

GILAT SATELLITE NETWORKS LTD  
Form 20-F  
April 12, 2011

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As filed with the Securities and Exchange Commission on April 12, 2011

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

or

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

or

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report .....

Commission file number: 0-21218

GILAT SATELLITE NETWORKS LTD.  
(Exact name of Registrant as specified in its charter)

ISRAEL  
(Jurisdiction of incorporation or organization)

Gilat House, 21 Yegia Kapayim Street, Kiryat Arye, Petah Tikva, 49130 Israel  
(Address of principal executive offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Name of each exchange on which registered
Ordinary Shares, NIS 0.20 nominal value	NASDAQ Global Select Market

Securities registered or to be registered pursuant of Section 12(g) of the Act: None

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock at the close of the period covered by the annual report:

40,697,831 Ordinary Shares, NIS 0.20 nominal value per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).\*

Yes  No

\*The registrant has not yet been phased into the interactive data requirements.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting  
Standards as issued by the  
International Accounting Standards  
Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

This report on Form 20-F is being incorporated by reference into our Registration Statement on Form F-3 (Registration No. 333-160683) and the Registration Statements on Form S-8 (Registration Nos. 333- 158476, 333-96630, 333-132649, 333-123410, 333-113932, 333-08826, 333-10092, 333-12466 and 333-12988).

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## INTRODUCTION

We are a leading global provider of Internet Protocol, or IP, based digital satellite communication and networking products and services. We design, produce and market VSATs, or very small aperture terminals, and related VSAT network equipment. VSATs are earth-based terminals that transmit and receive broadband, Internet, voice, data and video via satellite. VSAT networks have significant advantages over wireline and wireless networks, as VSATs can provide highly reliable, cost-effective, end-to-end communications regardless of the number of sites or their geographic locations.

We have a large installed customer base and have shipped more than 750,000 VSAT units to customers in over 85 countries on six continents since 1989. We have 22 offices worldwide and two call centers to support our customers. Our products are primarily sold to communication service providers and operators that use VSATs to serve enterprise, government and residential users or to system integrators that use our technology. We also provide services directly to end-users in various market segments in the United States and certain countries in Latin America.

We currently operate three complementary businesses:

- Gilat Worldwide, which is comprised of:
  - o Gilat International (previously known as Gilat Network Systems, or GNS), a provider of VSAT-based networks and associated professional services, including turnkey and management services, to telecom operators worldwide. Since our acquisition of Raysat Antenna Systems, or RAS, Gilat International is also a provider of low-profile antennas, used for satellite-on-the-move communications, or Satcom-On-The-Move, antenna solutions.
  - o Gilat Peru & Colombia (previously known as Spacenet Rural Communications, or SRC), a provider of telephony, Internet and data services primarily for rural communities in Peru and Colombia under projects that are subsidized by government entities;
- Spacenet Inc., a provider of satellite network services to enterprises, government, small office/home office, or SOHOs, and residential customers in the United States;
- Wavestream, a provider of high power solid state power amplifiers, or SSPA, Block Upconverters, or BUCs, with field-proven, high performance solutions designed for mobile and fixed satellite communication, or SATCOM, systems worldwide, primarily in the defense market.

In March 2010 and in April 2010 we entered into definitive agreements to acquire Raysat Antenna Systems LLC, or RAS, a provider of Satcom-On-The-Move low profile antenna solutions and RaySat Bulgaria, or RaySat BG, a Bulgarian research and development center. During July and August 2010, we closed the acquisitions of both companies. In addition, we acquired Wavestream on November 29, 2010.

Our ordinary shares are traded on the NASDAQ Global Select Market and on the Tel Aviv Stock Exchange under the symbol "GILT". As used in this annual report, the terms "we", "us", "Gilat" and "our" mean Gilat Satellite Networks Ltd. and its subsidiaries, unless otherwise indicated.

The name "Gilat@" and the names "Connexstar™," "SkyAbis™," "SkyEdge™," "Spacenet™," Wavestream® and "StarBand™" appearing in this annual report on Form 20-F are trademarks of our company and its subsidiaries. The name Raysat™ is a trademark used under license by our company. Other trademarks appearing in this annual report on Form 20-F are owned by their respective holders.



Except for the historical information contained in this annual report, the statements contained in this annual report are forward-looking statements within the meaning of the Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and within the Private Securities Litigation Reform Act of 1995 as amended with respect to our business, financial condition and results of operations. Actual results, our performance, levels of activity, or our achievements, or industry results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including all the risks discussed in Item 3: “Key Information–Risk Factors” and elsewhere in this annual report.

We urge you to consider that statements which use the terms “believe,” “do not believe,” “expect,” “plan,” “intend,” “estimate,” “anticipate” and similar expressions are intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and are subject to risks and uncertainties. Except as required by applicable law, including the securities laws of the United States, we do not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Our consolidated financial statements appearing in this annual report are prepared in U.S. dollars and in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. All references in this annual report to “dollars” or “\$” are to U.S. dollars and all references in this annual report to “NIS” are to New Israeli Shekels. The representative exchange rate between the NIS and the dollar as published by the Bank of Israel on April 11, 2011 was NIS 3.44 per \$1.00.

Statements made in this Annual Report concerning the contents of any contract, agreement or other document are summaries of such contracts, agreements or documents and are not complete descriptions of all of their terms. If we filed any of these documents as an exhibit to this Annual Report or to any registration statement or annual report that we previously filed, you may read the document itself for a complete description.

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PART I

ITEM 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not Applicable.

ITEM2: OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3: KEY INFORMATION

A. Selected Consolidated Financial Data

The selected consolidated statement of operations data set forth below for the years ended December 31, 2010, 2009 and 2008, and the selected consolidated balance sheet data as of December 31, 2010 and 2009 are derived from our audited consolidated financial statements that are included elsewhere in this Annual Report. These financial statements have been prepared in accordance with U.S. generally accepted accounting principles or U.S. GAAP. The selected consolidated statement of operations data set forth below for the years ended December 31, 2007 and 2006 and the selected consolidated balance sheet data as of December 31, 2008, 2007 and 2006 are derived from our audited consolidated financial statements that are not included in this Annual Report.

The selected consolidated financial data set forth below should be read in conjunction with and is qualified entirely by reference to Item 5: "Operating and Financial Review and Prospects" and the Consolidated Financial Statements and Notes thereto included in Item 18 in this Annual Report on Form 20-F.

Year ended December 31,

2010      2009      2008      2007      2006  
U.S. Dollars in thousands, except for share data

Statement of Operations Data:					
Revenues:					
Products	120,255	91,407	150,351	156,798	126,093
Services	112,730	136,652	117,175	125,821	122,617
Total	232,985	228,059	267,526	282,619	248,710
Cost of revenues:					
Products	61,975	56,672	80,424	82,822	66,363
Services	91,156	100,956	101,150	97,952	91,982
Total	153,131	157,628	181,574	180,774	158,345
Gross profit	79,854	70,431	85,952	101,845	90,365
Operating expenses:					
Research and development, net	18,945	13,970	16,942	15,030	13,642
Selling and marketing	33,396	29,138	35,783	38,374	36,475
General and administrative	29,844	27,987	29,819	31,052	26,800
Costs related to acquisition transactions	3,842	—	—	—	—
Impairment of long lived assets and other charges	—	—	5,020	12,218	—
Operating income (loss)	(6,173 )	(664 )	(1,612 )	5,171	13,448
Financial income (expenses), net	(557 )	1,050	1,300	5,998	(742 )
Expenses related to aborted merger transaction			(2,350 )		—
Other income (expenses)	37,360	2,396	2,983	(116 )	138
Income (loss) before taxes on income	30,630	2,782	321	11,053	12,844
Taxes on income	11	904	1,445	963	2,357
Net income (loss)	30,619	1,878	(1,124 )	10,090	10,487
Net earnings (loss) per share					
Basic	0.76	0.05	(0.03 )	0.26	0.41
Diluted	0.73	0.04	(0.03 )	0.24	0.38
Weighted average number of shares used in computing net earnings (loss) per share:					
Basic	40,467	40,159	39,901	39,141	25,799
Diluted	41,985	41,474	39,901	41,576	27,520

As of December 31,

	2010	2009	2008	2007	2006
	U.S. dollars in thousands				
<b>Balance Sheet Data:</b>					
Working capital	78,808	164,280	152,806	151,367	120,634
Total assets	455,378	357,228	410,639	430,102	440,214
Short-term bank credit and current maturities of long-term debt	4,315	5,220	10,846	11,177	7,737
Convertible subordinated notes	14,379	15,220	16,315	16,315	16,333
Long term loan	40,000				
Other long-term liabilities	49,034	37,297	45,414	61,130	74,253
Shareholders' equity	264,113	232,295	230,224	227,810	212,059

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

Investing in our ordinary shares involves a high degree of risk and uncertainty. You should carefully consider the risks and uncertainties described below before investing in our ordinary shares. If any of the following risks actually occurs, our business, prospects, financial condition and results of operations could be materially harmed. In that case, the value of our ordinary shares could decline substantially, and you could lose all or part of your investment.

**Risks Relating to Our Business**

We have incurred major losses in past years and may not sustain profitable operations in the future.

We reported a net income of approximately \$ 30.6 million in 2010, compared to net income of approximately \$ 1.9 million in 2009 and a net loss of approximately \$ 1.1 million in 2008. Our 2010 net income derived mainly from the sale of our investment which had previously been written off in a company that was accounted for at cost and from the settlement of litigation related to the termination of a 2008 merger agreement with a consortium of private equity investors. We incurred major losses in past years, an operating loss of \$6.2 million in the year ended December 31, 2010 and currently have an accumulated deficit of \$604 million. We cannot assure you that we can operate profitably in the future. If we do not continue to operate profitably, the viability of our company will be in question and our share price would decline.

Our available cash balance may decrease in the future if we cannot generate cash from operations.

Our total cash balance decreased from approximately \$163.2 million as of December 31, 2009 to \$64.5 million as of December 31, 2010. This decrease is mainly attributable to funds used in our merger and acquisition activities during 2010 of approximately \$154 million, net of cash received, offset by a \$40 million loan we received in December 2010. We had negative cash flow from operating activities in each of the two years ended December 31, 2009 and 2008,

and our positive cash flow from operating activities in 2010 was mainly derived from the proceeds of the sale of an investment and the settlement of a lawsuit. We cannot assure that we will be able to generate cash from operations in the future. If we do not generate cash from operations, our cash balance will decline and the unavailability of cash could have a material adverse effect on our business, operating results and financial condition.

If commercial satellite communications markets fail to grow, our business could be materially harmed.

A number of the commercial markets for our products and services in the satellite communications area, including our broadband products, have emerged in recent years. 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 satellite communications products fail to grow our business could be materially harmed. Conversely, growth in these markets could result in satellite capacity limitations which in turn could materially harm our business and impair the value of our shares. Specifically, we derive virtually all of our revenues from sales of VSAT communications networks and VSAT-related equipment and provision of services related to these networks and products. A significant decline in this market or the replacement of VSAT technology by an alternative technology could materially harm our business and impair the value of our shares.

Because we compete for large-scale contracts in competitive bidding processes, losing a small number of bids could have a significant adverse impact on our operating results.

A significant portion of our revenues is derived from acting as the supplier of networks based on VSATs, under large scale contracts that we are awarded from time to time in competitive bidding processes. These large-scale contracts sometimes involve the installation of thousands of 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 or defaulting on a relatively small number of bids each year could have a significant adverse impact on our operating results.

We operate in a highly competitive network communications industry. We may be unsuccessful in competing effectively against competitors who have substantially greater financial resources.

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 and standard technologies that are perceived by the market as being superior to those of our competitors. Some of our competitors have greater financial resources, providing them with greater research and development and marketing capabilities. Our competitors may also be 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 competitors in the supply of VSAT networks are Hughes Network Systems, LLC, or HNS, ViaSat Inc. or Viasat, and iDirect Technologies, or iDirect. Most of our competitors have developed or adopted different technology standards for their VSAT products.

In addition, the launch of the SpaceWAY3 satellite by HNS, which enables HNS to offer a vertically integrated solution to its customers, as well as the announcement concerning ViaSat's intention to launch its own satellite (ViaSat-1) and HNS's intention to launch an additional satellite (Jupiter), may change the competitive environment in which we operate and could have an adverse effect on our business.

In the U.S. market, where we operate as a service provider via Spacenet, the enterprise wide area network, or WAN, market is extremely competitive, with a number of established VSAT and terrestrial providers competing for nearly all contracts. The U.S. enterprise VSAT market is primarily served by HNS and Spacenet. In addition, more recently, Spacenet's primary competitors in the enterprise WAN market are large terrestrial carriers such as AT&T, Verizon and Qwest.





In Peru and Colombia, where we primarily operate public rural telecom services, we typically encounter competition on government subsidized bids from various service providers, system integrators and consortiums. Some of these competitors offer solutions based on VSAT technology and some on alternate technologies (typically cellular, wireless local loop or WiMAX). In addition, as competing technologies such as cellular telephones become available in areas where not previously available, such as in rural communities of Peru and Colombia, our business can be adversely affected.

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. In the past, we have seen longer sales cycles in all of the regions in which we do business. In addition, we have seen projects delayed or even canceled, which would also have an adverse impact on our sales cycles.

We may engage in acquisitions that could harm our business, results of operations and financial condition, and dilute our shareholders' equity.

We have a corporate business development team whose goal is to pursue new business opportunities. This team pursues growth opportunities through internal development and through the acquisition of complementary businesses, products and technologies. The process of integrating an acquired business may be prolonged due to unforeseen difficulties and may require a disproportionate amount of our resources and management attention. We cannot assure you that we will be able to successfully identify suitable acquisition candidates, complete acquisitions, integrate acquired businesses into our operations, or expand into new markets. Further, once integrated, acquisitions may not achieve comparable levels of revenues, profitability or productivity as our existing business or otherwise perform as expected. The occurrence of any of these events could harm our business, financial condition or results of operations.

In July and August 2010, we completed the acquisition of RAS, a leading provider of Satcom-On-The-Move antenna solutions and RaySat BG, a Bulgarian research and development center, for a total consideration of \$25 million and \$5.7 million respectively. In November 2010, we completed the acquisition of Wavestream, a provider of high power solid state amplifiers, or SSPA, Block Upconverters, or BUC, with field-proven, high performance solutions designed for mobile and fixed satellite communication, or SATCOM, systems worldwide in consideration for \$135 million. We may not be able to successfully integrate the operations of RAS, RaySat BG or Wavestream into our business or successfully exploit the solutions that we acquired. Future acquisitions may require substantial capital resources, which may not be available to us or may require us to seek additional debt or equity financing.

The risks associated with acquisitions by us include the following, any of which could seriously harm our results of operations or the price of our shares:

- issuance of equity securities that would dilute our current shareholders' percentages of ownership;
  - significant acquisition costs;
  - decrease of our cash balance;
  - the incurrence of debt and contingent liabilities;
-

difficulties in the assimilation and integration of operations, personnel, technologies, products and information systems of the acquired companies;

- diversion of management's attention from other business concerns;
- contractual disputes;
- risks of entering geographic and business markets in which we have no or only limited prior experience;
  - potential loss of key employees of acquired organizations.
  - the possibility the business cultures will not be compatible;
- the difficulty of incorporating acquired technology and rights into our products and services;
- unanticipated expenses related to integration of the acquired companies;
- difficulties in implementing and maintaining uniform standards, controls and policies;
- the impairment of relationships with employees and customers as a result of any integration of new personnel;
- potential inability to retain, integrate and motivate key management, marketing, technical sales and customer support personnel;
  - potential unknown liabilities associated with acquired businesses; and
  - impairment of goodwill and other assets acquired.

Our failure to manage growth effectively could impair our business, financial condition and results of operations.

Many of our large scale contracts are with governments or large enterprises in Latin America and other parts of the world, so that any instability in the exchange rates or in the political or economic situation or any unexpected unilateral termination or suspension of payments could have a significant adverse impact on our business.

In recent years, a significant portion of our revenues has been derived from large scale contracts with foreign governments and agencies, including those in Peru, India and Colombia. Agreements with the governments in these countries typically include unilateral early termination clauses and involve 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 possible fluctuations in local currencies relative to the U.S. dollar. We do not have a policy of hedging specific contracts. In some cases we hedge the risks involved in our general operations in Israel and in our subsidiaries abroad. Any termination of business in any of the aforementioned countries or any instability in the exchange rates could have a significant adverse impact on our business.

In December 2010, the Ministry of Communications in Colombia amended and extended our agreements for the provision of services for an additional one-year term, through December 2011. In 2010 our revenues derived from these projects in Colombia generated 7% of our total revenues. In the event that we are not able to extend the current agreements beyond 2011, or if the terms under which the agreements are extended are not favorable, or if we are unable to generate new business in Colombia, we may not be able to operate our business in Colombia at a profit.

If we are unable to develop, introduce and market new innovative products, applications and services on a cost effective and timely basis, our business could be adversely affected.

The network communications market, to which our products and services are targeted, is characterized by rapid technological changes, new product introductions 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. Our success is dependent upon our ability to continue to develop new innovative products, applications and services and meet developing market needs.

To remain competitive in the network communications market, we must continue to be able to anticipate changes in technology, market demands and industry standards and to develop and introduce new products, applications and services, as well as enhancements to our existing products, applications 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, our business, financial condition and operating results could be adversely affected.

Competitors in the low-profile antenna market are introducing new and improved products and our ability to remain competitive in this field will depend in part on our ability to advance our own technology.

New products and technologies for power amplifiers, such as Gallium Nitride, or GAN, may compete with our current Wavstream SSPA offerings, and may reduce the market prices and success of our products.

A decrease in the selling prices of our products and services 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. A decrease in the selling prices of our products and services could have a material adverse effect on our business.

#### Competition of Ka-Band satellite services

In some markets, such as in the United States and Europe, our competitors have launched Ka-band satellites and another has announced plans to launch a Ka-band satellite. These actions may affect our competitiveness due to the relative lower cost of Ka-band space segment per user as well as the increased integration of the VSAT technology in the satellite solution. Although our technology is compatible with Ka-band satellites, our entrance into that market will be gradual and is not assured. We also expect that competition in this industry will continue to increase. Due to the nature of the Ka-band solution to date, where the VSAT technology is tied to the satellite technology itself, there may be circumstances where it is difficult for competitors to compete with the incumbent VSAT vendor using the particular Ka-band satellite. If this occurs, the market dynamics may change to one of the VSAT vendor partnering with the satellite service provider which may decrease the number of vendors who may be able to succeed. If we are unable to forge such a partnership our business could be adversely affected.

If we lose existing contracts and orders for our products are not renewed, our ability to generate revenues will be harmed.

A significant part of our business in 2010 was generated from recurring customers. As a result, the termination or non-renewal of our contracts could have a material adverse effect on our business, financial condition and operating results. Some of our existing contracts could be terminated due to any of the following reasons, among others:

- dissatisfaction of our customers with our products and/or the services we provide or our inability to provide or install additional products or requested new applications on a timely basis;
- customers' default on payments due;
- our failure to comply with financial covenants in our contracts;

- the cancellation of the underlying project by the government-sponsoring body; or
- the loss of existing contracts or a decrease in the number of renewals of orders or the number of new large orders.

If we are not able to gain new customers and retain our present customer base, our revenues will decline significantly. In addition, if Spacenet has a higher than anticipated subscriber churn rate, or if Gilat Peru & Colombia does not win new government related contracts, this could materially adversely affect our financial position.

