that we will continue to operate as a going concern. Please note that the interim results are not necessarily indicative of results that may be expected for any other period.

STATEMENT OF OPERATIONS DATA:	SIX MONTHS ENDED JUNE 30,	
	2002	2003
Revenues:	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Products .....	\$ 81,632	\$ 72,750
Services .....	42,027	30,455
	123,659	103,205
Cost of revenues:		
Products .....	50,484	55,501
Services .....	35,577	26,454
Write-off of inventories .....	--	3,185

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	86,061	85,140
Gross profit .....	37,598	18,065
Research and development costs, net .....	12,977	10,025
Selling and marketing, general and administrative expenses .....	39,956	37,014
Provision for doubtful accounts .....	12,610	1,659
Impairment of tangible and intangible assets .....	--	23,851
Restructuring charges .....	--	2,164
Operating loss .....	(27,945)	(56,648)
Financial expenses, net .....	(9,830)	(3,620)
Gain from restructuring of debt .....	--	181,093
Income (loss) before taxes on income .....	(37,775)	120,825
Taxes on income .....	367	7,952
Income (loss) after taxes on income .....	(38,142)	112,873
Equity in profits (losses) of affiliated companies .....	(10,809)	2,332
Minority interest in (profits) losses of a subsidiary .....	1,735	(1,191)
Net Income (loss) from continuing operations .....	(47,216)	114,014
Loss from discontinued operations .....	1,439	--
Net income (loss) .....	\$ (48,655)	\$ 114,014

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STATEMENT OF OPERATIONS DATA:	SIX MONTHS ENDED JUNE 30,	
	2002	2003
Earnings (loss) per share (in U.S. Dollars):		
Basic .....	\$ (40.37)	\$ 13.90
Fully diluted .....	\$ (40.37)	\$ 13.17
Weighted average number of shares used in computing loss per share (in thousands):		
Basic .....	1,169	8,204
Fully diluted .....	1,169	8,721

BALANCE SHEET DATA:	DECEMBER 31,	JUNE 30,
	2002	2003
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	(IN THOUSANDS)	

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Working capital .....	\$ 127,527	\$ 83,122
Total assets. ....	474,214	425,010
Short-term bank credit and current maturities of long-term debt .....	10,023	2,842
Convertible subordinated notes .....	358,648	90,529
Other long-term liabilities .....	172,745	207,914
Shareholders' deficiency .....	\$ (172,915)	\$ (3,566)

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

#### GENERAL

We commenced operations in 1987 and shipped our initial product, a first generation OneWay VSAT, in 1989. Since that time, we have devoted significant resources to developing and enhancing our VSATs and establishing strategic alliances primarily with major telecommunications companies and equipment suppliers. We have also broadened our marketing strategy to emphasize sales to customers directly and through new distribution channels.

We generate revenue from sales of our satellite-based networking applications and services to our customers worldwide. The charges to customers for satellite networking products and services vary with the number of sites, the length of the contract, the amount of satellite capacity and the types of technologies and protocols employed.

This discussion and analysis of our financial condition and results of operations is based upon our unaudited consolidated financial information included in this Offering Circular and Disclosure Statement, which assumes that we will continue as a going concern and which has been prepared in accordance with accounting principles generally accepted in the United States. The preparation of the financial information requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, account receivables, inventories, intangible assets, restructuring, revenues, and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The currency of the primary economic environment in which most of our operations are conducted is the U.S. dollar and, therefore, we use the U.S. dollar as our functional and reporting currency. Transactions and balances originally denominated in U.S. dollars are presented at their original amounts. Gains and losses arising from non-U.S. dollar transactions and balances are included in the determination of net income.

#### CRITICAL ACCOUNTING POLICIES

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our unaudited consolidated financial information included in this Offering Circular and Disclosure Statement.

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Revenue Recognition. We recognize revenues from product sales when shipment has occurred, persuasive evidence of an arrangement exists, the vendor's fee is fixed or determinable, no future obligations exist and collection is probable. We do not grant rights of return. Determination of the probability of collection is based on management's judgments regarding the payment of fees for services rendered and products delivered. Should changes in conditions cause management to determine that these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

We recognize revenues from long-term contracts on the percentage-of-completion method based upon the ratio of actual costs incurred to total costs estimated to be incurred over the duration of the contract. Provisions for estimated losses on uncompleted contracts

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are made in the period in which such losses are first determined, in the amount of the estimated loss on the entire contract. If we do not accurately estimate the resources required or the scope of work to be performed, or do not manage our projects properly within the planned periods of time or satisfy our obligations under contracts, then our future margins may be significantly and negatively affected or losses on existing contracts may need to be recognized. Any such resulting reductions in margins or contract losses could be material to our results of operations.