Our new business focus on military and related defense markets is dependent on defense spending and may be adversely affected if the pace of spending by the U.S. Departments of Defense and Homeland Security and other government and security organizations internationally is slower than anticipated.

The market for our VSAT, satellite on the move antennas and SSPAs for defense, public safety and law enforcement is highly dependent on the spending cycle and spending scope of the U.S. Departments of Defense and Homeland Security, as well as of local, state and municipal governments and security organizations in international markets. The funding of programs for which our products are being marketed is subject to government budgeting decisions affected by numerous factors, including geo-political events and macro-economic conditions that are beyond our control. We cannot be sure that the spending cycle will materialize as we expect and that we will be positioned to benefit from the potential opportunities, especially in light of the current unfavorable economic and market conditions.

Our failure to obtain or maintain authorizations under the U.S. export control and trade sanctions laws and regulations could have a material adverse effect on our business.

The export of satellite communication equipment and technical information related to satellites, VSAT and VSAT-related equipment and services to certain countries are subject to U.S. State Department, Commerce Department and Treasury Department regulations, including International Traffic in Arms Regulations, or ITAR. If we do not maintain our existing authorizations or obtain necessary future authorizations under the export control laws and regulations of the United States, including by entering into technical assistance agreements to disclose technical data or provide services to foreign persons, we may be unable to export technical information or equipment to non-U.S. persons and companies, including to our own non-U.S. employees, as may be required to fulfill contracts we may enter into. In addition, to participate in classified U.S. government programs, we would have to obtain security clearances from the U.S. Department of Defense for one or more of our subsidiaries that would want to participate. Such clearance may require that we enter into a proxy agreement with the U.S. government, which would limit our ability to control the operations of the subsidiary and which may impose on us substantial administrative burdens in order to comply. Further, if we materially violate the terms of any proxy agreement, the subsidiary holding the security clearances may be suspended or debarred from performing any government contracts, whether classified or unclassified. If we fail to maintain or obtain the necessary authorizations under the U.S. export control laws and regulations, we may not be able to realize our market focus and our business could be materially adversely affected.

Wavestream is dependent on a single customer and on business with the defense market.

Wavestream is dependent on a single customer for a significant portion of its revenues and the deferral or loss of sales to such a customer could have a material adverse affect on our business and operating results. Our revenues from Wavestream are also dependent on business from the defense market, being derived directly or indirectly from sales to government agencies, mainly the U.S. Department of Defense, pursuant to contracts awarded to system integrators under defense-related programs. Government spending under such contracts may cease or may be reduced, which would cause a negative effect on our revenues, results of operations, cash flow and financial condition. Although we intend to move into additional markets, we may not be successful in our plans for Wavestream to penetrate into broadcast and international markets, which are new and untried for our SSPA product line and will require additional

expenditures for research and development. We may not be able to develop new technologies for those markets on a timely basis. Barriers to entry into those markets or delays in our development programs could have a material adverse affect on our business and operating results.

A decline or reprioritization of funding in the U.S. defense budget, or delays in the budget process could adversely affect the business of Wavestream and its ability to grow or maintain its sales, earnings, and cash flow.

Wavestream is heavily dependent on sales to government defense agencies for its revenues, mainly the U.S. Department of Defense, pursuant to contracts awarded to system integrators under defense-related programs. We expect that Wavestream will continue to derive most of its sales from the U.S. Government.

Government purchasing is conditioned upon the continuing availability of Congressional appropriations. The programs in which Wavestream participates must compete with other programs and policy imperatives for consideration during the budget and appropriation process. Concerns about increased deficit spending, along with continued economic challenges, continue to place pressure on U.S. and international customer budgets. Efforts to reduce government spending may result in reduced demand for Wavestream's products, resulting in a reduction in its revenues and would adversely affect its business and results of operations. If the demand for Wavestream's products diminishes significantly, we may be required to recognize an impairment loss.

We are dependent on contracts with governments around the world for a significant portion of our revenue. These contracts may expose us to additional business risks and compliance obligations.

Since 2009, we have focused on expanding our business to include contracts with or for various governments around the world, including US federal, state, and local government agencies. Our business generated from government contracts may be materially adversely affected if:

- our reputation or relationship with government agencies is impaired;
- we are suspended or otherwise prohibited from contracting with a domestic or foreign government or any significant law enforcement agency;
- levels of government expenditures and authorizations for law enforcement and security related programs decrease or shift to programs in areas where we do not provide products and services;
- we are prevented from entering into new government contracts or extending existing government contracts based on violations or suspected violations of laws or regulations, including those related to procurement;
- we are not granted security clearances that are required to sell our products to domestic or foreign governments or such security clearances are deactivated;
- there is a change in government procurement procedures; or
- there is a change in political climate that adversely affects our existing or prospective relationships.

We depend on our main facility in Israel and are susceptible to any event that could adversely affect its condition.

Most of our laboratory capacity, our principal offices and principal research and development facilities are primarily concentrated in a single location in Israel, with facilities for research and development and manufacturing of components for our low profile antennas at a single location in Bulgaria. Wavestream's principal offices, research and development and engineering and manufacturing facilities are located at a single location in California. Fire, natural disaster or any other cause of material disruption in our operation in any of these locations could have a material adverse effect on our business, financial condition and operating results.





We would be adversely affected if we are unable to retain key employees.

Our success depends in part on key management, sales, marketing and development personnel and our continuing ability to attract and retain highly qualified personnel. There is competition for the services of such personnel. The loss of the services of key personnel, and the failure to attract highly qualified personnel in the future, may have a negative impact on our business. Moreover, our competitors may hire and gain access to the expertise of our former employees.

Trends and factors affecting the telecommunications industry are beyond our control and may result in reduced demand and pricing pressure on our products.

We operate in the telecommunication industry and are influenced by trends of that industry, which are beyond our control and may affect our operations. These trends include:

- 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;
  - adverse changes in the credit ratings of our customers and suppliers;
- adverse changes in the market conditions in our industry and the specific markets for our products;
- access to, and the actual size and timing of, capital expenditures by our customers;
- inventory practices, including the timing of product and service deployment, of our customers;
- 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;
- the overall trend toward industry consolidation and rationalization among our customers, competitors, and suppliers;
- increased price reductions by our direct competitors and by competing technologies including, for example, the introduction of Ka-band satellite systems by our direct competitors which could significantly drive down market prices or limit the availability of satellite capacity for use with our VSAT systems;
- conditions in the broader market for communications products, including data networking products and computerized information access equipment and services;
  - governmental regulation or intervention affecting communications or data networking;
  - monetary stability in the countries where we operate; and
- 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.

These trends and factors may reduce the demand for our products and services or require us to increase our research and development expenses and may harm our financial results.



Unfavorable global economic conditions could have a material adverse effect on our business, operating results and financial condition

Although economic conditions in many countries have stabilized somewhat following the widespread contraction in late 2008 and 2009 and into 2010, the revenues of many of our customers decreased substantially compared to recent years. As a result, our customers reduced their spending in late 2008 and 2009 and may continue to reduce or postpone their spending significantly. This resulted in reductions in sales of our products and services in some markets, longer sales cycles, slower adoption of new technologies and increased price competition. In addition, weakness in the end-user market could negatively affect the cash flow of our customers who could, in turn, delay paying their obligations to us or ask us for vendor financing. This could increase our credit risk exposure and cause delays in our recognition of revenues on future sales to these customers. Specific economic trends, such as declines in the demand for telecommunications products and services, the tightening of credit markets, or weakness in corporate spending, could have a direct impact on our business. Any of these events would likely harm our business, operating results and financial condition. If global economic and market conditions do not improve, or weaken further, it may have a material adverse effect on our business, operating results and financial condition.

Our international sales expose us to changes in foreign regulations and tariffs, tax exposures, 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, Latin America, Asia, Africa and Europe. 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:

- 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;
- government regulations that may prevent us from choosing our business partners or restrict our activities. For example, a particular 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 provider 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, which could result in a substantial reduction in our revenue;
  - tax exposures in various jurisdictions relating to our activities throughout the world;
- political and/or economic instability in countries in which we do or desire to do business. Such unexpected changes have had an adverse affect on the gross margin of some of our projects. We also face similar risks from potential or current political and economic instability as well as volatility of foreign currencies in countries such as Colombia, Brazil, Venezuela and certain countries in East Asia.
- difficulties in staffing and managing foreign operations that might mandate employing staff in various countries to manage foreign operations. This change could have an adverse effect on the profitability of certain projects;
  - longer payment cycles and difficulties in collecting accounts receivable;
  - foreign exchange risks due to fluctuations in local currencies relative to the dollar; and



- relevant zoning ordinances that may restrict the installation of satellite antennas and 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 may 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, and private companies will find it more difficult to finance the purchase or upgrade of our technology. 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 and products, which could adversely affect our operations.

Our telecommunication services require licenses and approvals by the 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. The approval process in Latin America and elsewhere can often take a substantial amount of time and require substantial resources.

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 economically efficient basis.

Our products are also subject to certain homologation requirements – certification of compliance with local regulatory standards. Delays in receiving such certification could adversely affect our operations.

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 have and may continue to vary significantly from quarter to quarter. The causes of fluctuations include, among other things:

- the timing, size and composition of orders from customers;
- the timing of introducing new products and product enhancements by us and the level of their market acceptance;
- the mix of products and services we offer; and
- 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, but are not limited to:

- economic instability;

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

- competitors' positions in the market;
- changes in financial estimates by securities analysts;
- conditions and trends in the VSAT and other technology industries relevant to our businesses;
- our earnings releases and the earnings releases of our competitors; and
- 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 and at times thinly traded. Investors may not be able to resell their shares during and following periods of volatility.

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 mainly 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 expected revenues may be harmed.

We may at times be subject to claims by third parties alleging that we are infringing on 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 on 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 that we have infringed in the past or are infringing at present on any intellectual property rights of third parties, we cannot assure you that we will not 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 and scope of the proprietary rights of others or to defend against third-party claims of invalidity or infringement. An adverse result in any litigation could force us to pay substantial damages, stop designing or manufacturing, using and selling the infringing products, spend significant resources to develop non-infringing technology, discontinue using certain processes or obtain licenses to use the infringing technology. In addition, we may not be able to develop non-infringing technology, and we may not be able to find appropriate licenses on reasonably satisfactory terms. 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 contractual limitation of liability may be rejected or limited in certain jurisdiction and our insurance may not cover all relevant claims or may not provide sufficient coverage. To date, we have not experienced any material product liability claim. 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 dependent upon a limited number of suppliers for key components that are incorporated in our products, including those used to build our hubs and VSATs, and may be significantly harmed if we are unable to obtain such components on favorable terms or on a timely basis. We are also dependent upon a limited number of suppliers of space segment capacity, and may be significantly harmed if we are unable to obtain the space segment for the provision of services on favorable terms or on a timely basis.

Several of the components required to build our VSATs and hubs are manufactured by a limited number of suppliers. We have not experienced any difficulties with our suppliers with respect to availability of components. However, we cannot assure you of the continuous availability of key components or our ability to forecast our component requirements sufficiently in advance. Our research and development and operations groups are continuously working with our suppliers 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 volume of components at sufficiently favorable terms or prices, we may be unable to produce our products at competitive 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. In addition, our suppliers are not always able to meet our requested lead times. If we are unable to satisfy customers' needs on time, we could lose their business.

In 2007 we entered into an outsourcing manufacturing agreement with a single source manufacturer for almost all of our indoor units. This agreement exposes us to certain risks related to our dependence on a single manufacturer which could include failure in meeting time tables and quantities, or material price increases which may affect our ability to provide competitive prices. We estimate that the replacement of the outsourcing manufacturer would, if necessary, take a period of between six to nine months.

There are only a limited number of suppliers of satellite transponder capacity and a limited amount of space segment available. We are dependent on these suppliers for our provision of services in Peru, Colombia and the United States. While we do secure long term agreements with our satellite transponder providers, we cannot assure the continuous availability of space segment, the pricing upon renewals of space segment and the continuous availability and coverage in the regions where we supply services. If we are unable to secure contracts with satellite transponder providers with reliable service at competitive prices, our services business could be adversely affected.

On March 11, 2011, a massive earthquake off the eastern coast of Japan triggered a devastating tsunami tidal wave, causing damage and destruction. It is too early to predict the long-term impact of this disaster on the availability of the components we source from Japan. Any long-term inability to obtain these components may result in our failure to meet time tables and quantity requirements, or may result in material price increases which may affect our ability to provide competitive prices.

Our insurance coverage may not be sufficient for every aspect or risk related to our business.

Our business includes risks, only some of which are covered by our insurance. For example, in many of our satellite capacity agreements, we do not have a back up for satellite capacity, and we do not have indemnification or insurance in the event that our supplier's satellite malfunctions or is lost. In addition, we are not covered by our insurance for acts of fraud or theft. Our business, financial condition and operating results could be materially adversely affected if we incur significant costs resulting from these exposures.

## Risks Related to Ownership of Our Ordinary Shares

Our share price has been highly volatile and may continue to be volatile and decline.

The trading price of our shares has fluctuated widely in the past and may 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 against us could result in substantial costs and a diversion of our management's attention and resources.

If U.S. tax authorities were to treat us as a "passive foreign investment company", that could have an adverse consequences on U.S. holders.

Holders of our ordinary shares who are United States residents may face income tax risks. There is a risk that we will be treated as a "passive foreign investment company." Our treatment as a passive foreign investment company could result in a reduction in the after-tax return to the holders of our ordinary shares and would likely cause a reduction in the value of such shares. A foreign corporation will be treated as a passive foreign investment company for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of "passive income," or (2) at least 50% of the average value of the corporation's gross assets produce, or are held for the production of, such types of "passive income." For purposes of these tests, "passive income" includes dividends, interest, gains from the sale or exchange of investment property and rents and royalties other than rents and royalties that are received from unrelated parties in connection with the active conduct of trade or business. For purposes of these tests, income derived from the performance of services does not constitute "passive income." Those holders of shares in a passive foreign investment company who are citizens or residents of the United States or domestic entities would alternatively be subject to a special adverse U.S. federal income tax regime with respect to the income derived by the passive foreign investment company, the distributions they receive from the passive foreign investment company and the gain, if any, they derive from the sale or other disposition of their shares in the passive foreign investment company. In particular, any dividends paid by us would not be treated as "qualified dividend income" eligible for preferential tax rates in the hands of non-corporate U.S. shareholders. United States residents should carefully read Item 10E. Additional Information – Taxation, for a more complete discussion of the U.S. federal income tax risks related to owning and disposing of our ordinary shares.

The concentration of our ordinary share ownership may limit our shareholders' ability to influence corporate matters.

As of March 31, 2011, York Capital Management, or York, and entities affiliated with them beneficially own approximately 20% of our outstanding ordinary shares. As a result, York may have a substantial influence over all matters that require approval by our shareholders, including the election of directors and approval of significant corporate transactions. Corporate actions might be taken even if other shareholders oppose them. This concentration of ownership might also have the effect of delaying or preventing a change of control of our company that other shareholders may view as beneficial.

Future sales of our ordinary shares and the future exercise of options may cause the market price of our ordinary shares to decline and may result in substantial dilution.

We cannot predict what effect, if any, future sales of our ordinary shares by York and our other 5% shareholders, or the availability of our ordinary shares for future sale, including shares issuable upon the exercise of our options, will

have on the market price of our ordinary shares. Pursuant to a registration rights agreement with York, we filed a registration statement with the Securities and Exchange Commission allowing for the disposition of 8,121,651 shares by them from time to time. Sales of substantial amounts of our ordinary shares in the public market by our 5% shareholders, or the perception that such sales could occur, could adversely affect the market price of our ordinary shares and may make it more difficult for you to sell your ordinary shares at a time and price you deem appropriate.

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 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. Any future dividend distributions are subject to the discretion of our board of directors and will depend on various factors, including our operating results, future earnings, capital requirements, financial condition, tax implications of dividend distributions on our income, future prospects and any other factors deemed relevant by our board of directors. The distribution of dividends also may be limited by Israeli law, which permits the distribution of dividends only out of retained earnings or otherwise upon the permission of the court. You should not rely on an investment in our company if you require dividend income from your investment.

Our ordinary shares are traded on more than one market and this may result in price variations.

Our ordinary shares are traded on the NASDAQ Global Select Market and on the Tel Aviv Stock Exchange. Trading in our ordinary shares on these markets is made in different currencies (U.S. dollars on the NASDAQ Global Select Market, and new Israeli Shekels, or NIS, on the Tel Aviv Stock Exchange), and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). Consequently, the trading prices of our ordinary shares on these two markets often differ. Any decrease in the trading price of our ordinary shares on one of these markets could cause a decrease in the trading price of our ordinary shares on the other market.

#### Risks Related To Regulatory Matters

We have historically relied, and in the future intend to rely, upon tax benefits from the State of Israel to reduce 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 and results of operations.

Under the Israeli Law for Encouragement of Capital Investments, 1959, or the Investment Law, portions of our Israeli facility 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 from such "Approved Enterprise." Our historical operating results reflect substantial tax benefits, including tax exemptions and decreased tax rates up to December 31, 2000. In 2001, 2002 and 2003, we had substantial losses for tax purposes and a decrease in revenues and therefore could not realize any tax benefits since then due to current and/or carry forward losses. On April 1, 2005, an amendment to the Investment Law, or the Amendment, came into effect, that significantly changed the provisions of the Investment Law and the criteria for new investments qualified to receive tax benefits. The Amendment enacted major changes in the manner in which tax benefits are awarded under the Investment Law so that companies no longer require approval of the Investment Center of the Ministry of Industry, Commerce and Labor of the State of Israel, or the Investment Center, in order to qualify for tax benefits. The Amendment is applied to new approved enterprises and there is no assurance that we will, in the future, be eligible to receive additional tax benefits under this law. Our financial condition and results of operations could suffer if the Israeli government terminated or reduced the current tax benefits available to us.

In order to be eligible for these tax benefits under the Amendment, we must comply with two material conditions. We must invest a specified amount in property and equipment in Israel, and at least 25% of each new "Approved Enterprise" income should be derived from export. We believe we have complied with these conditions, as well as other conditions specified in this law, but we have not received confirmation of our compliance from the Israeli government. If we 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, which could harm our financial condition and results of operations.

The transfer and use of some of our technology and its production is limited because of the research and development grants we received from the Israeli government to develop such technology.

Our research and development efforts associated with the development of certain of our legacy products have been partially financed through grants from the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor, or the OCS. We may be subject to certain restrictions under the terms of the OCS grants. Specifically, any product incorporating technology developed with the funding provided by these grants may not be manufactured, nor may the technology which is embodied in our products be transferred outside of Israel without appropriate governmental approvals. Such approvals, if granted, would involve increased payments to the OCS. These restrictions do not apply to the sale or export from Israel of our products developed with this technology.

Your rights and responsibilities as a shareholder are governed by Israeli law and differ in some respects from those under Delaware law.

Because we are an Israeli company, the rights and responsibilities of our shareholders are governed by our articles of association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in a Delaware corporation. In particular, a shareholder of an Israeli company has a duty to act in good faith towards the company and other shareholders and to refrain from abusing his, her or its power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters. Israeli law provides that these duties are applicable to shareholder votes on, among other things, amendments to a company's articles of association, increases in a company's authorized share capital, mergers and interested party transactions requiring shareholder approval. In addition, a shareholder who knows that it possesses the power to determine the outcome of a shareholders' vote or to appoint or prevent the appointment of a director or executive officer in the company has a duty of fairness towards the company. However, Israeli law does not define the substance of this duty of fairness. Because Israeli corporate law has undergone extensive revisions in recent years, there is little case law available to assist in understanding the implications of these provisions that govern shareholder behavior.

As a foreign private issuer whose shares are listed on the NASDAQ Global Select Market, we may follow certain home country corporate governance practices instead of certain NASDAQ requirements, which may not afford shareholders with the same protections that shareholders of domestic companies have. We follow Israeli law and practice instead of NASDAQ rules regarding the director nominations process, the composition of our audit committee, compensation of executive officers and the requirement to obtain shareholder approval for the establishment or amendment of certain equity-based compensation plans and arrangements.

As a foreign private issuer whose shares are listed on the NASDAQ Global Select Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of The NASDAQ Marketplace Rules. We follow Israeli law and practice instead of The NASDAQ Marketplace Rules with respect to the director nominations process, the composition of our audit and compensation committee, compensation of executive officers and the requirement to obtain shareholder approval for the establishment or material amendment of certain equity-based compensation plans and arrangements. As a foreign private issuer listed on the NASDAQ Global Select Market, we may also follow home country practice with regard to, among other things, the requirement to obtain shareholder approval for certain dilutive events (such as for an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company). A foreign private issuer that elects to follow a home country practice instead of NASDAQ requirements must submit to NASDAQ in advance a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws. In addition, a foreign private issuer must disclose in its annual reports filed with the Securities and Exchange Commission each such requirement that it does not follow and describe the home country practice followed by the issuer instead of any such requirement. Accordingly, our shareholders may not be

afforded the same protection as provided under NASDAQ's corporate governance rules.



We may fail to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, which could have an adverse effect on our financial results and the market price of our ordinary shares.

The Sarbanes-Oxley Act of 2002 imposes certain duties on us and on our executives and directors. Our efforts to comply with the requirements of Section 404, which started in connection with our 2006 Annual Report on Form 20-F, have resulted in an increased general and administrative expense and a diversion of management time and attention, and we expect these efforts to require the continued commitment of resources. Section 404 of the Sarbanes-Oxley Act requires us to provide (i) management's annual review and evaluation of our internal control over financial reporting and (ii) a statement by management that its independent registered public accounting firm has issued an attestation report on our internal control over financial reporting, in connection with the filing of the Annual Report on Form 20-F for each fiscal year. The rules governing the standards that must be met for management to assess our internal control over financial reporting are complex and require significant documentation, testing and possible remediation to meet the detailed standards under the rules. During the course of its testing, our management may identify material weaknesses or significant deficiencies, which may not be remedied prior to the deadline imposed by the Sarbanes-Oxley Act. If we fail to maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting. Failure to maintain effective internal controls over financial reporting could result in investigation or sanctions by regulatory authorities, and could have a material adverse effect on our operating results, investor confidence in our reported financial information, and the market price of our ordinary shares.

If we are unable to comply with Israel's enhanced export control regulations our ability to export our products from Israel could be negatively impacted.

In recent years the Israeli government adopted laws and regulations regarding enhanced defense export controls and the export of "dual use" items (items that are typically sold in the commercial market but that may also be used in the defense market). If government approvals required under these laws and regulations are not obtained, our ability to export our products from Israel could be negatively impacted, thus causing a reduction in our revenues.

#### Risks Related to Our Location in Israel

Political and economic conditions in Israel may limit our ability to produce and sell our products. This could have 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 research and development and manufacturing facilities. Political, economic and security 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. Recent political unrest in the Middle East may also impact the relationship between Israel and its neighboring countries. 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.

There has been unrest and terrorist activity in Israel, which began in September 2000 and which has continued with varying levels of severity through 2010 and into 2011. The future effect of this deterioration and violence on the Israeli economy and our operations is unclear. The election of representatives of the Hamas movement to a majority of seats in the Palestinian Legislative Council in January 2006 resulted in an escalation in violence among Israel, the Palestinian Authority and other groups. In 2006, hostilities broke out between Israel and the Hezbollah in Lebanon which ended that same year, although there is continuing unrest in the region. In January 2009, Israel attacked Hamas strongholds in the Gaza strip, in reaction to rockets that were fired from Gaza and which landed in Israel. In addition, Iran has threatened to attack Israel numerous times, and is widely believed to be developing nuclear weapons.

Ongoing violence between Israel and the Palestinians as well as tension between Israel and other countries in the Middle East may have a material adverse effect on our business, financial condition and results of operations.

Furthermore, there are a number of countries, primarily in the Middle East, as well as Malaysia and Indonesia, that restrict business with Israel or Israeli companies, and we are precluded from marketing our products to these countries directly from Israel. Restrictive laws or policies directed towards Israel or Israeli businesses may have an adverse impact on our operations, our financial results or the expansion of our business.

Our results of operations may be negatively affected by the obligation of our personnel to perform military service.

Many of our employees in Israel are obligated to perform annual reserve duty in the Israeli Defense Forces and may be called for active duty under emergency circumstances at any time. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods of time. Our operations could be disrupted by the absence for a significant period of one or more of our key employees or a significant number of other employees due to military service. Any disruption in our operations could adversely affect our business.

Because most of our revenues are generated in U.S. dollars or are linked to the U.S. dollar while a portion of our expenses are incurred in NIS, our results of operations would be adversely affected if inflation in Israel is not offset on a timely basis by a devaluation of the NIS against the dollar.

Most of our revenues are in dollars or are linked to the U.S. dollar, while a portion of our expenses, principally salaries and related personnel expenses, are in NIS. Therefore, our NIS related costs, as expressed in U.S. dollars, are influenced by the exchange rate between the U.S. dollar and the NIS. During 2009 and 2010, the NIS appreciated against the U.S. dollar, which resulted in a significant increase in the U.S. dollar cost of our operations in Israel. We are also exposed to the risk that the rate of inflation in Israel will exceed the rate of devaluation of the NIS in relation to the U.S. dollar or that the timing of this devaluation lags behind inflation in Israel. This would have the effect of increasing the dollar cost of our operations. We cannot predict any future trends in the rate of inflation in Israel or the rate of devaluation or appreciation of the NIS against the U.S. dollar. If the dollar cost of our operations in Israel increases, our dollar-measured results of operations will be adversely affected. See Item 5: Operating and Financial Review and Prospects - Impact of Inflation and Currency Fluctuations.

You may not be able to enforce civil liabilities in the United States against our officers and directors.

Most of our executive officers and the Israeli experts named in this annual report reside outside the United States, and 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, or against such individuals, including but not limited to judgments based on the civil liability provisions of the United States federal securities laws, may not be collectible within the United States.

It may also be difficult to bring an original action in an Israeli court to enforce judgments 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 U.S. court for liquidated damages in civil matters may be enforced by an Israeli court, provided that:

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

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

Additionally, it may be difficult for an investor or any other person or entity, to assert U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws on the ground that Israel is not the most appropriate forum in which to bring such a claim. Even if an Israeli court agrees to hear a claim, it may determine that Israeli law is applicable to the claim. Certain matters of procedures will also be governed by Israeli law.

Israeli law may delay, prevent or make difficult a merger with, or an acquisition of us, which could prevent a change of control and therefore depress the price of our shares.

Provisions of Israeli law may delay, prevent or make undesirable a merger or an acquisition of all or a significant portion of our shares or assets. Israeli corporate law regulates acquisitions of shares through tender offers and mergers, requires special approvals for transactions involving significant shareholders and regulates other matters that may be relevant to these types of transactions. These provisions of Israeli law could have the effect of delaying or preventing a change in control and may make it more difficult for a third party to acquire us, even if doing so would be beneficial to our shareholders. These provisions may limit the price that investors may be willing to pay in the future for our ordinary shares. Furthermore, Israeli tax considerations may make potential transactions undesirable to us or to some of our shareholders.

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 substantially 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. Recently, Israeli labor 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 (for example, the confidentiality of certain commercial information or a company's intellectual property). In the event that any of our employees chooses to leave and work for one of our competitors, we may be unable to prevent our competitors from benefiting from the expertise our former employee obtained from us, if we cannot demonstrate to the court that we would be harmed.

ITEM 4: INFORMATION ON THE COMPANY

A. History and Development of the Company

We were incorporated in Israel in 1987 and are subject to the laws of the State of Israel. We are a public limited liability company under the Israeli Companies Law, 5759-1999 and operate under that law and associated legislation. Our corporate headquarters, executive offices and main research and development and engineering facilities, as well as facilities for some manufacturing and product assembly, facilities are located at Gilat House, 21 Yegia Kapayim Street, Kiryat Arye, Petah Tikva 49130, Israel. Our address in the United States is c/o Gilat Satellite Networks Inc. at 1750 Old Meadow Road, McLean VA. Our telephone number is (972) 3-925-2000. Our web-site address is www.gilat.com. The information on our website is not incorporated by reference into this annual report.

We are a leading global provider of Internet Protocol, or IP, based digital satellite communication and networking products and services. We design, produce and market VSATs, or very small aperture terminals, and related network equipment, such as power amplifiers and low-profile antennas. We have a large installed customer base and have shipped more than 750,000 VSAT units to customers in over 85 countries on six continents.

We shipped our first generation VSAT in 1989 and since then we have been among the technological leaders in the VSAT industry. Our continuous investment in research and development has resulted in the development of new and industry-leading VSAT products and our intellectual property portfolio includes 66 issued patents (32 U.S. and 34 foreign) as well as 7 issued patents relating to our Satcom-On-The-Move antenna solutions and 6 issued patents (3 U.S. and 3 foreign) for our high power solid state amplifiers. As of December 31, 2010, we had 1,280 employees, including approximately 320 persons engaged in research, development and engineering activities.

We have 22 offices worldwide and two call centers to support our customers. Our products are primarily sold to communication service providers and operators that use VSATs to serve enterprise, government and residential users, or to system integrators that use our technology. We also provide services directly to end-users in various market segments in the United States and certain countries in Latin America.

In July 2010, we completed the acquisition of Raysat Antenna Systems LLC, or RAS, a leading provider of Satcom-On-The-Move antenna solutions for \$25 million in cash. In August 2010 we completed the acquisition of Raysat BG, a Bulgarian research and development center for \$5.7 million. In November 2010, we completed the acquisition of Wavestream, a provider of high power solid state amplifiers, or SSPA, Block Upconverters, or BUCs,, with field-proven, high performance solutions designed for mobile and fixed satellite communication, or SATCOM, systems worldwide for \$135 million.

In 2010, 2009 and 2008, our property and equipment purchases amounted to approximately \$7.6 million, \$4.5 million and \$13.8 million, respectively. These amounts do not include the reclassification of inventory to property and equipment made during 2010, 2009 and 2008 in the amount of approximately \$0.7 million, \$0.8 million and \$3.4 million, respectively.

B. Business Overview

We are a leading provider of satellite and other network communications products and services. We design and manufacture satellite and networking communications equipment, which we sell to our customers either as network components or as complete or turnkey network solutions. The equipment that we develop includes VSAT systems, network appliances, power amplifiers and low-profile antennas. Our equipment is used by government organizations, large corporations and enterprises. We also provide connectivity services, including managed network services, Internet access and telephony, to enterprise, government and residential customers in the United States, Peru and

Colombia. These services are delivered over our own networks which are built using our own equipment.

We operate as three separate businesses – Gilat Worldwide, Spacenet and Wavestream. Spacenet and Wavestream are wholly owned subsidiaries. This operational structure reflects the change we implemented in mid-2010 to create a more unified organization, bringing together Gilat's expanded VSAT business and our Peru and Colombia service operations, as well as integrating RAS and Wavestream, which we acquired during the year.

Gilat Worldwide is comprised of Gilat International and Gilat Peru & Colombia.

Gilat International is a provider of VSAT-based networks and associated professional services, including turnkey and management services, to telecom operators worldwide. Since our acquisition of RAS, Gilat International is also a provider of low-profile antennas, used for Satcom-On-The-Move antenna solutions. We began managing the operations of RAS in 2010. Since then, the Israeli division of RAS was integrated into Gilat International, and the U.S. division of RAS was integrated into SIGS, a subsidiary of Spacenet Inc.

Representative customers of Gilat International include Brazil Telecom, Optus in Australia, Bharti in India, ICE in Costa Rica, Nepal Telecom, ETC in Ethiopia and Telefonica in Latin America.

Gilat Peru & Colombia (formerly Spacenet Rural Communications, or SRC) provides services in Peru and Colombia through our subsidiaries there. These services are primarily telephony, Internet and data services for rural areas under projects that are subsidized by governmental entities.

According to the latest COMSYS VSAT Report, published in 2009 by a leading satellite industry research firm - Communications Systems Limited, or COMSYS (which refers to a market study from 2008), we are the second-largest manufacturer of VSATs to the enterprise market, with a 28.3% market share of shipped VSATs. We also provide industry specific solutions for cellular backhaul, business continuity and disaster recovery.

In the year ended December 31, 2010, we derived approximately 64% of our revenues from our Gilat Worldwide VSAT operations.

Spacenet Inc., or Spacenet, provides managed network communications services through satellite networks and hybrid satellite terrestrial networks. Spacenet serves enterprise, government, small office/home office, or SOHO, and residential customers primarily in the United States, but also in locations throughout North America. Spacenet provides three primary lines of service: custom commercial grade networks for large enterprise and government customers; Connexstar networks, which are standardized commercial grade services; and StarBand services, which are typically geared towards small office and residential users. According to the COMSYS report, we have a 24.5% market share of U.S. VSAT enterprise sites. In the year ended December 31, 2010, we derived approximately 37% of our revenues from Spacenet. Representative customers of Spacenet include Dollar General, Regis Corporation, Goodyear, Verizon/USPS, Scientific Games, Intralot, GTECH, Boston Market, Target, Centerpoint Energy, PG&E, Detroit Edison, Devon Energy, Cumberland Farms, Sunoco and Valero.

Spacenet Integrated Government Solutions, Inc., or SIGS, a subsidiary of Spacenet, was created in late 2009 specifically to address the growing market for government solutions and services in the United States.

We have been expanding the presence of SIGS in the government market with the launch of targeted product offerings for new government customers in the U.S. Department of Defense and other federal agencies such as the Department of Homeland Security, FEMA and others. We began to integrate the operations of the U.S. division of RAS into SIGS in 2010.





Wavestream Corporation, or Wavestream, provides high-power SSPAs mainly to system integrators that serve various defense and homeland security agencies. Wavestream is an independent designer and manufacturer of SSPAs and Block-Up Converters (BUCs) for mission-critical satellite communications worldwide.

Wavestream's patented, leading-edge Spatial Power Combining technology enables higher output power from smaller packages with greater efficiency, reliability and lower cost than other existing technologies in high frequency bands like Ka. Wavestream provides product solutions for multiple applications targeting military, commercial and broadcast satellite communications systems.

Gilat has diversified revenue streams that result from both sales of products and services. In the year ended December 31, 2010, approximately 52% of our revenues were derived from product sales and 48% from services. Our enterprise service revenues are typically derived from long-term contracts of three to six years, which provide stability and visibility into future revenues. During the same period, we derived 36% of our revenues from the United States, 36% from Latin America, 16% from Asia, 7% from Africa and 5% from Europe. As of December 31, 2010, we had a backlog of \$232 million for equipment and multi-year service contracts.

#### Industry Overview

There is global demand for satellite-based communications solutions for a number of reasons. Primarily, this is still the only truly ubiquitous networking solution. Secondly, satellite communications are more readily available as compared to alternative terrestrial communications networks. Lastly, satellite communications solutions offer rapidly deployed secure broadband connectivity and broadband communications on the move.

A 2-way broadband satellite communications solution is comprised of the following elements:

- Communications satellite – Typically a satellite in geostationary orbit (synchronized with the earth's orbit) with a fixed coverage of a portion of the earth (up to approximately one third).
- Satellite communications ground station equipment – These are devices that have a combination of datacom and RF elements designed to deliver data via communication satellites. Examples of ground station equipment are remote site terminals, such as VSATs, and central hub station systems. Gilat is a leading provider of VSAT ground station equipment.
- Antenna (satellite dish) – These can vary quite significantly in size, power and complexity depending on the ground equipment they are connected to, and their application. For example, antennas connected to VSATs generally are in the range of one meter in diameter while those connected to the central hub system can be in the range of ten meters in diameter. Antennas used on moving vehicles need to be compact and have an auto-pointing mechanism so that they can remain locked onto the satellite during motion. RAS is a leading provider of low-profile in-motion satellite antennas.
- Amplifiers and BUCs – These are the components that connect the ground station equipment with the antenna. The purpose of the amplifiers and BUCs is to amplify the power and convert the frequency of the transmitted RF signal. Wavestream is a leading provider of high power solid state amplifiers.

Broadband satellite networks are comprised of ground stations at multiple locations that communicate through a satellite in geostationary orbit, providing continent-wide wireless connectivity. Satellite broadband networks are used to provide a variety of traffic types such as broadband data, video and voice. The value chain of satellite network services consists of the following four main elements:

Satellite operators provide satellite transponder capacity on satellites positioned in geostationary orbit above the equator. A typical satellite can cover a geographic area the size of the continental U.S. or larger. The satellite receives information from the ground station equipment, amplifies it and transmits it back to earth on a different frequency. Satellite operators sell the capacity in a variety of leasing agreements to their customers. The current generation of high-power satellites uses Ku-band frequencies. Other frequencies are C-band and the more recently introduced Ka-band which usually operates on a multi-beam configuration. Our technology is compatible with C-band, Ku-band and Ka-band satellites including special extended C-band and extended Ku-band satellites. Some of the leading satellite operators are Intelsat, SES and Eutelsat.

Ground station equipment providers manufacture network equipment for both VSAT networks and broadcast markets. VSAT systems combine a large central earth station, called a hub, with multiple remote sites (ranging from tens to thousands of sites), which communicate via satellite. Equipment components for the broadcast markets include, among others, video encoders, large earth antennas, and storage equipment. Gilat is a leading ground station equipment provider for VSAT systems.

Communication service providers buy equipment from ground station equipment providers, install and maintain such equipment, lease capacity from satellite operators and sell a full package of communication services to the end user. Spacenet and Gilat Peru & Colombia are leading communication service providers in the United States, Peru and Colombia, respectively.

End users are customers that use equipment and satellite communication services. Examples of end users range from enterprises, to government ministries and agencies, to residential consumers.

System integrators are companies that provide customized solutions to end users by integrating the necessary equipment and services. For example, defense organizations typically work with specialized system integrators that integrate various components, such as power amplifiers and low profile antennas, into a satellite terminal.

The most common satellite broadband network uses VSAT systems that are deployed in a hub-and-spoke configuration, with remote locations connecting via satellite to a central hub station. VSAT networks have a diverse range of uses and applications, and provide communication services as a stand-alone, alternative, or complementary service to wireline and wireless networks.