We generally have two ways of recognizing leasing revenue, depending on whether the customer takes ownership of the network equipment or not. In one type of network services sale, the customer leases the hardware, software, satellite capacity and maintenance services, and we record revenue for the hardware and the software in cases where such leases qualify as capital leases in accordance with the provision of SFAS 13 "Accounting for Leases" in an amount equal to the present values of payments due under these contracts. Future interest income is deferred and recognized over the related lease term. Our revenue in respect of satellite capacity, maintenance and other recurring network management services is recognized over the period of the related maintenance/service contract or over the period in which the services are provided.

Arrangements that include installation services are evaluated to determine whether those services are an integral component of the equipment used. When installation services are considered integral, revenues from products and installation services are recognized only upon installation. When services are not considered integral, revenues from products are recognized upon shipment and the service revenues are recognized when the services are performed.

In the other type of network services sale, we procure and install the equipment and software, obtain the satellite capacity and provide network operations and monitoring for the customer over the contract term. Under this type of network services sale, we retain ownership and operation of the network and receive a monthly service fee (and recognizes revenue) over the term of the contract in accordance with the provision for operating leases of SFAS 13. In this instance, we depreciate the cost of the equipment used in our network service offerings over the life of the asset.

We recognize service revenues ratably over the contractual period or as services are performed. Where arrangements involve multiple elements, revenue is allocated to each element based on the relative fair value of the element when sold separately.

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Cost of Revenues. Cost of revenues, for both products and services, includes the cost of system design, equipment, satellite capacity, and third party maintenance and installation. For equipment contracts, cost of revenues is expensed as revenues are recognized. For network service contracts, cost of revenues is expensed as revenues are recognized over the term of the contract. For maintenance contracts, cost of revenues is expensed as the maintenance cost is incurred or over the term of the contract.

Accounts Receivable. We are required to estimate our ability to collect our trade receivables. A considerable amount of judgment is required in assessing their ultimate realization. In the six month periods ended June 30, 2002 and 2003, we provided allowance for our receivables relating to customers that were specifically identified by our management as having difficulties paying their respective receivables. As a result, management increased its bad debt provision and wrote off an amount of approximately \$12.6 million in the six month period ended June 30, 2002, and \$1.7 million in the six month period ended June 30, 2003.

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Inventory. We are required to state our inventories at the lower of cost or market price. In assessing the ultimate realization of inventories, we are required to make judgments as to future demand requirements and compare that with the current or committed inventory levels. We have recorded significant changes in required reserves in recent periods due to changes in strategic direction, such as discontinuation of product lines and due to changes in market conditions such as altered demands for product specifications. For the six month period ended June 30, 2003 we wrote-off and wrote down inventory in the amount of approximately \$3.2 million. It is possible that changes in required inventory reserves may continue to occur in the future due to the current market conditions.

Impairment of Goodwill and Long Lived Assets. Our business acquisitions typically result in goodwill and other intangible assets. We periodically evaluate our intangible assets for potential impairment indicators. Our judgments regarding the existence of impairment indicators are based on legal factors, market conditions and operational performance of our acquired businesses.

During the six month period ended June 30, 2003, we recorded an impairment of goodwill relating to the closing of the rStar acquisition on August 2, 2002 in the amount of approximately \$5.0 million. In accordance with Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" (SFAS No. 142), effective January 1, 2002, indefinite life intangible assets and goodwill are subject to annual impairment testing.

During the six month period ended June 30, 2003, we recorded an impairment of intangible assets and long-lived assets in the amount of approximately \$18.9 million in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." According to SFAS No. 144, the carrying value of finite life intangible assets and long lived assets should be reviewed periodically, and if this review indicates that the carrying amount is not recoverable, we reduce the carrying amount to its estimated fair value.

Future events could cause us to conclude that impairment indicators exist and that additional intangible assets associated with our acquired businesses and our long-lived assets are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

RESTRUCTURING OF DEBT

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On March 6, 2003, an Israeli court approved an arrangement with our creditors that provides for the restructuring of our debts, which included the following changes to our current commitments and the creation of new commitments:

- o Convertible Notes

We exchanged our 4.25% Convertible Subordinated Notes due 2005 (the "Old Notes") which had a principal amount of \$350 million for (i) 505,210 Shares; and (ii) \$83.254 million in principal amount of the Notes.

- o Bank Hapoalim

Of the \$102 million we owed Bank Hapoalim, (i) \$25.5 million was converted into 924,430 Shares; (ii) \$5.1 million was converted into Notes of the same principal amount; and (iii) the remaining debt of \$71.4 million remains as a loan with revised terms. The revised terms of the loan include equal semiannual installments of principal of \$4.463 million beginning on July 2, 2005, with a fixed