We believe that the advantages of VSAT networks include:

- Universal availability - VSATs provide service to any location within a satellite footprint.
- Timely implementation - Large networks can be deployed within a few weeks.
- Broadcast and multicast capabilities - Satellite is an ideal solution for broadcast and multicast transmission as the satellite signal is simultaneously received by any group of users in the satellite footprint.
- Reliability and service availability - VSAT network availability is high due to the satellite and ground equipment reliability, the small number of components in the network and terrestrial infrastructure independence.
- Scalability - VSAT networks scale easily from a single site to thousands of locations.
- Cost-effectiveness - The cost of VSAT networks is independent of distance and therefore it is a cost-effective solution for networks comprised of multiple sites in remote locations.
- Applications delivery – VSAT networks offer a wide variety of customer applications such as e-mail, virtual private networks, or VPN, video, voice, Internet access, distance learning, content distribution and financial transactions.
- Portability and Mobility - VSAT solutions can be mounted on vehicles for communications on the move, or deployed rapidly for communications in fixed locations and then relocated or moved as required.

Given the technological and implementation benefits afforded by VSAT networks, we believe that the market for VSAT products and services will continue to grow. In particular, according to a 2010 report from NSR, a leading international telecom market research and consulting firm, the number of broadband satellite sites and subscribers is expected to grow at a compounded annual growth rate, or CAGR, of 15.8% through 2019. With the NSR report measuring both consumer and enterprise sites, we believe there will be growth in the enterprise market which is the primary market to which Gilat sells.

In addition, the availability of auto-pointing satellite antennas designed for in-motion two way communications has created market demand particularly from the defense and first responders, such as emergency services, segments. These antennas are usually mounted on the roof of a vehicle and connected to a satellite terminal within the vehicle. An important requirement that defense organizations have in this mission-critical application is for low-profile antennas, to avoid drawing unnecessary attention to the vehicle. We believe that the demand for light-weight, low-profile antenna systems will increase as well.

There are five primary categories of markets that require broadband satellite products and services:

**Enterprise and Business.** These end-users include large companies and organizations, small- medium enterprises, or SMEs, and SOHO end users. For enterprises, VSAT networks offer network connectivity and deliver voice, data and video within corporations (known as corporate intranets), Internet access, transaction-based connectivity to enable on-line data delivery such as point-of-sale (credit and debit card authorization), inventory control and real time stock exchange trading.

**High-End.** The high-end market consists of customers that have more demanding network performance requirements. These requirements usually include higher level of Quality of Service, or QoS, than the typical user, higher speed connectivity, segregation of their traffic from other users' traffic and more control over the network. Some examples of customers belonging to the high-end market are industrial energy organizations such as oil & gas and mining

companies, Digital Satellite News gathering, or DSNG, armed forces, maritime companies and mobile operators.

Rural Telecommunications. The rural telecommunications market is comprised of communities throughout the world that require telephone, facsimile and Internet access in areas that are underserved by existing telecommunications services. These communication services are usually provided to the rural population via government-subsidized initiatives. This market sector is comprised of "Build-Operate" projects, in which governments subsidize the establishment and the operation of a rural network to be served by a satellite, wireless or cellular service provider that is usually selected in a bid process. According to the 2006 GSM Association Universal Access Report, 57 out of the 92 emerging market and developing countries sampled for their study have plans to establish universal service funds, or USFs, within their jurisdictions to meet local telephony and Internet service requirements. According to this report, the USFs jointly collected approximately \$6.0 billion worldwide through 2006, out of which \$1.62 billion has been redistributed to the telecommunications industry. To our knowledge, no updates have been released since the publication of this report, and, although this report is relatively dated, we believe it continues to be indicative of the market potential. In other instances, local communications operators have universal service obligations, or USOs, which require them to serve rural areas lacking terrestrial infrastructure. Some local communications operators elect to fulfill this obligation by hiring third parties in a model known as "Build-Operate-Transfer." In these instances, the network is established and made operational by a third party service provider, which operates it for a certain period of time and then it is transferred to the operator.

Consumer. The consumer market consists of residential users. These users require a high-speed internet connection similar to a digital subscriber line, or DSL, or cable modem service. According to the NSR report from 2010, North America will continue to lead the world in terms of subscribers and revenues from satellite broadband access services, and Western Europe will make a strong breakout for second place in the coming years.

Government. The government sector consists of homeland security and military users. The versatility, reliability, and resiliency of VSAT networks, the in-motion low profile antennas and the lightweight SSPAs are a perfect fit for security and armed forces. Spatial-combining technology implemented on the Wavestream SSPAs introduces significant efficiency, size and weight advantages. For example, VSAT systems with low power lightweight amplifiers can be quickly deployed in disaster areas, as a replacement for destroyed wireless or wire line networks, providing communication services to emergency personnel and law enforcement units. In military applications, VSAT networks can be used as a reliable overlay to manage the entire battlefield communications, serve as communication backup infrastructure, and be used for primary tactical communications offering communications from a moving vehicle. In these cases the low-profile antennas provide additional benefit to the end-user.

#### Our Competitive Strengths

We are a leading provider of satellite communication and networking products and services. Our competitive strengths include:

Market leadership in large and growing markets. Since our inception, we have sold more than 750,000 VSATs, 1,000 low profile antennas and 7,000 SSPAs to customers in over 85 countries. Our customer base includes a large number of satellite-based communications service providers, system integrators and operators worldwide. In addition, we provide satellite-based communication services primarily to enterprises in the United States and we are one of the largest satellite communications service providers to rural communities in Latin America.

The large installed base of our VSAT equipment also provides opportunities for new and incremental sales to existing customers. According to the last COMSYS report published in 2009, our global market share to the enterprise and government market was approximately 28.5%, based on the number of terminals shipped, making us the second largest VSAT manufacturer in the world for this segment.

Our installed base for low profile Satcom-On-The-Move antennas provides us opportunities for new and incremental sales to existing customers. Specifically, we are focused on the US DoD market and China.

We have a large installed base of SSPAs in the US Department of Defense, based on power amplifiers sold to the system integrators, who then provided a complete satellite terminal based on our equipment. Our SSPAs are widespread in the US Department of Defense, for both Ka Band and Ku Band terminals.

Technology leadership. We have been at the forefront of VSAT technology and services for over 23 years and continue to be an innovator and developer of new satellite technologies. Our highly customizable VSAT technology enables us to provide our customers with a wide range of broadband, Internet, voice, data and video solutions. Our product and operations infrastructure is capable of running hubs with greater than 99.8% availability while rolling out thousands of new VSAT site locations each month. Our SkyEdge II, state-of-the-art solution, provides high performance and excellent space segment efficiency. Our legacy product lines are known for their durability and resilience. Our low-profile, Satcom-On-The-Move, antennas provide reliable broadband communications for defense and security applications. Our state-of-the-art SSPAs provide excellent performance, even at the extreme end of temperature and environmental performance specifications. Our research, development and engineering team is comprised of approximately 320 persons, enabling us to rapidly develop new features and applications. Moreover, by directly serving end-users through our service organizations, we are able to quickly respond to changing market conditions to ensure we maintain our leadership position.

Global presence and local support worldwide. We have sold our products in over 85 countries on six continents. Our products and services are used by a large and diverse group of customers including some of the largest enterprises in the world, several government agencies and many rural communities. We have 19 sales and service offices worldwide. Through our network of offices we are able to maintain a two-tier customer support program offering local support offices and a centralized supply facility.

Complementary business lines for turnkey solutions. With Gilat Worldwide, Spacenet and Wavestream, we are able to provide a full turnkey solution to our customers by integrating a diverse range of value-added products and services. Our product and service offerings -- VSAT network equipment, power amplifiers, low-profile Satcom-On-The-Move, antennas, installation, operation and maintenance -- provide communication services ranging from broadband, Internet, voice, data and video to managed solutions that can be customized and are highly flexible. Our business model enables us to be closely attuned to all of our customers' needs and to rapidly adapt to changing market trends. Our VSAT-based networks often serve as a platform for the delivery of a complete system, providing versatile solutions for corporate enterprises, government agencies, SMEs, rural communities, SOHOs and consumers.

Diversified revenue streams and customer base. For the year ended December 31, 2010, approximately 52% of our revenues were generated from products and 48% of our revenues were generated from services. Our product sales are generally independent equipment orders which often generate maintenance contracts and additional opportunities for future product sales. Our service sales are characterized by long-term contracts that provide a recurring revenue base. In the year ended December 31, 2010, our three businesses - Gilat Worldwide (Gilat International and Gilat Peru & Colombia), Spacenet and Wavestream accounted for 64%, 34%, and 2% of our revenues, respectively. We are not overly dependent on any single customer, project, or geographic region.

Strong financial position. As of December 31, 2010, our cash balance was \$64.5 million (including cash and cash equivalents, short and long term restricted cash, restricted cash held by trustees and short bank credits), and our debt was \$61.8 million.

Delivery Capabilities. Over the years we have demonstrated our ability to deploy communication networks in the most remote, transportation challenged, and technology adverse areas. This experience enhances both our ability to plan and implement sophisticated communication networks in remote areas, as well as in challenging terrain, and our ability to meet technological challenges like a lack of electrical power infrastructure or a lack of any physical infrastructure. Our teams are proficient in delivering solutions in these instances, with a high success rate.

Experienced management team. Our Chairman and CEO, Amiram Levinberg, is a co-founder of our company and leads a highly experienced executive team of satellite industry veterans. Our Board of Directors is comprised of



senior professionals with a broad range of business and financial experience.

## Our Growth Strategy

Our objective is to leverage our advanced technology and capabilities to:

Expand our presence in the military Satcom market. Building on our technology leadership and growing presence with armed forces around the world, we are increasing our focus on this growing market segment both in the United States and globally. In the United States we established Spacenet Integrated Government Solutions, also known as SIGS, a subsidiary of Spacenet, which is focusing on expanding our reach to new customers including the Department of Defense, Homeland Security, the Intelligence community and government related agencies. We have recently acquired Raysat Antennas Systems and Wavestream, whose customers are mostly in the defense and security markets. We have also increased our research and development effort to develop the specific capabilities and solutions required by armed forces and homeland security agencies globally. We are investing in this market segment as we believe its global growth will contribute to our business.

Continue to expand our system integration offerings. We are a leader in deploying VSAT solutions in remote or otherwise challenging areas. Building on this strength we have expanded our business beyond core VSAT networks to deliver complete and comprehensive solutions to our customers even in instances where the VSAT technology is not the main part of the solution. We see a growth in demand for vendors capable of fully delivering integrated solutions for interdisciplinary, communication based projects. In these cases we handle the project management, solution design, equipment procurement, deployment logistics, installation and integration, operational services, maintenance and support.

Strengthen and expand our technology leadership. We are strengthening our technology leadership by our continuing investment in research and development and have increased our research and development budget for 2011, with a view of expanding our product portfolio with new product offerings and new capabilities. Our flagship product, SkyEdge II, has cutting edge space segment utilization and performance. Our new offerings, the NetEdge and Prysm Pro, enable our customers new opportunities in deploying communication networks suited to their needs. We plan to strengthen and expand our support for Ka band and multi-spot beam satellites so that our VSATs will be better able to utilize new Ka band capacity as more becomes available. In addition, we are focusing on developments for enhanced performance and capabilities of our SSPAs, and are planning to expand our Satcom-On-The-Move antenna offerings in terms of size and electronic steering capabilities.

Focus on emerging markets. We have expanded our focus on rural and emerging markets. Traditionally, it has been considered too costly for service providers to provide full-terrestrial networks to these regions. As a result, many governments either require telecommunications operators to provide communications access through USOs to these communities or provide funding via USFs to subsidize the provision of these services. The figure for available worldwide USF funding was estimated in 2006 to be \$4 billion in approximately 15 countries and we believe that today's figure is similar. As this communications rollout is adopted, VSAT-based communication networks provide a high quality, cost-effective alternative to terrestrial, wireless and cellular systems. We focus our sales efforts on offering solutions to service providers that are either being required by USOs to facilitate the rural expansion, or on offering solutions to service providers that are utilizing the subsidies created through USFs.

Proactively evaluate acquisitions that will support and enable our growth strategy. As we continue to focus on expanding the target markets for our products, services and solutions, we may have opportunities to acquire companies or technologies that would be complementary or additive to our existing platform and global distribution channels. We will proactively, but selectively, evaluate opportunities to expand our business.



## Our Businesses

Gilat Worldwide (Gilat International and Gilat Peru & Colombia)

### Overview

#### Gilat International

Gilat International is a leading global provider of VSAT-based networks and associated professional services to telecom operators worldwide. Our operational experience in deploying large VSAT networks together with our global network of local offices enable us to work closely and directly with those providers. We provide VSAT communication equipment and solutions to the commercial, government and consumer markets.

Our SkyEdge product family, including the SkyEdge and SkyEdge II products, allows us to deliver efficient, reliable and affordable broadband connectivity such as Internet, voice, data and video.

We provide solutions tailored to the requirements of individual industries. Based on our open SkyEdge platform, our solutions provide added value to operators through better performance and integration as well as simpler deployment. One such solution is SkyAbis, which provides cost-effective cellular backhaul for rural communications.

We also support satellite networking through professional services, training and a full range of turnkey solutions and outsourced network operations including "Build-Operate-Transfer" for networking facilities.

Gilat International is headquartered in Petah Tikva, Israel with 448 employees, and has 14 offices worldwide. In the year ended December 31, 2010, Gilat International had revenues of \$ 130.8 million, including sales of \$ 17.1 million to Spacenet and Gilat Peru & Colombia.

During 2010, we completed the acquisition of RAS, and its Israel-based business was integrated within Gilat International and its US-based business was integrated within SIGS. RAS was created in 2006 with the purpose of providing efficient, high standard, cost effective solutions for the Satcom-On-The-Move market. Since then, RAS has specialized in the development, marketing, sales and support of in-motion, low-profile, 2-way satellite antenna systems.

## Products and Solutions

### SkyEdge Family of Products

Our SkyEdge product family is based on a single hub with multiple VSATs to support a variety of services and applications. The products were designed using advanced technology to enable them to process different types of user traffic such as voice, critical data, Internet traffic and video, to handle each type of traffic in an efficient manner and provide the necessary quality of service for each traffic stream. The SkyEdge also includes advanced mechanisms which ensure that the transmissions via the satellite utilize the available satellite bandwidth efficiently and enhance the user experience.

Below is a table that shows the main VSAT products Gilat International offers. All of these products are connected to an outdoor RF unit which is mounted on a dish antenna:

NetEdge is a high-performance satellite communications solution, specifically designed to meet the requirements of multi-star (a network topology which consists of remote sites connected to a regional gateway and also to the main hub, also called star-within-star networks) private networks for corporations as well as for cellular backhaul applications. The NetEdge solution is composed of remote sites using SkyEdge II Access/Pro VSATs, NetEdge Gateways, and a SkyEdge II hub. Single-hop connectivity is provided network-wide between the NetEdge components. This enhances the user experience and application performance for all intra-corporation, cellular backhaul and Internet traffic. NetEdge is competitively priced and offers bandwidth savings that can reach 30% and more compared to Single Channel per Carrier, or SCPC, solutions. NetEdge offers network efficiency and reduces the total cost of ownership. NetEdge is installed as an expansion of a SkyEdge II hub and as a result, adding additional NetEdge Gateways to an existing hub is simple.

Another addition to our product offering is the Prysm Pro Network Appliance. Prysm Pro supports advanced applications over satellite, wire-line and wireless networks, helps multi-site enterprises support multiple secure networks with centralized management and enables hybrid switching between wire-line and wireless technologies. It is a modular, scalable, off-the-shelf IP network appliance that offers benefits to customers. The Prysm Pro appliance is integrated with Spacenet's managed network services, providing access to a user-friendly web portal to enable simplified and centralized network management.

Prysm Pro Network Appliance Sample Applications

Raysat Antenna Systems family of Products

The RAS low-profile, in-motion, broadband 2-way antennas are specifically designed for the needs of the Satcom-On-The-Move market and provide advanced solutions for a variety of mobile applications:

• Military - Strategic military advantage by supporting the transfer of real-time intelligence while on-the-move with a small, low profile, hard to track antenna;

- Digital satellite news gathering – always on, no set up time, real-time streaming video;

• First responders – supports vehicles’ mobility, agility and stability required for teams to be the first to reach the scene; and

- Search and exploration teams, close-to-shore vessels etc.

The following table describes the RAS low-profile antennas:

	StealthRay 2000	StealtRay 3000/20	StealthRay 5000
Description	Ku band 2-way low-profile in-motion antenna with external BUC	Ku band 2-way low-profile in-motion satellite antenna with integrated BUC & amplifier	Ku band 2-way low-profile in-motion satellite antenna with enhanced Tx gain, external BUC
Height (cm)	15	18	21
Dimension (cm)	115 L x 90 W	115 L x 90 W	115 L x 90 W
Weight (kg)	28	35	35

### Gilat International Pre-Packaged Solutions

Our VSAT-based networks serve as a platform for the delivery of custom tailored solutions for identified markets. We pre-package, commercialize and sell these end-to-end solutions, which offer higher value to our customers. For example, our SkyAbis supports a cellular backhaul application for Global System for Mobile Communications, or GSM, and Code Division Multiple Access, or CDMA, cellular-based stations.

Our end-to-end solutions include government communication infrastructure solutions for post offices, elections, military and security and rapid VSAT deployment. We also provide turnkey solutions that include installation, operation and third-party peripheral equipment.

### System Integration and Turnkey Implementation

We have expanded our business beyond core VSAT networks to deliver our customers complete and comprehensive solutions to their needs even where VSAT is not the main part of that solution. We see a growth in market demand for vendors capable of fully delivering integrated solutions for interdisciplinary, communication based projects.

In other situations we are required to provide our VSAT solution in a turnkey mode whereby we are responsible for the complete end-to-end solution.

In the case of turnkey solutions, and occasionally in projects requiring system integrations, we provide our customers with a full and comprehensive solution including:

- Project management – accompanying the customer through all stages of a project and ensuring that the project objectives are within the predefined scope, time and budget;
- Network design – translating the customer’s requirements into a system to be deployed, performing the sizing and dimensioning of the system and evaluating the available solutions;
  - Deployment logistics – transportation and rapid installation of equipment in all of the network sites;

- Implementation and integration – combining our equipment with third party equipment such as solar panel systems and surveillance systems as well as developing tools to allow the customer to monitor and control the system;
- Operational services – providing professional services, program management, network operations and field services; and
- Maintenance and support – providing 24/7 helpdesk services, on-site technician support and equipment repairs and updates.

#### Manufacturing, Customer Support and Warranty

Our VSAT products are designed and tested primarily at our facilities in Israel. We outsource a significant portion of the VSAT manufacturing of our products to third parties. Raysat antenna products are designed at our facilities in Bulgaria where we also manufacture components, with assembly at our facilities in Israel. We also work with third-party vendors for the development and manufacture of components integrated into our products, as well as for assembly of components for our products.

We offer a customer care program for our VSAT products, which we refer to as SatCare, and professional services programs that improve customer network availability through ongoing support and maintenance cycles. As part of our professional services, we provide:

- Outsourced operations such as VSAT installation, service commissioning and hub operations;
- Proactive troubleshooting, such as periodic network analysis, to identify symptoms in advance; and
- Training and certification to ensure customers and local installers are proficient in VSAT operation.

We typically provide a one-year warranty to our customers as part of our standard contract.

#### Gilat International Sales and Marketing

We use both direct and indirect sales channels to market our products, solutions and services. Most of our revenues are derived from direct sales. Our equipment sales division has organized its marketing activities by geographic areas, with groups or subsidiaries covering most regions of the world. Our sales teams are comprised of account managers and sales engineers who establish account relationships and determine technical and business requirements for the customer's network. These teams also support the other distribution channels with advanced technical capabilities and application experience. Sales cycles in the VSAT network market vary significantly, with some sales requiring 18 months and even more, from an initial lead through signing of the contract and others stemming from an immediate need for product delivery within two to three months. The sales process includes gaining an understanding of customer needs, several network design iterations and network demonstrations.

#### Gilat Peru & Colombia

Through our operations in Peru and Colombia, we are service providers for public telephony and Internet services to rural areas there. In these countries, we have built the infrastructure and act as an operator (Build-and-Operate model) in subsidized government projects. Our services include operating public phones and telecenters and distributing pre-paid cards for telephone usage at remote villages. In addition, Gilat Peru & Colombia use their infrastructure to provide services to enterprise, SME, SOHO and residential customers. They also provide outsourcing of VSAT network implementation and operation to other operators in the region.





Gilat Peru & Colombia has local offices in Peru and Colombia and employs 226 persons. In the year ended December 31, 2010, revenues from Gilat Peru & Colombia were \$ 35.9 million.

#### Services and Solutions

We began to operate in Peru in 1998, with the award of our first rural telephony project called "Frontera Norte" for FITELE, with approximately 200 sites. Since then, we have participated in most rural communications projects launched by the Peruvian government and have won, either wholly or partially, seven projects. Overall, we operate almost 8,700 telephony sites in Peru, of which approximately 1,000 have Internet connectivity, and have been awarded over \$45 million in government subsidies to build and operate these networks. We have recently won our eighth project for additional 770 sites with subsidies of approximately \$14.5 million. In addition, we have developed services for financial sector customers, such as Banco de la Nación, utilizing our current infrastructure and providing those customers with Internet, data and telephony services. Our rural network manages millions of incoming and outgoing minutes every month, serving more than six million people in rural areas. On average, deployment of the network in Peru has reduced the distance between rural phone locations from 50km to 5km.

Gilat Colombia started operations in 1999 by winning the government's Compartel I project focused on rural telephony. Since then we were awarded two additional projects with over \$100 million in government subsidies in the aggregate – Rural Communitarian Telephony (TRC I and TRC II) and Telecentros. Currently, Gilat Colombia operates a network of approximately 2,000 rural sites spread throughout the country, serving over a million persons. The services for those rural sites include telephony, Internet, data, fax and other services. In 2008, the Ministry of Communications in Colombia renegotiated with the Company new agreements through December 2009. Following our successful fulfillment of the new agreements with the Colombian Government, the Ministry of Communications in Colombia extended and amended the agreements for the provision of services under these agreements for an additional one-year term, through December 2010. The agreements were again amended and extended for an additional one-year term through December 2011.

#### Customer Support Operations

Gilat Peru & Colombia complement their services with back office support for subsidized telephony and Internet networks as well as for private Internet, data and telephony clients including a call center, network operations center, field service maintenance and a pre-paid calling card platform and distribution channels.

#### Gilat Worldwide Customers and Markets

Gilat International. We sell VSAT communications networks and solutions primarily to service providers that mostly serve the enterprise market. We have more than 200 such customers worldwide.

Enterprise and service provider customers use our networks for Internet access, broadband data, voice and video connectivity and for applications such as credit card authorizations, online banking, corporate intranet, interactive distance learning, lottery transactions, retail point-of-sale, inventory control and Supervisory Control and Data Acquisition, or SCADA, services.

Service providers serving the rural communications market are typically public telephony and Internet operators providing telephony and Internet services through public call offices, telecenters, Internet cafes or pay phones. Some of the rural communication projects are for government customers. Examples of our rural telecom customers include Telefonica in Peru, ETC in Ethiopia, and ICE in Costa Rica.

Our VSAT networks also provide underserved areas with a high-speed Internet connection similar to DSL service provided to residential users. An example of such a customer is Optus in Australia.

## Gilat Peru & Colombia

### Public Rural Telecom Services:

In a large number of remote and rural areas, primarily in developing countries, there is limited or no telephone or Internet service, due to inadequate terrestrial telecommunications infrastructure. In these areas, VSAT networks utilize existing satellites to rapidly provide high-quality, cost-effective telecommunications solutions. In contrast to terrestrial networks, VSAT networks are simple to reconfigure or expand, relatively immune to difficulties of topography and can be situated almost anywhere. Additionally, VSATs can be installed and connected to a network quickly without the need to rely on local infrastructure. For example, some of our VSATs are powered by solar energy where there is no existing power infrastructure. Our VSATs provide reliable service, seldom require maintenance and, when necessary, repair is relatively simple.

As a result of the above advantages, there is a demand for government-sponsored, VSAT-based bundled services of fixed telephony and Internet access. Many of these government-funded projects have been expanded to provide not only telephony services and Internet access, but to also provide telecenters that can serve the local population. These telecenters typically include PCs, printers, fax machines, photocopiers, VCRs and TVs for educational programs. Additional revenue may be received, both in the form of subsidies and direct revenues from the users, when these additional services are provided. Our rural telecom government customers are the Ministry of Information Technologies and Communication/Fonade in Colombia and FITEL in Peru.

### VSAT Services to Telecom Operators:

In some markets, existing telecom operators are mandated by the government to provide universal services. Providing these services in remote areas is a challenge to these operators, and they sometimes outsource these services to rural telecom service providers. The exact nature of these outsourcing projects varies, but they are typically a "Build-Transfer" model or a "Build-Operate-Transfer" model. Cable & Wireless in Panama is Gilat's first "Build-Operate-Transfer" customer.

### Enterprise and Government Agencies:

We also provide private network services to selected enterprises and government agencies. These customers contract directly with Gilat Peru & Colombia for VSAT equipment and associated network services to be deployed at customer locations, typically for a contract term of three to five years. We also resell managed terrestrial connectivity equipment and services from facilities-based Local Exchange Carrier partners. One such customer is Banco de la Nacion in Peru.

### Sales and Marketing

In Peru and Colombia, we use direct and indirect sales channels to market our services. Our sales team of account managers and sales engineers are the primary account interfaces and work to establish account relationships and determine technical and business demands.

### Spacenet Inc.

#### Overview

Spacenet provides managed network communications solutions that leverage satellite, wireline and wireless technologies. Spacenet serves enterprise, government, industrial, SOHO, and residential customers primarily in the

United States, but also in locations throughout North America. Spacenet provides three primary lines of service: (i) custom commercial grade networks for large enterprise, industrial and government customers, (ii) Connexstar networks, which are standardized commercial grade satellite services, and StarBand satellite Internet services, which are typically geared toward small office and residential users. Additionally, in 2009 we established SIGS to address the growing market for government solutions and services in the United States. In 2010, SIGS began managing the operations of the U.S. division of RAS following its acquisition..

Spacenet's equipment and services are currently deployed at more than 110,000 business, government, industrial and residential locations in the United States. Our customers include Regis Corporation, Dollar General, Goodyear, Intercontinental Hotels Group, USPS/Verizon, Scientific Games, Intralot, GTECH, Boston Market, Centerpoint Energy, PG&E, Cumberland Farms, Sunoco and Valero. The latest COMSYS report, published in 2009, ranked Spacenet as the second largest satellite network service provider in North America for the enterprise/government market, with a 24.5% market share at the time of the report. Our market includes WAN services for retail, energy, oil and gas, financial services, hospitality and government customers, as well as Internet access services for SOHO and residential customers. Through its StarBand broadband-over-satellite service, Spacenet is offering broadband service to rural unserved markets in Alaska and Hawaii following a federal grant from the Rural Utility Service under the American Recovery and Reinvestment Act.

We have increased our ability to serve the managed network services market in the United States. Traditionally focused mainly on the enterprise VSAT market, since 2006, Spacenet has expanded its offerings to include emergency communication services over VSAT to the state, local and industrial markets, as well as combined satellite and terrestrial managed service products to the enterprise market.

Spacenet is based in McLean, Virginia, and has 223 employees. In the year ended December 31, 2010, Spacenet had revenues of \$ 79.4 million.

#### Services

Spacenet offers custom and standardized, pre-packaged network services that are sold under the Spacenet, Connexstar and StarBand brand names. These service lines target a variety of markets and applications, as is illustrated in the diagram below:

Spacenet's custom network services for large enterprise, industrial and government customers include the design, development, and management of satellite, wireline and wireless broadband network solutions. Spacenet can provide secure private networks specifically sized and tuned to a customer's application, protocol support, QoS and bandwidth needs. These networks may be delivered as a "private hub" (each set of hub baseband equipment is used for only one customer) or "virtual private hub" (hub equipment is shared among multiple customers but is logically partitioned to provide private hub benefits at a lower cost). Custom network configurations also include hybrid terrestrial and satellite or wireless networks in which Spacenet provides management of both network components, integrating them as a single WAN.

Spacenet's standard Connexstar satellite services are optimized for popular customer applications, and are engineered to provide superior performance compared to other providers' "one size fits all" solutions. Connexstar services are offered in full-time plans for primary network use or as on-demand services for emergency response and business continuity use.

These services are also available in fixed site or transportable configurations for on-the-go communications. Many of Spacenet's custom network and standard Connexstar services offer service level agreements, or SLAs, for network reliability, network management and reporting tools, professional program management and implementation assistance, and professional-grade installation and maintenance options.

#### Spacenet Integrated Government Solutions

SIGS was established in 2009 to address the growing market for government solutions and services. We have been expanding SIGS' presence in the U.S. government market with the launch of targeted product offerings for new government customers in the U.S. Department of Defense and other federal agencies such as the Department of Homeland Security, FEMA and others. In 2010, the U.S. division of RAS was integrated into SIGS.

SIGS' initial government offerings are based on its ability to support critical first response satellite solutions. SIGS can point to Gilat's and Spacenet's proven track record with customized solutions for some of the most demanding communications requirements. We effectively leverage our network customization capabilities to meet a variety of government network requirements helping it expand beyond the first responder market to other critical government networks. We believe that the establishment of SIGS will enable us to provide satellite solutions to additional government agencies that were not previously addressed by Spacenet, including the Department of Defense, and to develop long term strategies that assure customer needs are being met.

#### Network Operations and Customer Support

We operate teleport facilities with network operation centers, or NOCs, in Chicago, Illinois, and Marietta, Georgia. Our operations staff of more than 100 persons supervises network implementation and installation quality assurance, manages shared-hub and private-hub networks, provides first-level and escalated help desk/problem resolution, manages inventory and shipping, and dispatches field service/maintenance technicians. The Chicago NOC facility specializes in operation of high-availability networks for our largest enterprise and government customers. The Marietta NOC facility operates our managed network, Connexstar and StarBand services as well as first and second-level call centers. The McLean headquarters facility provides pilot and disaster recovery hub operations, fourth-tier network escalation and advanced network management and engineering services.

For many enterprise, industrial and government networks, we offer service level agreements providing guarantees on network uptime and availability as well as guaranteed network performance and issue resolution time. Spacenet's network management and operations features include diverse and scalable hub and satellite options, centralized network management center, extensive web-based tools for customers, dedicated program management and service automation.

#### Spacenet Sales and Marketing

We sell our enterprise, industrial and government services directly through a team of account executives as well as through a network of approximately 30 authorized enterprise, industrial and/or government service resellers, primarily telecom carriers, IT integrators and value-added resellers focused on specific industries.





Our StarBand SOHO services are sold both directly and through approximately 200 sales agents, that are typically direct-to-home satellite TV resellers and/or satellite Internet service resellers. Our distribution channel strategy is shown below:

## Wavestream

### Overview

Wavestream, founded in 2001, designs and manufactures next generation solid-state power amplifiers for mission-critical defense and broadcast satellite communications systems. Wavestream's innovative, patented Spatial Power Advantage™ technology provides higher output power, greater reliability and lower energy usage in more compact packages than traditional amplifier solutions. Wavestream's proven family of products meet the growing demand for greater efficiency and significant lifecycle cost reductions for satellite communications systems worldwide. Since 2005, Wavestream has built and deployed over 6,000 SSPAs worldwide. We acquired Wavestream in November 2010.

Wavestream's headquarters, research and development, engineering and manufacturing facilities are located in San Dimas, California, with an executive office in San Diego, California and a design center in Singapore. Wavestream has 171 employees.

### Wavestream Market and Customers

Wavestream addresses the following applications and/or markets:

- Defense Communications - satellite, airborne, troposcatter and highly secure point-to-point. This market is typically categorized by customers requiring high quality products – at times for mission critical communications in extreme environmental conditions. The satellite terminals (e.g., VSAT, SCPC) are usually provided to the defense agencies via system integrators, and not directly from the power amplifier suppliers.
- Government - public safety, emergency response and disaster recovery. Similar to the market for defense agencies, though usually less demanding in terms of environmental conditions, these terminals are provided to various local, state and federal agencies that need to manage emergency communications. The satellite terminals (e.g., VSAT, SCPC) are usually provided via system integrators or service providers and not directly from the power amplifier suppliers.

- Commercial terminals - A high power amplifier is used with high-end VSAT terminals for various applications where there is the requirement to transmit large amounts of data. Examples include Satellite News Gathering for video transmission, Remote Cellular Backhaul to connect remote cellular base-stations to the core network and Remote Operations (e.g., oil and gas platforms) where large amounts of data need to be transmitted, and no terrestrial alternative is available.
- Commercial broadcast - Broadcast providers and teleport operators require high power amplifiers in order to transmit large carriers, such as for TV broadcast, multicast of video and high-speed IP connectivity.

Wavestream's customers include General Dynamics, TCS and FEMA.

#### Wavestream Products

We believe that Wavestream has established market leadership with its compact, highly efficient SSPAs with a field-proven family of Ka, Ku, X and C-band products. Wavestream's products are designed and tested to meet strenuous requirements for temperature, shock and vibration, as well as over the full range of frequency and temperature.

The following figure describes the Wavestream products:

## Competition

The telecommunications industry operates in a competitive market. In the equipment market, we face competition from other VSAT manufacturers, such as HNS, ViaSat, iDirect and a few other smaller manufacturers.

Raysat Antenna Systems's competitors include Cobham, ERA, Starling, Orbit and Thinkom. This market is nascent, and not as mature as the fixed VSAT or satellite services markets.

In Peru and Colombia, where we primarily operate public rural telecom services, we typically encounter competition on government subsidized bids from various service providers, system integrators and consortiums. Some of these competitors offer solutions based on VSAT technology and some on alternate technologies (typically cellular, wireless local loop or WiMAX). As operators that offer terrestrial or cellular networks expand their reach to certain Gilat Peru & Colombia regions, they compete with our VSAT solutions. Examples of such competitors are Telefonica Peru, Empresas Telefonicas de Bogota, Internet Por Colombia and SkyNet.

The U.S. enterprise VSAT market is primarily served by Spacenet and HNS. In addition, more recently, Spacenet's primary competitors in the enterprise WAN market are large terrestrial carriers such as AT&T, Verizon and Qwest.

Wavestream's competitors are Comtech (which acquired Xicom in 2008), CPI, Codan, GD Satcom and Paradise. A COMSYS report from 2009 estimated that Wavestream's market share grew from being close to zero in 2006 to 13% in 2009 and that it is the leading vendor of mid-powered Ka power amplifiers.

## Geographic Distribution of our Business

The following table sets forth our revenues by geographic area for the periods indicated below as a percent of our total sales:

	Years Ended December 31,					
	2010		2009		2008	
United States	35.8	%	37.1	%	39.9	%
South America and Central America	36.2	%	39.1	%	27.5	%
Asia	15.5	%	15.9	%	14.8	%
Africa	7.0	%	4.9	%	13.3	%
Europe	5.5	%	3.0	%	4.5	%
Total	100.0	%	100	%	100.0	%

## Backlog

On December 31, 2010, our backlog for equipment sales and revenues from multi-year service contracts for our VSAT products was approximately \$ 232 million, up from approximately \$180 million at year-end 2009. Backlog does not include revenues from future traffic on our rural networks, future revenues from subscribers, from our consumer and enterprise operation and other cancelable agreements. Backlog is not necessarily indicative of future sales. Many of our contracts can be terminated at the convenience of the customer. In addition, some of our contracts may include product specifications that require us to complete additional product development. Any inability to meet the specifications or complete the product development could lead to a termination of the related contract.

## C. Organizational Structure

Significant Subsidiary	Country/State of Incorporation	% ownership
1. Spacenet Inc.	Delaware	100%
2. StarBand Communications Inc.	Delaware	100%
3. Gilat Satellite Networks (Holland) B.V.	Netherlands Colombia	100%
4. Gilat Colombia S.A. E.S.P	Peru	100%
5. Gilat to Home Peru S.A	Brazil	100%
6. Gilat do Brazil Ltda.	Mexico	100%
7. Gilat Satellite Networks (Mexico) S.A. de C.V.	Delaware	100%
8. Wavestream Corporation	Israel	100%
9. Raysat Antenna Systems LLC		
10. Raysat Antenna Systems Ltd.		

## D. Property, Plants and Equipment

Our headquarters are located in a modern office park which we own in Petah Tikva, Israel. This facility is comprised of approximately 380,000 square feet of office space, out of which approximately 234,300 square feet are currently used by us and approximately 145,700 square feet are subleased to third parties.

We have network operations centers in Marietta, Georgia and shared hub facilities in Chicago, Illinois, Peru and Colombia, from which we perform network services and customer support functions 24 hours a day, 7 days a week, 365 days a year.

We lease approximately 137,000 square feet of office space in McLean, Virginia. These offices house our personnel and also contain a stand by disaster recovery facility. In 2000 and 2002, we purchased and developed facilities on approximately 140,400 square feet of land in Backnang, Germany. Since May, 2002, these facilities are leased to a third party. We own approximately 13,347 square feet of research and development and manufacturing facilities in Sofia, Bulgaria. Wavestream currently occupies approximately 32,498 square feet of facilities for office space, research and development and manufacturing in San Dimas, California under a lease which will expire on November 30, 2011. We are currently negotiating a lease for new facilities at another location in San Dimas to commence at the expiration of the current lease. We also lease 24,111 square feet of manufacturing and office space in Rehovot, Israel, for Raysat Antenna Systems Israel Ltd., which we are planning to vacate in May 2011 when its operations will move to our property in Petah Tikva.

We also maintain facilities in Chicago, Illinois, Marietta, Georgia and in Brazil, Colombia, Mexico, Moldova, Singapore, San Diego and Peru, along with representative offices in Melbourne, Pretoria, Bangkok, New Delhi, Almaty, Jakarta, Moldova, and Moscow and small facilities in other locations throughout the world.

We believe our facilities to be adequate for our needs.

ITEM 4A: UNRESOLVED STAFF COMMENTS

There are no unresolved staff comments.

ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

The following discussion of our results of operations should be read together with our audited consolidated financial statements and the related notes, which appear elsewhere in this annual report. The following discussion contains forward-looking statements that reflect our current plans, estimates and beliefs and involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this annual report.

Introduction

We were incorporated in 1987 and began trading on the NASDAQ Stock Market in 1993. We are a leading global provider of IP based digital satellite communication and networking products and services. We design, produce and market VSATs and related VSAT network equipment. VSATs are earth-based terminals that transmit and receive broadband, Internet, voice, data and video via satellite. VSAT networks have significant advantages to wireline and wireless networks, as VSATs can provide highly reliable, cost effective, end-to-end communications regardless of the number of sites or their geographic locations.

We have a large installed customer base and have shipped more than 750,000 VSAT units to customers in over 85 countries on six continents since 1989. We have 22 offices worldwide and two call centers to support our customers. Our products are primarily sold to communication service providers and operators that use VSATs to serve enterprise, government and residential users. Also, in the United States and certain countries in Latin America, we provide services directly to end-users in various market segments.

We currently operate three complementary businesses which are comprised of four reportable segments:

- Gilat Worldwide, which is comprised of two reportable segments:
  - o Gilat International, a provider of VSAT-based networks and associated professional services, including turnkey and management services, to telecom operators worldwide. Since our acquisition of RAS, Gilat International is also a provider of low-profile antennas, used for Satcom-On-The-Move antenna solutions.
  - o Gilat Peru & Colombia, a provider of telephony, Internet and data services primarily for rural communities in Peru and Colombia under projects that are subsidized by government entities;
- Spacenet Inc., a provider of satellite network services to enterprises, government, small office/home office, or SOHOs, and residential customers in the United States;
- Wavestream, a provider of high power SSPAs, BUCs with field-proven, high performance solutions designed for mobile and fixed SATCOM systems worldwide, primarily in the defense market.

In March 2010 and in April 2010 we entered into definitive agreements to acquire RAS, and RaySat BG, a Bulgarian research and development center. During July and August 2010, we closed the acquisitions of both companies. In addition, we acquired Wavestream on November 29, 2010.

#### Financial Statements in U.S. dollars

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 consolidated statements of operations. The financial statements of foreign subsidiaries, whose functional currency has been determined to be their local currency, have been translated into U.S. dollars. Assets and liabilities have been translated using the exchange rates in effect at the balance sheet date. Statements of operations amounts have been translated using the average rates, which approximate the prevailing exchange rate for each transaction. The resulting translation adjustments are reported as a component of shareholders' equity in accumulated other comprehensive income (loss).

#### Critical Accounting Policies and Estimates

The preparation of the financial information in conformity with generally accepted accounting principles 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 ongoing basis, we evaluate our estimates, mainly related to account receivables, inventories, deferred charges, long-lived assets, revenues, stock based compensation relating to options and contingencies. We base our estimates on historical experience and on various assumptions, including assumptions of third parties 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.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of the financial information included in this annual report.

**Consolidation.** Our consolidated financial statements include the accounts of our company and those of our subsidiaries, in which we have a controlling voting interest, as well as entities consolidated under the variable interest

entities or VIE provisions of ASC 810, "Consolidation" ("ASC 810") (formerly: Financial Accounting Standards Board ("FASB") Interpretation No. 46(R), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46")). Inter-company balances and transactions have been eliminated upon consolidation.

We apply the provisions of ASC 810, which provides a framework for identifying VIEs and determining when a company should include the assets, liabilities, non-controlling interests and results of activities of a VIE in our consolidated financial statements.

In general, a VIE is a corporation, partnership, limited-liability corporation, trust, or any other legal structure used to conduct activities or hold assets that either (i) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (ii) has a group of equity owners that is unable to make significant decisions about its activities, (iii) has a group of equity owners that does not have the obligation to absorb losses or the right to receive returns generated by its operations or (iv) the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity, their rights to receive the expected residual returns of the entity, or both, and substantially all of the entity's activities (for example, providing financing or buying assets) either involve or are conducted on behalf of an investor that has disproportionately few voting rights.

ASC 810 requires a VIE to be consolidated by the party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) that has both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impacts the VIE's economic performance; (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could be potentially be significant to the VIE.

A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities and non-controlling interests at fair value and subsequently account for the VIE as if it were consolidated based on a majority voting interest. ASC 810 also requires disclosures about VIEs in which the variable interest holder is not required to consolidate but in which it has a significant variable interest.

Most of the activity of Gilat Colombia consists of operating subsidized projects for the government or the Compartel Projects. The Compartel projects were awarded to our Colombian subsidiaries in 1999 and 2002.

As required in the bid documents for the Compartel Projects, we established trusts, or the Trusts, and entered into a governing trust agreement for each project, or collectively, the Trust Agreements. The Trusts were established for the purpose of holding the network equipment, processing payments to subcontractors, and holding the funds received through the subsidy from the government until they are released in accordance with the terms of the subsidy and paid to us. The Trusts are a mechanism to allow the government to review amounts to be paid with the subsidy and to verify that such funds are used in accordance with the transaction document of the project and the terms of the subsidy. We generate revenues both from the subsidy, as well as from the use of the network that Gilat Colombia operates.

The Trusts are considered VIEs and we are identified as the primary beneficiary of the Trusts. As such, the Trusts were consolidated in our financial statements since their inception.

Under ASC 810, we perform ongoing reassessments of whether we are the primary beneficiary of a variable interest entity. As our assessment provides that we have the power to direct the activities of a VIE that most significantly impacts the VIE's activities (we are responsible for establishing and operating the networks), the obligation to absorb losses of the VIE that could potentially be significant to the VIE and the right to receive benefits from the VIE that could potentially be significant to the VIE economic performance, we therefore concluded that we are the primary beneficiary of the Trusts. As such, the Trusts were consolidated in our financial statements since their inception.

As of December 2010 and 2009, the Trust's total assets, classified as "Restricted cash held by trustees" and total liabilities, classified as "Short-term advances from customers held by trustees" consolidated within the financial



statements of the Company amounted to \$ 1,004,000 and \$ 2,137,000 respectively.

Revenues. We generate revenues mainly from the sale of products and services for satellite-based communications networks. Sale of products includes mainly the sale of VSATs and hubs. Service revenues include access to and communication via satellites, or space segment, installation of network equipment, telephone services, internet services, consulting, on-line network monitoring, network maintenance and repair services. We sell our products primarily through our direct sales force and indirectly through resellers. Sales consummated by our sales force and sales to resellers are considered sales to end-users.

Revenues from product sales are recognized in accordance with SEC Staff Accounting Bulletin, or SAB No. 104, "Revenue Recognition", when delivery has occurred, persuasive evidence of an agreement exists, the vendor's fee is fixed or determinable, no further obligation exists and collectability is probable. When significant acceptance provision is included in the arrangement, revenues are deferred until the acceptance occurs. Generally, we do not grant rights of return. Service revenues are recognized ratably over the period of the contract or as services are performed, as applicable.

In accordance with ASC 605-25, "Revenue Recognition - Multiple-Element Arrangements" ("ASC 605-25") (formerly Emerging Issues Task Force, or EITF, Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables, or EITF 00-21, a multiple-element arrangement), an arrangement that involves the delivery or performance of multiple products, services and/or rights to use assets is separated into more than one unit of accounting, if the functionality of the delivered element(s) is not dependent on the undelivered element(s), there is vendor-specific objective evidence (VSOE) of fair value of the undelivered element(s), and delivery of the delivered element(s) represents the culmination of the earnings process for those element(s). If these criteria are not met, the revenue is deferred until such criteria are met or until the period in which the last undelivered element is delivered. If there is VSOE for all units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting based on each unit's relative VSOE.

Revenues from products under sales-type-lease contracts are recognized in accordance with ASC 840 "Leases" ("ASC 840") (formerly SFAS No. 13, "Accounting for Leases", or SFAS No. 13), upon installation or upon shipment, in cases where the customer obtains its own or other's installation services. The net investments in sales-type-leases are discounted at the interest rates implicit in the leases. The present values of payments due under sales-type-lease contracts are recorded as revenues at the time of shipment or installation, as appropriate. Future interest income is deferred and recognized over the related lease term as financial income.

Revenues from products and services under operating leases of equipment are recognized ratably over the lease period, in accordance with ASC 840.

Deferred revenue represent amounts received by the Company when the criteria for revenue recognition as described above are not met and are included in "Other current liabilities" and "Other long term liabilities". In general, when deferred revenue is recognized as revenue, the associated deferred costs are also recognized as cost of sales.

Cost of Revenues. Cost of revenues, for both products and services, includes the cost of system design, equipment, satellite capacity, customer service, interconnection charges and third party maintenance and installation. Generally, 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 over the term of the contract. At each balance sheet date, we evaluate our inventory balance for excess quantities and obsolescence. This evaluation includes an analysis of sales levels by product and projections of future demand. In addition, we write-off inventories that are considered obsolete. Remaining inventory balances are adjusted to the lower of cost or market value. If future demand for our old or new products or market conditions is less favorable than our projections, inventory write-offs may be required and would be reflected in cost of revenues for such period.



**Income Taxes.** We account for uncertain tax position in accordance with ASC 740-10, "Income Taxes" ("ASC 740-10"), as amended by FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" ("FIN 48"). ASC 740-10 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FAS 109. This interpretation prescribes a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition of tax positions, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 requires significant judgment in determining what constitutes an individual tax position as well as assessing the outcome of each tax position. Changes in judgment as to recognition or measurement of tax positions can materially affect the estimate of the effective tax rate and consequently, affect the operating results of our company.

**Accounts Receivable and Allowance for Doubtful Accounts.** We are required to estimate our ability to collect our trade receivables. A considerable amount of judgment is required in assessing their ultimate realization. We provided allowance for our receivables relating to customers that were specifically identified by our management as having difficulties paying their respective receivables. If the financial condition of our customers deteriorates, resulting in their inability to make payments, additional allowances may be required. These estimates are based on historical bad debt experience and other known factors pertaining to these customers. If the historical data we used to determine these estimates does not properly reflect future realization, additional allowances may be required.

**Inventory Valuation.** We are required to state our inventories at the lower of cost or market value. 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.

**Impairment of Intangible Assets and Long-Lived Assets.** We periodically evaluate our intangible assets and long-lived assets (mainly property and equipment) for potential impairment indicators. Our judgments regarding the existence of impairment indicators are based on legal factors, market conditions, operational performance and prospects of our acquired businesses and investments. Our long-lived assets are reviewed for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. In measuring the recoverability of assets, we are required to make estimates and judgments in assessing our future cash flows which derive from the estimated useful life of our current primary assets, and compare that with the carrying amount of the assets. Additional significant estimates used by management in the methodologies used to assess the recoverability of our long-lived assets include estimates of future short-term and long-term growth rates, useful lives of assets, market acceptance of products and services, our success in winning bids and other judgmental assumptions, which are also affected by factors detailed in our risk factors section in this prospectus. If these estimates or the related assumptions change in the future, we may be required to record impairment charges for our long-lived assets.

Future events could cause us to conclude that impairment indicators exist and that additional intangible assets and long-lived 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.

In accordance with the Compartel projects, the Colombian government transferred approximately \$70 million to the Trust accounts. The money was released from the Trusts based on a schedule of payments and upon meeting certain operational milestones. As of December 31, 2008, approximately \$51 million had been released from the Trusts to us and approximately \$24 million was held in trust until certain operational milestones imposed by the Colombian government were met. In December 2008, after lengthy negotiations with the Colombia Ministry of Communications,

we signed an addendum relating to the Compartel projects, modifying the operational milestones. The terms of the addendum included the removal of thousands of telephony sites, which were determined to no longer be needed or used by the rural population in Colombia, the upgrade of technology, primarily in existing sites, entailing additional capital expenditure, the modification of the terms of the agreements and a release by each of the parties from all prior claims under the previous agreements. During 2009, the remainder of the \$24 million was released from the Trusts following the successful implementation of the project and the meeting of the required indicators. In January 2010 and later in December 2010, the Ministry of Communications in Colombia extended and amended the agreements for the provision of services under the projects for years ending December 31, 2010 and 2011, respectively.

In accordance with the guidelines of ASC 360 (formerly FASB 144, "Accounting for the impairment or disposal of long lived assets"), we recorded an impairment of long lived assets and other charges with respect to the Compartel projects in Colombia of \$5.0 million and \$12.2 million in 2008 and 2007 respectively.

Goodwill. Goodwill represents the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired. Under ASC 350 (formerly SFAS No. 142), goodwill is not amortized, but rather is subject to an annual impairment test. ASC 350 requires goodwill to be tested for impairment at least annually or between annual tests in certain circumstances, and written down when impaired. Goodwill is tested for impairment by comparing the fair value of the reporting unit with its carrying value. Fair value is determined using discounted cash flows. Significant estimates used in the fair value methodologies include estimates of future cash flows, future growth rates and the weighted average cost of capital of the reporting units. We have elected to perform the annual impairment tests in the fourth quarter of the year and did not identify any impairment losses as of December 31, 2010.

Subsequent to December 31, 2010, we identified certain indicators that may affect the carrying value of goodwill and/or other intangibles assets attributed to Wavestream. Should those indicators continue, we will be required to perform an interim impairment analysis that may affect the carrying value of goodwill and other intangibles assets or the amortization period of those intangible assets. We may also be required to reassess the value attributed to our contingent consideration obligation in connection with the Wavestream acquisition agreement.

Legal and Other Contingencies. We are currently involved in certain legal and other proceedings and are also aware of certain tax and other legal exposures relating to our business. We are required to assess the likelihood of any adverse judgments or outcomes of these proceedings or contingencies as well as potential ranges of probable losses. A determination of the amount of accruals required, if any, for these contingencies is made after careful analysis. The accounting treatment related to income taxes exposure or contingencies has been assessed and provided in accordance with ASC 740, "Income Taxes" ("ASC 740") (formerly: SFAS No. 109, "Accounting for Income Taxes" and ASC 740-10 (formally FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" )). ASC 740-10 clarifies the accounting for income taxes, by prescribing the minimum recognition threshold that a tax position is required to meet before recognized in the financial statements. ASC 740-10 utilizes a two-step approach for evaluating tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) is only addressed if step one has been satisfied (i.e., the position is more-likely-than-not to be sustained), otherwise, a full liability in respect of a tax position not meeting the more-than-likely-than-not criteria is recognized.

Liabilities related to legal proceedings, demands and claims are recorded in accordance with the ASC 450, "Contingencies" ("ASC 450") (formerly: SFAS No. 5 "Accounting for Contingencies), which defines a contingency as "an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur." In accordance with ASC 450, accruals for exposures or contingencies are being provided when the expected outcome is probable and when the amount of loss can be reasonably estimated. It is possible, however, that future results of operations for any particular quarter or annual period could be materially affected by changes in our assumptions, the actual outcome of such proceedings or as a result of the effectiveness of our strategies related to these proceedings.

Accounting for Stock-Based Compensation. On January 1, 2006, we adopted the provisions of Standard ASC 718, "Compensation-Stock Compensation" ("ASC 718") (formerly: SFAR 123(R), "Share-Based Payment"), which requires us to measure all employee stock-based compensation awards using a fair value method and recognize such expense in our consolidated financial statements. We adopted ASC 718 using the modified prospective transition method, which requires the application of the accounting standard starting from January 1, 2006. We estimate the fair value of stock options granted using the Black-Scholes option pricing model, and the fair value of Restricted Share Units or RSU, based on the market stock price on the date of grant. Prior to the adoption of ASC 718, we accounted

for equity-based awards to employees and directors using the intrinsic value method in accordance with APB No. 25, "Accounting for Stock Issued to Employees" ("APB 25") as allowed under SFAS 123. Non-cash share-based compensation of \$1.7 million was recorded in 2010. As of December 31, 2010, we had \$5.7 million of total unrecognized compensation costs related to non-vested share-based awards granted under our stock option plans. That cost is expected to be recognized over a weighted average period of 1.6 years.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenues. Revenues for the years ended December 31, 2010 and 2009 for our four reportable segments were as follows:

	Year Ended December 31, 2010      2009		Percentage change		Year Ended December 31, 2010      2009			
	U.S. dollars in thousands				Percentage of revenues			
<b>Gilat Worldwide</b>								
<b>Gilat International</b>								
Equipment	115,024	85,730	34.16	%	49.37	%	37.59	%
Services	15,763	23,986	(34.26	%)	6.77	%	10.52	%
	130,787	109,716	19.21	%	56.14	%	48.11	%
<b>Gilat Peru &amp; Colombia</b>								
Equipment	69	109	(36.70	%)	0.03	%	0.05	%
Services	35,793	46,567	(23.14	%)	15.36	%	20.42	%
	35,862	46,676	(23.17	%)	15.39	%	20.47	%
<b>Spacenet</b>								
Equipment	18,185	17,438	4.28	%	7.80	%	7.65	%
Services	61,174	66,099	(7.45	%)	26.26	%	28.98	%
	79,359	83,537	(5.00	%)	34.06	%	36.63	%
<b>Wavestream</b>								
Equipment	4,041				1.73	%		
	4,041				1.73	%		
<b>Intercompany Adjustments</b>								
Equipment	17,064	11,870	43.76	%	7.32	%	5.20	%
	17,064	11,870	43.76	%	7.32	%	5.20	%
<b>Total</b>								
Equipment	120,255	91,407	31.55	%	51.61	%	40.08	%
Services	112,730	136,652	(17.50	%)	48.39	%	59.92	%
Total	232,985	228,059	2.16	%	100.00	%	100.00	%



Revenues in 2010 increased by approximately \$5 million compared to 2009, representing an increase of 2.16%.

Gilat International revenues increased by approximately \$21 million, through both organic growth and acquisitions. The increase was derived mainly from an increase of approximately \$6 million in Latin America, approximately \$5.7 million in Europe, and approximately \$5 million in Africa, which increases were offset by a decrease of approximately \$0.9 in North America. In addition, intercompany sales, included in the international revenues, increased by approximately \$5.2 million, mainly from sales to Spacenet to support the deployment of the networks in the gaming sector.

The increased 2009 revenues in Peru and Colombia as compared to 2010 is attributable to Colombia. During 2009, most of our revenues in Colombia derived from the release of approximately \$24 million from a trust related to the execution the agreements with the Ministry of Communications. At the end of 2009, the Colombian Ministry of Communications extended those agreements for an additional one year, for a consideration of approximately \$12 million resulting in lower revenues as compared to 2009.

Wavestream revenues represent only one month of operations as the acquisition was closed on November 29, 2010.

Revenues in 2010 were derived approximately 52% from equipment and 48% from services. In 2009, our revenues were derived approximately 40% from equipment and 60% from services. The decrease in the services portion of our revenues in 2010 is mainly attributable to the lower portion of revenues derived from our operations in Colombia and in Spacenet.

Gross profit. The gross profit of our four reportable segments for the years ended December 31, 2010 and 2009 was as follows:

	Year Ended December 31,		Year Ended December 31,			
	2010	2009	2010	2009	Percentage of revenues per segment	
	U.S. dollars in thousands					
<b>Gilat Worldwide</b>						
<b>Gilat International</b>						
Equipment	53,815	31,715	46.79	%	36.99	%
Services	2,264	12,446	14.36	%	51.89	%
	56,079	44,161	42.88	%	40.25	%
<b>Gilat Peru &amp; Colombia</b>						
Equipment	(17 )	31	(24.64 )	%	28.44	%
Services	8,598	14,141	24.02	%	30.37	%
	8,581	14,172	23.93	%	30.36	%
<b>Spacenet</b>						
Equipment	3,725	3,696	20.48	%	21.20	%
Services	10,708	9,109	17.50	%	13.78	%
	14,433	12,805	18.19	%	15.33	%
<b>Wavestream</b>						
Equipment	653		16.16	%		
	653		16.16	%		

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Intercompany Adjustments	(108 )	707	(0.63 )%	5.96 %
Total Gross Profit	79,854	70,431	34.27 %	30.88 %

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Our gross profit margin increased to 34.27% in the year ended December 31, 2010, from 30.88% in 2009. The increase in our gross margin is primarily attributable to Gilat International, which was partially offset by a decrease in gross profit from Colombia. The gross profit in international sales increased due to the increase in our equipment revenues which typically carry higher gross margins than our services business.

In addition, our gross margin is affected by the regions in which we operate and the type of deals we consummate. During 2010, a higher portion of revenues were derived from regions that carry higher margins such as Eastern Europe, Africa and Latin America. The decrease in the gross margin for Peru and Colombia is primarily due to the lower level of revenues in Colombia while maintaining a similar level of fixed expenses there, compared to the previous year.

Gross margin for Wavestream represents only one month of operation and cannot be used as an indication for the level of their gross margin on a yearly basis. In addition, amortization expenses of approximately \$1.2 million are included in Wavestream's cost of sales. These amortization expenses relate mainly to the purchase price allocation in respect of technology and inventory. In general, Wavestream's business is equipment based; and its gross margin on an annual basis, excluding the above amortization expenses, is expected to be similar to the margins in the Gilat International equipment business.

Our gross profit is affected year-to-year by the mix between equipment and services, the regions in which we operate, the size of our deals and the timing in which transactions are consummated. As such, we are subject to fluctuation in our business profits, which can lead to year-to-year fluctuations

When reported by segments, the results of Spacenet, Peru and Colombia are presented based on intercompany transfer prices. The intercompany adjustments line reflects the intercompany profits that were realized in order to adjust the transfer price to our cost.

#### Research and Development Expenses:

	Year Ended December 31,		Percentage Change	Year Ended December 31,				
	2010	2009		2010		2009		
	U.S. dollars in thousands			Percentage of revenues per segment				
<b>Gilat International</b>								
Expenses incurred	21,638	16,281	32.90	%	16.54	%	14.84	%
Less - grants	3,249	2,311	40.59	%	(2.48)	)%	(2.11)	)%
Total	18,389	13,970	31.63	%	14.06	%	12.73	%
Wavestream -Expenses incurred	556				13.76	%		
Total , net	18,945	13,970	35.61	%	14.05	%	12.73	%

Net research and development expenses increased by approximately \$5 million in the year ended December 31, 2010, compared to the year ended December 31, 2009. This increase is in line with our strategy and efforts to develop new products for new markets and to augment the capabilities of our current products and due to the consolidation of the operations of RAS and Wavestream for a portion of the year. We expect that our gross research and development expenses will increase gradually throughout 2011, reflecting the full effect of the consolidation of Wavestream and RAS and our continuing efforts to enhance our current products and the development of new ones. The increase in our gross research and development expenses in 2010 was partially offset by a higher level of research and development grants of approximately \$0.9 million due to the initiation of a new project.

Selling and marketing expenses. The selling and marketing expenses of our four reportable segments for the years ended December 31, 2010 and 2009 were as follows:

	Year Ended December 31,		Percentage change	Year Ended December 31,				
	2010 U.S. dollars in thousands	2009		2010 Percentage of revenues per segment		2009		
Gilat Worldwide:								
Gilat International	21,800	20,971	3.95	%	16.67	%	19.11	%
Gilat Peru & Colombia	1,273	586	117.24	%	3.55	%	1.26	%
Spacenet	9,949	7,581	31.24	%	12.54	%	9.07	%
Wavestream	374				9.23	%		
Total	33,396	29,138	14.61	%	14.33	%	12.78	%

Selling and marketing expenses increased by approximately \$4.3 million in the year ended December 31, 2010, compared to the year ended December 31, 2009. This increase is primarily attributable to the higher level of sales incentives paid to our sales force related to higher bookings achieved during 2010 as compared to 2009. In addition, during 2010 we increased our headcount and expenses to support our strategy of entering into new markets and strengthening our position in existing ones.

General and administrative expenses. The general and administrative expenses of our four reportable segments for the years ended December 31, 2010 and 2009 were as follows:

	Year Ended December 31,		Percentage change	Year Ended December 31,				
	2010 U.S. dollars in thousands	2009		2010 Percentage of revenues per segment		2009		
Gilat Worldwide:								
Gilat International	12,220	11,590	5.44	%	9.34	%	10.56	%
Gilat Peru & Colombia	4,262	5,794	(26.44)	)%	11.88	%	12.41	%
Spacenet	12,854	10,603	21.23	%	16.20	%	12.69	%
Wavestream	508				12.60	%		
Total	29,844	27,987	6.64	%	12.81	%	12.27	%

General and administrative expenses increased by approximately \$1.9 million in 2010 as compared to 2009. In Gilat International, the increase is primarily attributable to the partial consolidation of RAS during the second half of 2010 and to higher stock based compensation expenses of approximately \$0.5 million. In Spacenet, the increase is primarily attributable to the operations of SIGS, which began its operations at the end of 2009.



Costs related to acquisition transactions. In 2010, we completed the acquisitions of RAS and Wavestream for approximately \$154 million, net of cash received. We recorded approximately \$3.8 million in direct expenses related to these acquisitions. Such amount includes investment banker's fees, legal and other professional expenses.

Financial expenses, net. In the year ended December 31, 2010, we had financial expenses of approximately \$0.6 million compared to financial income of approximately \$1.0 million in 2009. The decrease of \$1.6 million is mainly derived from significantly lower interest rates as well as the significant reduction in our total cash balance due to the acquisitions made during 2010.

Other Income. During 2010, we recorded \$37.4 million in other income. This amount is comprised of: (i) the sale of our ownership interest in a company in which we invested in the past, and which investment had been previously written-off, for approximately \$24.3 million, and (ii) approximately \$13 million of proceeds to be received pursuant to a settlement agreement with a consortium of private equity investors in connection with the termination of the 2008 Merger Agreement. The total settlement agreement amounted to approximately \$20 million. We recorded \$13 million as other income, reflecting the portion we received in cash or secured by bank guarantees; the remainder is due in equal annual payments through 2013.

Taxes on income. Taxes on income are dependent upon where our profits are generated, such as the location and taxation of our subsidiaries. Taxes on income in 2010 were approximately \$11 thousand compared to approximately \$0.9 million in 2009. The decrease in taxes during 2010 was mainly attributable to: (i) income taxes derived from a tax refund in one of our subsidiaries in respect of previous years, (ii) deferred tax income we recorded due to temporary differences related to the amortization of intangible assets of Wavestream as part of the acquisition purchase price allocation; and (iii) the reversal of a tax provision due to the expiration of the statute of limitations. These income taxes were offset by tax expenses derived from our activities in Latin America.

#### Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

In the years ended December 31, 2009 and 2008, we operated under three reportable segments which comprised of Gilat International, Gilat Peru & Colombia and Spacenet.

Revenues. Revenues for the years ended December 31, 2009 and 2008 for our three reportable segments were as follows:

	Year Ended December 31,		Percentage change	Year Ended December 31,		Percentage of revenues		
	2009	2008		2009	2008			
	U.S. dollars in thousands							
<b>Gilat Worldwide:</b>								
<b>Gilat International</b>								
Equipment	85,730	136,500	(37.19 )%	37.59	%	51.02	%	
Services	23,986	25,420	(5.64 )%	10.52	%	9.50	%	
	109,716	161,920	(32.24 )%	48.11	%	60.52	%	
<b>Gilat Peru &amp; Colombia</b>								
Equipment	109	169	(35.50 )%	0.05	%	0.06	%	
Services	46,567	24,373	91.06 %	20.42	%	9.11	%	
	46,676	24,542	90.19 %	20.47	%	9.17	%	
<b>Spacenet</b>								

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Equipment	17,438	38,950	(55.23 )%	7.65	%	14.56	%
Services	66,099	67,410	(1.94 )%	28.98	%	25.20	%
	83,537	106,360	(21.46 )%	36.63	%	39.76	%
<b>Intercompany Adjustments</b>							
Equipment	11,870	25,268	(53.02 )%	5.20	%	9.45	%
Services		28	(100.00 )%	0.00	%	0.01	%
	11,870	25,296	(53.08 )%	5.20	%	11.09	%
<b>Total</b>							
Equipment	91,407	150,351	(39.20 )%	40.08	%	56.20	%
Services	136,652	117,175	16.62 %	59.92	%	43.80	%
Total	228,059	267,526	(14.75 )%	100.00	%	100.00	%

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Revenues in 2009 decreased by approximately \$39 million compared to 2008, representing a decrease of 14.75%. The decrease in our revenues was attributed mainly to the global economic conditions and the recession in the United States during 2009, specifically during the first half of 2009, leading to conservative spending in the telecom sector and postponement or reduction of capital expenditures.

International revenues decreased by approximately \$52.2 million, reflecting a decrease in revenues derived from sales to third parties of approximately \$38.8 million, and approximately \$13.4 million of intercompany revenues derived from sales to Spacenet. The decrease in Gilat International revenues is primarily attributable to an approximately \$24.3 million decrease in sales to the Africa region and to a decrease of approximately \$5.3 million in sales to Eastern Europe.

Spacenet revenues decreased by approximately \$22.8 million. The reduction is attributable to tight market conditions in the United States together with the difficult economic environment. The decrease is primarily due to a decline in sales of network equipment and connectivity services to customers that provide technology services in the gaming sector, of approximately \$10.2 million as compared to 2008, and from a decline of sales in the consumer sector, which decreased by approximately \$4.7 million as compared to 2008.

The decrease in revenues both in Gilat International and Spacenet was slightly offset by increased revenues of approximately \$22.1 million from our Colombia operation. This increase in revenues was primarily due to the release of approximately \$24 million of restricted cash from a Trust in Colombia. The total revenues derived from the released of the restricted cash were slightly offset by a reduction in traffic revenues.

Revenues in 2009 were derived approximately 40% from equipment and 60% from services. In 2008, our revenues were derived approximately 56% from equipment and 44% from services. The increase in the service portion of our revenues in 2009 is mainly attributable to the higher portion of revenues derived from our operations in Colombia together with the decrease of Gilat International revenues, which are typically from the sale of equipment.



Gross profit. The gross profit for the years ended December 31, 2009 and 2008 for our three reportable segments was as follows:

	Year Ended December 31,		Year Ended December 31,			
	2009	2008	2009		2008	
	U.S. dollars in thousands		Percentage of revenues per segment			
<b>Gilat Worldwide:</b>						
<b>Gilat International</b>						
Equipment	31,715	58,547	36.99	%	42.90	%
Services	12,446	8,354	51.89	%	32.90	%
	44,161	66,901	40.25	%	41.30	%
<b>Gilat Peru &amp; Colombia</b>						
Equipment	31	43	28.44	%	25.30	%
Services	14,141	(2,992 )	30.37	%	(12.30 )	%
	14,172	(2,949 )	30.36	%	12.00	%
<b>Spacenet</b>						
Equipment	3,696	11,704	21.20	%	30.00	%
Services	9,109	8,952	13.78	%	13.30	%
	12,805	20,656	15.33	%	19.40	%
Intercompany Adjustments	707	1,344	5.96	%	5.30	%
Total Gross Profit	70,431	85,952	30.88	%	32.10	%

Our gross profit margin decreased to 30.88% in the year ended December 31, 2009 from 32.10% in the year ended December 31, 2008. The decrease in the gross profit was due to a decrease in the Company's revenues, mainly in Gilat International and Spacenet. In general, Gilat International's revenues carry higher margins compared to Spacenet and Gilat Peru & Colombia. The decrease in Gilat International's gross profit is due to its lower level of revenues together with the decrease in the Gilat International portion of the total revenues of our other segments. The decrease in Spacenet's gross profit was primarily due to the decrease in revenues, while maintaining a similar level of fixed expenses compared to the previous year.

The decrease in our gross profits was offset in part by the increase from Gilat Colombia operations, which carried higher gross margins primarily as a result of the release of the restricted cash and the related revenues, which carried a low level of incremental expense resulting in higher margins. During 2009, we took certain cost cutting measures, which included reduction in salary levels and in head count, mainly in Gilat International. Those cost cutting measures slightly offset the reduction in Gilat International's gross margins. Our gross profit is affected year-to-year by the mix between equipment and services, the regions in which we operate the size of our deals and the timing in which transactions are consummated. As such, we are subject to lumpiness in our business profits, which can lead to year-to-year fluctuations

When reported by segment, the results of Spacenet and Gilat Peru & Colombia are presented based on intercompany transfer prices. The intercompany adjustments line reflects the intercompany profits that were realized in order to adjust the transfer price to our cost.



## Research and Development Expenses:

	Year Ended December 31,		Percentage change	Year Ended December 31,			
	2009	2008		2009		2008	
	U.S. dollars in thousands			Percentage of revenues per segment			
<b>Gilat International</b>							
Expenses incurred	16,281	18,702	(12.95 )%	14.84	%	11.55	%
Less - grants	2,311	1,760	31.31 %	(2.11 )%		(1.09 )%	
Total Gilat International	13,970	16,942	(17.54 )%	12.73	%	10.46	%

Net research and development expenses decreased by approximately \$3 million in the year ended December 31, 2009, compared to the year ended December 31, 2008. This decrease is in line with the cost cutting measures we took during 2009, which included reduction in salary levels and head count. Net research and development expenses also decreased by approximately \$0.6 million due to the increase in grants.

Selling and marketing expenses. The selling and marketing expenses of our three reportable segments for the years ended December 31, 2009 and 2008 were as follows:

	Year Ended December 31,		Percentage change	Year Ended December 31,			
	2009	2008		2009		2008	
	U.S. dollars in thousands			Percentage of revenues per segment			
<b>Gilat International</b>							
Spacenet	7,581	9,309	(18.56 )%	9.07	%	8.80	%
Gilat Peru & Colombia	586	733	(20 )%	1.26	%	3.00	%
Total	29,138	35,783	(18.57 )%	12.78	%	13.40	%

Selling and marketing expenses decreased by approximately \$6.6 million in the year ended December 31, 2009, compared to the year ended December 31, 2008. This decrease is primarily attributable to a reduction in sales related expenses, specifically \$3.2 million related to reduced sales commissions, as a result of the reduction in revenues. An additional decrease of approximately \$2.4 million is related to the cost cutting measures taken during 2009, which included a reduction in salary levels and headcount.

General and administrative expenses. The general and administrative expenses of our three reportable segments for the year ended December 31, 2009 and 2008 were as follows:

	Year Ended December 31,		Percentage change	Year Ended December 31,			
	2009	2008		2009		2008	
	U.S. dollars in thousands			Percentage of revenues per segment			
<b>Gilat International</b>							
Spacenet	11,590	14,712	(21.22 )%	10.56	%	9.09	%
Gilat Peru & Colombia	10,603	8,939	18.62 %	12.69	%	8.40	%
Total	5,794	6,168	(6.06 )%	12.41	%	25.13	%
	27,987	29,819	(6.14 )%	12.27	%	11.15	%



General and administrative expenses decreased by approximately \$1.8 million in 2009 compared to 2008. The decrease is primarily attributable to cost cutting measures taken during 2009 of approximately \$2.3 million, which included reductions in salary levels and headcount and a decrease of approximately \$1.4 million in rent and maintenance expenses, mainly due to increased income derived from the rental of a portion of our facilities in Petah Tikva. The decrease in expenses during 2009 was partially offset by an increased bad debt provision of approximately \$1.8 million.

Financial income, net. In the year ended December 31, 2009, we had financial income of approximately \$1.0 million, compared to financial income of approximately \$1.3 million in 2008. The decrease in our financial income is mainly attributable to the decrease in income derived from interest on held-to-maturity marketable securities and short term deposits and from exchange differences between local currency and the U.S. dollar in the countries where some of our subsidiaries are located.

Other Income. During the year ended December 31, 2009, we sold our remaining ownership interest in a company in which we invested in the past and which investment had been previously written-off. Our proceeds from this sale were approximately \$2.6 million.

Taxes on income. Taxes on income are dependent upon where our profits are generated, such as the location and taxation of our subsidiaries. Taxes on income in 2009 were approximately \$0.9 million compared to approximately \$1.4 million in 2008. The slight decrease in taxes during 2009 was not due to any particular change in policy or event.

#### Variability of Quarterly Operating Results

Our revenues and profitability may vary from quarter to quarter and in any given year, depending primarily on the sales mix of our family of products and the mix of the various components of the products (i.e. the volume of sales of remote terminals versus hub equipment), sale prices, and production costs, as well as on entering into new service contracts, the termination of existing service contracts, or different profitability levels between different service contracts. Sales of our products to a customer typically consist of numerous remote terminals and related hub equipment, which carry varying sales prices and margins.

Annual and quarterly fluctuations in our results of operations may be caused by the timing and composition of orders by our customers and the timing of our ability to recognize revenues. Our future results may also be affected by a number of factors, including our ability to continue to develop, introduce and deliver new and enhanced products on a timely basis and expand into new product offerings at competitive prices, to integrate our recent acquisitions, to anticipate effectively customer demands and to manage future inventory levels in line with anticipated demand. Our results may also be affected by currency exchange rate fluctuations and economic conditions in the geographical areas in which we operate. In addition, our revenues may vary significantly from quarter to quarter as a result of, among other factors, the timing of new product announcements and releases by our competitors and us. We cannot be certain that revenues, gross profit and net income (or loss) in any particular quarter will not vary from the preceding or comparable quarters. Our expense levels are based, in part, on expectations as to future revenues. If revenues are below expectations, operating results are likely to be adversely affected. In addition, a substantial portion of our expenses are fixed (i.e. space segment, lease payments), and adjusting the expenses in cases where revenues drop unexpectedly often takes considerable time. As a result, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Due to all of the foregoing factors, it is possible that in some future quarters our revenues or operating results will be below the expectations of public market analysts or investors. In such event, the market price of our shares would likely be materially adversely affected.

Our business historically has not been affected by seasonal variations.

## Conditions in Israel

We are incorporated under the laws of the State of Israel, where we also maintain our headquarters and most of our research and development and manufacturing facilities. See Item 3.D. “Key Information – Risk Factors – Risks Relating to Our Location in Israel” for a description of governmental, economic, fiscal, monetary or political policies or factors that have materially affected or could materially affect our operations.

### Impact of Inflation and Currency Fluctuations

While most of our sales and service contracts are in U.S. dollars and most of our expenses are in U.S. dollars and NIS, portions of our projects in Latin America are linked to their respective local currencies. The foreign exchange risks are often significant due to fluctuations in local currencies relative to the U.S. dollar.

The influence on the U.S. dollar cost of our operations in Israel relates primarily to the cost of salaries in Israel, which are paid in NIS and constitute a substantial portion of our expenses in NIS. In 2010, the rate of inflation in Israel was 2.7% and the U.S. dollar depreciated in relation to the NIS at a rate of 6%, from NIS 3.775 per \$1 on December 31, 2009 to NIS 3.549 per \$1 on December 31, 2010. In the period ended December 31, 2009 inflation in Israel was 3.9% while the U.S. dollar depreciated in relation to the NIS at a rate of 0.7%. If future inflation in Israel exceeds the devaluation of the NIS against the U.S. dollar or if the timing of such devaluation lags behind increases in inflation in Israel, our results of operations may be materially adversely affected. In 2009 and 2010, in order to limit these risks, we entered into hedging agreements to cover certain of our NIS to US dollar exchange rate exposures.

Regarding the changes in the value of other foreign currencies in relation to the U.S. dollar, our monetary balances that are not linked to the U.S. dollar impacted our financial expenses during 2010 and 2009. This is due to heavy fluctuations in currencies in certain regions of Latin America in which we do business. There can be no assurance that in the future our results of operations may not be materially adversely affected by other currency fluctuations.

### Effective Corporate Tax Rate

On January 1, 2003, a comprehensive tax reform took effect in Israel. Pursuant to the tax reform, resident companies are subject to Israeli tax on income accrued or derived in Israel or abroad. In addition, the concept of a "controlled foreign corporation" was introduced, according to which an Israeli company may become subject to Israeli taxes on certain income of a non-Israeli subsidiary if the subsidiary's primary source of income is passive income (such as interest, dividends, royalties, rental income or capital gains). The tax reform also substantially changed the system of taxation of capital gains. Following the reform, the capital gains tax rate applicable to us was decreased from 36% to 25%, while the allocation of the gain between the two periods is proportional to the holding periods until December 31, 2002, and after December 31, 2002. In 2008 and in 2009, this tax reform did not have any material effect on our liquidity, financial condition or results of operations.

Israeli companies are subject to income tax on their worldwide income. Pursuant to tax reform legislation that came into effect in 2003, the corporate tax rate was subject to staged reductions to 25% by the year 2010. In July 2009, Israel's Parliament (the Knesset) passed the Economic Efficiency Law (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among other things, an additional gradual reduction in the Israeli corporate tax rate and real capital gains tax rate starting from 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%. However, the effective tax rate payable by a company that derives income from an Approved Enterprise or Benefited Enterprise, discussed further below, may be considerably less.

On April 1, 2005, an amendment to the Investment Law came into effect which significantly changed the provisions of the Investment Law. The Amendment limits the scope of enterprises, which may be approved by the Investment Center by setting criteria for the approval of a facility, such as provisions generally requiring that at least 25% of the approved enterprise's income will be derived from export. A facility that is approved under the Amendment is called a "Benefited Enterprise." Additionally, the Amendment enacted major changes in the manner in which tax benefits are awarded under the Investment Law, so that companies no longer require Investment Center approval in order to qualify for tax benefits. However, the Investment Law provides that terms and benefits included in any certificate of approval already granted will remain subject to the provisions of the law as in effect on the date of

such approval. Therefore, our existing Approved Enterprises or Benefited Enterprises will not be subject to the provisions of the Amendment.



According to the Amendment, tax-exempt income generated under the provisions of the Amendment will be subject to taxes upon distribution or liquidation and we may be required in the future to record deferred tax liabilities with respect to such tax-exempt income. As of December 31, 2010, we did not generate income under the provisions of the Amendment.

Currently, we have nine Approved Enterprise programs under the alternative route of the Investment Law. The period of benefits for all of these programs has expired. See "Item 10: Additional Information - Israeli Taxation." In addition, our company chose 2005 as the year of election for a new Benefited Enterprise under the amendment.

We expect to derive a substantial portion of our operating income, when we become profitable for Israeli tax purposes from future Benefited Enterprise facilities. We may therefore be eligible for a tax exemption for a limited period on undistributed Benefited Enterprise income, and an additional subsequent period of reduced corporate tax rates ranging between 10% and 25%, (rather than the regular corporate tax rate which is 25% in 2010 and gradually scheduled to be reduced to 18% in 2016), depending on the level of foreign ownership of our shares, on undistributed such Benefited Enterprise income. Income from sources other than the "Approved Enterprises" or "Benefited Enterprises" "during the relevant period of benefits will be taxable at the regular corporate tax rates.

In January 2011, new legislation that constitutes a major amendment to the Investment Law was enacted (the "Amendment Legislation"). Under the Amendment Legislation, a uniform rate of corporate tax will apply to all qualified income of certain Industrial Companies, as opposed to the current law's incentives that are limited to income from Approved Enterprises during their benefits period. According to the Amendment Legislation, the uniform tax rate will be 10% in areas in Israel that will be designated as Development Zone A and 15% elsewhere in Israel during 2011-2012, 7% and 12.5%, respectively, in 2013-2014, and 6% and 12%, respectively, thereafter. Certain "Special Industrial Companies" that meet certain criteria will enjoy further reduced tax rates of 5% in Zone A and 8% elsewhere. The profits of these Industrial Companies will be freely distributable as dividends, subject to a 15% withholding tax (or lower, under an applicable tax treaty). We are not located in a Development Zone A area.

Under the transitory provisions of the Amendment Legislation, a company may elect whether to irrevocably implement the new law in its Israeli company, while waiving benefits provided under the current law, or rather to keep implementing the current law during the next years. Changing from the current law to the new law is permissible at any stage. We are examining the possible effect of the Amendment Legislation on its results.

We anticipate that we will not have to pay taxes relating to the 2010 tax year for most of our major entities due to current or carry forward tax losses. Cash outlays for income taxes in the future might be different from tax expenses, mainly due to cash tax payments for previous years that might be triggered by tax audits in the various tax jurisdictions, deferred tax expenses (income) and payments usually made in arrears for annual taxes in profitable years.

#### Impact of Recently Issued Accounting Pronouncements

In January 2010, the FASB updated the "Fair Value Measurements Disclosures" codified in ASC 820. More specifically, this update requires an entity to disclose separately: (a) the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e. present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This update clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value, and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. As applicable to the Company, this update became effective as of the first quarter ended December 31, 2010, except for the gross

presentation of the Level 3 roll forward information, which is required for annual reporting as of December 31, 2010. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued an update to ASC 810, "Consolidation", which, among other things (i) requires ongoing reassessments of whether an entity is the primary beneficiary of a variable interest entity, and eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity; (ii) amends certain guidance for determining whether an entity is a variable interest entity; and (iii) requires enhanced disclosure that will provide users of financial statements with more transparent information about an entity's involvement in a variable interest entity. The update is effective for interim and annual periods beginning after November 15, 2009. The adoption of the new guidance did not have a material impact on our consolidated financial statements.

In October 2009, the FASB issued ASU 2009-13, Multiple-Deliverable Revenue Arrangements, (amendments to FASB ASC Topic 605, Revenue Recognition) ("ASU 2009-13") and ASU 2009-14, Certain Arrangements That Include Software Elements, (amendments to FASB ASC Topic 985, Software) ("ASU 2009-14"). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. We are currently assessing the impact of these amendments to the ASC on our accounting and reporting systems and processes.

In February 2010, the FASB issued ASU 2010-09 - amendments to certain recognition and disclosure requirements of Subsequent Events codified in ASC 855. This update removes the requirement to disclose the date through which subsequent events were evaluated in both originally issued and reissued financial statements for "SEC Filers." An entity that is a conduit bond obligor (as defined) should evaluate subsequent events through the date that the financial statements are issued, and it should disclose the date through which subsequent events were evaluated. All other entities are required to evaluate subsequent events through the date that the financial statements are available to be issued and also must disclose that date. Other than SEC Filers, all entities are required to disclose the date that financial statements are reissued only if they have been revised for an error correction or retrospective application of GAAP. The adoption of the new guidance did not have a material impact on our consolidated financial statements.

In December 2010, the EITF issued ASU 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts codified in ASC 350, "Intangibles - Goodwill and Other". Under ASC 350, testing for goodwill impairment is a two-step test, in which Step 1 compares the fair value of the reporting unit to its carrying amount. If the fair value of the reporting unit is less than its carrying value, Step 2 is completed to measure the amount of impairment, if any. This ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 if it appears more likely than not that a goodwill impairment exists.

In determining whether it is more likely than not that a goodwill impairment exists, an entity would consider whether there are any adverse qualitative factors indicating that an impairment may exist (e.g., a significant adverse change in the business climate). The adoption of the new guidance did not have a material impact on our consolidated financial statements.

In December 2010, the EITF issued ASU 2010-29, Disclosure of Supplementary Pro Forma Information for Business Combinations codified in ASC 805, "Business Combinations". This ASU responds to diversity in practice about the interpretation of the pro forma disclosure requirements for business combinations. When a public entity's business combinations are material on an individual or aggregate basis, the notes to its financial statements must provide pro forma revenue and earnings of the combined entity as if the acquisition date(s) had occurred as of the beginning of the annual reporting period. The ASU clarifies that if comparative financial statements are presented, the pro forma disclosures for both periods presented (the year in which the acquisition occurred and the prior year) should be reported as if the acquisition had occurred as of the beginning of the comparable prior annual reporting period only and not as if it had occurred at the beginning of the current annual reporting period. The ASU also expands the supplemental pro forma disclosure requirements to include a description of the nature and amount of any material non-recurring adjustments that are directly attributable to the business combination. The disclosure requirement of ASU 2010-29 is reflected in the note regarding Pro Forma Information regarding the acquisition of RAS and Wavestream. See also Note 1 to our consolidated financial statements.

## B. Liquidity and Capital Resources

Since our inception, our financing requirements have been met through cash from funds generated by private equity investments, public offerings, issuances of convertible subordinate notes, bank loans, operations, as well as funding from research and development grants. In addition, we also finance our operations through available credit facilities as discussed below. We have used available funds primarily for working capital, capital expenditures and strategic investments.

As of December 31, 2010, we had cash and cash equivalents of \$ 57.2 million, short-term and long-term restricted cash of \$ 8.4 million, short-term restricted cash held in trustees' accounts of \$ 1.0 million and short term bank credit of \$2.1 million. As of December 31, 2009, we had cash and cash equivalents of \$122.7 million, short term bank deposits of \$31.7 million, short-term and long-term restricted cash of \$6.7 million and short-term restricted cash held in trustees' accounts of \$2.1 million.

We believe that our working capital is sufficient for our present requirements.

As of December 31, 2010, our accumulated debt was approximately \$61.7 million, comprised of long-term loans of \$ 45.2 million, convertible subordinate notes of approximately \$14.4 million and current maturities of long-term loans and convertible notes of \$ 2.1 million.

The long term loans are primarily comprised of a loan we received in December 2010 in the amount of \$40 million from First International Bank of Israel. Under the provisions of that loan, we undertook to satisfy two material covenants: free cash of \$15 million and a net debt to EBITDA ratio of 3.5. We believe that as of December 31, 2010 we are in compliance with these two covenants.

Our credit agreements contain various restrictions and limitations that may impact us, including pledges on our assets and property. These restrictions and limitations relate to incurrence of indebtedness, contingent obligations, liens, mergers and acquisitions, asset sales, dividends and distributions, redemption or repurchase of equity interests, certain debt payments and modifications of loans and investments.

The following table summarizes our cash flows for the periods presented:

Years ended December 31,		
2010	2009	2008
US Dollars		

	in thousands		
Net cash provided by (used in) operating activities	12,920	(206 )	(19,620 )
Net cash provided by (used in) investing activities	(108,208 )	59,189	(25,507 )
Net cash provided by (used in) financing activities	29,845	(11,009 )	(2,168 )
Effect of exchange rate changes on cash and cash equivalents	9	782	(1,596 )
Net increase (decrease) in cash and cash equivalents	(65,434 )	48,756	(48,891 )
Cash and cash equivalents at beginning of the period	122,672	73,916	122,807
Cash and cash equivalents at end of the period	57,238	122,672	73,916

Our cash and cash equivalents decreased by approximately \$65.4 million during the year ended December 31, 2010 as a result of the following:

**Operating activities.** Cash provided by operating activities was approximately \$12.9 million in 2010 compared to cash used in operating activities of approximately \$0.2 million in 2009. The improvement in our operating cash flow during 2010 is mainly attributable to other income of approximately \$13 million, out of which \$11 million received in cash, derived from our settlement agreement with a consortium of private equity investors in connection with the termination of the 2008 Merger Agreement.

**Investing activities.** Cash used in investing activities was approximately \$108.2 million, mainly attributable to our acquisition of both RAS and Wavestream, for a total amount of approximately \$154 million, net of cash received. This amount was offset by \$24.3 million derived from the sale of our ownership interest in a company in which we invested in the past, and which investment had been previously written-off, and from net proceeds of-held-to-maturity marketable securities and short term deposits of approximately \$32 million.

**Financing activities.** Cash provided by financing activities was approximately \$29.8 million, primarily from the proceeds of a long term bank loan of \$40 million repayable over 10 years with a fixed interest rate of 4.77%, offset by repayment of a long term loan and convertible notes and short term bank credit of \$10.2 million.

Our cash and cash equivalents increased by approximately \$49 million during the year ended December 31, 2009 as a result of the following:

**Operating activities.** Cash used in operating activities was approximately \$0.2 million compared to \$19.6 million in 2008. The improvement in our operating cash flow during 2009 is mainly attributable to ongoing efforts to manage our working capital by focusing on improving payment terms and collection from customers, as well as utilization of existing inventory on the one hand, while maintaining an efficient budget and expense control on the other hand.

Our days sales outstanding, or DSO, at the end of 2009, was 73 days compared to 81 days at the end of 2008, reflecting a decrease in our account receivables balance of approximately \$14.3 million. In addition, our other assets and inventory decreased by approximately \$6.5 million and \$9 million respectively. These decreases were entirely offset by a decrease in an account payable of approximately \$6.9 million, a decrease in accrued expenses of approximately \$6 million, a decrease in an advance from customers held by trustees of approximately \$22 million, and a decrease in other account payables and other long term liabilities of approximately \$9.9 million.

**Investing activities.** Cash provided in investing activities was approximately \$59.2 million, mainly attributable to net proceeds from held to maturity marketable securities and short term deposits of approximately \$32.5 million, net proceeds from the release of restricted cash held by trustees of approximately \$21.8 million and proceeds from other restricted cash of approximately \$7.7 million. In addition, we generated an additional \$2.6 million from the sale of an investment accounted for at cost. All of the above was offset by the purchase of approximately \$4.5 million of property and equipment. Purchase of property and equipment in 2009 decreased by approximately \$9.8 million compared to 2008, due to reduced purchases which resulted from lower revenues derived from network installations.

**Financing activities.** Cash used in financing activities was approximately \$11 million, primarily from the repayment of a long term loan of \$4.3 million and a short term bank credit of \$6.5 million.

### C. Research and Development

We devote significant resources to research and development projects designed to enhance our VSAT, Satcom-On-The-Move antennas and SSPA products, to expand the applications for which they can be used and to develop new products. We intend to continue to devote research and development resources to complete development of certain features, to improve functionality, including supporting higher throughput, to improve space segment utilization, and to reduce the cost of our products.

Following the acquisition of RAS and Wavestream, our research and development activities have expanded to include facilities in Bulgaria and San Dimas, California. The Bulgarian center is dedicated to developments related to our Satcom-On-The-Move antennas and Wavestream's facilities are focused on the continuing design and development for SSPAs.

We devoted significant research and development resources in 2010, 2009 and 2008 to the development of our SkyEdge family of products. We develop our own network software and software for our VSATs. Our resources in 2010 were also used for the newly acquired family of products from Raysat and Wavestream.

We generally license our software and third party software to customers as an incidental part of the sale of our network products and services.

Our software and our internally developed hardware are proprietary and we have implemented protective measures both of a legal and practical nature. We have obtained and registered patents in the United States and in various other countries in which we offer our products and services. We rely upon the copyright laws to protect against unauthorized copying of the object code of our software and upon copyright and trade secret laws for the protection of the source code of our software. We derive additional protection for our software by licensing only the object code to customers and keeping the source code confidential. In addition, we enter into confidentiality agreements with our customers and other business partners to protect our software technology and trade secrets. We have also made copyright, trademark and service mark registrations in the United States and abroad for additional protection of our intellectual property. Despite all of these measures, it is possible that competitors could copy certain aspects of our technology or obtain information that we regard as a trade secret in violation of our legal rights.

In accordance with an agreement entered in 2001 with the Chief Scientist, we are eligible to participate in a program under which we can receive future research and development grants for generic research and development projects in Israel without any royalty repayment obligations.

The following table sets forth, for the years indicated, our gross research and development expenditures, the portion of such expenditures which was funded by non-royalty bearing grants and the net cost of our research and development activities:

	Years ended December 31,		
	2010	2009	2008
	(U.S. dollars in thousands)		
Gross research and development costs	22,194	16,281	18,702
Less:			
Non-royalty-bearing grants	3,249	2,311	1,760
Research and development costs - net.	18,945	13,970	16,942

### D.

### Trend Information

The satellite communications industry is moving toward Ka technology, to employ multi-beam transmission for more efficient use of space segment. We believe that development of products using this technology will be an important competitive factor in the VSAT market. We are continuing our efforts to enhance our current products and develop new ones to support the advantages of this technology.



In the past few years the satellite communications market has experienced increasing competition both from within its sector and from competing communication technologies. Specifically, the expansion of cellular coverage in rural areas worldwide, increased terrestrial infrastructures as well as the advancement of wireless technologies, increases the options for our potential and existing customers. In addition, the number of satellite communications providers in the market has increased and prices of technologies continue to decline. Another development in our industry is the increasing demand for complete solutions which encompass far more than a single platform of a communications solution.

We estimate that the political environment in Israel could continue to prevent certain countries from doing business with us and this, in addition to the increased competition and reduced prices in the telecommunications industry overall, may have adverse effects on our business. Given all of the above, we cannot guarantee or predict what our sales will be, what trends will develop, and if any changes in our business and marketing strategy will be implemented.

#### E. Off-Balance Sheet Arrangements

At times, we guarantee the performance of our work to some of our customers, primarily government entities. Guarantees are often required for our performance during the installation and operational periods of long-term rural telephony projects such as in Latin America, and for the performance of other projects (government and corporate) throughout the rest of the world. The guarantees typically expire when certain operational milestones are met. In addition, from time to time, we provide corporate guarantees to guarantee the performance of our subsidiaries. No guarantees have ever been exercised against us.

As of December 31, 2010, the aggregate amount of bank guarantees outstanding to secure our various performance obligations was approximately \$ 6.1 million, including an aggregate of approximately \$ 2.1 million on behalf of our subsidiary in Peru. We have restricted cash of approximately \$0.8 million as collateral for these guarantees.

In order to guarantee our performance obligations for our Colombian activities, we purchased insurance from a local insurance company in Colombia. We have provided the insurance company with various corporate guarantees, guaranteeing our performance and our employee salary and benefit costs in excess of approximately \$ 36.8 million and \$ 7.9 million, respectively.

In addition, we have provided bank guarantees of approximately \$ 4.9 million for certain office leases world-wide and have restricted cash of approximately \$ 4.6 million as collateral for these guarantees.

We also provided approximately \$1 million of other guarantees of as of December 31, 2010 and have restricted cash of approximately \$ 0.5 million as collateral for these guarantees.

#### F. Tabular Disclosure of Contractual Obligations

The following table summarizes our minimum contractual obligations as of December 31, 2010 and the effect we expect them to have on our liquidity and cash flow in future periods:

Contractual Obligations	Payments due by period (in U.S dollars in thousands)				
	Total	2011	2012-2013	2014-2015	2016 and after
Short term bank credit	2,129	2,129	-	-	-
Long-term loans *	46,548	1,346	9,193	9,070	26,939
Convertible subordinated notes	15,219	840	14,379	-	-

Accrued interest related to restructured debt (including \$600 thousands of short term accrued expenses)	1,175	600	575	-	-
Capital lease obligations	1,747	970	777	-	-
Operating lease	111,141	28,569	43,775	30,156	8,641
Purchase obligations	18,881	18,881	-	-	-
Other long-term debt	4,049	250	500	3,299	-
Total contractual cash obligations	200,889	53,585	69,199	42,525	35,580

(\*) Future interest payments are not included due to variability in interest rates

ITEM 6: DIRECTORS AND SENIOR MANAGEMENT

A. Directors and Senior Management

The following table sets forth the name, age, position(s) and a brief account of the business experience of each of the directors and executive officers:

Name	Age	Position(s)
Amiram Levinberg	55	Chairman of the Board of Directors and Chief Executive Officer
Jaron Lotan	53	